

ENGINEERING DEVELOPMENT BOARD

31th Meeting of the Auto Industry Development Committee Held on, March 12, 2020

MINUTES OF THE MEETING

31th Meeting of the Auto Industry Development Committee was held on March 12, 2020 in the Committee Room of Engineering Development Board under the chairmanship of Chief Executive Officer, EDB. Chairman EDB also attended the meeting. Detailed List of participants is at Annex-A.

The meeting started with recitation of Holy Quran. The Chair welcomed all the participants and Mr. Asim Ayaz, Secretary AIDC presented the following agenda items.

Serial #	Agenda Items
Item No. 01	Confirmation of the Minutes of 30 th Meeting of AIDC held on January 16, 2020.
Item No. 02	Recommendation for waiver of ACD & FED in Federal Budget 2020-21
Item No. 03	Discussion on import of used cars through misuse of import policy and proposal for amendments in SRO 577
Item No. 04	Presentation by Vintage Cars – a proposal forwarded by Ministry of Commerce for comments of EDB
Item No. 05	Finalization of EV Policy and submission of finalized draft to MoIP. Discussion on tariff proposals related to EVs for Budget 2020-21
Item No. 06	Update on adoption of WP 29 Regulations.
Item No 07	Discussion on Preparation of Automotive Development and Exports Plan (AIDEP) and update on SRO Rationalization and Technical & New Technology Committees

➤ AGENDA ITEM NO. 01

Confirmation of the Minutes of 31st Meeting of AIDC held on January 16, 2020.

Mr. Asim Ayaz, Secretary AIDC informed the members that Minutes of 30th meeting of AIDC were circulated among members of AIDC. Few observations have been received from the members. PAMA & Atlas Honda raised few comments regarding numbering of agenda items. The change was agreed. It was also informed comments has been received that up gradation of refineries for provision of higher standard fuel may be taken

up with Ministry of Climate Change. The comment was agreed and informed that matter has been taken up with MoCC. Furthermore comments were received that EDB shall include international standards related to EVs during formulation of EV Policy. The same was agreed and informed that international standards related to EVs will be considered during formulation of standards for EVs.

➤ **AGENDA ITEM NO. 02**

Recommendation for waiver of ACD & FED in Federal Budget 2020-21

Chairman, BoM informed that Government of Pakistan is concerned about Price increase; drop in sales of automotive vehicles. CEO, EDB informed that EDB/MoIP often faces queries from Senate and National Assembly of Pakistan regarding increase in prices. Therefore the matter is placed before AIDC to ascertain the reasons for price hike and decline in sales.

Mr. Asim Ayaz, Secretary AIDC informed that Additional Customs Duty(ACD) of 2% levied vide SRO 630(I)/2018 was enhanced in Federal Budget 2019-20 to 4 % and 7 % on tariff lines attracting 16% and 20% custom duty respectively vide SRO 670 (I) 2019. He added that Automotive Development Policy (ADP 2016-21) announced a five year tariff plan to provide consistent investment environment to automotive industry. The increase in ACD, levied on vehicle manufacturers affected their in-house manufacturing and input costs of vendors also increased significantly; hence included in the prices of vehicles being manufactured by existing as well as new manufacturers, which are already under pressure due to increase in US dollar against Pak Rupee. Similarly Federal Excise Duty(FED) has been imposed from 2.5 % to 7.5 % on different vehicle categories i.e. 2.5 % upto 1000 cc category, 5% from 1001 upto 2000 cc and 7.5 % on 2001 cc and above. The new entrants under Automotive Development Policy as well as the existing players were adversely affected by the decision.

Mr. Tariq Ahmed Khan, Senior Director, Indus Motor Company (IMC) informed that various OEMs have approached court of law against the ACD and stay order has been granted to various companies. However he informed that their OEM and others automotive manufacturers have not approached court of law with respect to FED.

CEO, EDB informed that EDB is of the opinion that increase in prices is one of the major reasons behind decline in sales of automobiles and it is needed to be addressed by the Government.

Mr. Norez Abdullah, CFO, Hyundai Motor Company said that in case of CBU RD was imposed and it was removed due to efforts of EDB. He said FED is still imposed and FED exemption is needed to strengthen automotive sector of Pakistan.

Zaheeruddin Dar, CEO, Dartways said that ACD and FED are duties not taxes. Duties are interventions to control demand whereas a tax i.e. Sales and Income taxes is revenue instruments. Custom duties if used as revenue measure it should be temporary. If duties are used as revenue measure in the long run it kills revenue, therefore FBR should use duties for interventions not as revenue measures. Secretary Tariff-II, FBR said that his organization will examine the ACD and FED issues however, final decision lies with federal cabinet.

Mr. Muhammad Faisal, COO, KIA Lucky Motors Pvt Ltd said that existing OEMs are better placed and FED and ACD has removed the differential of 20% offered by ADP 2016-21 to the new entrants and it is an anomaly. He said in case duty and tax for existing OEMs is around 46% and for new entrants it is 25% for localized parts and for non-localized parts import is at the rate of 30% for existing players and 10% is offered to new entrants. But due to imposition of ACD and FED the differential has been reduced and therefore it is an anomaly. He further added that ACD should go to zero. Secretary Tariff-II was of the view that it is not an anomaly and interpretation of M/s Kia is faulty and localized components under SRO 693 are up by 11%. Chairman EDB was of the view that FBR may analyze the viewpoint of M/s Kia and if there is an anomaly it should be removed. Chairman PAAPAM supported zero ACD and FED. Mr. Babar Senior Manager, Indus Motor Company was of the view that imposition of FED & ACD will hurt the revenue of FBR due to low sales. Chairman asked representative of FBR to provide revenue loss information. Secretary Tariff-II, FBR agreed and said they will share the data with EDB shortly.

Decision

It was unanimously decided that Federal Excise Duty and Additional Custom Duty should be removed. In this regard EDB/MoIP will take up matter with FBR based on consolidated data acquired from FBR.

➤ AGENDA ITEM NO. 03

Discussion on import of used cars through misuse of import policy and proposal for amendments in SRO 577

Mr. Asim Ayaz, Secretary AIDC briefed the committee that Government amended Import Policy Order 2016 vide SRO 52(I)/2019 to provide a comprehensive process to be followed for remittance of duties and taxes by genuine nonresident Pakistani nationals living abroad. The intervention made by the Government was in line with the intervention proposed in ADP 2016-21 with reference to surveillance of import policy schemes to avoid their misuse. The

Government has been successful in curbing imports of used vehicles significantly. He further added that EDB has been informed by the industry that misuse of import policy schemes has started again despite the commendable efforts of EDB, MoIP and Ministry of Commerce. Representative of Indus Motor Company said that since July, 2019 trend of imports is going up to 700 imports per month and in January 2020 1500 vehicles were imported. He added that they have examples of misuse where overseas Pakistani are residing in Gulf/Dubai and importing cars from Japan. He proposed that country of origin and country of export of automotive vehicle should be same. Mr. Norez Abdullah, CFO, M/s Hyundai Motors said that hybrid vehicles imported are exempted from RD. Cars are imported with 1% depreciation/month. In this regard he complained that Custom enforcement has issues.

CEO, Dartways said that secondary market /used cars is competing the primary market. Secondary market is needed to be regularized. Secondary and primary market needs to be seen together. He said duties were fixed because data was not-available with FBR. Baggage import is grey import. He proposed that solution is that to allow commercial imports and baggage schemes may be removed. Commercial imports can then be controlled by taxes and different levies.

Mr. Muhammad Faisal, COO, M/s Kia Lucky Motors Pvt Ltd said ADP 2016-21 was to create create competition by attracting new companies, improve availability of cars, reduce prices, and offer vehicles to the public that have quality, safety and environmental features. Once regulated it was expected to curb imports of used cars. He opposed the commercial import proposal. He added that focus should be “make in Pakistan”.

Secretary Tariff-II said that overseas Pakistani approaches FBR with grievances. Overall a maximum of 500 vehicles are being imported each month. He further added that increase in number of imported vehicles is because Ministry of Commerce released 1200 vehicles which were stuck at the port. Overseas Pakistani even if sells their right than it is market phenomenon. It is similar to on-money being operated in Pakistan.

Mr Babar, senior Manager, IMC said that as per his information 1200 automotive vehicles have not yet been released. Honda proposed that incentives should be given on locally manufactured cars instead of imported vehicles.

Chairman, EDB was of the view that data is needed to analyse trend and propose corrective measures. He added that overseas Pakistanis are important component and they alone send more remittances than the local manufacturing industry. Secretary AIDC said that Asian made care duty is 450,000 which is less than new cars. So new duty slabs may be considered. Exemption of 10000000 is not supported by EDB. If it is established that

situation is alarming EDB can take actions.

In response to FBR on-money comments. Mr Babar, Senior Manager, IMC said that on-money was a market phenomenon FBR has data of car purchase. Chairman, EDB said that on-money comments by FBR were an analogy. It is not an accusation. Representative of Pak Suzuki said that SUVs are a major chunk of imported vehicles so the age should not more than 3 years in case of SUVs.

Zaheerudin Dar, CEO, Dartways was of the view that import schemes for overseas Pakistanis is a politically sensitive matter. Short term suggestions given are endorsed but long-term solution is required. He added that commercial import of used cars is ban in India however Non Resident Indian can give gift. Thailand has same facility like baggage in Pakistan. Grey import is there. Overseas control is a political issue. Commercial imports are the solution in the long term.

Chairman BoM said that competition is very good for economic growth. He added that next year is very critical and situation is required to be desensitized with respect to import of used cars segment.

Representative of Rubatech industries Pvt Ltd said that overseas Pakistanis have the right to import and they should not be penalized. Cars should be in name of passport. Chairman BoM said that lets get some more data for few months before making a decision. He added that evidence is needed. Data is needed so FBR may be requested to provide cost of structure. He clarified that focus of EDB is export enhancement and curtail imports.

Decision

Duties revision may be recommended based on the evidence to be acquired from FBR.

➤ AGENDA ITEM NO. 04

Presentation by Association of Vintage Cars – a proposal forwarded by Ministry of Commerce for comments of EDB

The representative of Vintage cars gave a presentation. In which he highlighted that vintage car is a hobby. Vintage cars are used in rallies, tourism enhancement. Furthermore he added that vintage cars have potential for exports due to low labour rates in Pakistan. In this regard many countries are importing vintage cars and re-exporting them after refurbishing. Pakistan has competitive advantage. He supplemented his presented by real life examples.

Chairman, BoM said that vintage car is a hobby and Business as well. Representative of Rubatech admired the presentation. However he said scrap can come in name of vintage

cars. He said vintage cars needs definition. Secretary Tariff-II highlighted that SRO 823(1)/2018 provides definition of vintage cars. As per SRO vintage car is a car manufactured before 1968. In this regard commutative amount of USD 4,000 is charged. It was ECC decision still hanging to be implemented by Ministry of Commerce. Mr. Babar, Senior Manager, IMC said that import cum export may be allowed. He added that quantity may be limited for local consumption. Secretary Tariff-II said that one car may be allowed to retain and remaining may be allowed to export. Zaheerudin Dar said that manufacturing is an international phenomenon. It should be allowed. One year is required to remanufacture after that it can be re-exported.

Chairman, EDB was of the view if vintage car imports cannot be misused than it may be allowed when the importer provides formal documentation.

Decision

House supported the import of vintage cars with appropriate measures to prevent its misuse.

➤ AGENDA ITEM NO. 05

Finalization of EV Policy and submission of finalized draft to MoIP. Discussion on tariff proposals related to EVs for Budget 2020-21

Mr. Asim Ayaz, Secretary, AIDC informed that as per Cabinet's decision dated 21st August, 2019, Ministry of Industries & Production (MoIP) formulated a Committee on 5th September 2019. First meeting of the Committee held on 18th September, 2019 in MoIP. In follow-up of the Committee's meeting, Engineering Development Board (EDB) consolidated proposals from the concerned stakeholders of 2-3 and 4 wheelers. On 16th January, 2020 a detailed discussion took place in 30th AIDC meeting which chaired by the Advisor to the Prime Minister on Industries & Production. Salient features were discussed include local manufacturing vis-à-vis import of CBUs (both used and new). Secretary AIDC presented the proposal and informed that EDB intends to forward the proposals in budget exercise 2020-21 to ensure implementation from July 01, 2020. He said that EDB received no comments till date. There is huge pressure on EDB to submit EV policy at the earliest.

Representative of United Motor Company Pvt Ltd said that there should 0% duty on EV related parts. Chairman, EDB said policy is for 5 years. CEO, Honda Atlas Cars said that make the policy volume based. Mr. Babar, Senior Manager, IMC explained proposal submitted by his company at the start of AIDC in which IMC proposed to offer policy

incentives for Hybrid Vehicles. Mr. Tariq Ahmed Khan, Senior Director, IMC said that electricity is being produced on fossil fuels. He added that international examples should be seen. He said in case of Malaysia the EV policy was introduced step-wise initially for EVs than Hybrid and then EVs. He added that first infrastructure was developed in Malaysia and standards were ready at the time policy was announced. In case of EVs has low ranges and they require very high charging time.

Chairman, EDB said that Cabinet has approved the policy, which cannot be held without any justification. EV policy is needed to be seen in way above from the point of view of competition. There are other important aspects of EV policy like Environment and Academia. He advised that it is better to move towards doable. He said this is the last time EV is on agenda of AIDC, it will not be placed before AIDC again.

Representative of Techno Industries Pvt Ltd said that by 2023 cost of EV will be at par with fossil fuel. He added that by 2023 no fossil fuel cars will be sold. Chairman, EDB said social media is not appropriate forum for facts. He added that without charging infrastructure EV cannot be successful. He further added that conversion rate worldwide is only 1%.

CEO, Master Motor Company Ltd said that EV policy should be accepted with open mind. We should come up with a policy and recommend it. EV is inevitable. EVs 50% more expensive. Battery is the most expensive part with maximum of 10 years life. In Pakistan life of a car is around 20 years. He added EVs can never be successful without infrastructure. He said rift is not recommended. Chairman, EDB said absorption of EVs in various countries actually resulted in decline in sales. EVs are a temporary phenomenon. CEO, Atlas Honda said that retrofitting should not be allowed. Batteries are not safe in case of retrofitting. However batteries are safe in case of scooters as they have latch system. Mr. Shahid Naseem, Director, Regal Automotive Pvt Ltd said that regal made hybrid bikes. Retrofitting helped to EV. Battery safety is dependent on charging system and it is true for every vehicle. CEO, Atlas Honda said if EV does not comply to international standards it cannot be exported. Latch system avoids explosion. Mr. Tariq, IMC said in case of motorcycle accident battery can destroy vehicles. Chairman, EDB said safety issues can be with gasoline vehicles as well. Risk is there in case of EVs more or less. CEO, Atlas Honda said that balance of the two wheeler is out in case of retrofitting al latch fixes battery appropriately. Center of gravity is the main issue for balance.

Zaheerudin Dar, CEO, Dartways said that motorcycle EV industry has potential. Car EVs has less potential. Trucks/Buses in EVs have no potential. He said new entrant policy is there policy for hybrid and electric related parts may be given. Sales tax may be taken out of

policy. However he proposed that concession on duties may be given at 1% in view of FTAs. Representative of PSQCA said that formulation of standards started. Charging international standards followed and all safety aspects kept in focus. He added that safety and quality is there domain. Representative of techno industries said retrofitting should be allowed. Safety should be kept in mind. Shahid Naseem, Director Regal Automotive Pvt Ltd from regal said retrofitting is done after research and development.

Chairman, EDB concluded the discussion about retrofitting and said chassis is not checked. Retrofitting may be taken out from proposal. Retrofitting is a new product. He added that new shape word to be taken out. Industry has to agree with standards made by PSQCA. Without standards EVs should not be registered.

Mr. Norez Abdullah, CFO, Hyundai Motor Company said that what the hurry is. EVs are not the biggest issue. Chairman, EDB replied that EDB has to give a proposal. EV policy is to be submitted to government. He requested the participants are requested to submit their proposals in this regard.

Decision

- **Proposal will be circulated for final comments.**
- **1% will be kept as minimum duty.**
- **Word retrospective and new shape will be removed. March 27 is the final deadline for any comments.**
- **By end of March the policy draft will be submitted to Government.**

➤ **AGENDA ITEM NO. 06**

Update on adoption of WP 29 Regulations.

Mr. Asim Ayaz, Secretary, AIDC informed that ADP 2016-21 envisioned adoption of WP 29 Regulations, which are UNECE's harmonized regulations for wheeled vehicles. MoIP submitted a summary for approval of cabinet. Upon approval from the cabinet, the accession document was forwarded to office of UN Secretary General by Minister for Foreign Affairs and same has been communicated to MoIP/EDB vide M.O. Foreign Affairs U.O. No. Misc-103/2020 dated 20th February 2020. EDB intends to participate in the upcoming session of WP 29 in Geneva in Nov 2020 to join the forum formally.

Chairman, EDB said that there are 147 regulations out of which only 10 are shortlisted for initial adoption. Eventually Pakistan has to adopt all regulations for automotive sector. The third party certification will be required. In this regard In case of standards with MoST than

PSQCA may develop labs or give labs permissions.

Director PSQCA was of the view that standards have diversified issues. They are developing after consensus among provinces and Council of Common Interests approves standards across the board. He added that PSQCA has no laboratories. 3rd party laboratories are way forward. All big OEMs moved to India. Laboratories are accredited. OEMs have resources they should develop labs. EDB and PSQCA have their roles. He argued that in case WP-29 Regulations PSQCA was not taken on board. He added that standards relates to PSQCA. In 2009 EDB and PSQCA developed standards for trailers and semi-trailers. He said WP-29 should be implemented through proper channel.

Mr. Tariq Ahmed Khan, Senior Director, IMC said that category-wise there are 75 regulations for cars only. In entire world regulations were adopted in a phase-wise manner. So he recommended that there should plan for implementation. He said that WP-29 is world standard. PSQCA wants to bring its own standards. Standards need certification which requires infrastructure. Certification from foreign countries will cost a lot of delays and fee. Malaysia and Turkey adopted standards on fast pace rest of the world has not adopted.

Representative of PSQCA said that test requirements will be at par with international requirements. PSQCA has no labs. Representative of PSQCA said that trade initially through tariff TBT standards will be implemented on imported and locally manufactured cars. He added that regulations are based on standards. As per PSQCA act standards comes under the mandate of PSQCA. Standards keep revising. WP-29 can be added to standards even without signing the regulations can be brought to standards.

Chairman, EDB said that industry has apprehensions as PSQCA is not adding any value and taking fees only. We want to make a triangle to move forward. He added that car manufacturers follow the manufacturing standards of their principals. So they are already complying with international standards. Rarely a company has a lab. He proposed that in this regard detailed deliberation is required.

Mr. Tariq Ahmed Khan, Senior Director, IMC said that single test requires approximately \$30,000. In total 25 tests are defined internationally. What change PSQCA will bring small change will disqualify for international e-mark. There are 500 hundred people working on WP-29 standards internationally.

Mr. Shahid Naseem, Director, Regal Automotive Pvt Ltd said that a lab to be operated by every OEM is not a feasible solution. There is no laboratory to test the claim of manufacturers that they are manufacturing Euro-II engines. If standards cannot be checked than what is the purpose of developing such standards? Infrastructure should be developed

first. In this regard Mr. Tariq Ahmed Khan, Senior Director, IMC said that international examples should be discussed. Mr. Tariq Ahmed Khan, Senior Director, IMC and CEO, Honda highlighted that PSQCA does not have infrastructure as well as the human resource to ascertain the conformance to standards.

Representative of PSQCA said that test requirements will be at par with international requirements. As such PSQCA has no laboratory and 3rd party infrastructure will be used. He added that if lab is accredited in Japan than Pakistan is bound to agree/accept. He added that standard development is a continuous process. He said that PSQCA adopted ISO standards and standards are needed to comply internationally. If the items are not accredited it will require retesting internationally.

Chairman, EDB added that standards development is a voluntary issue and they are not mandatory. Representative of PSQCA added that it will be voluntarily. Federal government makes it mandatory.

CEO, Honda Atlas Cars questioned that what value PSQCA will provide. Representative of PSQCA said they will ensure consumer protection and 3rd party certification. Chairman, EDB said that WP-29 will be adopted but what value PSQCA will add for industry by formulation of standards. CEO, Honda Atlas Cars reiterated his question that if PSQCA cannot test what value PSQCA will provide. WP-29 adopted, if we have to certify ourselves why should we pay fee.

Mr. Shahid Naseem, Director, Regal Automotive Pvt Ltd said that standards are for engine and transmission whereas WP-29 is for full body. Things which are localized will need local certification.

Representative of PSQCA said that adoption of standards will assure at the time of procurement national quality. PSQCA is a national accreditation body. The process of standards development and enforcement will be as the OEMs will declare; PSQCA will go to third party. In this regard he clarified that PSQCA is internationally recognized national accreditation body for standards. As far fee is concerned that is based in SRO. There are hidden services provided by PSQCA as well.

Mr. Asim Ayaz, Secretary AIDC said PSQCA is part of AIDC and was involved in process of adoption of WP-29 regulations and formulation of ADP 2016-21. Representative of PSQCA attended various meetings of AIDC in which the decision to adoption and progress on adoption of WP-29 was discussed and firmed.

Decision

Chairman, EDB said in this regard we should a separate meeting shortly.



➤ **AGENDA ITEM NO. 07**

Discussion on Preparation of Automotive Development and Exports Plan (AIDEP) and update on SRO Rationalization and Technical & New Technology Committees

Mr. Asim Ayaz, Secretary AIDC explained that Preparation of Auto Industry Development and Export Plan (AIDEP) were approved by Advisor to PM on Commerce, Textile, Investment, Industries and Production in 29th AIDC Meeting. The committee to prepare AIDEP was formulated vide EDB's notification dated December 19, 2019. The membership of the committee has been kept same as of AIDC. As all AIDC members are represented in AIDEP, inputs from participants to formulate specific proposals were requested.

EDB has formulated SRO Rationalization Committee & Technical and New Technology Committee to consider the problems, if any, being faced by the industry. The main function of SRO Rationalization Committee is to review SRO 655, 656, 693 etc and CGOs. The major function of Technical Committee is to deliberate upon and recommend resolutions to any conflict or technical issue arising in the industry vis-à-vis policies and IORs. He informed that first meeting of these committees was held on March 11, 2020.

Chairman, EDB said EDB has only 11 months to prepare the said policy. So he pressed to expedite the matter and policy formulation process.

Decision

It was decided that future meetings of AIDEP and AIDC will be held together as composition of both the committees is same.

The meeting ended with the vote of thanks to the chair by all the participants. Secretary AIDC thanked Chairman EDB, CEO, EDB and all the participants for attending the meeting
