

'Govt should give a clear-cut auto policy in upcoming budget'

All Pakistan Motor Dealers Association (APMDA) Chairman H.M. Shahzad speaks to Daily Times Senior Business Reporter Arshad Hussain on the government's policy for the auto sector, foreign investment and Pakistan's chances for exporting cars.

Daily Times: What changes in the government's policy do you foresee in the auto sector in the forthcoming budget?

H.M. Shahzad: The government will have to give a clear-cut auto policy in the forthcoming budget in May 2007 to counter the rising demand of the passenger vehicles, as the local manufacturers and assemblers are not able to meet this demand.

The federal government has recently approved a five-year auto policy for the local assemblers and manufacturers, as well as the new foreign investors coming to Pakistan.

The government should also make some changes in the import policy for the dealers, as they are filling the demand and supply gap.

The main problems of the auto sector are demand and supply, black marketing - as every car is being sold on on-money - and 100 percent payment at the time of booking.

Because of the import allowed by the government in 2004, the local assemblers and manufacturers are facing a healthy competition and as a result of this competition, on-money and black-marketing of brand new cars have reduced in the last two years.

The on-money on most of the vehicles including Toyota and others has been suspended.

DT: Can the local manufacturers meet the demand for cars and will the government ban imported cars?

HMS: The local assemblers and manufacturers are

unable to meet the rising demand, which is moving up by 22 to 25 percent per year. The local auto companies cannot even fill the backlog of the previous years then how can they fill the rising 22-25 percent demand.

In my view, the imported cars would not be banned, as it is necessary for the government to import vehicles to fill the gap as in the case of sugar, cement and products in demand.

And if the government does ban imported vehicles, the same situation would be created as in 2003 and 2004, when customers were getting delivery of their cars after a year despite making full payment.

I am reading statements by the auto industry in different newspapers, in which they are offering delivery period of the cars in one and half month, but contrary to this, Suzuki is delivering cars in five to six months, while Honda City and Honda Civic is being delivered in a four to five-month period.

The government should look into this matter that why people are wait for six to ten months to get their vehicle despite full payments.

In the world, there is a law that when a person is buying a car on full payment, he must get car in a day and if he does not, the company will book his car on a 10 percent payment and delivered it to him in the next 30 days.

DT: Do you think the auto policy announced by the government is the right decision for the assemblers or manufacturers?

HMS: In my view, the government cannot give them a better policy, which it announced last month. If the government gives more relaxation in import duties on CKD and CBUs, it will bring down the prices.

The assemblers and manufacturers did not cut their prices despite the relaxation in import duties so why



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should the government give more relaxation to them. If they are thinking about a further reduction in duties, it would not be a right decision on behalf of the government as the customers would not benefit from this reduction.

If the government further reduces duties on the import of CKD and CBUs and the customers will get its benefit, and it would not be a wrong decision.

DT: Who is the beneficiary of this policy and which auto companies are coming to Pakistan for

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investment or setting up their plants?

HMS: Nowadays, the local assemblers and manufacturers are enjoying the new auto policy and reduction in duties.

Many new companies are interested in investing in Pakistan like Renault, Mercedes, BMW, Range Rover, Blackcap and many others. Most of the companies have planned to set up their plants in Pakistan. I don't know much time will they take to set up their plants in Pakistan.

DT: What is the monthly import of used cars through private dealers?

HMS: During 2005-06, the government had given us a policy under which there was no restriction on the import of old models, but in the current fiscal year, the government has restricted the private importers only for five-year older vehicles.

In the said period, the dealers imported almost 70,000 to 75,000 used vehicles worth of \$1 billion, from which the government obtained revenue of Rs 40 to 50 billion. Because of this import, the local assemblers and manufacturers faced competition and the black-marketing of the cars ended in 2005-06.

During 2006-07, the import of used cars has shrunk to 1300 to 1500 per month because of the restriction on import of not more than five-year old car models. I don't think the import of used cars would cross 25000 units in this fiscal year.

DT: Is it possible that new and old assemblers and manufacturers could export cars from Pakistan?

HMS: How is it possible that a country where the local assemblers and manufacturers are importing CKD and CBU from abroad to fill the demand and supply gap, can export cars.

What we can prepare a car to export according to a

world standard level and world price matching.

If the government is claiming that they are going to export cars from Pakistan, it is not possible in these circumstances.

About the new companies, I will say that if they are coming with its manufacturing plants in Pakistan, they would have to fill gap of the local market and if they are coming with an assembling plant, it is not possible for an assembler to export their units from Pakistan because of the price difference.

DT: Will new auto companies be successful in Pakistan?

HMS: The Renault and Blackcap are the most expensive cars and being manufactured in Europe. I think they won't be successful in Pakistan as Blackcap is not below Rs 2.5 to 3 million. However, Renault will not be available here below Rs 800,000 to one million.

DT: Why are the local assemblers and manufacturers introducing old models in Pakistan?

HMS: Suzuki Mehran is no more in the world markets and Suzuki Company discontinued making it in 1986. Suzuki Cultus was discontinued from 1989. They (local assemblers and manufacturers) introduced models, which were discontinued in the world so that they can get its parts at cheaper rates.

There are no latest models in Pakistan, which are internationally running today. Honda Company has introduced new models, which discontinued in 2002. Japan is not making such models and we can say the same for Thailand models. Liana is the latest model in Pakistan but it is not as per the standard of the international markets. There are no safety measures like Airbag, as in the cars in the international market. Liana model was introduced internationally in 2003-04, but the company introduced it in Pakistan in 2006.