

Engineering Development Board
Ministry of Industries & Production
Government of Pakistan

No. EDB/AIDEC-II/2023
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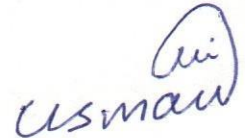
Subject: **3rd Meeting of Auto Industry Development and Export Committee**

Dear Sir,

I am directed to refer to the 3rd meeting of the Auto Industry Development and Export Committee held on Tuesday, March 21, 2023 at the Committee Room, Engineering Development Board, Islamabad.

02. The draft minutes of the subject meeting are enclosed for submission of comments before 24-4-2023.

Best regards,



(Usman Ali),
Manager (Policy),
Ph: 051-9210285,
usman@edb.gov.pk

Dear Sir,

Distribution:-

Export All AIDEC Members/Special Invitees.

Copy to:

1. ES to Secretary, Ministry of Industries and Production.
2. ES to CEO EDB (for information).

comments before 24-4-2023.

Distribution:

ENGINEERING DEVELOPMENT BOARD
Ministry of Industries & Production
Government of Pakistan

3rd Meeting of Auto Industry Development Committee

MINUTES OF THE MEETING

The 3rd meeting of the Auto Industry Development and Export Committee (AIDEC) was held on Tuesday, March 21, 2023 at Engineering Development Board (EDB), Islamabad. The meeting was chaired by CEO, EDB. List of participants is enclosed at **Annex-A**.

The meeting started with recitation from the holy Quran. CEO, EDB welcomed the participants and requested all participants for their introduction. After the introduction, following agenda items were presented by the GM (Policy)/Secretary AIDEC with the permission of chair.

S.#	Agenda
1.	Confirmation of the Minutes of 2 nd Meeting of AIDEC held on August 16, 2022.
2.	Stock-take of automobile industry in the current economic situation & proposals on way forward.
3.	Discussion implementation of WP-29 regulations and PAMA's request for clarification regarding development of standards by PSQCA
4.	Request from industry regarding applicability of changes in SRO 693 updation, KIBOR +3% reimbursement and other matters in view of economic situation.
5.	Proposals on tackling ON-Money in light of previous meetings held between Government and industry.
6.	Administrative matters and general requests: <ul style="list-style-type: none">i. Request by Dewan Farooque Motors Limited.ii. Update of Dysin Automobiles- New Entrantiii. Discussion of WEBOC systemiv. Local manufacturing of electric Quadricycles/Cycles (E-Bike Category)

AGENDA ITEM NO. 1: CONFIRMATION OF THE MINUTES OF SECOND MEETING OF AIDEC HELD ON August 16, 2022.

GM (Policy)/Secretary AIDEC briefed the AIDEC members that Minutes of first meeting of AIDEC were circulated among members of AIDEC. He informed the house that no comments/observations were received from the members within the stipulated time. Therefore, in EDB's view, no correction in minutes is required as such. The members





highlighted no observation and approved the minutes of the 2nd AIDEC meeting.

Decision

“AIDEC approved the Minutes of the 2nd AIDEC meeting held on Tuesday, August 16, 2022.”

AGENDA ITEM NO. 2: STOCKTAKE OF AUTOMOBILE INDUSTRY IN THE CURRENT ECONOMIC SITUATION & PROPOSALS ON WAY FORWARD.

GM (Policy)/Secretary AIDEC, EDB informed the house that, production of the automotive industry is curtailed due to current economic situation. CEO, EDB said that EDB has requested data from industry to ascertain the impact of current economic situation on the employment, revenue and loss to the national exchequer. He requested for expediting this data, which was necessary to sensitize the Government to the drastic situation faced by the industry. He apprised the house that the government may have limited instruments at its disposal in view of the ongoing negotiations with the IMF.

Vice President, Honda Atlas Cars Pakistan said that the plant of M/s Honda Atlas Cars Pakistan is temporarily closed from March 09, 2023. He showed apprehension that, SBP EPD Circular Letter No. 09 and Letter No. 11 of 2022, was withdrawn and quota system was abolished, and new guidelines were issued to the banks for opening of Letters of Credits for imports. He said that banks are not opening LCs and in some cases they allowed opening of LCs on deferred payment of 365 days, which is not a workable option. He informed the house that their company is unable to import CKD and raw materials in this situation. He said that new guidelines are worse than quota system by SBP and urged to revert back to the quota system for automotive related CKD parts/Raw Materials.

CEO, Indus Motor Company (IMC) said that he has not seen such kind of situation during his career where the currency is depreciating at such a high rate that product prices are increasing with unnatural frequency. He said that in this situation his company cannot even calculate the profit. He added that for automotive sector the supply chain is the most important thing, which has been severely disrupted. He opined that it is better to close the plant than to open LCs on 365 days deferred payment due to the extremely high risk associated. He urged to revive the earlier quota system, at whatever percentage the government decides in view of its economic

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situation and stressed for equivalent quota for the vendors. He said that quota may be taken based on previous production running situation as 50% quota issuance based on last four months production will be irrational in view of recent import situation. He highlighted that in fact the industry is already operating at below 50%.

Ex-Senior Vice President, PAAPAM/(Abdul Rahman, Director, Techno Pack Industries) said that quota needs to be categorized based on different segments. He added that cars, motorcycles, 3-wheelers, HCVs etc. are different segments. He said that Cars/SUVs have the major impact in case of import but the impact in case of motorcycle or tractor parts is very low. He added that SBP is not aligned with the industry. He said IoRC may be kept separate from SBP mechanism and quota may be allowed to the vendor industry separately. He said that allocated quota may be reduced to 40-60% whatever government decides but it should be allowed for import without any restrictions from SBP. He added that quota allocation for vendor industry may be dealt by EDB as it is easy for vendor industry to liaison with EDB/MoIP. He further added that the tax receipts are needed to be seen in terms of dollars. The industry is operating at 20-30%. The tax revenue has reduced equally if it is seen in terms of dollars.

Head Corporate Affairs, Pak Suzuki Motor Company Limited (PSMCL) said that commitment may be given by Government of Pakistan to allow release of payment in case of deferred payments, as presently that is not happening. He added that quota system may be revived based on consensus between industry and Government of Pakistan. He said that same level of quota percentage may be allowed to the vendor and OEMs. Industry quota may be managed by EDB with support of PAMA and PAAPAM as SBP does not have industry knowledge to make such decisions. He said that the economic situation of the country is unpredictable. In this situation long term measures cannot be committed however clear short term picture for next three months may be provided by the government to the industry to avoid massive layoffs.

President, Automotive Division, M/s Lucky Motor Company (LMC) echoed the sentiments of his colleagues that SBP quota allocation system was better than current mechanism. He said that technically auto imports are in the grey list and not allowed. He added that their investment is at stake and warned of massive layoffs during/after Ramadan. He added that Banks are not opening LCs even if they open they are discouraged by Government to do so. He said that auto sector production is 30% as compared to the last year. He highlighted that extremely high rate of auto financing, rapidly depreciating currency, increase of GST to 25% etc. have

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suppressed demand to an extent where the survival of the industry is in question.

Mr. Munir K Bana, Chairman, PAAPAM said that the LCs should be opened based on actual reserves. Banks are not operating as per actual situation faced by Pakistan. The banks should operate under SBP for opening LCs and SBP should allow LC opening based on availability of actual reserves. He feared that industry is expected to collapse in the current situation.

CEO, IMC said that automotive sector is contributing 5-7% of the total tax revenue received by Government of Pakistan and the employment generated by the automotive sector is approximately 3 million. On the other hand the automotive sector accounts for just 3% of total imports.

Ex-Senior Vice President, PAAPAM said that layoffs are not yet carried out. However in coming days maybe industry is not left with any option to carry out downsizing.

Director General DG, Pakistan Automotive Manufacturers Association (PAMA) highlighted that LCs for Farm Tractors are not being approved as their PCTs/items are placed under chapter 84 and 85 along-with general category of automobile. He said that Farm Tractors are not luxury items. Director General, PAMA requested that imposition of LC restrictions on Farm Tractors items falling under Chapters 84 and 85 appears to be an error and requested for exclusion from restriction to ensure availability of Farm Tractors required for agriculture production.

Decision

- 1. Automotive industry, being a critical industry which has been developed over a period of 30-40 years, must be supported. Government of Pakistan may be recommended to revive the quota issuance system in order to ensure the survival of this critical industry.**
- 2. The matter of exclusion of tractors from the list of luxury items may be taken up by EDB with the government.**

AGENDA ITEM NO. 3: DISCUSSION IMPLEMENTATION OF WP-29 REGULATIONS AND PAMA'S REQUEST FOR CLARIFICATION REGARDING STANDARDS DEVELOPMENT BY PSQCA

CEO, EDB noted that representatives of the Pakistan Standards and Quality and Control



Authority and Ministry of Science and Technology were not present in the meeting, hence requested for postponement of this agenda item.

Director General, PAMA said that during 2nd meeting of AIDEC, it was decided that Ministry of Science and Technology would convene a meeting with PAMA and PAAPAM to discuss and finalize way forward for development of National Standards. However, reportedly PSQCA had prepared auto standards which are approved by Cabinet Committee on Legislative Changes (CCLC)/Cabinet. PAMA has reported several times that industry has not been consulted appropriately during framing of industrial standards and approval process has not been followed.

CEO, IMC said that industry should have been consulted as agreed in the previous meeting. The implementation of said standards developed without the consensus of the industry is not possible and industry may be unable to pay unjustified fees and may not cooperate if implementation of such standards is enforced. He added that industry has the legal rights to approach courts for justice in case PSQCA imposes standards developed without consultation.

DG, PAMA said that during 20th National Standards Committee held on March 09, 2023, it was decided that Participation of PAMA members will be ensured and National Standards Committee will be reconstituted. However it was not reconstituted and one sided committee is un-constitutional and in the contravention to the system. He added that decisions taken in the meeting dated 16-8-2022 (AIDEC) and 31-8-2022 (MoST) were not followed. He further informed that PAMA will send their comments on the Agenda item 3 in writing and these be made part of the minutes. The comments subsequently received are attached at **Annex-B**.

Decision

The point of view of the industry expressed on this forum may be communicated to the CCLC. MoST must ensure development of standards in consultation with the industry.

AGENDA ITEM NO. 4: REQUEST FROM INDUSTRY REGARDING APPLICABILITY OF CHANGES IN SRO 693 UPDATION, KIBOR +3% REIMBURSEMENT AND OTHER MATTERS IN VIEW OF ECONOMIC SITUATION.

GM (Policy)/Secretary AIDEC, EDB briefed the house that SRO 693(I)2006 (which is a



reference list of localized parts) is being updated bi-annually as per amendment in above SRO vide S.R.O 841(I)/2021 dated June 30, 2021 to ensure higher localization in the automotive segment. He added that proposed list for addition in the 693 for bi-annual review is being prepared which will be deliberated with the industry and shared with MoIP shortly.

CEO, IMC was of the view that previously amendments in the SRO 693 were unilateral. He proposed that instead of bi-annual review of 693 the review should be annual. He added that if required the list can be proposed in two parts to MoIP/FBR for the compliance to the SRO. He proposed to formulate a committee to discuss the review of SRO 693. CEO, EDB replied that bi-annual review is the part of the law. EDB consulted with the industry and detailed deliberation was carried out with the industry, however as consensus was not reached previously between PAMA and PAAPAM therefore list was forwarded in compliance to the law. Chief of Planning Regulatory, M/s LMC said that grace time should be given to the industry to implement SRO 693 amendments. CEO, EDB said that EDB is trying to implement things in a way which are acceptable to the industry.

Ex-Senior Vice President, PAAPAM said that in the contract it is written that SRO 656, SRO 693, SRO 655 as of signing the agreement. It is not written in the clause that SRO 693 will remain stagnant. He added that if duties are reduced will they not be applicable on the industry? He said that stance of Part manufacturers is not to put duties on OEMs but instead it is to promote vendor industry.

Deputy Chief (LED), MoIP said that bi-annual list is required under law, and proposed update for the month of December, 2022 is still not received from EDB. General Manager (Policy), EDB said that lists will be shared after finalization shortly. CEO, EDB said that as per law EDB has to forward a list in December and June to comply with the SRO 656.

Head Corporate Affairs, PSMCL said that consensus is required to make committee of PAMA and PAAPAM which prepares a list of localized parts for inclusion in the SRO 693 for the next one to two years. He proposed that as interest rate is around 25% and there is lack of clarity on the delivery time due to import related matters, Kibor+3% stipulation may be suspended till the normalization of the situation. He argued that smuggled things should be audited as well. He said that UNR standards are missing for exports, while skilled manpower and infrastructure is required for export. He proposed that duties on CKD should be reduced to make prices of the cars more competitive.

Ex-Senior Vice President, PAAPAM said that items for which technology is localized, those

items should be included in the SRO 693. He said that SRO 693 is not a roadmap. The items which are included in the SRO 693 are already localized. Volume is not the criteria for inclusion in the SRO 693.

CEO, IMC said that their firm supports localization, however a grace period of one year may be provided to discuss with their Principals and also to develop dies and molds. He added that competitiveness is required for exports. He added that export targets are voluntarily placed in the SRO 656. He said imports are banned and Raw materials are not available in Pakistan. In this scenario exports are not achievable. In current scenario companies are thinking about pack-up not import substitution. He explained that export is possible in case of supply chain however export of CBUs is not possible. He said that industry is making efforts and export can be achieved in a step wise manner. He said that industry resolve to export for the current year are not possible in current circumstances and hence may be suspended.

GM (Policy)/Secretary AIDEC, EDB informed the house that in view of the decision taken during 2nd AIDEC, the new entrants have submitted legal opinion. President, Automotive Division, LMC informed that as per Clause 1 of the investment agreement signed between MoIP and new investors the SRO 656, SRO 693 and SRO 655 is applicable as of signing of the agreement. Therefore, the firm claims that aforementioned SROs changes are not applicable on their firm. CEO, EDB opined that commitments made by Government through the contract agreement should be honored.

GM (Policy)/Secretary AIDEC, EDB while moving to the second point of the agenda said that in order to ensure consumer welfare under AIDEP, the importer-cum-assembler or OEM is required to pay KIBOR+3% per annum to the customer against late deliveries exceeding 60 days of initial booking on the deposited amount. However it was decided that matter will be taken with MoIP to suspend reimbursement @KIBOR+ 3% clause of S.R.O 656(I)2006 till restrictions on import by SBP are lifted. However MoIP has highlighted that said clause cannot be suspended without justified reasons.

CEO, IMC said that suspension of Kibor+3% may not be taken up with the Government as it is irrelevant in current circumstances. All vehicles are being delivered within 60 day time period while import/opening of LCs is not in the control of the companies.

Head Corporate Affairs, PSMCL said that Kibor clause of the SRO should be suspended as interest rate is around 25% and there is no control on delivery period timeline due to



import restrictions.

Decision

1. House was of the view that commitments made through contract agreement signed between MoIP and the new investors should not be changed during policy period
2. Separate meeting may be scheduled by EDB to discuss localization, 693 lists and provision of grace period.
3. EDB may take up the matters of suspension of KIBOR +3% late delivery payments and export targets for the current year as in view of restrictions on import, these are not in the control of OEMs.

AGENDA ITEM NO. 5: PROPOSALS ON TACKLING ON-MONEY IN LIGHT OF PREVIOUS MEETINGS HELD BETWEEN GOVERNMENT AND INDUSTRY.

CEO, EDB said that delays in delivery period of cars/SUVs by the local OEMs and associated On-Money has been frequently highlighted at various forums. He informed that EDB received various proposals which are placed before AIDEC members for advice.

CEO, IMC said that in current the vehicles are readily available where imports are allowed. He added that increase in taxes, depreciating local currency, and high interest rates are starting to factor in and new bookings have gone down substantially. The industry is either closed or operating with very high idle capacity.

Chief of Planning & Regulatory, LMC said that mandatory registration done by OEM prior to delivery of vehicle to customer can be done with the support of NADRA and Federal/Provincial Excise authorities. CEO, IMC said that mandatory registration at OEM or at dealer premises is a good way to curtail ON-Money. He proposed whole sale retail mechanism is a globally excepted model. General Secretary, All Pakistan Car Dealer Importer Association said that registration should be at the dealership and it will help curtail On-Money. CEO, IMC said that OEMs have no issue with it and in fact it was the proposal of the OEMs.

CEO, EDB said that auto sector of Pakistan has been operating under a protective regime of different SROs for local manufacturing of automobiles and their parts since 2006. While volumes have been achieved in motorcycle segment, other vehicles including cars, SUVs,

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tractors, trucks, buses etc. could not achieve high volumes. He added that AIDEP 2021-26 envisages moving the motorcycle and tractor segments out of its protective regime into normal tariff regime during the tenure of this policy, while by end of AIDEP period, i.e. June 2026, the other sub-sectors of automotive industry may be considered for moving to normal regime from the current SRO regime.

CEO M/s Millat Tractors Pvt Ltd said that tractors are 90% localized whereas 10% tech and proprietary items are not localized. If SROs are phased out the price of tractors will increase. He recommended not excluding tractors from the SRO regime. He said the decision of AIDEP 2021-26 may be reviewed in this regard.

Ex-Senior Vice President, PAAPAM said that protection given to the steel industry is inappropriate. The steel industry is enjoying around 40% protection. Internationally prices of steel are very low as compared to the local steel. The duties on the raw materials should be lowered to help the industry become competitive.

CEO, EDB said that it is a Cabinet decision and we need to sit down and discuss the implementation mechanism to phase out the said segments from the SRO.

Decision

1. **Mandatory registration of Cars/SUVs/LCVs by OEM/Dealership was supported.**
2. **The mechanism to phase-out SROs to be taken up separately.**
3. **A separate meeting will be held to discuss the implementation mechanism for moving the motorcycle and tractor segments out of its protective regime into normal tariff regime during the tenure of this policy.**

AGENDA ITEM NO. 6: ADMINISTRATIVE MATTERS AND GENERAL REQUESTS:

- i. Request by Dewan Farooque Motors Limited.
 - ii. Update of Dysin Automobiles- New Entrant
 - iii. Discussion of WEBOC system
 - iv. Local manufacturing of electric Quadricycles/Cycles (E-Bike Category)
-
- i. **Request by Dewan Farooque Motors Limited.**
- CEO, M/s Dewan Farooque Motors Limited said that their firm is considering starting local



assembly of EV Passenger cars in Pakistan. He said that EV is a different technology and level of localization is claimed to be very high in Pakistan i.e. 70% in the case of small passenger vehicles. He added that, it is difficult to achieve high level of localization from the beginning especially in view of low sales volumes. He added that initially tooling is required which requires investment. Furthermore he added that, it is difficult for their firm to persuade international OEM for such high localization. The international OEMs have a concern that import of 30% of the CKD other than EV specific parts is not attractive. He added that without change in policy Pakistan will not achieve penetration of EV technology in the country and development of a EV car which is within the reach of common person. He requested that duty on localized and non-localized parts may be kept at 10% overall for EV vehicles. He committed that, if Government allows the said policy change they can introduce a vehicle starting from 12,000 dollars.

Ex-Senior Vice President, PAAPAM said that SRO 693 is list of parts already being manufactured in Pakistan and whatever can be made in Pakistan should be made locally. He said that same principle should be applied on EV industry as well. He said that EVs will take share from existing players. If CKD which is localized is allowed at 10% than the share of the part manufacturers will also shrink. Vice President, Honda Atlas Cars Pakistan said that it is part of the policy and may not be violated. Group Director, Atlas Honda Pvt Ltd said that CKD at 10% will create a structural issue.

CEO, Sigma Motors said that 50% is the cost of the battery in case of EVs. The international OEMs will have no interest if remaining 70% is excluded. The localization at the beginning with such low volumes is not possible. He added that in order to promote EVs, they should be incentivized. He supported that proposal of 10% CD on localized CKD parts for EV vehicles.

Associate Professor, LUMS said that Electric Vehicle Industry is a nascent industry. The existing OEMs have the infrastructure available. They do not have to develop petrol pump network it is already available. The EV manufacturers have to manufacture vehicle at a feasible cost and also they need to develop a country wide network of charging stations. He said the EV industry is needed to be treated in a different way. Government should incentivize the industry to start local manufacturing of the vehicles. He supported the proposal of M/s Dewan Motors Pvt Ltd.

CEO, EDB said that currently the forum does not seem to be supporting this proposal of 10% CD on EV CKD localized parts. He was of the view that all were agreed that in principle EVs

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need to be supported, however matter is needed to be discussed separately and consolidated proposal after detailed deliberation will be brought back to the AIDEC.

Decision

A separate meeting will be held to prepare a consolidated proposal to incentivize EV vehicles.

ii. Update of Dysin Automobiles- New Entrant

GM (Policy)/Secretary AIDEC, EDB informed that M/s Dysin Automobile was granted manufacturing license on March 28, 2022 after verification of their in-house manufacturing facilities. The facilities were completed within the time period as per investment agreement signed between MoIP and the firm. However, the firm was required to launch various models by September, 2022 for which CBUs were imported for market testing. He added that the firm has highlighted LCs for their CKD are not being opened due to import restrictions and their foreign liabilities were not discharged by the commercial banks. Therefore, the firm requested for extension in the time line to launch their vehicles. CEO, IMC supported the proposal with the argument the incentive period will end in June, 2026.

Ex-Senior Vice President, PAAPAM that LCs problem came from December, 2022. The firm could have opened LCs between March and December, 2022. General Manager (Policy), EDB clarified that the Manufacturing Certificate was issued at a later stage.

CEO, EDB said that the case appears genuine; however such precedence's may not be misused in cases which are not genuine. Ex-Senior Vice President, PAAPAM said that the claim of the firm can be authenticated from the Banks.

Decision

It was decided that extension may be allowed to the firm upon verification of their documents from the banks.

iii. Discussion of WEBOC system

GM (Policy)/Secretary AIDEC, EDB informed the house that Exports targets have been fixed under AIDEP 2021-26. However PSW system/WBEOC has not been modified to ensure the applicability of export targets.

Snr. General Manager, Master Motor Limited highlighted that SRO 656(I)2006 does not



provide any procedure to report export targets and its mechanism to subsequently link it to duty free import of CKD units of the same variant/Model.

Decision

It was decided that EDB will take up the matter with FBR for implementation of export targets notified vide SRO 656(I)2006 through PSW system/WEBOC system.

iv. Introduction of Quadricycles in the Vehicle Category of 3-Wheeler and Cycles in 2 – wheeler Category (E-Bikes) under Auto Policy.

GM (Policy)/Secretary AIDEC, EDB said that some firms have approached EDB with a request for the introduction of Quadricycle 3-Wheeler under AIDEP 2021-26. A firm wants to introduce Quadricycle products both with combustion engine and Electric Drive variant.

However currently the SRO 656 and AIDEP 2021-26 do not have provision for the approval of Quadricycles. The product facilities as per SRO 656(I)2006 also require clarification. The house supported in principle to allow Quadricycles under three wheeler category with the facilities as required in case of three wheelers. Head Corporate Affairs, Altas Honda Pvt Ltd said that the PSQCA standards do not exists for the said vehicles. Therefore, the standards may be finalized before any such permission can be granted.

General Manager (Policy), EDB informed the house that some companies have also approached EDB for manufacturing of electric cycles which are almost similar to the electric bikes. The electric cycles can be imported under 8711.6020 or 811.6040. Snr. General Manager, Sazgar Engineering Works was of the opinion that these electric cycles cannot be used for intercity transport, having limited mobility. Head Corporate Affairs, Altas Honda said that standards for such vehicles are not available with PSQCA. The house supported the introduction of said bike under 811.6040 with facilities as required as per SRO 656(I)2006, however their standards may be finalized beforehand.

Decision

v. House in principal decided to allow local manufacturing of Quadricycles/Cycles (E-Bike Category) subject to development of appropriate standards etc.

The meeting ended with the vote of thanks to and from the chair to all the participants.
