



ANNUAL REPORT FOR THE YEAR 2011

Presented by
Mr. Aamir Allawala, Chairman

At 12th Annual General Meeting-Ramada Plaza, Karachi-30th September 2011

“In the name of Almighty Allah the Most Beneficent and Merciful”

Dear Members

I take great pride in presenting PAAPAM's performance report for the year 2011, as follows:

Background of Economic Scenario & Impact on Auto Industry's Future

As you are all aware, Pakistan economy has been in turbulence since the last 3-4 years. The fiscal deficits of the Government, rising inflation, increasing cost of Electricity coupled with massive load-shedding, deteriorating law-and-order situation and other adverse factors have led to economic uncertainty and low morale amongst the stakeholders in the entire manufacturing sector

The Automobile industry of the country cannot remain insulated from these unfortunate developments. Furthermore, the lack of clear direction from the Government on whether it wants to promote local manufacturing of vehicles OR move towards a liberal auto-import strategy is further undermining the confidence of the industry to utilize its full potential

It is a known fact that Pakistan is a unique case amongst developing nations as it has a vibrant Auto industry with major global OEMs setting up their assembly plants in the country and using upto 90% local parts being supplied by a network of almost 400 PAAPAM members.

I feel proud of the contributions made by our members to achieve local content of upto 70% in case of Passenger Cars & LCVs, 90% in case of Motorcycles & Tractors and 45% in case of Heavy Commercial Vehicles.

With the grace of Almighty Allah, Pakistan is one of the most competitive global manufacturers of Tractors & 2-Wheelers and now gearing up for overseas export opportunities. Even in case of Passenger cars, our products are highly competitive in comparison with regional neighbors. This is only due to the high level of localization, technology acquisition and long-term investments done by our members.

If the country is well managed, the prospects for rapid growth in the auto industry are extremely bright. Countries with comparable population, such as Brazil, are producing over 3.5 million passenger cars every year. Similarly, Indonesia, which has a population of 240 million people, produced 8.2 million Motorcycles this year. It may take a while, but Pakistan must target similar levels of volumes over the next 10 years.

We, at PAAPAM, are convinced that, given a supportive environment, the Automobile Industry has the potential to spearhead the country's economic growth and contribute, in a major way, towards job creation and industrial investment.

PAAPAM Activities during the year October 2010 ~ September 2011

Engagement with Government on Policies for the Automotive Sector

During the last year, PAAPAM had to face tremendous challenges arising from the various policy initiatives from the Government of Pakistan, which could have led to destructive impact on the Vending Industry. With the support of its members, PAAPAM was able to present its viewpoint effectively and forcefully to the relevant Government Ministries as well as by selectively projecting its cause in the News Media.

Some of the issues on which PAAPAM was able to make an impact are as follows:

1. New Valuation of Motorcycle Parts imported from China:

PAAPAM played a critical role in convincing the Customs Valuation Directorate to increase the assessment values of 51 Motorcycle parts, which were being imported by Commercial Importers at a ridiculous value of USD 1.1 per kg. This will lead to prospects of localization of these parts and addition of business for PAAPAM members

2. Liberalization of Used Cars Import:

The GoP seriously considered a policy to liberalize import of used cars by increasing the allowable age from 3 years to 5 years and to increase allowable depreciation percentage from 1% to 2%. It was through strong lobbying and justification of the contribution by Vendor Industry that, even though the allowable age was increased to 5 years, the Government withheld the decision to increase the allowable depreciation to 2%. Hence, the damage to local industry was curtailed and cost of importing used car remained relatively high

3. Allowing Commercial Import of Used Cars:

Currently, used cars can only be imported through Gift & TR schemes. The importers' lobby has been applying immense pressure to allow commercial import of used cars, which would have led to flooding of the market place. However, PAAPAM played a very important role to keep this decision on hold

4. Illegal practices in the Trucks / Buses Sector:

Almost 7,000 Heavy Vehicles were imported last year as "Sprinklers" and were converted as Trucks for use on local roads. PAAPAM continuously highlighted this issue at FBR level and it is expected that rules of import for sprinklers will shortly be modified to protect the local industry from illegal competition

5. The New Entrant Policy for Passenger Cars Sector

The Government was seriously studying changes in New Entrant Policy to allow permission of import of 100% CKD parts @ duty level of 5%, 10% and 20% in years 1, 2 & 3. This would have damaged the business volume of our members. PAAPAM held a series of meetings with EDB and MOI to convince them of the fallout of such a decision. Resultantly, the proposals were amended by GoP and it will now be made mandatory for the new entrant to localize 20%, 35% & 50% parts in years 1, 2 & 3

6. Tariff Rationalization & Duty Reduction Exercise:

Since the last 6 months, the Planning Commission has presented a proposal to the Economic Coordination Committee (ECC) to reduce the duties on import of Motorcars & Auto-parts to 25% and 10% respectively. This would have been a death warrant for our industry. PAAPAM is continuously

fighting this case along with support of EDB and MOI to seek justification of such a major policy shift which will effectively kill our Auto parts Vendors

7. Imposition of GST on Tractors:

Without any consultation with the Industry, the GoP applied 16% GST on Tractors in May 2011. The industry is effectively shut down since last 3 months due to the resultant price increase. PAAPAM is actively engaging with the GoP to bring the GST rate to the level of 5% as in India to support the Agricultural Sector. A media campaign is also being organized to promote this proposal

Acquisition of PAAPAM South Office

Alhamdulillah, PAAPAM South Office was acquired in Suleman Center, Korangi Industrial Area and was inaugurated on September 30th, 2011. For this acquisition, the PAAPAM members generously contributed over Rs 2.8 million, the largest amount ever raised in the history of our Association. We are sure that, inshallah, the new office will make PAAPAM an even more effective body fully equipped to defend the bonafide interests of its Members

Organization of PAPS 2011

PAPS 2011, to be held at Lahore Expo Center in October 2011, will, inshallah, be the largest exhibition in the history of Pakistan Auto Industry. Arrangements are in full swing and the event will be attended by Government Dignitaries, Leading OEMs, PAAPAM Members & General Public.

Collaboration between PAMA & PAAPAM

For the first time, both PAMA & PAAPAM started to work closely to focus their collective energies for growth of the Auto Sector. Both Associations were able to understand each other's position and to deliberate the contentious issues with empathy & mutual respect. Resultantly, the voice of the industry to challenge the Government policies was magnified tremendously. Both Associations held 3-4 meetings every month and prepared joint proposals for submission to the Government on the following issues:

1. Proposal for post-AIDP system for Auto Industry after June 2012
2. Budget Proposals for the year 2011~12

PAAPAM's Projection in News Media

Due to the genuine concern for the welfare of the Auto Industry, PAAPAM received historic coverage in the News Media on all issues during the last year. This greatly helped PAAPAM to carry our voice to the Government decision makers

PAAPAM's Corporate Video Preparation

It was observed during the year that the tremendous investments made by our Members were not adequately understood by the Government, Media or General Public. It was therefore decided to prepare a Corporate Video reflecting the capabilities and contribution of our members. The Video will be launched at the Annual Dinner 2011

Other Activities Undertaken during the year

- ✓ Redesigning of PAAPAM website (877,000 hits this year vs 325,000 hits last year)
- ✓ Issuance of quarterly PAAPAM newsletter
- ✓ Release of 25 E-newsletters to our members during the last 12 months
- ✓ Publication of PAAPAM Annual Directory 2011
- ✓ ERP Implementation, Interlinking North-South Accounts, Membership Records & Digitizing Membership Data
- ✓ PAAPAM Headoffice renovation & facelift
- ✓ Arrangement of Seminars and Workshops for Training and Skill Upgradation of our Members
- ✓ Induction of 40 new companies into PAAPAM during the year, a historically high figure

- ✓ PAAPAM & Pak Suzuki jointly donated Rs.20 million to Japan's Tsunami Relief Fund
- ✓ Circulation of industry news and press clippings to MC members was maintained on a regular basis.
- ✓ Recovery of almost Rs 15 million Vendor Dues from defaulting OEMs

I would like to welcome and congratulate my successor, the new Chairman, Mr. Nabeel Hashmi and the incoming Vice Chairman, Mr. Munir K. Bana, and wish them and their new team all the success in the forthcoming year.

I will be happy to answer any questions from the members regarding industry related matters or PAAPAM's activities.

Thank you

Aamir Allawala
Chairman