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Tariff cut on imported Asean cars (HL)

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MALAYSIA will start reducing the import tariff on foreign cars assembled in the Association of South-East Asian Nations (Asean) as early as next year.

Minister of International Trade and Industry (Miti) Datuk Seri Rafidah Aziz said this is to ensure that by January 1 2005, import duties on these cars will be at 20 per cent to comply with the Asean Free Trade Area (Afta) agreement and at 5 per cent at a later date.

"There will be progressive (tariff) reductions," she said at her monthly media briefing in Kuala Lumpur yesterday.

However, she said the Government had yet to decide the exact date to start the reduction.

"I could not tell when exactly. That is for the Prime Minister (and Finance Minister Datuk Seri Dr Mahathir Mohamad) to answer," she said.

Malaysia has been imposing tariffs on imported cars of as high as 300 per cent to protect domestic carmakers like Perusahaan Otomobil Nasional Bhd (Proton).

It has requested to defer the inclusion of tariff reduction on completely built-up (CBU) and completely knocked-down vehicles in Asean's common effective preferential tariff scheme to 2005 from 2003.

Rafidah gave a reminder that only cars assembled or produced in Asean countries with more than 40 per cent local content are eligible to enjoy the tariff cut as agreed under Afta.

Analysts told Business Times that the move is a good start to better things for the motor vehicle industry in the country.

An analyst said that domestic carmakers had been waiting eagerly for the Government to announce measures to cushion the impact from the implementation of Afta.

"These include the excise duty on imported cars, which will help local carmakers cope with competition.

"Other than that, they want to know when the authorities will start lowering the 42 per cent tariff on foreign cars assembled in Asean countries to 20 per cent," the analyst added.

While describing Rafidah's announcement as vague, analysts believe that the Government is likely to announce more in-depth follow-up measures to complement its decision to cut the import tariff on foreign cars assembled in Asean from next year.

"As such, it would be difficult to assess at this juncture how such a move will impact on car stocks, in particular Proton," an analyst said.

Another analyst said Proton's share price is likely to be flat as the tariff reduction will not benefit the national carmaker in a big way with the introduction of its new Campro engine next year.

He said non-national car companies, such as UMW Holdings Bhd (Toyota), Tan Chong Motor Holdings Bhd (Nissan) or Oriental Holdings Bhd (Honda), may benefit more by being able to narrow the price differentiation.

Another analyst said the salient point of the tariff reduction is whether the Government can get rid of the price supervision mechanism by January 2004.

"The mechanism will pave the way for all selling prices of motor vehicles in the country to be determined by market forces," the analyst said.

Rafidah said the tariff cut is part of the measures taken by the

Government to increase competitiveness in the motor vehicle industry.

She said excise duty will be imposed on all vehicles from next year to give equal treatment to local and imported vehicles.

She also said the Government will discontinue, from January 1 2004, the mandatory deleted items scheme and price supervision mechanism on vehicles.

She added that technical requirements and road-worthiness tests for commercial and passenger cars will be introduced from January 1 2005.

These include a certification by the Department of Environment for compliance with specific environment and vehicle safety standards, motor vehicle-type approval and stringent road-worthiness tests.

Rafidah said all imported CBUs, except vintage cars, will be imposed a three-year age limit.

Meanwhile, Miti will devise special programmes to enhance the competitiveness of components and parts manufacturers.

In providing fair competition among all motor vehicle manufacturers in Asean, measures will be undertaken to strengthen the domestic sector through enforcement of the Asean local content.

"We will monitor every car that comes in by 2005 to ensure that they have 40 per cent or more Asean local content," she said.

In addition, the domestic motor vehicle industry is undertaking several measures to enhance its competitiveness.

For instance, Proton is developing its own engine, Campro, which will reduce production cost by between 10 and 15 per cent as no royalties will be paid by the national carmaker.

"The engine will be fixed into the Waja model by the first quarter of next year," Rafidah said, adding that Proton had invested RM350 million in research and development activities.

She also said that Proton sources RM2.2 billion worth of components and parts locally, and RM1.4 billion from multi-sourcing.

"It is also compliant with international standards on emission and fuel efficiency. Proton currently can meet Euro III standards," she said, adding that Proton had established plants in other countries such as Iraq and Indonesia to make inroads into these markets.