

## Review of National Automotive Policy

*MITI advances the Government of Malaysia's agenda of liberalisation, paving the way for a more competitive automotive industry for domestic, regional and global markets*

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The National Automotive Policy (NAP) was introduced on 22 March 2006 to facilitate the required transformation and optimal integration of the local automotive industry into regional and global industry networks within the increasingly liberalised and competitive global environment. The NAP is the main thrust for the formulation of the strategic directions of the industry under the Third Industrial Master Plan (IMP3), 2006-2020.

Three and a half years after its introduction, the National Automotive Policy (NAP) has been reviewed, resulting in new policies that will foster a more competitive market for local and international companies.

In line with the Government of Malaysia's commitment to liberalisation and the "People First" concept, the NAP Review provides further benefits for consumers in terms of safety and environmental protection.

As part of the review, a broad range of stakeholders was consulted to gather insights and best practices from the private sector, civil society and governmental agencies. Their common goal is to improve the long-term viability and competitiveness of the automotive market, leveraging the latest developments in the regional and global automotive industry and offering safer, greener and technologically more advanced vehicles.

The objectives of the NAP review were to:

- ensure orderly development as well as long term competitiveness and capability of the domestic automotive industry as a result of market liberalisation;
- create a conducive environment to attract new investment and expand existing opportunities;
- enhance the competitiveness of the national car manufacturer through strategic partnership;
- foster the development of the latest, more sophisticated technology in the domestic automotive industry;
- develop high value-added manufacturing activities in niche areas;
- enhance Bumiputera participation in the domestic automotive industry;
- improve safety standards for consumers and promote environment-friendly opportunities;
- and
- enhance the implementation of current NAP's policy instruments.

The new policies and measures under the NAP Review are expected to provide significant contribution to the overall growth of the industry and the country. Emphasis will be given in attracting investments in high value-added manufacturing activities using latest and high technology. The opening up of Manufacturing License (ML) for manufacturing and assembling activities in the selected segments particularly for luxury

cars and hybrid/electric vehicles will encourage new investments and expansion of existing investments in the country. Currently, the hybrid/electric segment is still very new and has the potential to be promoted and developed in this region. With the appropriate incentives offered by the Government, Malaysia would be able to attract OEMs to move their operations into Malaysia.

The emphasis on safety and environment aspects under the NAP Review will ensure the continued development of the domestic automotive industry. The phasing-out of imported used automotive products and introduction of mandatory standards for parts and components and standards for fuel and quality will spur the development of the automotive industry in the long run.

As one of the measures to enhance the competitiveness and ensuring long-term viability of the national car manufacturer, a strategic partnership between PROTON and a global established OEM will be encouraged. This partnership has to ensure:

- increase in exports and make Malaysia as a production hub for the region;
- transfer of latest technology and implementation of R&D activities in Malaysia;
- increase in local content and enhancement of development of Bumiputera vendor programme;
- increase Bumiputera participation in dealership network; and
- PROTON brand name and its domestic market share for specific segments are preserved.

Malaysia is committed in its obligation under ASEAN and WTO. Therefore, the NAP Review has also taken into consideration Malaysia's commitments under both ASEAN and WTO. Malaysia will continue to implement its commitments under FTAs on the removal and reduction of import duties for automotive products.

In line with Malaysia's international commitments, the AP system will be terminated as follows:

- Open AP for used vehicles (commercial, passenger and motorcycles) to be terminated by 31 December 2015; and
- Franchise AP to be terminated by 31 December 2020.

The termination of AP system by 2015 will provide a clear roadmap and as an interim period for the AP holders to diversify and venture into other businesses.

As announced in the Budget 2010, each Open AP issued will be charged at RM10,000. A fund will be established from the income collected and will be used to assist Bumiputera entrepreneurs in undertaking, among others, the following areas/activities:

- securing distributorship/franchise rights and dealership of other makes of vehicles;
- expansion programmes for authorized dealers;
- venturing into other automotive sub-sector or other businesses;
- upgrading show rooms and service centres; and
- participation in international seminars/motor shows/conferences/meetings or trade missions.

## **NEW POLICIES AND MEASURES IN THE NAP REVIEW**

Several new policies and measures, covering licensing, duties, incentives, technology, environment, safety, standards and regulations are being introduced under the NAP review, with the aim of fostering a more competitive industry and freer market. The new policies include:

### **A. MANUFACTURING LICENCE: PROMOTING HIGH IMPACT SEGMENTS**

The current freeze on issuance of new Manufacturing Licence (ML) will be lifted for several industry segments which are considered strategic and have a high impact on Malaysia's economy. This liberalisation will be instrumental to producing higher margins, business-related vehicles, and more environment-friendly vehicles.

#### ***New Measures*<sup>1</sup> :**

- Specifically, the new policy will lift the freeze of new ML on:
  - luxury passenger vehicles with engine capacity of 1,800c.c and above and on road prices not less than RM150,000;
  - pick-up trucks and commercial vehicles;
  - hybrid and electric vehicles; and
  - motorcycles with engine capacity of 200c.c and above.
- There will be no equity conditions imposed on ML.
- The current policy on contract assembly is being maintained to encourage utilisation of existing excess capacity.
- The current policy on the freeze of ML for reconditioning and reassembling (rebuilt) activities is maintained.

### **B. TAX/DUTY: PROMOTION OF EXPORTS OF VALUE ADDED PRODUCTS**

#### **I. Tax Exemption on the Value of Increased Exports of Vehicles and Parts/Components**

The NAP Review introduces substantially higher tax exemptions for exported goods with a significant portion of value added in Malaysia. This reflects the country's goal to expand the amount and quality of exports. A tax exemption on statutory income for all sectors is offered based on the percentage increase in its value added.

#### ***New Measures*<sup>2</sup> :**

- The tax exemption on statutory income for manufacturers in the automotive industry is enhanced:
  - from 10 to 30 per cent of the value of increased exports, provided the goods attain at least 30 per cent value added; and

- from 15 to 50 per cent of the value of increased exports provided that the goods attain at least 50 per cent value added.

## **II. Import Duty: removal/reduction in compliance with trade agreements**

It is MITI's priority to promote free and prosperous international trade. Under the Free Trade Agreements (FTAs), Malaysia is committed to gradually remove or reduce its import duty. The automotive sector will meet the national commitment to the various FTAs. Details on duty structures are available in the Agreements (please refer to MITI website: [www.miti.gov.my](http://www.miti.gov.my) ).

## **III. Import and Excise Duty for Complete Built-Up (CBU) and Complete Knocked-Down (CKD)**

The rates of import duty (Most Favoured Nation-MFN) and excise duty for CBU and CKD vehicles are maintained ( [Annex](#) ).

## **IV. Gazette Price of Imported Used Vehicles to Address Under Declaration**

Currently, only the price for new imported CBU motor vehicles is gazetted for the purpose of duty computation. The NAP Review will establish gazette price for imported used CBU motor vehicles as well.

## **C. TECHNOLOGY: PROMOTING HIGH VALUE AND GREEN TECHNOLOGY**

### **I. Better Incentives for Critical and High Value-added Parts and Components Production**

Promoting the production of critical and high value-added parts and components is a crucial scheme to increase the country's human and technological capital and contribute to long-term development goals. Companies manufacturing transmission systems, brake systems, airbag systems and steering systems are eligible for better fiscal incentives i.e Pioneer Status (PS) of 100 per cent fiscal deduction for 10 years or Investment Tax Allowance (ITA) of 100 per cent for five years.

### **II. Promote Hybrid and Electric Vehicles and Development of Related Infrastructure**

Investing in the development of hybrid and electric vehicles bears the benefits of the acquisition of new, high end technology and the promotion of a more sustainable energy policy. A comprehensive mix of fiscal incentives, duty exemptions and customised training and R&D grants was included in the NAP Review to maximise returns on investment.

#### ***New Measures***<sup>3</sup>:

- Investments in the assembly or manufacture of hybrid and electric vehicles will be granted:
  - 100 per cent ITA or PS for a period of 10 years;
  - customised training and Rcustomised training and R& D grants in addition to the existing grants;

- 50 per cent exemption on excise duty for locally assembled/manufactured vehicles or provision of grant under the Industrial Adjustment Fund (IAF);
- PS of 100 per cent for 10 years or ITA of 100 per cent for 5 years for manufacture of selected critical components supporting hybrid and electric vehicles, such as:
  - electric motors;
  - electric batteries;
  - Battery Management System;
  - inverters;
  - electric air conditioning;
  - air compressors;
- additional attractive, customised incentives will be considered based on proposed activities.
- The Ministry of Energy, Green Technology and Water will draw up a roadmap to develop the infrastructure for electric vehicles.

#### **D. SOFT LOANS/GRANTS: Measures to Enhance Competitiveness of Parts/Components Manufacturers**

To improve competitiveness of parts and component manufacturers and to enhance their contribution to the automotive industry and economy, the Automotive Development Fund (ADF) and Industrial Adjustment Fund (IAF) will be continued.

#### **E. STANDARDS: EFFORTS FOR INCREASED SAFETY**

##### **I. Full Implementation of Vehicle Type Approval (VTA)**

Under the current NAP, the Road Transport Department (RTD) was assigned to implement the VTA project, which is yet to be established. Under the NAP Review, the Ministry of Transport (MOT) will accord priority in the 10th Malaysia Plan for full establishment of the VTA standards and testing facilities.

##### **II. Gradual Introduction and Enforcement of Mandatory Standards for Parts and Components**

Due to the lack of a specific regulatory body responsible in enforcing standards, there is insufficient coordination in the enforcement of mandatory requirements for parts and components.

Under the NAP Review, the Ministry of Science, Technology and Innovation will coordinate and formulate a roadmap for the introduction and enforcement of mandatory standards for automotive products.

##### **III. Gradual Phase-out of Imported Used Parts and Components**

Safety and environmental concerns rose from the practice of importing used parts and components without any restrictions or mandatory tests. The NAP Review is introducing a mechanism to prohibit imports of used parts and components, effective from June 2011.

##### **IV. Gradual Phase-out of Imported Used Commercial Vehicles**

Currently, imports of used commercial vehicles are allowed. Under the new policy, imports of used commercial vehicles will be prohibited, effective from 1 January 2016 in line with:

- the gradual phase-out of imports of used parts/components; and
- the termination of AP system for used vehicles.

#### **V. Clear Roadmap for the Implementation of Fuel Standards**

Since September 2009, EURO 2M specification for petrol and diesel has been implemented. The Government has now set a clear target of implementing EURO 4M specification for petrol and diesel by 2011. The Ministry of Natural Resources and Environment will establish a roadmap for fuel standards and quality.

#### **VI. Gradual Introduction of Vehicle End of Life Policy**

At present, there are 2.7 million passenger vehicles of 10 years or older on the road. Compared to other countries, Malaysia presents a very low vehicle scrap rate and relatively high average vehicle age.

As a first step towards the implementation of a full Vehicle End of Life (ELV) Policy, the NAP Review introduces mandatory annual inspections as a requirement for road tax renewal for all vehicles aged 15 years or older.

The Ministry of Transport will formulate a roadmap to reach full implementation of the ELV policy.

#### **F. THE APPROVED PERMIT SYSTEM**

In line with Malaysia's international commitments, the Open AP system will be terminated by 31 December 2015, while Franchise AP will be phased out by 31 December 2020.

Effective 1 January 2010, a charge of RM10,000 for each unit of Open AP issued will be imposed and the collection will be used to establish a fund to assist Bumiputera companies venturing into the automotive and other businesses.

#### **G. THE NATIONAL DIMENSION: A STRATEGIC PARTNERSHIP FOR PROTON**

A new strategic partnership between PROTON and a globally established Original Equipment Manufacturer (OEM) will be established to enhance PROTON's competitiveness in a global market and its long term viability.

#### **H. EFFECTIVE DATE**

The new policies and measures will be effective from 1 January 2010.

*MITI will coordinate with the relevant ministries and government agencies on the follow-up actions for the implementation of the NAP Review.*

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<sup>1</sup>**Current Measures :**

- Freeze on new ML due to excess capacity.
- Vehicle assemblers are allowed to make available their excess capacity to third parties (contract assembly) to assemble new makes or models on condition the models do not directly compete with those produced by national car manufacturers.

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<sup>2</sup>**Current Measure :**

Tax exemption on statutory income for all sectors is given based on percentage increase in the value of exports provided the products attain the following value-added criteria:

- 10 per cent of the value of increased exports is given to manufacturers provided the goods attain at least 30 per cent value added; and
- 15 per cent of the value of increased exports is given to manufacturers provided the goods attain at least 50 per cent value added.

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<sup>3</sup>***Current Measures*** :

Under the 2009 Budget, imports of CBU hybrid cars are:

- exempted from import duty; and
- granted 50 per cent excise duty exemption.

Both exemptions are given for a period of 2 years until 31 December 2010 to promote local assembly.

Currently, the infrastructure for electric vehicles is not available in the country.

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