



AIDEP

2021-26

AUTO INDUSTRY DEVELOPMENT AND EXPORT POLICY **Engineering Development Board**

Ministry of Industries and Production
Government of Pakistan

**AUTO INDUSTRY
DEVELOPMENT AND EXPORT POLICY
AIDEP, 2021-2026**

Engineering Development Board

Ministry of Industries and Production

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MESSAGE FROM FEDERAL MINISTER MINISTRY OF INDUSTRIES & PRODUCTION

The automobile industry plays an important role within the large-scale manufacturing sector and its importance has further increased in the tenure of current Government due to foreign and local investment, introduction of new international players and provision of choices to the customers.

Under “Meri Garri Scheme”, the duties and taxes on smaller cars have been reduced to shorten the price gap between motorcycle and a small car for youth. As a measure for consumer welfare, the vehicles Made in Pakistan will now conform to the international safety regulations, which is a step of current Government for provision of quality to the customers.

In addition, measures have been taken by the Government to shorten supply demand gap and ensuring on time delivery of vehicle to the end user.

Auto Industry Development and Export Policy (AIDEP 2021-26) includes promotion of new technologies in tractors and motorcycles, promotion of localization, import substitution and export enhancement. Government's “ Make in Pakistan” Initiative has been kept in mind during policy formulation as local manufacturing will be encouraged in vehicle and part manufacturing

I congratulate Ministry of Industries and Production and Engineering Development Board for their dedication and hard work. I acknowledge the efforts of all relevant ministries for their inputs during the policy making process. To commend the positive role of private sector including Pakistan Automotive Manufacturers Association (PAMA) and Pakistan Association of Automotive Parts and Accessories Manufacturers (PAAPAM) and their contribution in policy making.



Makhdum Khusro Bakhtyar
Federal Minister

MESSAGE FROM SECRETARY MINISTRY OF INDUSTRIES & PRODUCTION

I highly appreciate the efforts put in by Engineering Development Board and officials of Ministry of Industries & Production in formulation of “Automotive Industry Development and Export Policy” (AIDEP), which is a step towards penetration of local parts manufacturers in the aftermarket and towards exports of automotive parts and components in addition to the completely built units.

AIDEP 2021-26 will not only boost the development of Pakistan's automotive industry but will also provide significant support to Government of Pakistan and will help in addressing economic issues, ensuring import substitution, export enhancement and job creation for local workforce in line with Government's vision.

AIDEP will provide a stable business environment to the stakeholders in terms of long term tariff, provision of level playing field to the automotive manufacturers, promotion of localization, continuity of Automotive Development Policy (ADP 2016-21) to protect investments of new entrants and promotion of new technologies on sustainable basis.

I am grateful to all stakeholders including PAMA and PAAPAM, who have participated in the deliberations and provided valuable inputs to assist the government in formulating a viable policy that meets the vision and objectives of Ministry of Industries & Production to promote industrialization in the country.



Jawwad Rafiq Malik
Federal Secretary
Ministry of Industries and Production

MESSAGE FROM CHAIRMAN ENGINEERING DEVELOPMENT BOARD

AIDEP's main focus is to make Pakistan a hub for competitive manufacturing of auto parts and vehicles for local market & exports. AIDEP 2021-26 is the successor to the Automotive Development Policy 2016-21, which is largely credited for bringing in competition through investments & introduction of new models by world renowned auto manufacturers in Pakistan.

In the recent past, Pakistan's Auto industry has become one of the fastest growing industries in the country due to implementation of AIDEP. AIDEP 2021-26 encompasses localization of parts and components, implementation of safety regulations, promotion of new technologies, exports of auto parts & completely built-up units, consumer welfare and promotion of manufacturing of specialized vehicles.

I fully appreciate the hard work put in by the Engineering Development Board for formulation of AIDEP 2021-26 and grateful for the support of the Ministry of Industries and Production for getting it approved from the cabinet.

I acknowledge the participation and valuable contribution from both; government and private sectors; namely Ministry of Industries & Production, Board of Investment, Ministry of Commerce, Federal Board of Revenue, Ministry of Science and Technology, PSQCA, PAMA, PAAPAM and other private sector stakeholders. I would also like to thank members of EDB's Board of Management for their valuable inputs in the policy document.

I hope that announcement of AIDEP 2016-21 will provide a stable business environment and prosperity to the investors and good quality, reliable vehicles and parts for the consumer. I also hope this will be a fillip to the Engineering Industry and would pave way for export to enable us to reduce our current account deficit.



Mr. Almas Hyder
Chairman
Engineering Development Board

MESSAGE FROM CHIEF EXECUTIVE OFFICER, ENGINEERING DEVELOPMENT BOARD

It is a matter of great satisfaction that the Automotive Industry Development and Export Plan 2021-26 has been approved by the Federal Cabinet, which is culmination of an year-long effort to put in place a follow-on policy framework to the Automotive Industry Development Policy 2016-21 which completed in June 2021.

I am sincerely grateful to, and acknowledge the dedication and hard work of, all the stakeholders for the time and effort that they dedicated to this activity and their extensive involvement during the policy formulation process. Amongst the Government stakeholders I would like to specifically appreciate the efforts and contributions from Federal Board of Revenue, Ministry of Commerce in addition to those of other concerned Ministries and Departments. Amongst the private sector stakeholders, I sincerely appreciate the contributions from Pakistan Automotive Manufacturers Association (PAMA), Pakistan Association of Automotive Parts and Accessories Manufacturers (PAAPAM), Pakistan Automotive Spare Parts Importers & Dealers Association (PASPIDA) and all the other individual and organizational contributors. Private sector stakeholders including the Original Equipment Manufacturers (OEMs), parts manufacturers, and others provided valuable inputs without which this comprehensive policy would not have been possible.

The AIDEP 2021-26 recommendations involved detailed deliberations with all the stakeholders of auto sector and arriving at a consensus reflects the keenness of all stakeholders to position this sector as a leading contributor to the growth of the economy, revenue contribution to the national exchequer and enhancing its share in export earnings for the national economy.

Finally, and most importantly I must acknowledge the efforts of the small EDB team at the Policy Group headed by Mr. Asim Ayaz, General Manager (Policy) without whom this marathon effort of finalization of AIDEP 2021-26 would not have been possible.



Raza Abbas Shah
Chief Executive Officer
Engineering Development Board

GLOSSARY OF TERMS

1.	Additional Custom Duty	ACD
2.	Automotive Development Policy (2016-21)	ADP (2016-21)
3.	Auto Industry Development Program (2007-12)	AIDP (2007-12)
4.	Auto Industry Development and Export Policy (2021-26)	AIDEP (2021-26)
5.	Auto Parts Manufacturers	APM
6.	Additional Sales Tax	AST
7.	Board of Investment	BOI
8.	Competition Commission of Pakistan	CCP
9.	Custom Duty	CD
10.	Completely Knocked Down	CKD
11.	Economic Coordination Committee	ECC
12.	Engineering Development Board	EDB
13.	Energy Efficient Vehicle	EEV
14.	Federal Board of Revenue	FBR
15.	Gross Vehicle Weight	GVW
16.	Japan Export Vehicle Inspection Center	JEVIC
17.	Japan International Cooperation Agency	JICA
18.	Light Commercial Vehicle	LCV

GLOSSARY OF TERMS

19.	Ministry of Commerce	MOC
20.	Ministry of Climate Change	MoCC
21.	Ministry of Industries and Production	MoIP
22.	Ministry of Science and Technology	MoST
23.	Original Equipment Manufacturer	OEM
24.	Pakistan Association of Automotive Parts and Accessories Manufacturers	PAAPAM
25.	Pakistan Automotive Manufacturers Association	PAMA
26.	Pakistan Standardization and Quality Control Authority	PSQCA
27.	Regulatory Duty	RD
28.	Special Economic Zone	SEZ
29.	Semi Knocked Down	SKD
30.	Sports Utility Vehicle	SUV
31.	Tariff Based System	TBS
32.	Trade Related Investment Measures	TRIMS
33.	United Nations Economic Commission for Europe	UNECE
34.	Withholding Tax	WHT
35.	Working Party 29	WP-29

VISION

VISION

To make Pakistan a hub for competitive manufacturing
of auto parts and vehicles for
local market & exports

**OBJECTIVES AND TARGETS
OF AIDEP 2021-26**

1. OBJECTIVES AND TARGETS OF AIDEP 2021-26

AIDEP will have the following objectives and targets.

OBJECTIVES	TARGETS
Enhance affordable mobility in the society	<ul style="list-style-type: none"> ➔ Capacity to manufacture 650,000 Cars/LCVs/SUVs, 100,000 Tractors, 20,000 HCVs, 7 million 2-3 wheelers per annum. ➔ Introduction/Promotion of quality small cars which are affordable for the middle class. ➔ Enhance local production of public transport vehicles. ➔ Encourage indigenous design, development and manufacturing of local vehicles.
Strengthen competition in the market. Goal: "Make in Pakistan"	Between OEMs and all tiers of supply chain, to improve quality, rationalize prices and give better products to the customers.
Create design & development/innovation capabilities in the auto engineering sector	<ul style="list-style-type: none"> ➔ Proposed Tax credit for in-house design, development, molds and dies for new products, testing equipment and their facilities for OEMs and Vendors. ➔ Proposed Duty & tax free imports of machinery and equipment for measuring and metrology, all types of testing, designing and printing, CAD, CAM, CAE software, molds, dies and fixture manufacturing, 3-D Printers, calibration equipment etc.
Develop all tiers of supply chain, local content promotion	Incentivizing and administrative facilities to all tiers of suppliers, from raw materials to manufacturing of parts, assembly, and after sales support in consultation with the stakeholders through the process of periodical review.
Increase Export of Parts and Vehicles	<ul style="list-style-type: none"> ➔ Cars, Tractors, Motorcycles & auto parts to targeted countries ➔ OEMs to consider export of parts and vehicles for a minimum of 10% of C&F value of their total imports by end of Policy period, i.e. 30th June, 2026, through their global supply chains or global distribution channels/networks. Values to be calculated in USD or equivalent.
Rationalize sales of after market parts	Eliminate under-invoicing, smuggling etc. Proposed reduction of taxes on raw materials through consultation/ review at Tariff Policy Board and inputs of replacement parts to reduce maintenance cost of vehicles in phased manners through periodic consultation of stakeholders. Encourage local manufacturing for after market also. Implement conditions of SRO 693 on aftermarket parts.
Implement WP-29 Safety Regulations	As per plan finalized by EDB

OVERVIEW OF AUTOMOTIVE SECTOR OF PAKISTAN

2. OVERVIEW OF AUTOMOTIVE SECTOR OF PAKISTAN

The automotive sector history can be categorized into the following periods or phases:

- Deletion program or compulsory localization policy, between 1987 to 2004
- Tariff Based System (TBS), 2006
- Auto Industry Development Program, 2007-2012, and
- Automotive Development Policy (ADP-2016-2021)

REVIEW OF PREVIOUS POLICIES

2.1. REVIEW OF PREVIOUS POLICIES

2.1.1. DELETION PROGRAM

The deletion program also known as Localization Policy started in 1987 and continued till 2004 which required compulsory localization for automotive industry, with the aim to enhance local content in the vehicles. The firm/product specific deletion program was converted to industry specific deletion program i.e. for a certain industry like car manufacturing, local content levels were fixed according to specific indices and compliance to localization was monitored through annual audits. Under deletion program, localization could not be achieved in components which were high value added or high tech. Vendor industry grew in a protected environment that produced components from basic technologies with a domestic focus, with many of the critical components still being imported. The deletion programs were supervised by Ministry of Industries up to 1995. Subsequent to the establishment of Engineering Development Board, it was made the custodian of deletion programs for engineering sector.

Deletion program for the auto sector were phased out in 2004 and replaced with the Tariff Based System (TBS) to make auto sector compliant with Trade Related Investment Measures (TRIMs) under WTO regime from 1st July, 2006 onwards.

However, in the current policy, focus is on incentivizing the localization in terms of Value/Cost by updating SRO.693(I)/2006 biannually. Localization achieved in various models of cars is mentioned in the table below 2.1.1 below:

S. #	Manufacturer/ Assembler	Product	Deletion Achieved
1	M/s Pak Suzuki Motor Company Limited, Karachi	Suzuki Mehran Car, 800cc	73%
		Suzuki Cultus Car, 1000cc	69%
		Suzuki Pickup, 800cc	70%
		Suzuki Bolan Van, 800cc	68%
		Suzuki Swift Car	38%
		Suzuki Cargo Van	68%
		Suzuki Wagon	32%

2	M/s Indus Motor Company Ltd, Karachi	Toyota Corolla XLI /GLI (M / AT) 1.3CC	65%
		Toyota Corolla A/T) 1.6 CC	60%
		Toyota Corolla M/T 1.8 CC	60%
3	M/s Honda Atlas Cars (Pakistan) Limited, Lahore	Honda Civic VTI - MT/AT 1.3/1.5	58%
		Honda City MT /AT 1.3/ASP 1.5/1.3	68%

Table 2.1:- Deletions levels achieved by Auto Industry

TARIFF BASED SYSTEM (TBS)

2.1.2. TARIFF BASED SYSTEM (TBS)

Deletion program was replaced with the Tariff Based System (TBS) to make auto sector compliant with Trade Related Investment Measures (TRIMs) under WTO regime.

The basic framework of Tariff Based System was as under:

- Imports in CKD condition allowed only to assemblers having adequate assembly facilities
- Parts/ components indigenized by June 2004 were placed at higher rate of Customs Duty
- Parts not indigenized were allowed at CKD rate of Customs Duty i.e. lower rate of duty

Accordingly, following SROs were drafted which specified a pre-condition of having minimum in house facilities.

- I. SRO.656(I)/2006 –which authorizes assemblers/ OEMs import of CKD at concessionary duty.
- II. SRO.655(I)/2006 – allows vendors/ part manufacturers concessionary import of inputs.
- III. SRO.693(I)/2006 – list of localized auto-parts on import of which assemblers have to pay additional duty.

**AUTO INDUSTRY
DEVELOPMENT PROGRAM
(AIDP 2007-12)**

2.1.3. AUTO INDUSTRY DEVELOPMENT PROGRAM (AIDP 2007-12)

In the light of SROs mentioned above, the need for provision of long-term tariff plan to automotive industry was felt and AIDP was announced on 13th November, 2007 after consultation with stakeholders, which provided a five year tariff plan.

The focus of AIDP was to achieve a critical mass of production and double the contribution of auto industry to GDP from 2.8 percent, by the year 2011-12 with high focus on investment, technology up-gradation, increasing exports, enhancement in jobs alongside the development of critical components to further increase the competitiveness of domestically produced vehicles.

AIDP- 2007-12 was formulated with the assumption that industry would be supported through five year tariff plan and various non-tariff measures for overall development of automotive sector with regard to Technology Acquisition Support Scheme (TASS), Productive Asset Investment Incentive (PAII), Auto Industry Investment Policy (AIIP), Human Resource Development (HRD) and Auto Cluster Development. A recommending body by the name of Auto Industry Development Committee (AIDC) was also established. However, during AIDP period from 2007-2012, tariff rates were not implemented in true spirit as was projected in the approved five year plan as a response of request to maintain status quo after economic recession, resulting in decrease in production volume of cars during 2008-09 to 84,814 units from production of 166,300 units during previous year.

Furthermore, various development schemes i.e. PAII having proposals for duty credit to auto part manufacturers (APMs) for procurement of machinery and TASS proposing matching grants by Government to the companies acquiring latest technology were also not implemented mainly due to non-availability of government funding.

The target of 500,000 of cars by year 2012 under AIDP could not be achieved which can be attributed partly to non-functioning of car-financing / leasing facility in view of double digit interest rates during AIDP period. During 2011-12, production of cars remained 154,255 units against target of half a million units. In addition, localization of critical components did not materialize. As such AIDP can be considered partially successful as only few schemes were implemented such as cluster development in Karachi and Lahore and achievement of growth targets in two wheeler segment. To steer the initiative on Human Resource Development (HRD), Auto Industry Skill Development Company (AISDC) was envisaged for Testing and availability of trained human resource. However, no significant progress was witnessed in this regard.

Broad reasons for non-implementation of AIDP were lack of consistency in terms of provision of Government support to various schemes, efforts to maintain status quo, weak implementation mechanism of Auto Industry Development Committee (AIDC) and a strict new entrant policy which

required production of 500,000 vehicles globally by the applicant. This was later changed to a requirement of 100,000 units, but significant investment could not be attracted except introduction of Al-Haj FAW in 2011. The tariff under AIDP was continued till 2016 i.e. till announcement of ADP 2016-21. The industry, therefore, operated without a clear policy regime for four years.

**AUTOMOTIVE
DEVELOPMENT POLICY
(ADP 2016-21)**

2.1.4. AUTOMOTIVE DEVELOPMENT POLICY (ADP 2016-21)

As AIDP 2007-12 could not attract competition in the market, there remained the three established players in the market, namely Pak Suzuki Motor Company, Indus Motor Company (Toyota) and Honda Atlas Cars Pvt. Ltd, while the fourth company i.e. Al-Haj FAW could not attain significant market attraction.

Low tariff structure was provided in the next policy, to new investors to attract competition. Following are the salient features of ADP 2016-21.

- New Investment Incentives (Greenfield for new, Brownfield for closed units)
- Five Year tariff plan for existing OEMs & new entrant
- Payment channels streamlined to curb misuse of Import Policy (vehicles), under SRO.52(I)/2019
- Provision of regulatory and enforcement mechanism for Quality Safety & Standards
- Establishment of Pakistan Automotive Institute (PAI)
- Ensure Consumer Welfare, reimbursement @ KIBOR+2% in case of delayed deliveries
- Compulsory installation of immobilizer in cars & light commercial vehicles
- Reorganization of AIDC with defined TORs to act as a recommendatory body for auto sector

CURRENT SITUATION

2.2. CURRENT SITUATION

Under ADP 2016-21, Greenfield Status was granted to 21 companies for manufacturing of cars, light commercial vehicles, sports utility vehicles, trucks and buses. In the car segment, Korean, European, Chinese and Malaysian makes were introduced. A total investment of more than USD 1.0 billion was committed under ADP and the following seven companies were issued manufacturing certificates in car/LCV/SUV segment.

- M/s United Motor Limited
- M/s Regal Automobile Industries Limited
- M/s Master Motor Limited
- M/s KIA Lucky Motor
- M/s Hyundai Nishat Motors
- M/s Sazgar Engineering Works
- M/s Al-Haj Automotive (Proton)

The manufacturing facilities of M/s MG JW SEZ are under construction. The installed capacity Cars/SUVs has increased from 275,000 to 418,500. It is expected to increase further as some new companies which were issued Greenfield Status and have signed agreements with MoIP may start their production within the stipulated two year period under their signed agreements. At the same time the existing companies may also consider enhancing installed capacities.

M/s Foton JW Auto Park (Pvt.) Limited has been granted Greenfield Status under ADP for manufacturing Forland light trucks. Al-Haj Bus Company, M/s Khalid and Khalid (Shacman), M/s Dysin Automobiles (Sinotruck) and M/s Universal Motors (Higer Bus) are the major new entrants in HCV segment, and are expected to start local manufacturing during 2021-22.

In addition to above ADP 2016-21 has achieved its objectives of following a defined tariff plan and to curb misuse of import policy. Furthermore, the reimbursements on account of delayed deliveries have been made to the customers and installation of immobilizers has been made mandatory in cars and LCVs. Pakistan has acceded to UNECE's WP 29 Regulations under the official symbol E-64, which will enable it to introduce safety and environmental regulations in vehicles being manufactured locally. During the policy period, AIDC has played active advisory role in policy implementation.

The production of automobile sector has shown cyclic trend in general but has exhibited a positive recovery in 2020-21 post-Covid pandemic. The details of production of Automotive Sector are mentioned in table below:-

Products	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Cars	179,944	186,936	218,490	211,365	98,181	161,328
Jeeps/SUV	773	3,530	13,364	7,525	6,755	28,758
*Pick-Up/LCV/ Van	38,231	27,507	32,564	25,306	16,172	25,690
Total	218,948	217,973	264,418	244,196	121,108	215,776
Trucks	6,648	9,097	9,350	6,130	3,361	6,227
Buses	1,394	1,339	1,056	1,139	623	664
Total	8,042	10,436	10,326	7,269	3,984	6,891
Tractors	33,982	47,799	71,894	49,902	22,023	50,704
Motorcycles	2,060,385	2,473,687	2,761,747	2,437,871	1,659,495	2,438,505
Auto Rickshaw & 3 Wheelers	57,675	84,300	109,651	118,450	57,623	101,194
Grand Total	2,189,029	2,834,195	3,217,918	2,857,688	1,863,918	2,813,070

Table 2.2: Production Trend of Automobile Sector of Pakistan

ADP 2016-21 has been successful in introducing competition across all tiers except in the small cars segment, where in addition to the incumbent OEM, only two different companies have introduced products, however their production figures remain low. The establishment of Pakistan Automotive Institute (PAI) could not be established in the absence of Government funding, failure of previously established Automotive Testing and Training Center (AT&TC), lack of interest by the private sector, and questions raised regarding its feasibility by JICA experts.

Based on experiences gained during implementation of ADP 2016-21 and extensive consultations with stakeholders, the new policy framework by the name of Auto Industry Development and Exports Policy (AIDEP) 2021-26 has been prepared.

PROMOTION OF NEW TECHNOLOGIES

3. PROMOTION OF NEW TECHNOLOGIES

Multiple technologies for automotive manufacturing are used around the world including fossil fuel, electric, hybrid, hydrogen fuel cell technology etc. Pakistan would like to keep its door open to all environment friendly and fuel-efficient technologies.

AIDEP is aimed at addressing all technology parameters by providing incentives and frame works for all new technologies including EV and Hybrids. Currently, the incentives are being offered to electric vehicles and hybrids. Incentives similar to hybrids and electric vehicles will be considered for hydrogen fuel cell vehicles, whenever they become available for introduction in Pakistan. EV Technology being in the initial stages of technological development, the capital cost of EVs is much higher than comparable automotive technologies due to more expensive inputs and material costs associated. However according to various forecasts, as we move up the technological development curve, prices of these inputs and materials including batteries are expected to come down once production and market uptake volumes increase.

As far as Pakistan is concerned, industry experts are of the view that fixed route public transport vehicles and 2-3 wheeler segments offers the best potential for partial shift to EVs in the near future. Due to road infrastructure in Pakistan and consumer behavior, the initial adoption rate of EVs is expected to be slow however existing as well as new stakeholders/investors are assessing the market for their entry in this segment. Past experience has shown that the positive environment created through EDB/MoIP Automotive Development Policy (ADP 2016-21) has provided the adequate incentives for introduction of new entrants as well as innovative technologies in the market.

Infrastructure development is one of the major prerequisites for EVs, hence an incentive structure that is suitable and feasible for establishment of charging infrastructure vis-à-vis local manufacturing capabilities of EVs within the country is required. The custom duty for charging stations and parts thereof would be 0%. Once localization starts, duty on parts will stay at zero, however import of complete charging station may be taxed.

Since the transport sector in Pakistan is comprised of various sub-sectors, separate incentives for electric 2-3 wheelers, electric scooty, electric motorcycles, rickshaws and loaders, cars, vans, LCVs, SUVs, buses, prime movers and trucks have been considered in AIDEP.

AIDEP provides a framework which will bring necessary transformation in a planned and phased manner causing minimum disruptions while at the same time having a positive socio-economic impact in terms of industrial growth, employment generation and improved environment for future generations.

The hybrid technology is common in new vehicles (4 wheelers and heavy vehicles) having lower fuel consumption as compared to the normal fossil fuel vehicles and has been incentivized to the extent of provision of tariff incentives on hybrid specific parts in the Cars/SUVs/Vans. Introduction of hybrid vehicles will be feasible for local manufacturers as the market exhibits growth in upcoming years.

3.1 BACKGROUND OF INCENTIVIZING ELECTRIC VEHICLES (EV POLICY)

The proposals for promotion of electric vehicles were formulated through extensive stakeholder consultations after the task of policy formulation was assigned by the Government to EDB vide MoIP's Notification No. 2(48)/2018-LED-II dated 5th September, 2019. The draft policy was discussed in 29th, 30th and 31st meetings of Auto Industry Development Committee (AIDC), which is a committee approved by the Federal Cabinet, mandated to work for promotion of auto sector. Upon recommendation of AIDC, the agreed draft was forwarded to Ministry of Industries and Production. The policy document recommended by AIDC included recommendations regarding promotion of hybrid vehicles (cars, sports utility vehicles, buses and trucks) as it aimed at promotion of new technologies. However, only the recommendations related to electric vehicles to the extent of 2-3 wheelers and HCVs were approved initially. Economic Coordination Committee (ECC) of the Cabinet in case No. ECC-95/12/2020 dated 26th March, 2020 constituted an Inter-Ministerial Committee under the Chairmanship of erstwhile Adviser to Prime Minister on Industries and Production which reviewed both the policies/incentive packages drafted by EDB/MoIP and Ministry of Climate Change (MoCC). After the appointment of Minister for Industries and Production, ECC of the Cabinet in case No. ECC-161/19/2020 dated 6th May, 2020 amended the composition of the Inter-Ministerial Committee by including Minister for Industries and Production as the Chair and Secretary Ministry of Commerce as a member. Accordingly, the proposals for 2-3 wheelers and Heavy Commercial Vehicles (HCVs) approved in principle by ECC of the Cabinet in its meeting held on 10th June, 2020. Subsequently, the incentives for 4 wheelers were also finalized by the inter-ministerial committee whereas incentives for hybrids were finalized later and announced in Finance Bill 2021. It was decided that the incentives finalized for EVs will become part of AIDEP hence a consolidated proposal is being incorporated in the policy.

3.2 OBJECTIVES OF PROMOTION OF EV & NEW TECHNOLOGIES

The main objectives of the EV and new technology policy include:

- i. Create a pivot to industrial growth in Pakistan and encourage auto and related industry to adopt alternate manufacturing
- ii. Mitigate negative aspects of climate change through reduction in emissions from transport sector through introduction of fuel-efficient green technologies.
- iii. Employment generation through introduction of new investments.
- iv. Contribute to reduction of current account deficit through reduction in overall share of oil import bill by shifting to fuel efficient technologies.

3.3 INCENTIVES FOR ELECTRIC VEHICLES

The incentives for EVs are as under for various categories of vehicles. The incentives include promotion of local manufacturing as well as CBU import in case of EVs. The government remains committed to promotion of environmental friendly and fuel efficient technologies in AIDEP.

Following are the tariff incentives for CKD Manufacturing.

3.3.1. Two-Three Wheelers

- i. Custom duty on EV specific parts @ 1% including battery, motor, converter, charger etc till the end of policy period i.e. 30th June, 2026
- ii. Sales tax to be fixed at 1% at sales for locally manufactured 2-3 wheelers to be reviewed periodically i.e. once in a year in consultation with stakeholders.
- iii. Sales tax at import stage waived off for electric 2-3 wheelers to be reviewed periodically once in a year in consultation with stakeholders
- iv. Import of CBU for Test Marketing (2-3 wheelers)
 - a. 10 CBU units (for each variant) to be allowed at 50% of prevailing custom duty to the extent of maximum 200 units to 2-3 wheeler segment including scooties, motorcycles, rickshaws and 3 wheel loaders.
 - b. The maximum units to be imported collectively in scooties, motorcycles, rickshaws and loaders not to exceed 200 units per company even in case it has more than 20 different variants. Subsequent manufacturing within 2 years of import will be compulsory as per guidelines provided in ADP 2016-21.
 - c. Import to be recommended by EDB to new entrants and existing companies investing in EV technology for approval by MoIP. The existing companies setting up related manufacturing facilities per SRO.656(I)/2006 will be verified by EDB before approval of said incentive. Approval of import of CBUs to all existing and new companies at concessionary rate to be provided by EDB.

3.3.2 Heavy Commercial Vehicles (Trucks, Buses, Prime Movers)

- i. Import of all parts (both localized and non-localized) at 1% customs duty applicable to non-localized parts for manufacturing of electric heavy vehicles including buses, trucks and prime movers.
- ii. Sales tax to be charged at 1% at sales for locally manufactured electric buses, trucks and prime movers only. The proposal is subject to periodic review in consultation with stakeholders keeping in view the overall fiscal space and progress of local manufacturing sector.
- iii. Sales tax at import stage waived for locally manufactured electric buses, trucks and prime movers. The proposal is subject to periodic review in consultation with stakeholders keeping in view the overall fiscal space and progress of local manufacturing sector.
- iv. Custom Duty on import of electric buses, trucks and prime movers in completely built condition is 1%.

3.3.3. Cars, Vans, SUVs, LCVs

- i. Custom duty on EV specific parts @ 1% including battery, motor, converter, charger etc till the end of policy period i.e. 30th June, 2026
- ii. For electric cars, SUVs, LCVs and Vans, the CKD non-localized will attract 10% CD and CKD localized will attract 25 % CD
- iii. Exemption of sales tax and VAT on imports and 1% sales tax on sales applicable to small cars/vans/SUVs with 50KWH battery or below and LCV with 150 KWH battery pack or below. The proposal is subject to periodic review in consultation with stakeholders keeping in view the overall fiscal space and progress of local manufacturing sector.
- iv. VAT at import stage to be exempted for small cars/Vans/SUVs with 50KWH battery or below and LCV with 150 KWH battery pack only. The proposal is subject to periodic review in consultation with stakeholders keeping in view the overall fiscal space and progress of local manufacturing sector.
- v. Maximum number of CBU of Electric Vehicles shall be limited to 100 units per company at maximum 10 units per variant by EDB after verification of manufacturing facilities by EDB. The said import will be recommended by EDB and approval shall be granted by MoIP.

3.4. GENERAL INCENTIVES

Following incentives will also be available for entire range of Evs

- i. ACD to be 0% on CKD manufacturing of EVs
- ii. Duty free import of plant and machinery of EVs, 0% CD, ACD 0%
- iii. Import of EV chargers to attract 1 % CD, ACD 0%
- iv. EVs (both imported and locally manufactured) to be exempt from FED

The non-tariff incentives for EVs approved for Islamabad Capital Territory and recommended for consideration of other relevant authorities are as under:

Description	Intervention
Annual Tax	Provincial Motor Vehicle Registration Authorities to consider annual renewal fee to be fully exempted for all kinds of Evs.
Power Tariff	Special Incentivized Power Tariff on charging stations for EVs by Power Division
Toll Charges	NHA / Ministry of Communications to consider exemption of EVs from Toll Tax partially @ 50%.
Insurance	Bulk insurance at concessional rate for commercial fleets for electric vehicles.
Registration (For EVs only)	Provincial Motor Vehicle Registration Authorities to consider exemption of EVs from registration fees. Registration number plates of EVs may have distinct color/design as per convenience of registration authorities. The registration to be based on unique identification number as and envisaged by provincial registration authorities and the capital.

3.5 SAFETY STANDARDS FOR ELECTRIC VEHICLES

In order to advance electric mobility establishment of standards is necessary and a key step. Particularly for vehicle safety and charging infrastructure, standards are necessarily required. The safety of passengers especially in case of rainy season has to be ensured in motorcycles, rickshaws and loaders as their structure have minimum safety considerations. Standards significantly reduce investment risks for the stakeholders that are integral to provide resources in the transition to expand the businesses. Standards can be developed in parallel and support specific policy instruments.

As 2-3 wheelers are on mandatory list of PSQCA, the organization may develop the standards and ensure their enforcement. WP-29 regulations for 2-3 wheelers be adopted and PSQCA should align the standards for 2-3 wheelers with WP-29 Regulations.

In case of HCVs, the regulations can be adopted in phase wise manner as per plan for adoption of WP 29 Regulations already taken up with WP 29 Secretariat by EDB, which may support exports in the long run. The AIDEC or National Standards Committee of PSQCA to analyze and recommend adoption of UNR 136 for vehicle safety, IEC60335-2-29 for house hold chargers and EEC 134 for Max Speed for 2-wheelers and UNR 100 for 4-Wheelers or Chinese OEM Standards in order to ensure safety of customers and safeguard the market from substandard products. The changes to be incorporated in the already prepared standards for 2-3 wheelers by PSQCA.

3.6 CHARGING INFRASTRUCTURE

To promote and penetrate EVs in market, infrastructure needs to be developed in major cities, commercial/government buildings, motorways/highways by relevant provincial authorities and city governments. Following steps were agreed by the inter-ministerial committee and are recommended for consideration of relevant authorities.

- i. Charging infrastructure will be installed at different points in all selected cities initially and will be expanded to all secondary cities. In each selected city at least one DC fast charger to be installed in every 3x3 km grid/4x4 km grid (as per advised by relevant department).
- ii. Fast chargers will be installed along major motorways and highways after every 15-30 km. Initially the chargers will be installed at highway N5 and rest areas of motorways M1, M2, M3, M4, M5 and M9, while the infrastructure will further be extended to the rest of the motorways and highways in the country.
- iii. Public charging stations may opt to have standardized swappable battery facilities in lieu of standard charging for appropriate category of vehicles.
- iv. All Electric Distribution Companies (DISCO) to identify the feeders where electricity load can be managed to support fast charging stations based on aforementioned targets. If there are system constraints in achieving the targets of the charging stations in each 3x3 km area then the DISCOs will be responsible for removing such supply constraints.

- v. Existing CNG and Fuel Stations to be encouraged by related Government Bodies in establishment of charging infrastructure.
- vi. In order to relieve main grid, smart charging may be employed at charging stations particularly of Level-2 and above. Smart charging is possible through smart metering, time-of-use pricing and any other innovative mechanisms.
- vii. Initially, 2-3 wheelers to be promoted as their charging facilities are easier to develop. Major cities like Karachi, Lahore, Rawalpindi, Faisalabad and Peshawar may be considered initially for introduction of EVs and then complete national infrastructure in the long run.

The policy envisages a single interface / single point of contact for approvals and NOCs for charging infrastructure with effect from 1st July, 2022 in order to facilitate investors in establishing relevant EV technology & infrastructure.

3.7 INCENTIVES FOR HYBRIDS

Hybrid technology is common in developed countries of the world including Japan and Europe. The fuel consumption of hybrids is far less than the conventional fossil fuel vehicles whereas the emissions of hybrid vehicles are also lower. In order to promote hybrid technology, the following incentives have been provided for local manufacturing and assembly of hybrid vehicles vide Finance Act 2021:

- i. Parts specific for plug-in hybrids to be imported at 3% Custom Duty.
- ii. Parts specific to normal hybrids to attract 4 % Custom Duty.
- iii. Import of hybrid buses/trucks to attract 1 % Custom Duty from date of issuance of manufacturing certificate
- iv. Sales tax for both locally manufactured and imported hybrid cars, SUVs, Vans, LCVs to be 8.5%

The government remains committed to promotion of environmental friendly and fuel efficient technologies in AIDEP.

TARIFF PLAN UNDER AIDEP

4. TARIFF PLAN UNDER AIDEP

ADP 2016-21 has introduced competition in the market and the tariff structure has been worked out to ensure continuity of tariff under ADP and its synchronization with the tariff in AIDEP upon expiry of incentive period. A fair competition in almost all vehicle categories is expected during the AIDEP period i.e. 2021-26. New investors are expected to improve productivity and enhance their capacities with the passage of time. The advantages given to the new entrants provided cushion to start local manufacturing and AIDEP will ensure continuity of previous policy incentives for sustained growth. The applicability of SRO.693(I)/2006 will also continue and its bi-annual review will be ensured by EDB to add the localized parts in the said SRO.

4.1 FUTURE TARIFF OF AUTO SECTOR

The auto sector of Pakistan is operating under different SROs for local manufacturing of automobiles and their parts since 2006. The list of localized parts for various automobiles i.e. SRO.693(I)/2006 provides protection to the localized components through attracting additional duty when imported. It has been observed that the volumes have been achieved in motorcycle segment whereas other vehicles including cars, SUVs, tractors, trucks, buses etc. could not achieve high volumes.

The motorcycle segment and the Agricultural tractors are planned to be brought into normal tariff regime during the tenure of this policy after consultation with relevant manufacturers. Similarly by end of AIDEP period, i.e. June, 2026, the other sub-sectors of automotive industry will be considered for moving to normal regime from the current SRO regime. The stakeholder consultations will be carried out by EDB under AIDEP and utmost effort will be made to shift to a general tariff regime after the end of AIDEP 2021-26

The incentives provided to new entrants under ADP 2016-21 will continue for five years from issuance of manufacturing certificate or till 30th June, 2026 whichever is earlier as provided in the ADP 2016-21. Similarly, the incentives for HCVs will be provided for three years from the date of issuance of manufacturing certificate or till 30th June, 2026 whichever is earlier as provided in the ADP 2016-21.

Following additional interventions are being pursued with relevant departments of the federal government and will be made available as soon as some fiscal space available to the government.

- Duty free import of plant and machinery for setting up plants for EV manufacturing.

The facility of duty-free import of plant and machinery for setting up such plants are already available for Greenfield industry and industries located in SEZs.

NEW PRODUCT POLICY

5. NEW PRODUCT POLICY

New product policy has been envisaged in AIDEP for small cars of 1000 cc and below, tractors and motorcycles.

5.1 MERI GARRI SCHEME (PROMOTION OF SMALL CARS, VANS, LCVs)

Meri Garri Scheme, which can also be termed as new product policy for cars, light commercial vehicles is primarily meant for promotion of small and fuel efficient vehicles. The policy aims at provision of small vehicles to the customers at affordable prices in order to graduate the population from use of motorcycles to smaller cars. Similarly, the vans and pick-ups have also been incentivized to promote their use as these vehicles are being mainly used for commercial purposes. In the said scheme, following incentives have been extended to manufacturing of small vehicles of 1000 cc and below.

- For local manufacturing of vehicle (Car/Van/LCV)
 - New Product Policy: Custom Duty (CD) on localized parts will be 30% and non localized parts will be 15% for three years from date of issuance of manufacturing certificate or 30th June, 2026 whichever is earlier, with cut-off date of approval of 30th June, 2023.
 - * The Finance Act 2021 has already provided two years duty relief with cut-off date of one year i.e. 30th June, 2022 and incentive period of two years i.e. 2024. However, the industry feedback suggests that the cut-off timeline and concession period has been enhanced in order to attract meaningful investment. Above dates have been extended to 30th June, 2023 and 30th June, 2026 respectively.
- The scheme is applicable to all vehicles up to 1000 cc i.e. the benefits under said scheme are applicable to all new and existing manufacturers on the introduction of new models of car, light commercial vehicles or vans of 1000 cc and below. Following other incentives have also been extended in the policy.
 - Sales tax reduction to 12.5 % at sales stage
 - Removal of Additional Custom Duty (ACD), Withholding Tax (WHT)& Federal Excise Duty (FED) on locally manufactured vehicles.

In order to promote competition in the market and ensure availability of enough number of vehicles in the market, similar incentives have been extended to the imported 850 cc and below vehicles (Cars, LCVs, SUVs) i.e. waiver of ACD, WHT, FED and Regulatory Duty (RD) only. The incentives provided on imports in Completely Built Unit (CBU) condition will be reviewed in future if the local manufacturing companies develop sufficient capacities.

5.2 NEW PRODUCT POLICY – MOTORCYCLES & RICKSHAWS

The new product policy for 2-3 wheelers include incentives for motorcycles, motorcycle rickshaws and auto rickshaws having higher engine power than existing model. The said policy is aimed at introduction of new shapes and models of motorcycles and three wheelers in the market, particularly for export. The Custom Duty on new models of 2-3 wheelers is mentioned in table 5.1 below:

S. No	Description	Customs Duty (%)				
		21-22	22-23	23-24	24-25	25-26
1	CKD Non Local	15	15	15	15	15
2	CKD Localized	30	30	30	30	30

Table 5.1: Custom Duty under New Product Policy for 2-3 Wheelers

The incentives under new product policy for 2-3 wheelers are further elaborated as under:

- For 4-stroke auto rickshaw of PCT heading 8703.2115 CD on localized parts @30% for new make or new model exceeding 200cc
- For motorcycles rickshaw of PCT heading 8711.3020 CD on localized parts @30% for new make or new model exceeding 200cc.
- For vehicles of PCT heading 87.11(except motorcycles rickshaw of PCT heading 8711.3020) CD on localized parts @30% for new make or new model exceeding 125cc
- The custom duty on non-localized parts for above mentioned 2-3 wheelers will remain 15 %,
- The cut-off date for approval of application as per criteria defined in SRO.656(I)2006 is 30th June, 2023.The incentives will be allowed for a period of five years, after certification by EDB, from the date of issuance of manufacturing certificate or up-to 30th June, 2026, whichever is earlier.
- The Finance Act 2021 has already provided two years duty relief with cut-off date of one year i.e. 30th June, 2022 and incentive period of two years i.e. 2024. However, the industry feedback suggested that the cut-off timeline and concession period needs to be enhanced in order to attract meaningful investment. The above dates have been extended to 30th June, 2023 and 30th June, 2026 respectively.

5.3 NEW PRODUCT POLICY FOR TRACTORS

The local industry of Pakistan is manufacturing tractors ranging from 35 hp to 85 hp at present. To introduce smaller tractors below 35 hp, and tractors beyond 85 hp category, the incentives have been envisaged for new product categories.

The tariff structure for new products will be as under:

The tariff structure for new products will be as under:

S. No	Description	Customs Duty (%)				
		21-22	22-23	23-24	24-25	25-26
1	CKD Non Local	1	1	1	1	1
2	CKD Localized	15	15	15	15	15

Table 5.2: Custom Duty under New Product Policy for Tractors

The incentives for introduction of new models have been summarized as under:

- The CD on localized CKD has been reduced from 35 % to 15 %. The concession is available to Agricultural Tractors of PCT heading 87.01 for new make or new model beyond 85 hp or below 35 hp
- Waiver of FED and ACD on locally manufactured tractors will be extended to new product policy also
- Sales Tax at import stage to be 5 % for CKD of tractor industry
- Policy incentives to end on 30th June, 2026. The cut-off date for approval of incentives is 30th June, 2023. The policy period is three years as certified by EDB from the date of issuance of manufacturing certificate or up to 30th June, 2026, whichever is earlier.
- The policy is applicable to all existing, new & closed manufacturing plants

The Finance Act 2021 has already provided two years duty relief with cut-off date of one year i.e. 30th June, 2022 and incentive period of two years i.e. 2024. However, the industry feedback suggested that the cut-off timeline and concession period needs to be enhanced in order to attract meaningful investment. Therefore, the above dates have been extended to 30th June, 2023 and 30th June, 2026 respectively.

5.4 ELIGIBILITY CRITERIA

The new product policy for cars, vans, LCVs, 2-3 wheelers and tractors will be extended to all the existing and new manufacturing companies. The applications for new investment and expansion of product profile by the existing manufacturers will be addressed to Engineering Development Board for processing and approval.

The new companies will be required to install manufacturing facilities as per criteria defined in the SRO 656(I)2006 as amended from time to time for establishment of minimum in-house facilities. The verification of in-house facilities will be carried out by EDB as mentioned in SRO 656(I) 2006 and the necessary approvals of list of imported components and their uploading on WEBOC will also be carried out by EDB as per SRO 656(I)2006.

IMPLEMENTATION OF SAFETY REGULATIONS

6. IMPLEMENTATION OF SAFETY REGULATIONS

Accession to WP 29 Regulations was envisaged in Automotive Development Policy (ADP 2016-21) and EDB was approved as a Secretariat for WP 29 by the Federal Cabinet after detailed deliberations.

Working Party-29 or WP-29 is a UN Forum working for harmonization of vehicle regulations under United Nations Economic Commission for Europe (UNECE). The WP 29 Secretariat is in Geneva, Switzerland whereas the headquarter is in New York. Every UN member country can join this forum. Following three agreements are being administered by WP-29.

- 1958 Agreement, which involves mutual recognition, third party certification and does not require local development of lab infrastructure
- 1998 Agreement, which encompasses harmonization of testing infrastructure and procedures
- 1997 Agreement covering periodical vehicle testing (testing of on road vehicles)

Pakistan has been notified as contracting party to 1958 Agreement by the UN Office of Legal Affairs on 24th April, 2020 and has been assigned with the symbol "E 64". Before accession, Pakistan was the only vehicle manufacturing country which was not represented in WP 29 till said accession. EDB worked as a Secretariat for the accession of WP 29 Regulations as per its role defined in ADP 2016-21.

The 1958 Agreement contains approximately 160 regulations relating to safety and environment whereas Pakistan has opted for 17 Regulations comprising brakes, steering, tires, lighting, safety belts, seats, airbags, collision, safety glazing, mirrors and cameras, antitheft devices etc. for cars and heavy commercial vehicles. The regulations will be updated by the Secretariat on regular basis according to market demand. The agreement does not involve any penalties in case of any delay in compliance to the roadmap given by a country. Pakistan, as a new signatory to the forum will adopt the additional regulations in phase-wise manner according to local market demand and export requirements. In line with 1958 Agreement, ensuring safety regulations at manufacturing stage is to be managed by EDB, which is issuing manufacturing certificates under SRO 656.

PSQCA may cross verify the regulations being adopted under 1958 Agreement by EDB and must ensure setting up of infrastructure to support the industry. PSQCA can also proceed for mutual recognition agreements with other countries to ensure acceptability of PSQCA certificate in other countries under 1998 Agreement through accession to said agreement.

However, at present, introduction of shortlisted regulations at manufacturing stage by EDB will ensure provision of safer vehicles to the customers.

The adoption of WP-29 Regulations under 1958 Agreement has been consulted with the industry. Following regulations have been shortlisted on relevant vehicle categories according to timelines mentioned in table 6.1 below

	Description	UN Regulations (UNRs)	Vehicle Category
Active Safety	Brakes	R 13 & R 13H	Passenger Cars and Vans + Commercial Vehicles and Buses
	Steering	R 79	Passenger Cars and Vans + Commercial Vehicles and Buses
	Tyres	R 30	Passenger Cars and Vans
	Lighting	R 48	Passenger Cars and Vans + Commercial Vehicles and Buses
General Safety	Safety Belts Anchorages & Belts	R 14 & R 16	Passenger Cars and Vans + Commercial Vehicles and Buses
	Seats / Head Restraints	R 17 & R 25	Passenger Cars and Vans
	Collision	R 94, R 95 & R 135	Passenger Cars and Vans
	Airbags	R 121, R114	Passenger Cars and Vans
	Safety Glazing	R 43	Passenger Cars and Vans
	Mirrors & Cameras	R 46	Passenger Cars and Vans + Commercial Vehicles and Buses
	Anti-theft	R 18	Passenger Cars and Vans + Commercial Vehicles and Buses

Table-6.1: Implementation Plan for WP-29 Regulations

The manufacturing certificate issued by EDB under SRO 656(I)2006 shall be acceptable to all provincial transport authorities.

WP-29, being vast and challenging subject, needs support of international experts. The adoption of regulations is sometimes required by the international customer or importer. In such cases, the OEMs/part manufacturers may apply for E-Mark or other relevant certifications through third party certification bodies.

In case of local manufacturing, certificate by the OEM's/principals or third party certification for compliance of desired safety regulations will be required by EDB before issuance of manufacturing certificate for any model. The compliance to shortlisted WP 29 Regulations will be applicable to all new models of vehicles being manufactured in Pakistan.

IMPLEMENTATION MECHANISM

- i. All locally manufactured vehicles mentioned in table 6.1 to become compliant with the regulations mentioned therein by 30th June, 2022. Any change in above regulations or practical difficulty in adoption will also be analyzed at EDB for suitable remedial measures. In case of any practical difficulty, extension for two years will be granted by EDB.
- ii. Further extension in timelines, up to one year, to be granted by MoIP on recommendation of EDB with maximum upto 30th June, 2025.
- iii. EDB will review the implementation of regulations in mid of policy period.
- iv. UNR and UNR Series/version at the time of its applicability for first time i.e. the launch of vehicle in the origin/country will be applicable on vehicles being manufactured in Pakistan. The updates will be analyzed by EDB for adoption.
- v. Ministry of Commerce to ensure compliance to shortlisted WP-29 regulations by 30th June, 2022 in case of imported completely built units.
- vi. EDB to act as Secretariat of WP-29 in Pakistan and creation of analysis group to be ensured in EDB to review the regulations for implementation in future.

**PROMOTION OF LOCAL
PART MANUFACTURING**

7. PROMOTION OF LOCAL PART MANUFACTURING

AIDEP targets promotion of indigenous part and assemblies / sub-assemblies manufacturing and rationalization of imports. In this regard, local value addition requirement has been fixed at 30% for parts manufactured under SRO.655(I)/2006 except for engine, gear box and transmission parts. Components or sub assemblies shall not be eligible for concessions in case local value addition is less than 30%. As a general principle, localization will be targeted to attain maximum possible value addition within Pakistan.

In addition, bi-annual updating of SRO.693(I)/2006 will be carried out to ensure speedy localization. The list of locally manufactured parts will be updated and after analysis, the parts or components localized for a certain vehicle by one/two manufacturers will be added in the list of locally manufactured components and higher rate of duty will be applicable to those parts, if imported.

In addition, following incentives will be provided to local manufacturing of parts and components

- i. Duties on imports under SRO.655(I)/2006 shall be rationalized to promote local manufacturing
- ii. Depending upon fiscal space available to the government of Pakistan, tax credit equal to investment for setting up in-house Design Shops, Testing Laboratories, Certifications, Service Centers, R&D support centers, etc. will be allowed. Similar, credits are also proposed for development of local designs, manufacturing tooling, molds & dies for local manufacturing of parts, products and vehicles.
- iii. Depending upon fiscal space available to the government of Pakistan, taxes and duties on import of machinery equipment, testing equipment, other design equipment & software, 3-D Printers, calibration equipment etc shall be rationalized to promote local manufacturing and quality control.

The localization and promotion of local auto part manufacturing depends upon rationalization of after sales market. There is a need to link the local after sales market with local manufacturing. The parts being manufactured locally should be promoted and used in local market to achieve import substitution.

The import of used auto parts in the garb of scrap is a serious detriment to the local auto parts manufacturing industry. The elimination of import of used parts and components of vehicles through grey channel imports is also affecting the local manufacturing of parts and components. EDB will carry out a comprehensive exercise for elimination of import of parts and components through illegal channels. This will facilitate shifting of part manufacturing to local industry. Discouraging used parts in the local market will also help in decreasing import of used cars through various grey channels.

The commercial import of new parts attracts higher rate of duty. Duties and taxes on import of new parts shall be rationalized. However, SRO.693(I)/2006 shall remain applicable for locally manufactured auto parts to provide protection to the domestic industry.

As the supply chain for auto industry is multi tier, EDB will support local manufacturing and export of Nuts/bolts, hydraulic systems, electric wiring, plastic parts etc. The consumption of such local parts by OEMs and vendors will also be encouraged. An efficient local supply chain can bring more business from overseas and reduce costs for exporters.

For rationalization of duties and taxes on commercial import of parts and components, an independent exercise shall be carried out by EDB in consultation with stakeholders.

EXPORT PROMOTION

8. EXPORT PROMOTION

Automotive Industry of Pakistan needs growth in volumes through local sales and through exports. Pakistan is exporting tractors, motorcycles, rickshaws and spare parts in limited quantity. The exports can be enhanced through collaborative efforts by Government and private sector. The prime focus of automotive sector of Pakistan can initially be on enhancement of export of tractors, 2-3 wheelers and auto parts.

Ministry of Commerce needs to take the lead in trade diplomacy for concentrated efforts on export enhancement for auto sector and negotiate trade agreements and preferential tariffs for Pakistan with Africa, South America, Sri Lanka, Bangladesh, Iran & Turkey at par with China, India, Vietnam, Thailand etc.

It has been observed that the contract agreement of most of the local vehicle manufacturers with their Principals are for Pakistan market only, which may be one of the reasons for limited exports. As Pakistan has acceded to UNECE's WP-29, which ensures harmonized vehicle regulations. Local automotive sector has a chance to enhance exports by ensuring compliance to the regulations of importing market.

In addition, all OEM contracts which forbid or restrain exports from Pakistan, to any other country, need to be renegotiated/ amended to allow exports to target countries, and make Pakistan an export base, both for auto-parts and vehicles. Obligatory export of parts/ vehicles by manufacturers will be introduced under AIDEP. The OEMs shall be asked to comply with following, for export promotion, however meeting of targets earlier than schedule will be incentivized.

Financial Year	Mandatory export as % of C&F value
2021 -22	0%
2022 -23	2%
2023 -24	4%
2024 -25	7%
2025 -26	10%

Table 1: Export as a ratio of total Import by an OEM. Vendors too will be trained and assisted to innovate export to the global markets.

The export targets are indicative, which shall be reviewed and enhanced periodically. Following incentives will be proposed for exports once fiscal space is available with the Government:

- For each vehicle exported, duty free import of appropriate number of CKD kits in next consignment through WeBOC may be considered.
- Import of all locally manufactured raw materials/components may be allowed under SRO. 655(I)/2006 & SRO.656(I)/2006 at 0% CD for export purposes
- Allowing payment of DLTl at enhanced rate on export of motorcycles, rickshaws, tractors, cars, and auto parts
- Specialized Temporary Economic Refinance Facility (TERF) may be designed / announced for capacity enhancement and modernization of auto manufacturers/exporting companies.
- Import of vintage cars, refurbishment & exports may be allowed duty free. The existing policy by Ministry of Commerce may be reviewed for Ease of Doing Business in consultation with Vintage Car Association.
- OEMs/vehicle manufacturers will be facilitated for local manufacturing of left hand vehicles for export purpose only

OTHER INTERVENTIONS

9. OTHER INTERVENTIONS

9.1 CONSUMER WELFARE

In order to avoid delays in delivery and access to information by the customer, all car manufacturing companies will display booking status and tentative delivery period online on respective websites. This will increase visibility, and status of booking, to the customer. In addition, the booking of a car, SUV, Van and LCV will be done on partial payment. The amount of partial payment by the company from customer will not exceed 20% for the MRP.

In order to compensate the customer in case of delay in delivery beyond 60 days from booking, reimbursement on deposited amount to be made to the customer @ KIBOR+3% from the date of initial booking till the date of final payment. Furthermore, the company will be liable to pay/reimburse amount @ KIBOR +3 % on full amount from the receipt of final payment till the invoice date.

The complete details of booking, delivery and reimbursement of amount to the customers will be submitted by the companies to EDB for revalidation of IORs/manufacturing certificates. Furthermore, the OEMs will submit data of bookings and deliveries online to EDB for traceability.

The vehicle manufacturing companies shall amend their booking order forms accordingly under intimation to EDB.

This intervention will be withdrawn in future, once EDB is able to certify that the adequate competition has been created in the market.

9.2 PROMOTION OF LOCAL CAR

Pakistan is assembling vehicles since long, but locally designed car could not be manufactured and sold successfully until now. The acceptability of locally manufactured cars in presence of world-renowned brands in the high end segment is difficult in a low volume market like Pakistan. However, a small car with attractive price is workable. Keeping the market situation in view, locally designed and manufactured vehicles would be supported by the Government to innovate, adopt & indigenize technologies under AIDEP. Local universities & students would be encouraged to innovate and develop technologies for parts and vehicles. All such initiatives would be given easy access for licensing, for which rules will be framed by EDB. AIDEP will promote "Make in Pakistan" for which incentive framework will be announced as soon as some feasible proposals are received in EDB and fiscal space available with the Government.

To ensure the safety aspect, the car manufactured in Pakistan shall have to be compliant with WP-29 Regulations and the Provincial Motor Vehicle laws. Government to consider reimbursement of fee for international safety and road worthiness certification

9.3 PROMOTION OF MANUFACTURING OF SPECIALIZED VEHICLES

Pakistan has the capability to manufacture specialized vehicles like fire fighting vehicles, refrigerated trucks, dumpers, oil tankers, cement bowsers, trailers etc. but significant volumes have not been achieved in this regard. Due to manufacturing of trailers, oil tankers etc. in unorganized sector, the formal sector could not prosper. Trailer manufacturing is currently being facilitated by EDB which has shown positive results in standardization of the vehicles in addition to having positive impact on national exchequer. The detailed framework for local manufacturing of specialized vehicles and their facilitation thereof will be determined and implemented by Engineering Development Board after consultation with the stakeholders.

9.4 CONSUMER PROTECTION, QUALITY & MONITORING MECHANISM

Scope of Work:

AIDEP will ensure consumer protection in case of complaints submitted to the Government for redressal, safeguard customers in quality issues including complaints registered against dealerships, fairness of prices, cost discoveries, monitoring mechanism for reimbursement of amount in case of delayed deliveries and resolving of general complaints by the customers.

In this regard a committee comprising of members from following ministries/ organizations will be formulated under the Chairmanship of the Secretary, Ministry of Industries and Production, with EDB to act as Secretariat:

- Secretary, Ministry of Industries and Production- Chair
- CEO, Engineering Development Board – Member/Secretary
- Secretary, Ministry of Commerce.
- Chairman, Federal Board of Revenue
- Chairman, Competition Commission of Pakistan
- Secretary, Ministry of Science and Technology
- Nominee of Governor, State Bank of Pakistan
- Chairman, Pakistan Automotive Manufacturers Association
- Chairman, Pakistan Association of Automotive Parts & Accessories Manufacturers (PAAPAM)
- Two nominees from consumers/civil society (to be nominated by Minister for Industries and Production)

Procedure:

The Committee will analyze the Provisional Booking Order Forms of respective companies and will recommend amendments, if required, as per interventions in AIDEP.

The above mentioned committee will meet on regular basis at least once in two months. EDB will act as the secretariat of the committee and ensure compliance of various interventions already notified under AIDEP. In addition, the routine complaints will also be analyzed by the committee.

Enforcement Mechanism:

In case of non-compliance of policy interventions, the committee will have the right to recommend stoppage of incentives under SRO.656(I)/2006 to EDB.

APPLICATION PROCESSING AND APPROVAL MECHANISM

10. APPLICATION PROCESSING AND APPROVAL MECHANISM

The applications for availing benefits under AIDEP will be addressed to Chief Executive Officer (CEO), EDB. The applications will be processed by EDB as per criteria prescribed in SRO.656(I)/2006. To elaborate further, following applications are to be addressed to EDB, which shall be decided as per guidelines mentioned in the SRO.

- i. Applications for setting up a new plant for small cars, new product policy for motorcycles and tractors by new manufacturing companies will be submitted to EDB for processing/approval.
- ii. Similarly, the existing companies may submit applications for setting up additional assembly lines for manufacturing of small cars under Meri Garri scheme and new models of motorcycles and tractors to EDB.
- iii. CEO-EDB will be the approving authority in both, application by the new entrants/new manufacturing companies and existing companies, which intend to benefit from above mentioned schemes of AIDEP.
- iv. The criteria of minimum in-house facilities mentioned in SRO.656(I)/2006 will be the prerequisite for grant of aforementioned status/consideration of applications under Meri Garri scheme and new product policies
- v. The approval of import of CBUs at concessionary rate of Custom Duty will be granted by MOIP on the recommendation of EDB.
- vi. The approvals under normal Tariff Based System (TBS) will continue as per previous practice under SRO.656(I)/2006.

The general procedure for setting up assembling/manufacturing unit is as under:

As per condition (i) of SRO. 656(I)/2006 dated 22th June,2006 (copy can be downloaded from www.fbr.gov.pk), the assemblers / manufacturers who intend to assemble/manufacture road worthy vehicles may apply with EDB for verification of in-house facilities defined under 'Annexure-A' of SRO.656(I)/2006. Prior to verification of in-house facilities, following information/documents shall be provided by the OEM:-

1. Technical assistance agreement with the foreign principal, if any
2. List of plant / machinery / equipment with complete specification, make / model, local/ imported, if imported, name of the company as defined in 'Annexure-A' of the SRO
3. Purchase documents of plant/ machinery/equipment installed as in-house facilities
4. Snaps of in-house facilities e.g. engine assembly & testing, vehicle final assembly, paint shop, vehicle performance testing facilities and inspection equipment etc
5. Copies of Sales Tax Certificate (STN) containing the status as importer-cum-assembler or manufacturer & National Tax Number (NTN) certificates in the name of the company

6. Product (s) brand name to be assembled / manufactured in-house with a copy of Trade Mark Registration Certificate or acknowledgement receipt issued by the IPO/ Trade Mark Registry office
 7. Proof of factory premises ownership or copy of lease agreement, if premises on rent.
 8. Complete factory map / lay out
 9. Complete address of the factory and registered office with phone, fax and e-mail etc.
 10. Name of the Chief Executive / Managing Director or an authorized officer of the firm for correspondence with EDB
 11. List of 100% parts with %age index constituting a complete vehicle as per the attached Format-I available on EDB's website and comprising:-
 - i) Importable components
 - ii) Localized components to be procured from the vendors with their names & contacts against each item
 - iii) List of components to be manufactured in-house.
 - iv) Comparison of parts with parts contained under SR.693(I)/2006
 12. List of CKD parts to be imported under condition (iii) of the SRO for verification as per attached Format-II
 13. List of vendorized components to be purchased with complete description of items from the local vendors alongwith their complete, addresses, phone, fax, email etc
 14. Manpower breakup as technical/non technical, if any
 15. Parts Catalogue of vehicle duly signed and stamped
 16. An NOC from the Municipal Committee / Town Committee
 17. Copy of the registration of firm with SECP in case of Private Limited or Public Limited company and registration with The Registrar of Firms in case of AOP
- The assemblers/ manufacturers certified under condition (i) of SRO. 656(I)/2006 shall be issued manufacturing certificate for the assembly/ manufacture of vehicle (s) applied for. Based on the EDB certificate, OEM shall approach PSQCA and Excise & Taxation Departments for quality & Standards certificate and registration of vehicle (s), respectively.
 - The assemblers/ manufacturers certified are facilitated to import CKD kits of non-localized components at concessionary rate of duty while the localized components at additional rate of duty. In this regard FBR has issued SRO.656(I)/2006 dated 22nd June, 2006 & SRO. 693(I)/2006 dated 1st July, 2006, respectively, for importation of CKD kits.
 - List of localized parts of vehicles are provided as Appendix-I & Appendix-II under SRO. 693(I)/2006. These components are importable, as mentioned above, at additional rate of duty. Since these are localized parts therefore, the same can also be purchased from the local manufacturers of parts.

- The assemblers/manufacturers of vehicles shall submit hard & soft copies of the lists of importable components under condition (iii) of SRO. 656(I)/2006 for verification as per 'Annexure-B'.
- EDB verifies the lists of components importable at exempted and additional rate of duty with part number, part name/description in accordance with the Parts Catalogue of vehicle provided by the OEM. The verified lists shall be upload on WEBOC Module for imports.
- Subsequent to certification under condition (i) of the said SRO and verification of lists by EDB submitted under condition (iii) of SRO.656(I)/2006, the importer-cum-assembler or manufacturer imports the CKD parts at the applicable rates of duty.
- The Customs department releases the consignments of CKD kits as approved by EDB.
- As per condition (iv-a) of the SRO, the importer-cum-assembler or manufacturer shall make direct imports as per the lists approved by EDB. The localized parts shall be purchased from the sales tax registered local manufacturers.
- As per condition (v) of SRO.656(I)/2006, the assemblers / manufacturers shall maintain the records of inputs used for the assembly of vehicles and submit the same to EDB latest by 15th August, each year.
- Violation to any condition of the SRO is subject to suspension of certificate and lists of importable components under condition (xii) of the SRO.

**AUTO INDUSTRY DEVELOPMENT
&
EXPORT COMMITTEE(AIDEC)**

11. AUTO INDUSTRY DEVELOPMENT & EXPORT COMMITTEE (AIDEC)

There will be an Auto Industry Development and Export Committee (AIDEC) for review and monitoring of policy objectives, which include exports of auto parts and vehicles. AIDEP shall continue to play its advisory role for the development and export of automotive sector under the Engineering Development Board. To implement policies stipulated in the AIDEP, Engineering Development Board shall request AIDEC to furnish suggestions/advice on technical issues and exports when deemed necessary and appropriate. However, final decision shall rest with the Engineering Development Board/Ministry of Industries and Production keeping in view best national interests.

AIDEP shall conduct regular dialogue and effective communication with the industry, and encourage private—public partnership for sustainable development of the Auto Sector.

Major functions of the AIDEP shall be as under

- ➔ Regular deliberations on safety, quality, standards, consumer protection and regulatory framework of the government to encourage enhancement of safety and environment performance of locally made parts and vehicles;
- ➔ Continuous analysis of emerging global trends and do out of box thinking to identify opportunities for the local auto industry and define its direction for growth, development and competitiveness for export markets;
- ➔ Make recommendations to the government on the issues relating to fiscal policy, investment opportunities, exports development, trade policy initiatives, imports of vehicles, inter-country Trade agreements and other regulatory and administrative matters which may affect directly or indirectly the growth and sustainable development of the Auto Industry;
- ➔ Provide a vision for the development of the auto sector and continue reviewing the progress, effectiveness of incentive regime and to recommend corrections and improvements in the AIDEP wherever necessary; and
- ➔ Promote industry—university linkages and create awareness within the academia about needs of the industry.

The decisions on the issue deliberated in AIDEC will be on basis of views of the majority of participating members in the meeting. The chair shall cast the deciding vote in case of a tie. However, final decision shall rest with Engineering Development Board/Ministry of Industries and Production keeping the national interest in view.

The Committee may appoint sub-committees through consensus for effective implementation of the AIDEP. Each Sub-Committee, however, shall be headed by a member of the AIDEC. The TORs of such sub-committees shall be framed by the AIDEC at the time of their constitution.

The AIDEC will not exceed 26 members. However, the chair may co-opt additional members depending upon need, expertise and skills of such members relevant to the agenda of the meeting or for some other issues and initiatives as deemed necessary by the Chair. Composition/ Nominations of AIDEC will change in the middle of policy period i.e. from 1st January, 2024.

The Committee shall meet at least once in a quarter or as convened by the Chair.

Composition of Auto Industry Development & Export Committee (AIDEC)

1	Chief Executive Officer, Engineering Development Board	Chairman
2	General Manager / Incharge (Policy), Engineering Development Board	Secretary
3	Joint Secretary, M/o Industries & Production	Member
4	Joint Secretary, M/o Science & Technology	Member
5	Joint Secretary, M/o Commerce	Member
6	Joint Secretary, M/o Climate Change	Member
7	Representative from Planning Commission (not below BPS -20 / Joint Secretary)	Member
8	Chief Customs (Tariff & Trade), Federal Board of Revenue	Member
9	Joint Secretary Ministry of Communication/National Transport Research Center (NTRC)	Member
10	Representative from Higher Education Commission (HEC) (not below BPS -20 / Joint Secretary)	Member
11	Managing Director, Pakistan Standards and Quality Control Authority (PSQCA) or his representative not below BPS-20	Member
12	Chairman, PAMA	Member
13	Chairman, PAAPAM	
14-15	Two Representatives of Car Assemblers (leading assemblers)	Member
16	Representative of Car Assemblers (Leading new entrants)	Member
17	Representative of Japanese Two wheeler Assemblers	Member
18	Representative of Chinese Two wheeler Assemblers	Member
19	Representative of Three-Wheeler Assemblers	Member
20	Representative of Tractor Assemblers (out of leading assemblers)	Member
21	Representative of Truck/Bus Sector (out of leading assemblers)	Member
22-23	Two Representatives of Auto Part Manufacturers (PAAPAM)	Member
24	Representative from Academia	Member
25	Representative from Consumers / Civil Society (to be nominated by Secretary, Ministry of Industries & Production)	Member
26	Representative from Pakistan Automotive Spare Parts Importers & Dealers Association (PASPIDA)	Member



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