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S-ENG will give Proton more mileage

Lee Siew Lian in London

LONDON, Sun: National carmaker Perusahaan Otomobil Nasional Bhd (Proton) unveiled its first in-house designed engine last week that it hopes will help it win a race against time.

Just days before Proton displayed its latest achievement, S-ENG, to Prime Minister Datuk Seri Dr Mahathir Mohamad, neighbouring countries stepped up pressure on Malaysia to open up its car sector and remove import tariffs that favours the home-grown company.

But Proton's proprietary engine may equip it with what it needs to survive as a small, independent carmaker.

The company will be able to reduce its 15-year reliance on its Japanese partner Mitsubishi for key parts. This in turn will cut its exposure to the yen that will hurt the bottom line when the currency rises.

Proton will also be able to cut a quarter of the cost of its engines in the future, meaning its cars will be priced more competitively.

More importantly, Proton plans to sell the 1.3- and 1.6-litre petrol engines to other carmakers with assembly operations in the region.

"The engine can be marketed to interested original equipment manufacturers (OEMs)," said Tengku Tan Sri Mahaleel Tengku Ariff, Proton's chief executive officer.

Analysts say demand for an inexpensive engine exists.

Thailand has developed a thriving assembly industry for carmakers such as General Motors and Ford, and is forecast to produce 500,000 vehicles in 2001 and 650,000 in 2002.

Indonesia, too, is a significant market, forecast to produce more than 250,000 vehicles in 2001 and 280,000 in 2002.

Buying Proton's engine will benefit these manufacturers who can save on transport costs and reduce their exposure to currency movements that eat into margins.

Moreover, the engine's modular design requires a smaller investment in manufacturing processes.

"The modularity of the engine means we don't need high volume to recover our cost and investment," Mahaleel said.

Proton plans to make 180,000 of these engines in its first year of production beginning 2002, and an annual 500,000 units subsequently. The company believes it will be able to recoup its investment in the engine's development and the required manufacturing capability over the S-ENG's 10-year lifespan.

Meanwhile, Dr Mahathir also acknowledged that Proton will have to rethink its role as a carmaker amid the current mergers among the world's largest players.

"Proton will not be able to compete by mass producing cars for the general public. It will have to create a niche market for itself and specialise in certain markets," he said.

"When the national car project first started in 1985, the car industry was still fragmented. But the merger between Daimler and Chrysler started off the global trend to merge, and these companies are very big, very powerful and very difficult to compete with," he said at a press conference on Friday.

What he said lends credence to speculation that the Government may bring forward the entry of Malaysia's automotive sector into the Asean Free Trade Association (Afta). This was originally scheduled for 2003, but was

delayed to 2005 when the Government managed to exclude the industry from tariff reductions under Afta.

Recently, however, officials in neighbouring governments have said Malaysia should compensate them for lost opportunities.

Analysts will be watching the upcoming Budget for signs that the Government may be preparing to free up the sector earlier.

"If entry into Afta is brought forward, then the authorities may have to consider reducing import tariffs from this year to gradually adjust pricing downwards," said an industry analyst.

Other analysts said uncertainty over when tariffs will start to fall is keeping consumers from buying cars.

"Many car buyers are holding back because they are expecting cheaper cars in just a few years' time. This is probably why general consumption is not growing that strongly," said an analyst with a foreign research house.

"But once tariffs are removed, strong car sales will likely trigger a massive consumption wave that will push the economy further ahead," he added.

The S-ENG, which Dr Mahathir officially unveiled at British car designer Lotus Cars' facility in Hethel near Norwich on Friday, cost RM450 million to develop. It took Proton and the engineering unit of Lotus, which is 80 per cent-owned by the Malaysian national carmaker, nine months to go from paper to prototype.

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