

More Asean content to lower

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Car prices are unlikely to experience a sharp drop after the implementation of the Asean Free Trade Area (Afta) due to higher excise duties but industry players say the use of Asean-produced parts instead of imports from Japan and Europe should help bring overall costs down. This is because parts from Asean are subjected to lower tariffs.

"You cannot blame the government for reducing the import duty on cars on the one hand [to comply with Afta] while raising the excise duty. It is the carmakers and assemblers who should reduce their costs by taking advantage of the cheaper parts-sharing initiative of Afta [at between zero to 5.0 per cent import duty]," says a senior official of a motoring group.

This is made possible as the government had earlier this year abolished an old rule which prohibits local car assemblers from purchasing locally available parts like glass, tyres or plastic from cheaper sources outside the country.

The result is the competitively priced Honda City and Toyota Vios, manufactured with various parts sourced from across the Asean region, which benefitted from low tariffs imposed on autoparts starting Jan 1 this year.

Prime Minister Datuk Seri Dr Mahathir Mohamad has repeatedly told Malaysians not to anticipate lower car prices post-Afta in 2005. "The government has indicated earlier that car prices will not be lowered even after the reduction of import duties on cars from Asean countries. To mitigate the loss in tax revenue, the government proposes to levy excise duties on imported cars when import duties are reduced from Jan 1, 2004," Mahathir said in the Budget 2004 speech recently.

Thus far, there are scant details on the quantum of excise duties to be levied on imported cars, and the reduction in import duties for cars and CKDs (complete knock down kits like door modules, chassis and so on) manufactured in Asean starting next year.

At present, import duties on cars (Asean and non-Asean) start from 140 per cent for vehicles with an engine capacity below 1.8 litres, followed by 170 per cent for the 1.8-

to 2-litre range and so on. For the CKD kits, import duties are currently at 42 per cent for non-national marques with an engine capacity below two litres, followed by 60 per cent for the 2- to 2.5-litre range and so on. (Proton pays 13 per cent in import duties.)

Since the spirit of Afta is to promote cross-border trade in Asean, only cars manufactured in Asean will be entitled to the 20 per cent reduction in import duties starting Jan 1, 2005.

There are currently no excise duties on imported cars. According to motoring analysts, excise duties on CKDs are levied based on a progressive tax basis — 25 per cent tax for the first RM7,000 of the vehicles' ex-factory value, adding 30 per cent tax for the next RM3,000 value, plus another 35 per cent tax for the next RM3,000... and so on, with the remaining value exceeding RM25,000 subject to a lump-sum 65 per cent tax. Thus, the more expensive the car, the higher the excise duties. (Proton pays half of the excise duties imposed on non-national makes.)

Though there were no details, the government has indicated earlier that it plans to impose the same excise duty structure on all cars, whether they are national, non-national, assembled locally or imported.

This is to ensure that the spirit of Afta is met and to promote liberalised and fair trade in the region.

Analysts say this will narrow the price gap between national and non-national marques because Proton currently enjoys a 50 per cent rebate on excise duties.

Excise duties aside, industry players stress the importance of increasing the level of Asean-manufactured content in their cars, which will lead to more competitive prices, post-Afta.

It will be easier for carmakers like Honda and Toyota to reap the benefits of Afta because they have established facility and vendor networks in Thailand, which can supply the CKD tools and kits to their Malaysian assemblers at lower import duties.

For those without a strong regional presence, like the European carmakers, it will be more difficult to reap the Afta benefits because the major CKD tool kits will have to be shipped out from their main manufacturing bases in Europe and will, therefore, not be entitled to enjoy lower import duties. ■

car prices?

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