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Prices of national cars may increase up to 11pc (HL)

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CAR buyers in Malaysia may have to pay up to 11 per cent more for national makes under a new structure of excise duties that will be implemented this year.

Industry observers said the Government will raise excise duties, possibly by as much as 15 per cent, to offset a cut in import tariffs for completely-knocked-down (CKD) packs.

Prices of non-national cars would likely remain unchanged, but Proton prices particularly are expected to increase 9 to 11 per cent, they said.

A flat 20 per cent import duty on non-nationals, as agreed under the Asean Free Trade Area (Afta) to further liberalise the regional motor industry in 2005, would reduce their prices by 7 per cent.

"The Government will then have to increase excise duty by 15 per cent to bring up the price to current levels," said an observer.

"This is consistent with Prime Minister Datuk Seri Dr Mahathir Mohamad's statement that car prices are unlikely to fall but could possibly rise with the implementation of Afta."

Assuming that national cars are subject to a similar increase in excise duty, the on-the-road price of Proton Waja 1.6L would edge up 11 per cent to RM69,700.

Nevertheless, analysts at RHB Research believe that national car manufacturers may continue to enjoy rebates and subsidies provided they meet certain conditions, such as if they introduce new models.

CKD vehicles and national cars are subject to excise duties, while completely-built-up unit (CBU) vehicles are free from that tax.

National cars, however, enjoy rebates ranging from 50 per cent to full exemption.

Excise duties for non-nationals range from 25 to 65 per cent based on the vehicles' open market value (OMV).

International Trade and Industry Minister Datuk Seri Dr Rafidah Aziz late last year announced that excise duties would be imposed on all vehicles from 2003 to give equal treatment to local and imported vehicles.

The Government would also make a series of tax cuts on CKD packs starting 2004 until it reaches a flat 20 per cent on January 1 2005, before ending at 5 per cent by 2008.

The tax levied on the CKD pack - the collection of parts used to build a vehicle - ranges from 42 per cent for cars less than 2,000cc to 80 per cent for cars of a bigger engine capacity.

Analysts said the reduction in import duties may also be cushioned

with  
the introduction of other domestic regulations.

The measures expected to be introduced effective January 1 2005 could include technical requirements and road worthiness tests.

The technical requirements include certification by the Department of Environment for compliance with specific environment and vehicle safety standards specified by Road Transport Department.

All vehicles will also be subject to vehicle type approval, a new system in which prior tests will be carried out to conform with various standards related to safety and prevention of environmental pollution. This would be based on random sampling by model and batches.

Another analyst pointed out that Malaysia would no longer allow the import of CBU vehicles that are more than three years old except for vintage cars.

In addition, used imported CBUs will be subject to stringent road worthiness tests based on random sampling.

"We believe the above measures will indirectly help control the inflow of new vehicles coming into Malaysia," the analyst said.

Other deregulation measures are to abolish the mandatory deleted items and price supervision mechanism on vehicles.