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## AUTOMOTIVE WORKING GROUP REPORT

*Presented by  
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The Automotive Working Group comprises interests of the following sub sections of the industry:

- a) Passenger Cars and Commercial Vehicles
  - i. CKD (Local Assembly/Manufacturers)
  - ii. CBU (Import)
- b) Two Wheelers (Scooters/Motorbikes)

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### I. PASSENGER CARS & COMMERCIAL VEHICLE INDUSTRY (CKD/CBU)

#### OBSERVATION (Issue/Concern)

**We thank the government to enable healthy competition by having the presence of many global and local players.**

However despite having more than 20 players and 40 brands in the automotive industry in Vietnam the overall sector has not grown as expectations of both- the investors and the government. The total Industry in 2013 is around 100,000 units with CKD at 80% of this volume. The overall capacity utilization of the industry is only ~20% with the total available capacity of ~500,000 units. This has hurt the investor confidence and also questioned the future returns for new investments.

The growth and development of the automotive industry of Vietnam has been affected by

- a) Frequent changes in the policies and erratic proposals during the last few years.
- b) Lack of consistent and transparent policy aimed at growth and development of industry
- c) Lack of clarity of business impact to CKD/CBU with regards to integration with ASEAN 2018.
- d) Inadequate implementation of programs to address the under developed infrastructure

A key factor to attract investment in a country is to grow the overall size and competitiveness of the CKD and Component industry. Investors plan their strategy based on the overall size of the industry and the cost competitiveness of the CKD.

The government of Vietnam should consider steps to accelerate growth of the overall industry and to drive cost competitiveness of CKD to maintain a sustainable automotive industry in Vietnam. These factors will lead to suppliers and investors coming to Vietnam and aid the growth and development of the industry.

Based on the above and the working of the group and interactions with different bodies, we present below a set of simple recommendations that could possibly help in the growth and development of the automotive industry of Vietnam.

**RECOMMENDATIONS (Immediate /Short Term)**

With the current challenges in the industry, we propose a set of recommendation for the immediate/ short term as follows:

**a) For STABILITY**

A key factor that drives investor and consumer confidence is stability and consistency in policies. We therefore urge the government to ensure the policies for driving cost competitiveness of CKD and growth are stable and consistent over the plan period by considering the different local/ regional/ international trade agreements.

**b) For CKD**

A key guiding principle to drive sustainable cost competitiveness of CKD should be to eliminate the cost gap of CKD and CBU. The policy should aim at recognizing the investments of CKD players in Vietnam and ensuring safe guarding of interest of CKD during the transition to AFTA regime from 2018 onwards. Some of the actions that may be considered to retain cost- competitiveness of CKD industry are:

- Providing adequate incentives linked to production to CKD to address gap of CBU and CKD
- The methodology of applying SCT on CBU and CKD should same
- Preferential Corporate Income Tax for CKD players in automotive sector
- Impose stricter control on car imports
  - Verify declared value of imported cars
  - Tighten the control of “Used Car” import

Government should consider additional actions to sustain a viable CKD industry in Vietnam

**c) For GROWTH**

Some steps to grow auto industry are:

- Reduction in taxes to help in increased affordability of cars (SCT/VAT etc.)
- Promotion of “easy” availability of financing support for consumers to purchase cars
- Investing and accelerate in infrastructure – roads/parking center/ traffic management
- Preventing erratic policies from different sections that may impact the growth of automotive industry
- Obtain alignment with industry bodies (VAMA/VBF) prior to announcement of new policies

**d) For LEVEL PLAYING FIELD**

In order to have a level playing field for all players and support the principles of fair trade for all OEMs in Vietnam we request that applicability and eligibility for any new incentives should be valid only after allowing sufficient time for the players to align their operations as per the new policy requirements. This will be a “fair policy implementation” approach.

**e) For STRATEGIC CAR/PROJECT**

The strategic car/project approach as mentioned in the Master Plan may possibly even further limit the number of players in Vietnam to a few models only. Given the total industry size and the limitation of supply base, very few players will be able to achieve the 40% local Vietnam content requirement in the given time frame as global players have a strict quality control and eligibility process for sourcing parts and components.

Based on the incentives associated with strategic projects, the price advantage to strategic car/model would make it almost impossible for other models to exist in the market in that segment. The strategic car approach would therefore hurt the competitiveness of most brands and models and limit the market to only a few models.

We respect the direction of the government request you to reconsider the appropriateness of criteria/requirement/phase-in period and other details for "strategic car/project".

We would be grateful if the government could share the understanding of risk and benefit of this policy in a transparent manner with the industry players prior to the approval and implementation.

**f) For SUPPLY BASE FOR PARTS & COMPONENTS**

The development of the local supply base is important to the overall growth and competitiveness of the automotive sector. Due to overall size of the industry (~100k units) and limited capability of the local supply base currently we request that the government should establish appropriate/realistic milestones in this direction by taking into consideration a) project timelines b) quality requirement and b) competition to attract investment by other countries etc.

**Other Issues/Recommendations**

- To drive speed the review of Decision 128 is recommended as it requires for prior consultation of official CBU importers before releasing decisions impacting negatively the import business.
- We recommend that the sample-based additional local emission testing for new CBU should be stopped when the emission certificate supplied by OEM matches or exceeds the prevalent requirement of Vietnam (EU2 requirement in current scenario)
- Remanufactured parts should be allowed in Vietnam as they are backed by warranty from OEM and allow consumers to have reduced cost solutions to repair/maintain cars. These are different from used parts and the government should review the pertinent policy on this subject.

**RECOMMENDATIONS (Medium/Long Term)**

With the current plans motorization and the direction to develop 4 wheelers as the primary mode of personal transportation in the future, the government should also start to consider factors that can impact automotive solutions for Vietnam in the medium to long term. Some of these are:

**a) Environment Friendly solution:**

Currently the availability of eco/ environment friendly cars is limited primarily due to costs and infrastructure. The government should consider promoting increased availability eco/environment friendly technologies in the auto sector. The government should consider abolishing duties and taxes for eco/environment friendly cars with a defined road map.

**b) Fuel Efficiency/Emission Guidelines**

The government should consider investment to enhance infrastructure as road conditions and traffic management play a key role in improving fuel efficiency. Additionally the government should commence work on guidelines for establishing

benchmarks for fuel efficiencies – for example: CAFE (Corporate Average Fuel Efficiency) norms in developed countries.

**c) Safety solution:**

Although 4 wheelers are safer than 2-wheelers, the era of motorization will also bring its own potential challenges – a key challenge being “safety requirements” (e.g. driving skills and traffic rule compliance, vehicle safety features, upgraded infrastructure, etc.)

Therefore, the government should approach safety from the aspects of:

- People (compliance attitudes and skills of drivers, passengers and other traffic attendants),
- Vehicles (step-by-step enhancing vehicle safety features in line with regional level)
- Infrastructure (including road, parking and traffic control system, etc.).

Since the issues in the above area need longer gestation time frames, we recommend that the government should start to develop a joint forum inviting a comprehensive dialogue from different ministries – MOST/MOF/MOT (VR) etc. to discuss and develop a policy framework with key parameters and milestones for the automotive industry of Vietnam.

## II. TWO WHEELER INDUSTRY (Scooters and Motorcycles)

### OBSERVATION (Issue/Concern)

- 1) Decision No. 356 (Road Transportation Plan) has a mention of limiting the number of motorbikes to 36 million units by 2020. Due to lack of official and transparent statistics on the current population of motorbikes the proposed limitation has posed difficulty and uncertainty for the players in the two wheeler industry. This affects the existing business investments and also impacts the future investment plans.
- 2) Increase in SCT

### RECOMMENDATIONS (*Immediate/Short Term*)

The motor cycle industry of Vietnam has served as a means of transportation to millions of people in Vietnam for many years. There is an urgent need to have a consistent long-term strategy to develop the motorcycle industry of Vietnam.

**1) On Limiting number of motorbikes:**

- a. It will be very helpful if the Government could share the working to arrive at 36 million. Additionally the government should share data of the motorbike industry in a transparent and timely manner on a regular basis (-Units registered and units in circulation on provincial and bike classification bases (cylinder capacity, models etc.). This will enable the players to plan the business actions accordingly.

**2) On Special Consumption Tax (“SCT”) Increase:**

- a. On SCT “Per the Law on Special Consumption Tax (“SCT”) No. 27/2008/QH12 passed by the National Assembly on 14th November 2008, effective from 1st April 2009, a SCT of 20% was introduced for motorcycles with capacities over 125cc. The use of 150cc scooters is quite similar to 125cc scooters and should not be considered as using a luxury good. Moreover, the increased SCT puts pressure on locally produced vehicles and domestic manufacturers. Vietnamese manufacturers will not be

encouraged to invest in and develop this business segment. Given the above, we request to review the SCT tax structure and recommend that SCT should not be applied to motorcycles.

### III. COMMON ISSUES ACROSS TWO WHEELER / PASSENGER & COMMERCIAL VEHICLES

#### OBSERVATION (*General Concerns*)

##### 1) Incomplete effectiveness of Law No 32/2013/QH13

Law No. 32/2013/QH13 on Amendment and Supplement to Law on Corporate Income Tax effective Jan 1, 2014 refers to advantage for implementing investments made in Industrial Zones, (except for Industrial Zones in geographical areas with favorable socio-economic conditions). However, the list of industrial zones which are considered as "geographical areas with favorable socio-economic conditions" and the list of Industrial Zones entitled to tax incentives has not been issued. This has resulted in delay/ wait-watch and confusion amongst the investors.

##### **Recommendation**

To avoid further delay we recommend that the Government (Ministry of Finance) in particular use the already existing Decree 42/2009/ND-CP dated 07/5/2009 (regarding classification of cities) for reference in determining geographical areas with favorable socio-economic.

##### 2) Legal and policy making process

The industry has been affected with delay in implementation of policy changes. Example: The registration fee reduction this year. It has taken 3 months to implement the new fee structure since Government Resolution 02 on 7 Jan until Decree 23/2013/NĐ-CP dated 25/3/2013 with effective date of 1 April 2013. As a result the purchases were delayed and the overall industry suffered during this period.

##### **Recommendation**

We recommend improved time planning between date of decision making, announcement and effective date. We also urge the government to discuss proposals and changes with industry bodies to assess the implication of changes prior to announcing the proposals in the media.

### IV. OVERALL CONCLUSION

Joint working and cooperation to address the situation in the automotive sector will help in growth of the overall industry and serve to increase tax revenue for the government.

The players in the automotive industry are committed to develop the industry in Vietnam and we request the government to consider the above mentioned key factors for both -Two wheeler and Passenger/Commercial vehicles (CBU-CKD).