



ADP 2016-21



Automotive Development Policy (ADP)

**Engineering Development Board
Ministry of Industries and Production
Government of Pakistan**

Automotive Development Policy (ADP) 2016- 2021

MESSAGE FROM THE MINISTER FOR INDUSTRIES AND PRODUCTION

The automobile industry in Pakistan has covered huge distances ever since the eighties when the first automobile manufacturing facility was set up in the country, and it now plays an important role within the large-scale manufacturing sector in spurring economic growth.

After successful establishment of a large number of vending companies and assemblers of vehicles and achieving significant levels of localisation, the development phase thereafter focused on high growth, development of technologies, achieving competitiveness, human resource development, investment and compliance to safety, quality and environment standards. The Auto Industry Development Programme (2007-12) aimed to address core issues including a predictable and stable tariff environment over the policy period, besides other non-tariff initiatives.

While the Auto Industry Development Programme achieved many of its objectives, sustainable development of the sector fell below expectations especially in the context of attracting foreign investment and offering consumers the opportunity to choose from a broader range of vehicles promising quality and safety while complying at the same time with environmental standards.

The Government of Prime Minister Muhammad Nawaz Sharif, therefore, decided in October 2013 to set up a Committee to formulate an Automotive Development Policy (ADP) that can provide a solid framework to strengthen the sector further, laying down a comprehensive, well-defined roadmap that aims essentially to protect the interests of the consumers and raises the safety, quality and environmental standards to meet the challenges of the highly competitive export market.

I gratefully acknowledge the tireless leadership of my colleague Khawaja Muhammad Asif, Minister for Water & Power and Defence, who as the Convener of the Committee of the Economic Coordinate Committee of the Cabinet, presided over deliberations and supervised consultation with stakeholders.

I must also acknowledge the dedication and hard work of the Engineering Development Board and all stakeholders who remained actively engaged in preparing the ADP (2016-21). I look forward to new investors who eagerly await this Policy to enter the market to offer the public a wider choice in selection of automobiles and helping the nation in achieving the goal of sustainable development as also becoming a global player in the auto sector.

Ghulam Murtaza Khan Jatoi

Islamabad
March 21, 2016

MESSAGE FROM THE CONVENER OF THE COMMITTEE OF THE ECC OF THE CABINET

The Government of Prime Minister Muhammad Nawaz Sharif faced huge challenges on assuming power in May 2013: one of these was restoring confidence in the economy and reviving growth in manufacturing. A key sector that contributes immensely to large-scale manufacturing is the auto industry. But while its growth during the recent past has outperformed other sectors, overall production, localization of parts, consumer satisfaction, safety standards and environmental compliance continue to fall short of expectations. It was decided, therefore, to formulate a policy that focus on bringing about greater competition in the sector thus offering a wider choice to consumers, and ensures quality and safety, along with compliance of international environmental standards.

The Automotive Development Policy (2016-21) has been finalised after intensive consultation with all stakeholders: the auto industry, auto part manufacturers, consumers, and relevant government organisations. I am extremely grateful to all these stakeholders who have participated in these discussions and provided invaluable input to assist the government in formulating a viable policy that meets the stated objectives.

I am grateful to my cabinet colleagues and other members of the Committee who provided vital support and were my active partners in arriving at the recommendations of the policy. Board of Investment played a useful role in achieving consensus among all the stakeholders. Finally, I must especially acknowledge the dedication and commitment of the Engineering Development Board and the Ministry of Industries and Production who not only provided technical input but also burnt midnight oil in preparing the process of approval of the policy.

Khawaja Muhammad Asif
Minister for Water & Power and Defence
/Convener of the Committee of the ECC of the Cabinet

Islamabad

March 21, 2016

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PREFACE

PREFACE

The overall performance of Pakistan Automotive Sector has been unable to meet its true potential, except for motorcycle manufacturing. Car assemblers, with very few exceptions, are using technology and providing features lesser as compared to similar cars in the global market. In the small car segment, the technologies being used are obsolete and have been phased out in the global market. Domestic consumers are also being deprived of best available technologies and basic safety considerations like air bags, ABS etc. Manufacturers continue to rely on fuel- inefficient technologies leading to resort to alternate cheaper fuels whereas engines are not so designed, thereby burdening the consumers further. The existing market segmentation has allowed cars assemblers to operate within closed, captive market which offers restricted options to buyers.

A Committee constituted by the Economic Coordination Committee of Cabinet has formulated the Automotive Development Policy (2016-21) which envisages development plans for the automobile industry in the country to facilitate higher volumes, attract investment, ensure enhanced competition and offer higher quality in line with emerging opportunities within the country and in the region. The other objective of the Policy is to create a balance between industrial growth and tariffs to ensure sustainability for all stakeholders and attaching prime importance to consumer welfare. In addition, the policy provides consistency and predictability for new investors with a mid-term policy review mechanism to cater for emerging developments to achieve car production of over 350,000 by the year 2021. The salient features of the policy are:

- i. Lower the entry threshold for New Investment;
- ii. Create enabling tariff structure for development of the Automotive Sector;
- iii. Rationalise automobile import policy;
- iv. Provide regulatory and enforcement mechanisms for Quality, Safety and Environmental Standards;
- v. Establishment of Pakistan Automotive Institute;
- vi. Ensure Consumer Welfare through provision of quality, safety, choice and value for money;
- vii. Other Interventions, and
- viii. Reorganization of Auto Industry Development Committee (AIDC).

The Policy has been formulated after due consultation process with all important stakeholders including Pakistan Automobile Manufacturer Association, Pakistan Association of Automotive Parts and Accessories Manufacturers, Pakistan Association of Spare Parts Importers and dealers etc. Most importantly, the consumers' interests have also been given due consideration.

The Policy provides broader guidelines in consonance with the government's intent to promote industrial growth through an open door policy for prospective investors. It is hoped that the Policy will go a long way in establishing Pakistan as one of the major player of automobile production within the regional and ultimately the global market.

POLICY STATEMENT

POLICY STATEMENT

Recognising the pivotal role of the Automobile Industry in development of industry and its contribution to the socio-economic development of the country, the Government of Pakistan pledges its full support by enacting this Policy for the purposes of:

- Restructuring the industry on a new paradigm conforming to international standards and practices;
- Creating an enabling and conducive environment to consolidate existing investments and to attract new investments;
- Encouraging the industry to procure new technologies and management systems to increase efficiency and productivity;
- Providing quality products to local and global consumers at competitive price;
- Alleviating poverty by creating new jobs across the full spectrum of the Auto Industry and allied commercial and trading activities, and
- Promoting pollution mitigation measures to protect public health and property.

VISION

VISION

Develop a modern, competitive and viable automobile and auto-parts industry capable of meeting national and regional demands by 2021 through:

- New investment measures;
- Tariff rationalisation;
- Rationalisation of Import Policy;
- Establishment of infrastructure for Quality, Safety, and Environmental Standards;
- Ensure consumer welfare, and
- Establishment of Pakistan Automotive Institute.

MISSION

MISSION

To attract new investment, introduce safety standards, enlarge product range, enhance volumes and ensure consumer welfare

GOALS

GOALS

In consonance with the Vision of the ADP 2016-21, the following goals reflect future demand by recognising the need to restructure and modernise the Auto Industry to meet the increasing demand for quality product in future:

- To increase automotive production gradually by 2021 to:
 - Cars /Van/Jeeps: 350,000
 - Light Commercial Vehicles (LCVs): 79,000
 - Trucks: 12,000
 - Buses: 2,200
 - Tractors: 88,000
 - Motorcycles: 2.5 million
- To increase contribution to the Gross Domestic Product from 2.3 percent to 3.8 percent;
- To increase contribution to manufacturing from 22 percent to 30 percent, and
- To increase direct and indirect employment from 2.4 million presently to 4 million.

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Pakistan's Automotive Industry has a large potential to grow, contribute towards GDP and exports as well as provides an opportunity of growth due to its forward & backward integration. However, the huge potential of export growth in automotive industry remains unutilized due to multiple reasons.

Automotive Industry Development Programme (AIDP) 2007-12 was formulated with the assumption that the industry will have to be supported through five year tariff plan and various non-tariff measures for the overall development of the auto sector with regard to technology, productivity, HRD, cluster development etc. However, during AIDP period from 2007-2012, tariff rate were not implemented as projected in approved five year plan on the request of industry and global economic recession.

The Automobile sector of Pakistan comprises assembly / manufacturing units for production of Cars, Tractors, Truck/Buses, Jeeps, LCVs/Pickups/Vans and Two/Three Wheelers, in addition, downstream Vending Industry comprises of around 2000 part manufacturers out of which around 400 are in the organized sector.

In term of performance, the passenger car segment in Pakistan is essentially dominated by three companies having issues of lack of Safety and reliability features with surplus unutilized production capacities and lack of competition. Used car imports dealt a major blow to the sector during 2011-12, reaching unprecedented figure of 57,000 cars due to relaxation of import policy regime by the government. This relaxation primarily came on the back of growing demand supply gap owing largely to delayed deliveries by OEMs and their inability to offer consumers choices of variants and price. Market share is highly concentrated in the 800cc and 1000cc segment which is dominated with 100% market share by one company as the sole producer of cars in these engine capacities.

Tractors being manufactured in the country are of moderate technology; while trucking industry generally except few exception manufacturer's flatbed vehicles of low HP i.e. up to 280 HP with

twin axels whereas globally the technology has upgraded to prime movers based trailers technology (manual transmission systems versus automatic system) of over 280 HP which are environment friendly, multiple axels and distributions of rolling load with respect to road infrastructure.

In motorcycle sector, despite having large production capacity, still has relatively low reliable quality, technology which lacks innovation in design and features and have Stereotyping of products.

With regard to consumer welfare in term of price, choice, quality and after sales services, it is revealed that the consumers are generally un-satisfied with the locally produced car prices, unjustified delays in delivery. Keeping above in view, number of policy directions were adopted, and contained in this policy document as listed below:-

Lower the entry threshold for New Investment;

- ADP adopts following two categories of New Investment for a period of five years with different incentives;
 1. **Category-A: Greenfield Investment:** The installation of new and independent automotive assembly and manufacturing facilities by an investor for the production of vehicles of a make not already being assembled / manufactured in Pakistan.
 2. **Category-B: Brownfield Investment:** Revival of an existing assembly and/or manufacturing facilities, that is non-operational or closed on or before July 01, 2013 and the make is not in production in Pakistan since that date and that the revival is undertaken either independently by original owners or new investors or under joint venture agreement with foreign principal or by foreign principal independently through purchase of plant.

Create enabling tariff structure for development of the Automotive Sector;

- The CBU duty rates have been rationalized up to 1800 cc
- The import duty rates on localized and non-localized parts are being lowered to improve indigenous competitiveness.

- The duty Structure pertaining to concessionary inputs available to Auto parts Manufacturers, is being rationalized to eliminate mis-declaration among sub-components and components.
- 0% tariff slab has been replaced with 1% in line with the overall government policy

Rationalize automobile import policy ;

- Age limit of three years to be continued in case of cars
- Age limit of five years to be continued in case of Buses, Vans, Trucks, Pickups, SUVs including 4x4 vehicles
- Special Purpose Vehicles of following HS Codes not older than five years shall be allowed to end users as specified in the import policy order:
 - Prime Movers HS Code (8701.2040)
 - Concrete mixer lorries HS Code (8705.4000)
 - Dumpers designed for off highway use HS Code (8704.1090).
 - Others HS Code (8705.9000) including water sprinklers be maintained.

Provide regulatory and enforcement mechanisms for Quality, Safety and Environmental Standards ;

- Pakistan to take the membership of WP. 29 initially as an observer and subsequently initiate and pursue actions aimed at development of Regulations based on United Nation Regulations (UNRs) with eventual goal of becoming the Party to the International Whole Vehicle Type Approval(IWVTA).
- EDB shall take the lead role in developing, and enforcing the Regulations through the concern ministries/ provincial governments.
- Motor Vehicles Ordinance of 1965 and Motor Vehicle Rules of 1969 and National Highway Safety Ordinance of 2000 to be reviewed accordingly.

Establishment of Pakistan Automotive Institute ;

- The ADP adopts establishment of Pakistan Automotive Institute (PAI) for planning and implementation of activities relating to the development of the automobile industry, particularly research, education and technical guidance relating to quality

improvement, safety inspection and environmental preservation as well as development of a database covering technical information relating to the automobile industry.

- Adopt merger of the newly-created PAI with Automotive Testing and Training Centre (AT&TC).

Ensure Consumer Welfare through provision of quality, safety, choice and value for money ;

- Rationalized down payment for purchase of cars
- Development and Enforcement of safety regulations.
- Compulsory installation of immobilizers in cars by the OEMs.
- Product recall system shall be put in place in line with global practice.

Other Interventions

- Truck Financing by Commercial Banks
- Incentivized Fleet operations

After implementation of policy, the industry would achieve a new high level paradigm.

HISTORICAL PERSPECTIVE

1. HISTORICAL PERSPECTIVE

Auto Industry Development Programme (2007-12)

The Ministry of Industries and Production launched the Auto Industry Development Programme (AIDP) in 2007 as policy interventions that assured consistent government policies, and to encourage Original Equipment Manufacturers (OEMs) /Vendors/New Investors to make medium to long-term decisions to develop critical components and acquire technology transfer. AIDP (2007-12) also aimed to facilitate the auto industry a safe transition from deletion programmes to the Tariff-Based System environment as also assist in expansion of the capacity of OEMs and Vendors, achieve competitiveness, encourage technology enhancement, achieve further localisation, and integration with the global value chain.

AIDP (2007-12) included both tariff and non-tariff measures. Tariff plans for the entire auto sector were implemented through the Budget for 2007-08, while Non-Tariff Policy initiatives were also announced, and included Technology Acquisition Fund, Auto Cluster Development and Human Resource (HR) Development. New investor policies for Heavy Commercial Vehicles (HCVs), Tractors and Cars/Light Commercial Vehicles (LCVs) were also launched with exemption from Tariff Based System for three years. However, AIDP (2007-12) could not be implemented in full and consequently did not yield desired results mainly due to:

- **Weak Implementation Mechanism**

The Auto Industry Development Committee (AIDC) responsible for steering the policy did not achieve various set objectives. For instance, the important issue of formulation of standards and specifications could not be addressed.

- **Changing Scenarios:**

The policy did not respond well to dynamic scenarios and market realities. For instance, production and volume targets for vehicles were based on the assumption of continued car-financing and leasing facilities, which were affected adversely by market trends.

- **Lack of Adaptability:**

The policy was mainly modelled on various extraneous factors with insufficient provisions to adapt it to local circumstances and conditions on need basis.

- **Consumer Welfare:**

Consumer welfare was ignored as issues of affordability and quality were not resolved. There is a general perception that the vehicles assembled or manufactured in Pakistan have higher prices and low quality standards.

- **Lack of Funds:**

Several components of the policy depended on availability of government funds, which were not released.

- **New Investors Policy**

The New Investors Policy failed to take-off with intent. On reflection, it appears that the conditions laid down for new investors were not realistic.

- **Lack of consistency:**

Implementation of the policy was restrained by lack of support from government funding and persistent efforts of the local industry to maintain status quo on one pretext or another.

AUTOMOTIVE DEVELOPMENT POLICY (2016-2021)

AIDP (2007-12) completed its coverage period on June 30, 2012 and the Economic Coordination Committee of the Cabinet decided in its meeting held on October 2, 2013 to constitute a Committee to draft a policy for the next five years. Accordingly, the Committee commenced deliberations to formulate the new policy by considering the experiences gained from the previous policy and after making due allowances for changing scenarios in the global automobile industry. The delay in finalisation of the policy was mainly due to differences of opinion and conflicting demands of various stake-holders illustrated as under:

PART IMPORTERS <ul style="list-style-type: none"> • Low import tariff; • Continue parts import by weight 	VEHICLE IMPORTERS <ul style="list-style-type: none"> • Reduce CBU Rates; • Allow Commercial Import of Used Vehicles 	NEW INVESTOR <ul style="list-style-type: none"> • Low CKD Tariff; • Suitable CBU Tariff; • Special Incentives; • Policy Consistency
OEMS: STATUS QUO <ul style="list-style-type: none"> • High Tariff Walls; • Correct Valuation of Used Cars 	APMS: STATUS QUO <ul style="list-style-type: none"> • High Tariff Walls; • Correct Valuation of Imported Parts; • No Import by weight 	CONSUMER <ul style="list-style-type: none"> • Quality, • Price, • Choice, • Affordable financing

The Automotive Development Policy (2016-2021) has been prepared to induce growth and facilitate new investment in the automobile sector of Pakistan. Despite its impressive performance, Pakistan's auto industry has not achieved its true potential in terms of generating volumes and achieving desired localisation. In addition, new investment has not been consistent with the opportunities offered by this sector. The government has realised the need to formulate a growth-oriented and investor-friendly automotive policy that is predictable, cohesive, and responsive to the changing needs of the auto sector as well as consumer preferences and demands.

OVERVIEW OF PAKISTAN AUTOMOTIVE SECTOR

2. OVERVIEW OF PAKISTAN AUTOMOTIVE SECTOR

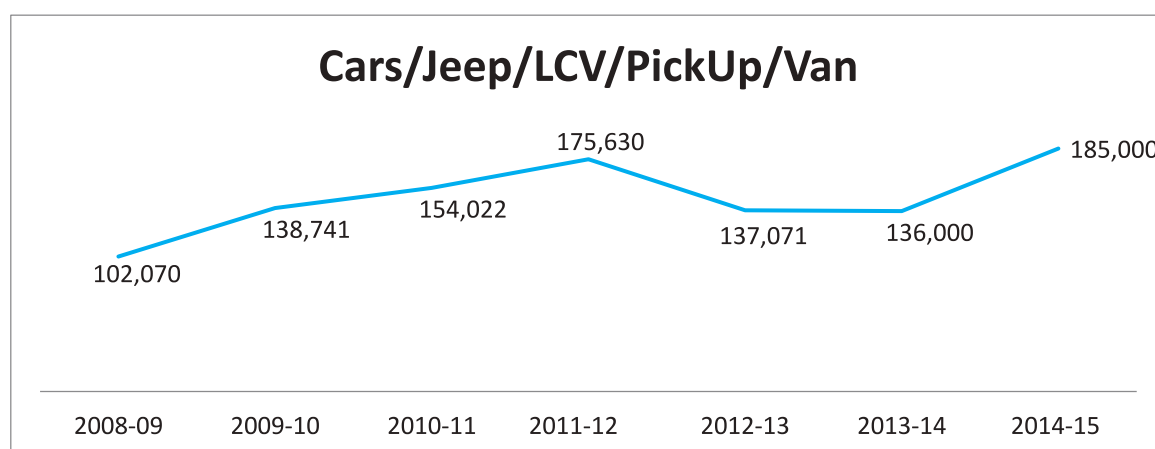
The Automobile sector of Pakistan comprises assembly and manufacturing units for production of cars (three units), tractors (eight units), trucks/buses (ten units), Jeeps (two units), LCVs/pickups/vans (eight units) and two/three-wheelers (one hundred and thirteen units). In addition, the downstream vending industry comprises around two thousand parts manufacturers, out of which about four hundred are in the organised sector. The local car market is dominated by Japanese brands of Toyota, Honda and Suzuki. All three companies have a comfortable position in the market and have made in-house investments in sheet metal and plastic component manufacturing too. In the cars segment, Japanese manufacturers share the entire market, whereas their share in motorcycle production is 41 percent. These brands have 69 percent share of the market for trucks, 62 percent for buses and Jeeps, and as high as 96 percent for LCVs. The range of products being produced in Pakistan is as under:

RANGE OF PRODUCTS

Cars	Jeeps	LCVs/Pickup/ Van	Tractors	Motorcycles	Trucks/Buses
Honda	Sigma Defender	Suzuki	Fiat	Honda	Hino
Suzuki	Toyota Fortuner	Toyota Hilux	Massey Ferguson	Yamaha	Nissan
Toyota		Master	Universal	Suzuki	Isuzu
		Karakoram (Kalash)	Hero	Chinese brands and companies	Master
		Al-Haj FAW	Farm-all Tech		Afzal
		PM Autos	Arzoo		Daewoo Pak
		Tayyaba	PM Autos		AL-Haj FAW
		New Allied	Orient		Tayyaba
					Fuso Master
					New Allied

Cars/Vans/Jeep/Pickups/LCVs

The present production capacity of cars including Vans/Jeep/Pickups/LCVs is 285,500 against which 185,000 units were produced in 2014-15, 136,000 units in 2013-14, 137,000 in 2012-13 and 175,526 in 2011-12. The low production volumes are mainly due to higher imports of cars in 2011-12 (56,973), 2012-13 (45,481), 2013-14 (29,036) and 2014-15 (23,000). Production in the country during first eight months from July 2015-February 2016, however, rose to 149,000 units compared to 102,000 units in the same period last year, but mainly due to introduction of new models.



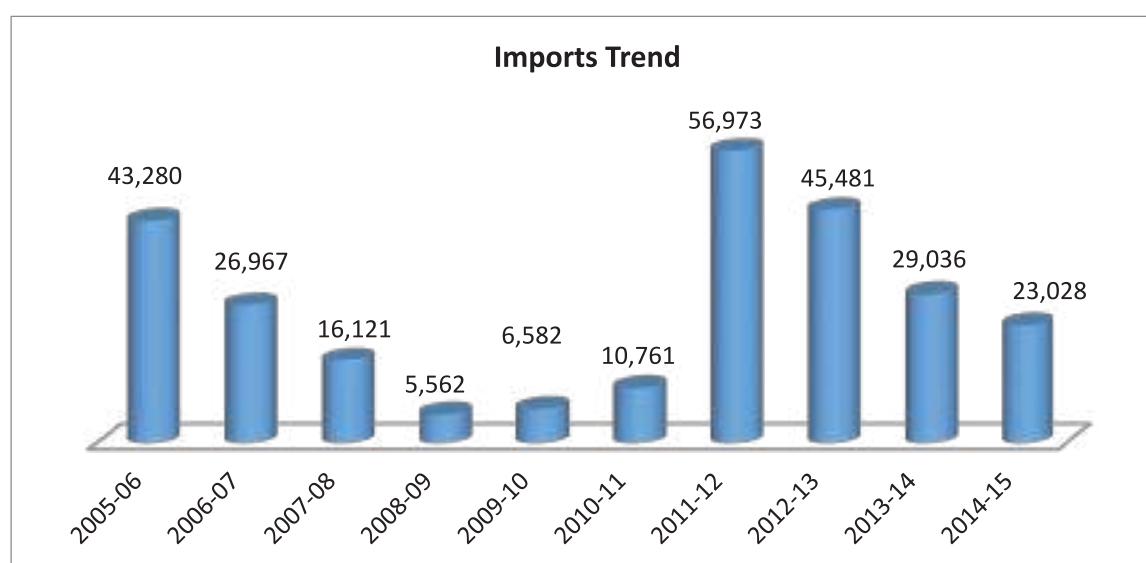
The car industry currently comprises three large players with Japanese principals. Pak Suzuki holds a dominant position with a market share of 50 per cent. Both Toyota and Honda have roughly comparable market shares at 34 percent and 26 percent, respectively. Furthermore, the share of the 1300-1800 cc segment is 52 percent, followed by 800 cc with 36 percent, and 1,000 cc with 12 percent.

Capacity-wise Production of Cars

Vehicle Type	2000-01	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
1,300-1,800 cc	17,664	60,360	62,111	66,299	60,223	56,920	78,982
1,000 cc	15,716	23,473	25,287	28,888	12,785	17,209	19,209
800 cc	9,299	37,957	46,574	59,068	47,324	42,476	54,333
All cars:	42,679	121,790	133,972	154,255	120,332	116,605	152,524

Import of 1,000 cc and below category comprise 73 percent of total imports, indicating that the demand for small cars is being met through imports as domestic production does not offer the acceptable product. Interestingly, Toyota and Honda have no presence in small car category. In cars with engine capacities below 1,000 cc, Suzuki is currently the only manufacturer, whereas Suzuki also competes with Honda and Toyota in the 1,300 cc capacity. Suzuki has a monopoly in the small car segment, while the larger car market is split mostly between Honda and Toyota. Hyundai, Suzuki's last competitor, has been out of production since early 2014. FAW, the Chinese carmaker, has just entered the passenger car segment (1,000 cc and 1,300 cc) under technical license with a local firm Al-Haj, but these cars have not yet registered significant sales.

It may be seen from the illustration that imports of cars have fallen between 2011-12 and 2015. This is due to reduction in allowable age limit from five years to three year. In 2011-12, used car imports reached an all-time high and accounted for 37 per cent of locally manufactured cars, which can be considered as very high.



Trucks/ Buses

The truck and bus manufacturing segment of Pakistan's automotive industry consists of ten assembly plants that have a combined capacity of around 29,000 vehicles per annum, against which only 5,677 units were produced in 2014-15, 4,220 in 2013-14 and 2,934 in 2012-13. Low production volumes are mainly due to imports as well as high cost of locally produced vehicles

coupled with lower demand. However, in view of present China–Pakistan Economic Corridor (CPEC) initiatives, it is expected that demand for trucks could increase manifold.

Trucks	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Imports of Trucks							
Trailers/Prime Movers	307	37	134	157	206	183	332
Sprinklers/water bowzers	952	3,140	6,977	1,048	1,593	49	0
Concrete Mixers	133	85	98	100	336	927	165
Total Imports	1392	3262	7209	1305	2135	1159	497
Domestic Production	3,313	3,779	2,965	2,728	2,284	3,431	4,774
Market	4,705	7,041	10,204	4,033	4,419	4,590	5,271

The preceding table depicts the market size of heavy commercial vehicles segment over the last seven years. This segment has been hit primarily by imports of sprinklers, water bowzers and concrete mixers/lorries. While production has declined from 3,313 units in 2008-09 to 2,284 units in 2012-14, the market size of trucks is estimated to be in the range of 6,000-7,000.

There are ten bus manufacturers currently registered with the Engineering Development Board out of which only two i.e. Hino Pak Motor Limited and Afzal Motors Limited (Daewoo) are noteworthy in terms of production activities. Bus manufacturers are in the organised sector and operate under franchise/licensing agreements with foreign principals, thus bound by technical assistance and territorial licensing agreements. The strength of this segment is in availability of trained manpower for fabrication of bus bodies and chassis. There is unutilised surplus production capacity available for manufacture of buses for export. Hino Pak Motor Company has exported a few buses to UAE and Saudi Arabia. This sector offers huge opportunity to export buses from Pakistan to the Middle East and Africa. There is also a huge freight advantage for export to Afghanistan, Middle East and Africa from Pakistan as compared to competitors in East Asia.

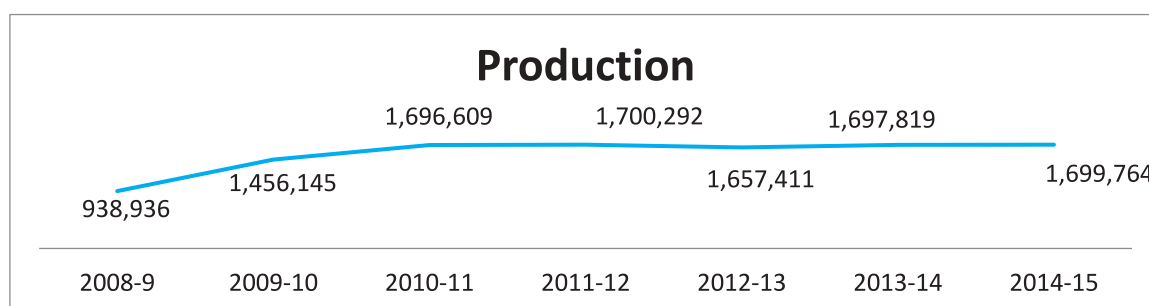
The local industry faces multiple challenges. Used trucks, off-road dumpers, chassis, tankers and concrete mixture are converted into prime movers and trucks and until this abuse of import authorisations is controlled, the local truck and bus industry may not be able to achieve full potential.

The production trend of HCVs during the last five years is depicted in the following table indicating the market size of buses segment over the last nine years. This segment too has largely been hit by imports. While production has declined from 1,073 units in 2006-07 to 577 units in 2010-11, the annual market size is estimated to be in the range of 4,000 to 5,000.

Buses									
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Production	1,073	1,160	707	716	577	693	650	789	933
Imports	2,966	913	75	326	361	824	689	119	0
Market	4,039	2,073	782	1,042	938	1,517	1,339	908	933

Two Wheeler/Three Wheelers

The motorcycle segment in Pakistan has seen rapid change in recent years, the most important of which has been the increase in volume. The accompanying figure illustrates that the present production capacity of motorcycles/auto rickshaws is 4,189,800 units against which 1,748,337 units (1,699,764 motorcycles and 48,573 auto rickshaw) were produced in 2014-15, 1,697,819 & 49,000 rickshaws in 2013-14 and 16,57,411 & 935000 rickshaws in 2012-13. In the motorcycle category, 70 cc motorcycles dominate the market with production of 1,348,053 units. However, other categories of 100 cc, 125 cc and 150 cc have also started generating significant market demand.



The increase in volumes was accompanied by a parallel increase in number of players operating in the market. The number of registered assemblers has increased from just nine in 1997-98 to more than a hundred in 2013-14. This growth can be attributed to consistent policies and government support due to which a high level of indigenisation (80-85 percent) has been achieved thus not only substituting imports but also resulting in lowering the costs of production. Due to these levels of indigenisation and increase in volumes, prices of motorcycles have declined correspondingly to the benefit of end consumers.

Year	Number of Manufacturers
1997-98	09
2005-06	44
2006-07	52
2007-08	59
2008-09	69
2009-10	83
2010-11	95
2011- 13	103
2013-14	113

A unique feature of the Pakistani motorcycle market has been the presence of 70 cc motorcycles. The following table shows that the 70 cc motorcycle has a steady market share of over 79 per cent, while 100 cc motorcycles have a share of 8 per cent. Interestingly, 125 cc motorcycle share is 11 per cent, which shows preference of consumers to switch to the higher cc segment.

	2008-9	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
70 cc	766,651	1,159,237	1,372,716	1,374,452	1,290,679	1,338,084	1,348,053
100 cc	108,985	182,638	171,626	163,727	170,874	128,148	139,179
125 cc	62,772	113,232	150,917	159,893	191,871	220,184	194,150
150 cc	528	1,038	1,350	2,220	3,987	11,403	18,382
Total	938,936	1,456,145	1,696,609	1,700,292	1,657,411	1,697,819	1,699,764

Despite large production capacity in the country, the sector still has relatively low quality, technology level and product development capabilities, and lacks innovation in design and features, and there is stereotyping of products. There are very few models available in the country, whereas more than a hundred models are being produced around the world at present. The industry needs emphasis on introduction of new models and reducing reliance on production of 70 cc motorcycles alone.

Rickshaws

There are thirty-one manufacturers of Motorcycle Rickshaws in Pakistan, producing 100 cc and 200 cc engine capacity vehicles, operating close to full capacity utilisation. The auto rickshaw industry holds a lot of promise for Pakistan. The basic auto rickshaw which is being produced for transport of passengers only is now also altered and converted by many assemblers into different variants for use as light cargo delivery vehicles and mobile workshop etc. Some companies have exported auto rickshaws to Bangladesh and Sri Lanka. Exports can pick up significantly if after-sales service and dealership facilities are established within export countries.

Tractor Industry

There are eight tractor manufacturing facilities in Pakistan, and four companies are currently in production. The range of locally manufactured tractors is from 50 HP to 85 HP whereas 50 HP to 65 HP category has seventy-five percent of total local market share. Tractor manufacturing companies, locations, installed capacity, country of origin and product range in terms of horsepower are as under:

	Manufacturer	Location	Capacity	Status	Origin	Products range (HP)
1	Millat Tractors (Massey Ferguson)	Lahore	40,000	Opt	UK/AGCO,USA	50,60,75,85
2	Al-Ghazi (Fiat)	DG Khan	25,000	Opt	UAE	55,65,66,75,85
3	Universal	Karachi	3000	Non Opt	New Holland	55,60,75,85 86
4	Hero Motors	Hyderabad	3000	Non Opt	UMG Ukraine	50,51,52
5	Farm-All	Lahore	3000	Opt	UTSUS	50,60
6	Arzoo Tractors	Lahore	3000	Non Opt	Rakovica IMR	50
7	PM Auto Industry	Hyderabad	5000	Non Opt	HEMA Turkey	65,85
8	Orient Tractor	Balochistan	9000	Opt	Republic of Serbia	50,60,76
Total			91000			

Source: Engineering Development Board

Total installed capacity of tractor manufacturing industry of Pakistan is 91,000 whereas capacity utilisation remained around 50 percent during 2014-15 (production of 45,862 units). Company-wise production figures from 2009-10 to 2014-15 is shown in the following table.

Sr. No.	Tractors	Capacity	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
1	Millat Tractors (Massey Ferguson)	40,000	40,177	42,188	32,003	32,003	21,600	28,105
2	Al-Ghazi (Fiat)	25,000	31,430	28,582	16,117	18,856	11,920	16,647
3	Universal	3,000	121	85	31	12	3	0
4	Hero Motors	3,000	772	1,017	538	792	409	0
5	Farm-All	3,000	14	0	166	140	74	NA
6	Arzoo Tractors	3,000	-	0	0	0	40	0
7	PM Auto Industry	5,000	475	389	43	163	206	0
8	Orient Tractor	9,000				11	1,001	1,110
Total		91,000	72,989	72,261	48,898	51,977	35,252	45,862

Source: Industry

The agriculture sector is the backbone of the economy, contributing approximately 20.9 percent to the gross domestic product in 2014-15. The domestic tractor industry has played a significant role in fulfilling the requirement of low-cost tractors to farmers. However, per hectare horse power¹ in Pakistan is approximately 0.90 HP per hectare as compared for instance to 2.31 HP in India. The requirement of 1.4 HP per hectare in Pakistan to meet the level of comparable economies can be achieved through high volumes of tractor manufacturing industry. The growth of tractor industry up to 2010-11 can be attributed to a trend toward greater mechanisation in agriculture in Pakistan, high localisation levels and occasional government subsidy schemes to support agriculture. However, from 2011-12 to 2013-14, production volumes dropped significantly mainly due to uncertainty in the market because of changes/imposition of Sales Tax as under:

¹ PAAPAM Policy Proposal for Tractor Industry

Time Period	GST (%)	No of Months
March-June 2011	17	4
July 11-Jan 2012	16	7
Feb 12-Dec 2012	5	11
Jan 13-Nov 2013	10	11
Jan 14-June 2014	16	6
June 2014-onwards	10	14

As a result of imposition of sales tax, the impact was transferred to end users and sales of tractors exhibited a declining trend due to increase in prices. In June 2014, the sales tax was reduced to 10 percent, resulting in decrease in end prices and increase in production volumes of tractors. The market share of M/s Millat Tractors was 61.28 percent in 2014-15 whereas the market share of second leading manufacturer, i.e. M/s Al Ghazi Tractors, was 36.30 percent. The remaining market is mainly served by M/s Orient Motors. Imports of tractors during 2014-15 were 2,351 units which are around 5 percent of total local production during the same year.

Auto Parts Industry

The downstream vending industry comprises around 2,000 part manufacturers, out of which 400-500 are in the organised sector. There are two segments in the auto parts sector: sales to OEMs for assembly of new cars, and the replacement market. The OEMs provide a blueprint that is manufactured to exact specifications required by the local firm. There does not appear to be any research and designing in the manufacturing processes. While many vendors make their own moulds and some engage in reverse engineering, true product development is generally not taking place to the level expected of Tier 1 suppliers. The benefits of the relationship with OEMs are knowledge spill-overs in the production process, and the certainty of orders that allows the part manufacturers to undertake investments. There are several instances of technical collaborations with foreign firms. The following table lists some important collaborations.

COMPANY	JOINT VENTURE	PRODUCT
Indus Motor Co.	Toyota & Daihatsu, Japan	Corolla & Cuore Cars
Atlas Honda Ltd.	Honda, Japan	Honda Cars/ Motorcycle
Pak Suzuki Motor Co.	Suzuki, Japan	Cars, Van, Jeep, Pickup
Suzuki Motorcycle	Suzuki, Japan	Suzuki Motorcycle
Ghandhara Nissan Ltd. (not operational)	Nissan, Japan	Cars & Truck
Dewan Farooq Motors (not operational)	Kia & Hyundai, Korea	Cars & LCVs
Master Motor Corp.	Yuejin & FAW, China	LCVs, Buses
Sind Engineering Ltd.	Dong Feng, China	LCVs, Bus
Tayyaba Motors	China	Trucks
Fuso Master Motors	China	Truck & Buses
Sigma Motors Ltd.	Land Rover, UK	Jeeps
New Allied Motors	China	Truck / Buses / mini van
Al-Hajj FAW Motors	China	Truck /pickup / X-PV
Afzal Motors	Daewoo, Korea	Buses
Karakoram Motors	Changan, China	LCVs
Nexus Motors (not operational)	GM Daewoo, Korea	Chevrolet Cars

**TARIFF STRUCTURE FOR
DEVELOPMENT OF
AUTOMOTIVE SECTOR**

3. TARIFF STRUCTURE FOR DEVELOPMENT OF AUTOMOTIVE SECTOR

In order to provide an enabling environment, conducive to development and growth of the automotive industry in line with the ADP's vision & mission statement, a stable and consistent tariff regime is essential. Such tariff regime must create a balance between industry requirements & consumer welfare, between protection & competition, between imports & local manufacturing and between what can be & what cannot be indigenised. Tariff regime must spur growth of the industry and provide clear incentives for new investments in auto sector to create healthy competition between existing and new players.

Tariff Rationalization

The tariff structure for automobiles has been worked out with the aim to synchronise the fresh investment, facilitate existing OEMs and Auto Parts Manufacturers in development and expansion of their manufacturing activities. It has been ensured that over-protection is not provided to a new or existing player so as to restrict the tendency towards complacency, and encourage competition.

The policy envisages that the development in vehicle assembly will come from two parallel streams of components assembly operations. On one hand, development will be achieved through technological advancements, greater efficiencies and increasing indigenisation on part of the existing OEMs. The other source of development will be through new investors establishing assembly operations in Pakistan, who will subsequently graduate to indigenous manufacturing. The fact that the existing OEMs have obvious advantages over new players because of a big head start in terms of established facilities means that the new entrants will need to be fully supported to catch up with the existing OEMs in terms of indigenisation and related infrastructure during the five years of this policy. With more players in the market, the Auto Parts Manufacturing industry will get the opportunity to become vibrant in terms of volumes, quality, prices, and new technological investments. It will also allow them to become a part of the global supply chain through technical collaborations and joint ventures.

To encourage new investment in the automobile sector, the respective tariff threshold has been reduced on localised and Non-localised components during the five year period of the ADP. This measure will not only provide an incentive to new players before they achieve the same level of indigenisation as existing OEMs but also facilitate existing players to procure non-localised components at reduced rates, thus lowering the cost and prices of indigenously assembled vehicles.

The import duty rate on localised parts has been lowered as overall policy of tariff reduction to improve indigenous competitiveness. The rates for localised parts have been fixed with a view to induce an element of efficiency, encourage technology up-gradation and to enable the Auto Parts Manufacturing industry to become globally competitive. At the same time, import duties on inputs for auto components i.e. sub-components and components, have been adequately adjusted to eliminate misdeclaration.

Previously, localised auto components were a part of SRO 693(1)/2006 and were subject to higher duty *vis-a-vis* non-localised parts. SRO 693(1)/2006 is a parallel system to Custom General Order-11/2007 (CGO), which contains a list of all locally manufactured engineering goods, other than automotive. This system created unnecessary duality having two different rates for localised and non-localised parts of cars. Henceforth, Completely Knocked Down (CKD) rate of duty of both localised and non-localised shall be unified into a single rate of duty after five years of policy period and kept as prevailing rate of duty of localised CKD at that time. However, the present duty structure shall continue for seven years for new investors. Complete Built Unit (CBU) rates have been rationalised for vehicles as higher duty rates make imported vehicles overly expensive and this pricing trend also drives up prices of locally produced vehicles.

3.1 TARIFF SYSTEM FOR CARS, SUVs & LCVs (HS CODES 8703 & 8704)

DESCRIPTION		Existing Rates	2016-17	2017-18	2018-19	2019-20	2020-21
(A) Passenger Cars & other Motor Vehicles falling under HS Code 8703							
AUTO-PARTS							
1	Raw Material	0%	1%	1%	1%	1%	1%

2	Sub Component	5%	10%	10%	10%	10%	10%
3	Component	10%					
4	Sub-Assembly	20%	20%	20%	20%	20%	20%
5	CKD (Non-Localised)	32.5%	30%	30%	30%	30%	30%
6	CKD (Localised)	50 %	45%	45%	45%	45%	45%
COMPLETELY-BUILT UNITS (CBUs)							
1	CBU up to 800 cc	50%	50%	40%	40%	50%	50%
2	CBU 801 to 1,000 cc	55%	55%	45%	45%	55%	55%
3	CBU 1,001 cc to 1,500 cc	60%	60%	50%	50%	60%	60%
4	CBU 1,501 cc to 1,800 cc	75%	75%	65%	65%	75%	75%
5	CBU above 1,801 cc	100%+50 % RD	100%+50 % RD	100%+50 % RD	100%+50 % RD	100%+50 % RD	100%+50 % RD
6	CBU Hybrid Electric Vehicles (HEVs)	<ul style="list-style-type: none"> Up to 1800 cc = 50% exemption Exceeding 1800 cc = 25% exemption 	<ul style="list-style-type: none"> Up to 1800 cc = 50% exemption Exceeding 1800 cc = 25% exemption 	<ul style="list-style-type: none"> Up to 1800 cc = 50% exemption Exceeding 1800 cc = 25% exemption 	<ul style="list-style-type: none"> Up to 1800 cc = 50% exemption Exceeding 1800 cc = 25% exemption 	<ul style="list-style-type: none"> Up to 1800 cc = 50% exemption Exceeding 1800 cc = 25% exemption 	<ul style="list-style-type: none"> Up to 1800 cc = 50% exemption Exceeding 1800 cc = 25% exemption
7	CBU Plugged-in Electric Vehicles (PEVs)	50%	50%	50%	50%	50%	50%

3.1.1 Rationale for Tariff Structure

1. The CBU duty rates have been rationalised on 1,800 cc and below to reduce the landed price of the cars;
2. The import duty rates on localised and non-localised parts are gradually being lowered to improve indigenous competitiveness;
3. The duty Structure under SRO 655(I)/2006 (IOR) pertaining to concessionary inputs available to Auto Parts Manufacturers is being rationalised to eliminate mis-declaration among sub-components and components, and
4. Zero-rated tariff slab has been replaced with one percent in line with the overall government policy.

3.2 TARIFF SYSTEM FOR MOTORCYCLES, MOTORCYCLE RICKSHAWS, AUTO RICKSHAWS AND 3-WHEELER CARGO LOADERS (HS CODES 87.11, 87.03, 87.04)

	Description	Existing	2016-17	2017-18	2018-19	2019-20	2021-21
1	Raw Material	0%	1%	1%	1%	1%	1%
2	Sub Component	5%	10%	10%	10%	10%	10%
3	Component	10%					
4	Sub-Assembly	20%	20%	20%	20%	20%	20%
5	CKD (Non-localised) <ul style="list-style-type: none"> Motorcycles, Motorcycle Rickshaw, Auto-Rickshaws 3 Wheeler Loader 	15 to 20%	15%	15%	15%	15%	15%
6	CKD (Localised)	47.5/50%	45%	45%	45%	45%	45%
7	CBU Motorcycle 87.11	65%	50%	50%	50%	50%	50%
8	CBU M/Cycle Rickshaw	65%					
9	CBU Auto Rickshaw	50%					
10	CBU Cargo Loader	60%					

3.2.1 Rationale for Tariff Structure

1. A uniform CBU rate of 50 percent has been fixed for the two and three wheeler automotive segments to rationalise the tariff structure and to prevent mis-declaration;
2. Similarly, the duty rate for non-localised components for the assembly of vehicles has also been rationalised for the entire segment and fixed at 15 percent to prevent mis-declaration;
3. The duty structure under SRO 655(I)/2006 (IOR) pertaining to concessionary inputs available to Auto Parts Manufacturers is being rationalised to eliminate mis-declaration among sub-components and components, and
4. Zero-rated tariff slab has been replaced with one percent in line with the overall government policy.

3.3. TARIFF SYSTEM FOR AGRICULTURE TRACTORS (HS CODE 87.01)

(C) Agriculture Tractors falling under HS Code 8701							
DESCRIPTION		Existing Duty	2016-17	2017-18	2018-19	2019-20	2020-21
1	Raw Material	0%	1%	1%	1%	1%	1%
2	Sub Component	0%	1%	1%	1%	1%	1%
3	Component	0%					
4	Sub-Assembly	0%	1%	1%	1%	1%	1%
5	CKD (Non-localised) All	0%	1%	1%	1%	1%	1%
6	CKD (Localised)	35%	35%	35%	35%	35%	35%
7	CBU	10%: Below 35 HP and above 100 15%: Above 35 HP and below 100 HP	10%/15%	10%/15%	10%/15%	10%/15%	10%/15%

3.3.1 Rationale for Tariff Structure

1. The duty structure under SRO 655(I)/2006 (IOR) pertaining to concessionary inputs available to Auto Parts Manufacturers, is being rationalised to eliminate mis-declaration among sub-components and components, and
2. Zero-rated tariff slab has been replaced with one percent in line with the overall government policy.

3.4. TARIFF SYSTEM FOR PRIME MOVERS, BUSES, HEAVY COMMERCIAL VEHICLES (RIGID TRUCKS) AND TRAILERS (HS 87.01, 87.02, 87.04, 87.16)

3.4.1 PRIME MOVERS FALLING UNDER HS CODE 8701

	Description	Existing rate	2016-17	2017-18	2018-19	2019-20	2020-21
1	Raw Material	0%	1%	1%	1%	1%	1%
2	Sub Component	0%	1%	1%	1%	1%	1%
3	Component	0%	1%	1%	1%	1%	1%
4	Sub-Assembly	0%	1%	1%	1%	1%	1%
5	CKD (Non-localised) below 280 HP	10%	5%	5%	5%	5%	5%
6	CKD (Non-localised) 280 HP & above	0%					
7	CKD (Localised) All Categories	35%	35%	35%	35%	35%	35%
8	CBU below 280 HP	30%	20%	20%	20%	20%	20%
9	CBU 280 HP and above	15%					

3.4.1.1 Rationale for Tariff Structure

1. A uniform rate of 20 percent on CBU of Prime Movers of all categories i.e. up to 280 HP and 280 HP and above has been fixed to rationalise the tariff structure and avoid ambiguities and mis-declaration. On the same analogy, a uniform import duty of 5 percent on components for assembly of Prime Movers has been fixed so as to facilitate low-cost assembly of vehicles;
2. The duty structure under SRO 655(I)/2006 (IOR) pertaining to concessionary inputs available to Auto Parts Manufacturers, is being rationalised to eliminate mis-declaration among sub-components and components, and
3. Zero-rated tariff slab has been replaced with one percent in line with the overall government policy.

3.4.2 BUSES FALLING UNDER HS CODE 8702

	Descriptions	Existing rate	2016-17	2017-18	2018-19	2019-20	2020-21
1	Raw Material	0%	1%	1%	1%	1%	1%
2	Sub Component	5%	10%	10%	10%	10%	10%
3	Component	10%					
4	Sub-Assembly	15%	15%	15%	15%	15%	15%
5	CKD (Non-Local)	5%	5%	5%	5%	5%	5%
6	CKD (Non-localised) (Dedicated LPG or LNG Buses)	-	1%	1%	1%	1%	1%
7	CKD (Local.) All Categories	35%	35%	35%	35%	35%	35%
8	CBU	20%	20%	20%	20%	20%	20%
9	CBU (Dedicated LPG or LNG Buses)	0%	1%	1%	1%	1%	1%
10	CBU (Hybrid Electric Vehicles (HEVs))	-	1%	1%	1%	1%	1%

3.4.2.1 Rationale for Tariff Structure

1. A CBU rate 20 percent has been maintained on regular buses to provide manufacturers of these vehicles adequate protection against imports;

2. CNG category of buses has been supplemented with LPG/LNG/HEVs to promote such vehicles because of environmental considerations and possibility of non-availability of CNG in future;
3. The duty structure under SRO 655(I)/2006 (IOR) pertaining to concessionary inputs available to Auto Parts Manufacturers is being rationalised to eliminate mis-declaration among sub-components and components, and
4. Zero-rated tariff slab has been replaced with one percent in line with the overall government policy.

3.4.3 HCVs (RIGID TRUCKS-ABOVE 5 TONS GVW) FALLING UNDER HS CODE 87.04

	Descriptions	Existing rate	2016-17	2017-18	2018-19	2019-20	2020-21
1	Raw Material	0%	1%	1%	1%	1%	1%
2	Sub Component	5%	10%	10%	10%	10%	10%
3	Component	10%					
4	Sub-Assembly	15%	15%	15%	15%	15%	15%
5	CKD (Non-Local)	10%	10%	10%	10%	10%	10%
6	CKD (Localised)	35%	35%	35%	35%	35%	35%
7	CBU (above 2 Axles)	30%	20%	20%	20%	20%	20%
8	CBU (2 Axles)	30%	30%	30%	30%	30%	30%
9	CBU (Hybrid Electric Vehicles (HEVs)	-	1%	1%	1%	1%	1%

3.4.3.1 Rationale for Tariff Structure

1. New descriptions with regard to technology have been defined in the tariff system for HCVs (Rigid Trucks, above 5 Tons GVW) i.e. above 2 Axles & 2 Axles Rigid Trucks. Accordingly, two different duty rates have been fixed on CBUs with the objective to promote and encourage assembly of trucks above 2 axles and discourage import of trucks below 2 axles, which are hazardous to environment and road infrastructure;
2. The duty structure under SRO 655(I)/2006 (IOR) pertaining to concessionary inputs available to Auto Parts Manufacturers is being rationalised to eliminate mis-declaration among sub-components and components, and

3. Zero-rated tariff slab has been replaced with one percent in line with the overall government policy.

3.4.4 TRAILERS FALLING UNDER HS CODE 87.16

		existing	2016-17	2017-18	2018-19	2019-20	2020-21
1	CBU	15%	15%	15%	15%	15%	15%
2	CKD (Non-localised)	5%	5%	5%	5%	5%	5%
3	CKD (Localised)	35%	35%	35%	35%	35%	35%

3.4.5 LCV (UP TO 5 TON CVW) FALLING UNDER HS CODE 8704

	Descriptions	Existing rate	2016-17	2017-18	2018-19	2019-20	2020-21
1	Raw Material	0%	1%	1%	1%	1%	1%
2	Sub Component	5%	10%	10%	10%	10%	10%
3	Component	10%					
4	Sub-Assembly	15%	15%	15%	15%	15%	15%
5	CKD (Non-Local)	20%	20%	20%	20%	20%	20%
6	CKD (Localised)	50%	45%	45%	45%	45%	45%
7	CBU	60%	60%	60%	60%	60%	60%

3.4.5.1 Rationale for Tariff Structure

1. The import duty rates on Localised parts are gradually being lowered to improve indigenous competitiveness;
2. The duty Structure under SRO 655(I)/2006 (IOR) pertaining to concessionary inputs available to Auto Parts Manufacturers is being rationalised to eliminate mis-declaration among sub-components and components, and
3. Zero-rated tariff slab has been replaced with 1 percent in line with the overall government policy.

**LOWER ENTRY THRESHOLD FOR
NEW INVESTMENT FOR
MARKET EXPANSION**

4. LOWER ENTRY THRESHOLD FOR NEW INVESTMENT FOR MARKET EXPANSION

New investment in the auto sector, whether foreign or domestic, can be made in the following forms:

1. Import of CBUs (Completely Built-up Units);
2. Assembly of SKD (Semi-Knocked Down) Modules;
3. Assembly through substantial **imported/local** components (CKD operation) --- This will apply to new investors for all their products, and
4. Assembly through substantial **indigenised** components.

While CBU import is primarily a trading activity, SKD assembly is no longer in vogue. Assembly through substantial indigenised components adds more value in terms of employment generation, foreign exchange savings, improved competitiveness, and lower prices. However, a new entrant needs sufficient lead-time to catch up with existing players who have developed mutually beneficial relations with local auto-parts manufacturers over the years, established in-house facilities for parts/components manufacturing, and have set up country-wide dealer networks.

Previously, special incentives for new entrants were offered with so many qualifications that very little investment materialised. According to the previous new entrant provisions under AIDP (2007-12), import of 100 percent CKD kit was allowed at a leviable rate of customs duty applicable to non-localised parts for a period of three years, which proved to be too high to attract new investment. There were stringent conditions attached to the policy i.e. the investor must have a global presence with sales as high as half a million. Another condition excluded all investors who had previously operated in Pakistan. Therefore, the previous incentives failed to attract new investment. ADP (2016-21) will not only offer more incentives to new investors in terms of attractive tariff structure available for an extended period of five years instead of three years but also lowers the entry threshold for new investment by removing unrealistic barriers.

NEW INVESTMENT POLICY

A new manufacturer under Automotive Development Policy (2016-2021), establishing maiden assembly facility will invariably need separate treatment and greater incentives in the early years to enable it to introduce its brand, develop a market niche and share, create a distribution and after-sales service networks, and develop a part-manufacturer base.

a. Investment Categories

ADP (2016-21) envisages two categories of New Investment with different incentives:

4.1.1 Category-A: Greenfield Investment is defined as the installation of new and independent automotive assembly and manufacturing facilities by an investor for the production of vehicles of a make not already being assembled/manufactured in Pakistan.

[Note: “Make” is defined as any vehicle of whatever variant produced by the same manufacturer], and

4.1.2 Category-B: Brownfield Investment is defined as revival of an existing assembly and/or manufacturing facilities, that is non-operational or closed on or before July 01, 2013 and the make is not in production in Pakistan since that date and that the revival is undertaken either independently by original owners or new investors or under joint venture agreement with foreign principal or by foreign principal independently through purchase of plant.

b. Investment Incentives

4.2.1 Category-A Investor shall be entitled to the following incentives:

- a) Duty-free import of plant and machinery for setting up the assembly and/or manufacturing facility on a one-time basis;
- b) Import of 100 vehicle of the same variant in CBU form at 50 percent of the prevailing duty for test marketing after ground breaking of the project;
- c) Concessional rate of custom duty @ 10 percent on non- localised parts and @ 25 percent on localised parts for a period of five years for the manufacturing of Cars and LCVs;
- d) Import of all parts (both localised and non-localised) at prevailing customs duty applicable to non-localised parts for manufacturing of trucks, buses and prime-movers for a period of three years, and

- e) The existing policy for Motorcycle industry as approved by the government and notified by FBR vide SRO 939(I)/2013 and SRO 940(I)/2013 shall continue.

4.2.2 Category-B Investor shall be entitled to:

- a) Import of non-localised parts at 10 percent rate of customs duty and localised parts at 25 percent duty for a period of three years for the manufacturing of Cars and LCVs, and
- b) Import of all parts (both localised and non-localised) at prevailing customs duty applicable to non-localised parts for manufacturing of trucks, buses and prime-movers for a period of three years

4.3 Eligibility Criteria

The Board of Investment shall be the single point of contact for the investor with the government. Any new investor shall be required to submit a detailed business plan and relevant documents for manufacturing of vehicles to the Board of Investment. The Board of Investment shall have the Business Plan assessed by the Engineering Development Board, which shall verify the investor's in-house assembly/manufacturing facilities for the manufacture of road worthy vehicles. The Engineering Development Board shall determine eligibility of the applicant under the defined criteria to be declared as Category A or Category B Investor. The Ministry of Industries and Production, on recommendation of the Engineering Development Board, shall approve a new investor under the relevant category. The Auto Industry Development Committee (AIDC) and Engineering Development Board shall review results of the new investor policy once every two years and shall recommend modifications, if any.

4.4. Withdrawal of Incentive

In case of material deviation from the approved commercial operation schedule, withdrawal of incentives shall take effect. The Engineering Development Board shall initiate suitable action after necessary verification that may lead to stoppage or withdrawal of benefits allowed. Details and mechanism for this will be covered in the New Entrant Agreement to be signed between the Government and the Investor.

Applicability of Fiscal Incentives: Fiscal incentives contained in ADP (2016-21) shall come into effect from July 01, 2016.

IMPORT POLICY FOR USED VEHICLES

5. IMPORT POLICY FOR USED VEHICLES

Pakistan's Import Policy Order (2012–15) contains a comprehensive policy for import of used vehicles, but its implementation has been made complicated due to several import schemes issued at different times, and frequent changes in the parameters of these schemes. Import of all types of vehicles shall be regulated by the following Used Vehicles Import Policy:

- No used vehicle shall be imported into Pakistan except through the following schemes:
 - ✓ Personal Baggage Scheme;
 - ✓ Transfer of Residence Scheme, and
 - ✓ Gift Scheme.
- Age limit of three years to be continued in case of cars;
- Age limit of five years to be continued in case of Buses, Vans, Trucks, Pick-ups, SUVs including 4x4 vehicles;
- Special Purpose Vehicles of following HS Codes not older than five years shall be imported into Pakistan by end users as specified in the Import Policy Order:
 - ✓ Prime Movers of 280 HP and above (**HS Code 8701.2040**);
 - ✓ Concrete mixer lorries (**HS Code 8705.4000**);
 - ✓ Dumpers designed for off highway use (**HS Code 8704.1090**), and
 - ✓ Others (**HS Code 8705.9000**) including water sprinklers shall be maintained;
- In addition to above following are the conditions associated with the policy:
 - ✓ The Federal Board of Revenue shall issue yearly schedule of import duties of all type of vehicles in US Dollar terms on 30th June of each year;
 - ✓ No relaxation regarding age and applicable duty shall be granted under any circumstances, and
 - ✓ Ministry of Commerce shall define SOPs under Import Policy Order for used cars to prevent misuse of the facility.

The above policy does not preclude import of brand new CBUs by individuals other than expatriate Pakistanis on payment of prescribed import duty.

CONSUMER WELFARE

6. CONSUMER WELFARE

Consumer Welfare has not hitherto been attached high priority and, therefore, the issues of affordability and quality have not been addressed in the past. There is a general perception that vehicles assembled/manufactured in Pakistan have higher prices and low quality standards.

At present, customers have to pay the full amount at the time of booking of cars inclusive of duties and taxes, whereas the cars are delivered to customers after several months. In case of any price escalation before taking delivery, the customers are required to pay the price as on the date of delivery. There is no institutional mechanism to respond to consumer feedback as vehicles manufacturers do not take note of complaints made by a consumer about quality and frequent escalation of car prices

To address the above issues, the ADP adopts the following measures:

- Amount of advance payment shall be limited up to 50 percent of the total price. Price and delivery schedule, not exceeding two months, shall be firmed at the time of booking. Any delay over two months shall result in discount @ KIBOR+2 percent prevailing on the date of final delivery/settlement from the final payment, which shall help shorten delivery lead time;
- Development and enforcement of safety regulations;
- Compulsory installation of immobilisers in cars by the OEMs, and
- Product recall system shall be put in place in line with global practice.

**REGULATORY MECHANISM FOR
QUALITY, SAFETY AND
ENVIRONMENTAL STANDARDS**

7. REGULATORY MECHANISM FOR QUALITY, SAFETY AND ENVIRONMENTAL STANDARDS

In Pakistan, there are two regulations in place related to vehicle safety and environmental protection, i.e. Motor Vehicle Rules, 1969 for safety and EPA's Euro II emission requirements. However, they are not well in line with global requirements and latest technologies and need to be reviewed from the standpoint of safety of human life, environmental protection and sustainable growth of motorization in Pakistan. Therefore, the issue of vehicle safety regulations has been addressed in the ADP.

Although the following two options may be possible answers to the issue, the ADP adopts the second option as viable and effective way to push development and implementation of nation-wide regulations for vehicle safety and environmental protection (**hereinafter referred to as "Regulations"**) by the concerned authorities to make the vehicles sold and used in the country safer and more environment friendly and thus, become exportable to the global market in the future.

1. Amendment of Motor Vehicle Rules, 1969 by respective provinces to make them comparable to globally prevalent Regulations. This will require extensive and duplicated efforts by each province for studying the global practice, modification of existing rules, coordination among the provinces and the federal government, development of procedures and standards for testing and evaluation, etc. and, therefore, not highly recommendable.
2. Participation in **UN/ECE WP.29** (Working Party 29/World Forum for Harmonization of Vehicle Regulations under United Nations/Economic Commission of Europe) and adoption of its technical regulations according to the following steps:
 - i. To adopt and implement appropriate **UN Regulations hereinafter referred to as "UNRs"**) step-by-step and implement government vehicle **certification** system, and
 - ii. To participate in WP. 29's **IWVTA (International Whole Vehicle Type Approval)** scheme and adopt all **Global Technical Regulations (hereinafter referred to as "GTRs")** for the schemes which are being selected mostly from the UNRs.

At present, different countries adopt or implement different regulations to ensure safety and environmental protection, and any vehicles whether domestically made or imported must conform to them. With an attempt to smoothen international trade procedures, **WP. 29** has been working toward mutual recognition of vehicle certification under **IWVTA** scheme through harmonization of regulations of the member countries in order to alleviate cumbersome testing process for the vehicles imported from member countries.

In view of above, the ADP stresses priority development and implementation of national regulations in accordance with UNRs as the first step. It also envisages initiating **certification (or type approval)** by the government of newly built or imported road vehicles as a measure to officially certify their conformance to the Regulations and allow them to be sold without testing each and every single unit. The government certification will be needed to utilize the IWVTA scheme to help local industry develop overseas market.

- When Pakistan develops national regulations based on the UNRs, it shall not have to elaborate its own regulations and industrial standards from scratch except for certain modifications necessary to accommodate specific conditions and needs, and
- WP. 29 allows member countries to certify vehicles based on test reports of qualified organizations or laboratories abroad, which enables Pakistan to implement vehicle certification system without huge investment on required equipment and facilities and competent human resources (engineers and technicians).

Action Plan

- Pakistan shall apply for membership of WP. 29 initially as an observer and subsequently initiate and pursue actions aimed at development of Regulations based on UNRs with eventual goal of becoming the Party to the IWVTA;
- Engineering Development Board shall take the lead role in developing, and enforcing the regulations through the concerned ministries/provincial governments;
- Motor Vehicles Ordinance of 1965 and Motor Vehicle Rules of 1969 and National Highway Safety Ordinance of 2000 shall be reviewed accordingly;

- A Committee shall be formed comprising representatives of the related government bodies, automotive industry and academia to discuss and come up with recommendations on the following:
 - Review and selection of the UNRs to be adopted as Pakistan Regulations;
 - Prioritization of the Regulations to be enforced;
 - Deliberation on related administrative mechanisms, e.g.:
 - Vehicle certification/Motor Vehicle Examination System;
 - Accreditation of testing facilities;
 - P-NCAP (Pakistan new car assessment program) for confirmation and monitoring;
 - Mandatory periodic vehicle inspection;
 - Application of Regulations to vehicles in use;
 - Recall/Product Liability (should be applicable to all vehicles), and
 - Road map for development and implementation of the regulations.
- The implementation schedule shall be clearly set out for each Regulation and agreed upon by the stakeholders so that the vehicle manufacturers can properly prepare for new requirements and make longer-term plans for development of new products.

Outline of WP29 of UN/ECE

- Any country member of the United Nations may participate fully or in a consultative capacity in the activities of WP.29 and become a Contracting Party to the Agreements administered by WP.29, and
- Major objectives of WP. 29 are harmonization of global vehicle regulations and mutual recognition of vehicle certification to smoothen international trade procedures.

Each UNR/GTR is self-contained including technical requirements, testing methods, judgment criteria and related international standards, and needs for development of new standards in Pakistan will be minimal.

ESTABLISHMENT OF PAKISTAN AUTOMOTIVE INSTITUTE (PAI)

8. Establishment of Pakistan Automotive Institute (PAI)

Auto products manufacturing units in Pakistan need to test their products from raw material up to the finished product to ensure their suitability for use, and ascertain performance and thereby meet quality and safety requirements. Pakistan still does not have internationally recognized automotive research institute and testing facilities for the entire spectrum of products. There is a need to create an enabling environment under Public Private Partnership wherein private sector entrepreneurs/academia along with Engineering Development Board can establish automotive research and testing infrastructure. Such infrastructures have to be accredited by Pakistan National Accreditation Council (PNAC) before starting operations. In addition, they can also have accreditation from international organizations. Although, it is a viable business activity, no research and testing infrastructure has emerged in the private sector despite the fact that Automotive Testing and Training Centre (AT&TC) has laid foundation for such businesses. The reasons for inactivity of AT&TC were lack of high level of technology and skills required to run its operation. The ADP provides for establishment of Pakistan Automotive Institute (PAI) for planning and implementation of activities relating to the development of the automobile industry, particularly research, education and technical guidance relating to quality improvement, safety inspection and environmental preservation as well as development of a database covering technical information relating to the automobile industry. **This shall be achieved through merger of the newly-created PAI with Automotive Testing and Training Centre (AT&TC), a subsidiary of Pakistan Industrial Development Corporation.** Source of funding would be from interventions by stakeholders and donors.

OTHER INTERVENTIONS

9. OTHER INTERVENTIONS

Truck Financing by Commercial Banks

The State Bank of Pakistan presently allows consumer financing to only car segment whereas individual consumers of HCV sector have to obtain loans from the open market at higher rates. In order to facilitate the individual buyers of the HCV segment, the ADP envisages to extend consumer finance facility to individual customers for commercial vehicles in line with car segment financing scheme at prevailing interest rates, thus helping industry to improve its production capacity.

Incentivize Fleet operations

Keeping in view of interventions under the China Pakistan Economic Corridor and other mega projects like Lahore-Karachi Motorway, it is envisaged to corporatize the trucking sector by incentivizing fleet operation schemes through allocation of dedicated funding by State Bank of Pakistan/IFIs with reduced interest rates to enhance volumes of the industry and enable it to absorb fixed cost to reduce overall cost.

AUTO INDUSTRY DEVELOPMENT COMMITTEE

10. AUTO INDUSTRY DEVELOPMENT COMMITTEE.

Auto Industry Development Committee (AIDC) shall continue to play its advisory role for the development of automotive sector under the Engineering Development Board. To implement policies stipulated in the ADP, Engineering Development Board shall request AIDC to furnish suggestions/advices on technical issues when deemed necessary and appropriate. However, final decision shall rest with the Engineering Development Board/Ministry of Industries and Production keeping in view best national interest.

AIDC shall conduct regular dialogue and effective communication with the industry, and encourage private–public partnership for sustainable development of the Auto Sector. Major functions of the AIDC shall be as under

- AIDC will have regular deliberations on safety, quality, standards, safety, consumer protection and regulatory framework of the government to encourage enhancement of safety and environment performance of locally made parts and vehicles;
- AIDC shall continuously analyze the emerging global trends and do out of box thinking to identify opportunities for the local auto industry and define its direction for growth development and competitiveness;
- AIDC shall make recommendations to the government on the issues relating to fiscal policy, investment opportunities, exports development, trade policy initiatives, FTAs and other regulatory and administrative matters which may affect directly or indirectly the growth and sustainable development of Auto Industry;
- AIDC shall provide a vision for the development of the auto sector and will continue reviewing the progress, effectiveness of incentive regime and to recommend corrections and improvements in the ADP wherever necessary and
- AIDC shall also promote industry–university linkages, and create awareness within the academia about needs of the industry.

The consensus on the issues deliberated in AIDC will be on basis of views of the majority of participating members in the meeting. The chair shall have a casting vote. However, final

decision shall rest with Engineering Development Board/Ministry of Industries and Production keeping the national interest in view.

The Committee shall through consensus appoint sub-committees for effective implementation of the ADP. Each Sub-Committee, however, shall be headed by a member of the AIDC. The TORs of such sub-committees shall be jointly developed by the AIDC at the time of their constitution.

The chair may co-opt additional members depending upon need, expertise and skills of such members relevant to the agenda of the meeting or for some other issues and initiatives as deemed necessary. Composition of AIDC will change after every two years. The Committee shall meet at least once in a quarter or as convened by the chair.

Composition of Members

1.	Chief Executive Officer, Engineering Development Board	Chairman
2.	General Manager (Policy), Engineering Development Board	Secretary
3.	Joint Secretary, M/o Industries & Production	Member
4.	Joint Secretary, M/o Science & Technology	Member
5.	Joint Secretary, M/o Commerce	Member
6.	Joint Secretary, M/o Climate Change	Member
7.	Representative from Planning Commission	Member
8.	Chief Customs (Tariff & Trade), Federal Board of Revenue	Member
9.	Representative from Higher Education Commission (HEC)	Member
10.	Managing Director, Pakistan Standards and Quality Control Authority (PSQCA) or his representative	Member
11.	Chairman, PAAPAM	Member
12.	Vice Chairman PAAPAM	Member
13.	Chairman, PAMA	Member
14.	A Representative of Car Assemblers (out of leading assemblers)	Member
15.	A Representative of Car Assemblers (out of new entrant)	Member
16.	A Representative of Japanese Two / Three-wheeler Assemblers	Member
17.	A Representative of Chinese Two / Three-wheeler Assemblers	Member

18.	A Representative of Tractor Assemblers (out of leading assemblers)	Member
19.	A Representative from Truck/Bus Sector (out of leading assemblers)	Member
20.	One vendor of Sheet Metal on rotation basis for two years	Member
21.	One vendor of Plastics and Rubber on rotation basis for two years	Member
22.	One vendor of Casting, Forging & Machining	Member
23.	One vendor of Electrical and Electronics	Member
24.	One Representative from private sector expert (non-industry)	Member
25.	One Representative from consumers association/body	Member



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