

Opportunities & Challenges in the local automotive production

Automotive sector meeting
Head of EuroCham AWG, Ary Tjahyono
October 22, 2013

Agenda

- ▶ Introduction of EuroCham Automotive Working Group
- ▶ World and ASEAN Automotive Trend
- ▶ Developments and Achievements since the EIBD 2012
- ▶ Presentation of the Automotive Working Group's Position Paper 2013

Introduction of EuroCham AWG

































Eurocham Automotive Working Group under EU and European Business Chamber of Commerce Indonesia was established in 2009 and currently our members consist of European automotive manufacturers, components, motorcycle and international certification agency



Our activities are to support our members in updating and understanding respective regulations for expanding their industrial business in Indonesia, clarifying regulation and interpretation issues with respective government agencies and proposing opportunities to respective government agencies for developing further local industry in Indonesia and attracting European investor to establish their business in Indonesia especially in the automotive sector.

World and ASEAN Automotive Trend

Automotive Market: Vehicle Sales Ranking by Volume, Global, 2012, 2016, and 2019

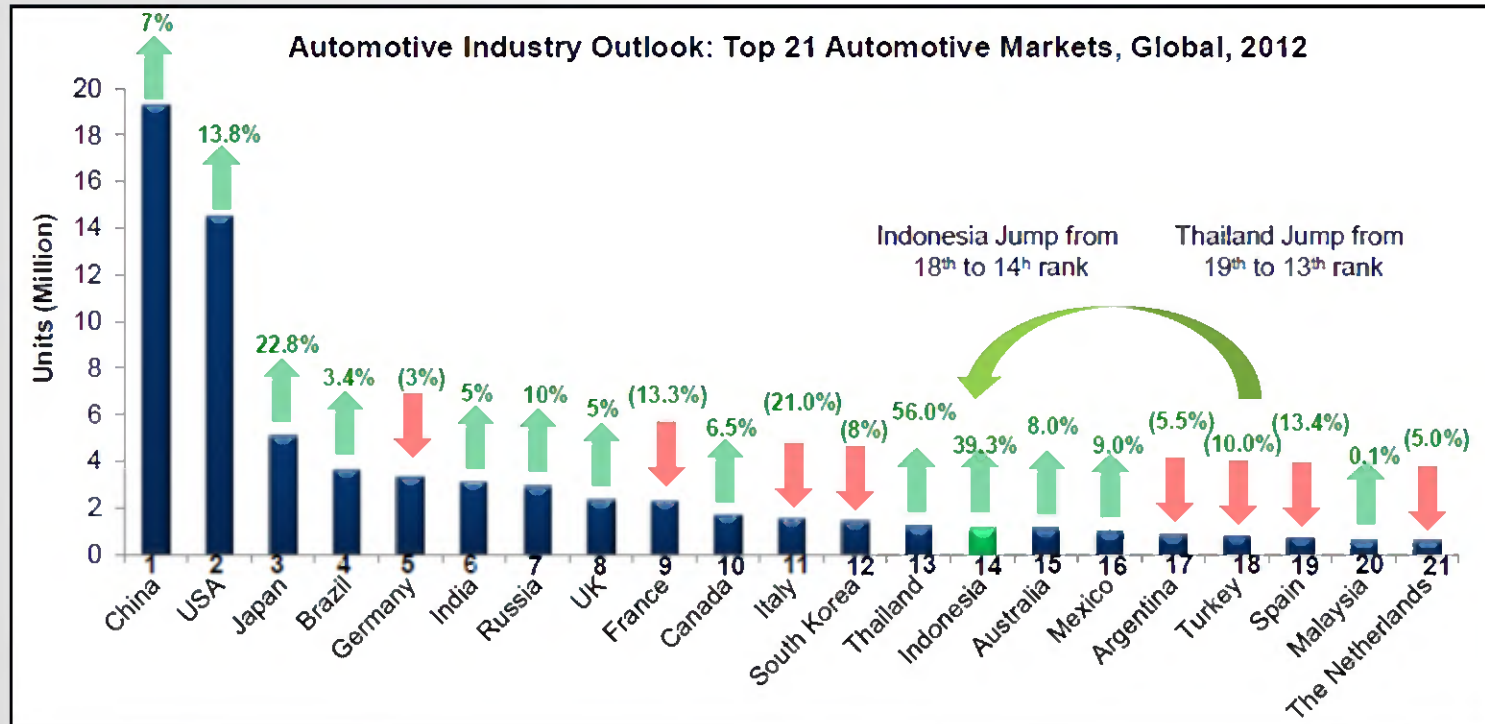
Global Rank	Country	Vehicle Sales (2012)	Country	Vehicle Sales (2016)	Country	Vehicle Sales (2019)
1		19,300,000		30,300,000		34,800,000
2		14,300,000		16,650,000		17,000,000
3		5,000,900		6,100,000		9,700,000
4		3,500,000		4,900,000		6,000,000
5		3,500,000		4,300,000		5,000,000
6		3,400,000		4,200,000		4,400,000
7		3,200,000		3,650,000		4,000,000
8		2,800,000		3,500,000		3,600,000
9		2,200,000		2,600,000		2,800,000
10		1,500,000		2,600,000		2,650,000

The ASEAN region is likely regain its fifth position in the global automotive market by 2019.

 China  US  Japan  Brazil  Germany  India  Russia  ASEAN  France  UK  Italy

Source: LMC Automotive Forecasting and Frost & Sullivan

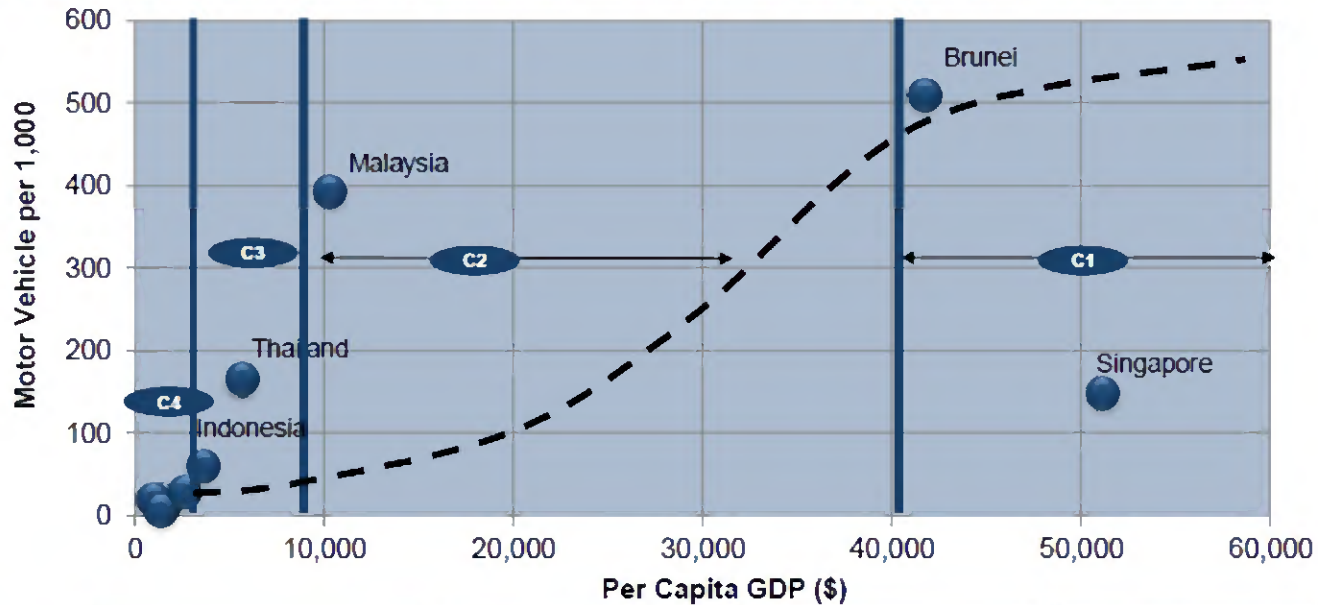
World and ASEAN Automotive Trend



Among the major passenger car markets of the world, Indonesia has climbed up four places to the 14th position. In 2012, Indonesia was one of the three fastest-growing car markets in the world.

World and ASEAN Automotive Trend

Automotive Market: Position of ASEAN Countries on Market Growth Curve, ASEAN, 2012



Cluster 4 (C4): New Markets
Vietnam, Laos
Myanmar
Laos, Cambodia

Cluster 3 (C3): Growing Markets
Thailand
Indonesia
The Philippines

Cluster 2 (C2): Markets Witnessing Steady Growth
Malaysia

Cluster 1 (C1): Markets Nearing Stagnation
Brunei, Singapore

Source: IMF and Frost & Sullivan

World and ASEAN Automotive Trend

Automotive Market: Emission Standards, ASEAN, 2010–2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Thailand – Petrol	Euro III		Euro IV							
Thailand – Diesel	Euro III		Euro IV							
Indonesia – Petrol	Euro II				Euro IV					
Indonesia – Diesel	Euro II									
Malaysia – Petrol	Euro 2M		Euro 3			Euro 4M				
Malaysia – Diesel	Euro 2M					Euro 4M			Euro 5	

Thailand

- Shift from pickups to low-cost, fuel-efficient, compact eco cars
- Wide use of ethanol-based fuels
- Launch of CNG and hybrid vehicles

Indonesia

- Euro norms too lenient to incentivize technology adoption
- In the long-term CNG usage may be significant

Malaysia

- Growth in hybrid vehicles with better affordability, new models, and growing customer acceptance
- C segment passenger vehicles and MPVs are most popular

Regulatory requirements on emission are not very high in ASEAN; hence, technology adoption is quite low.

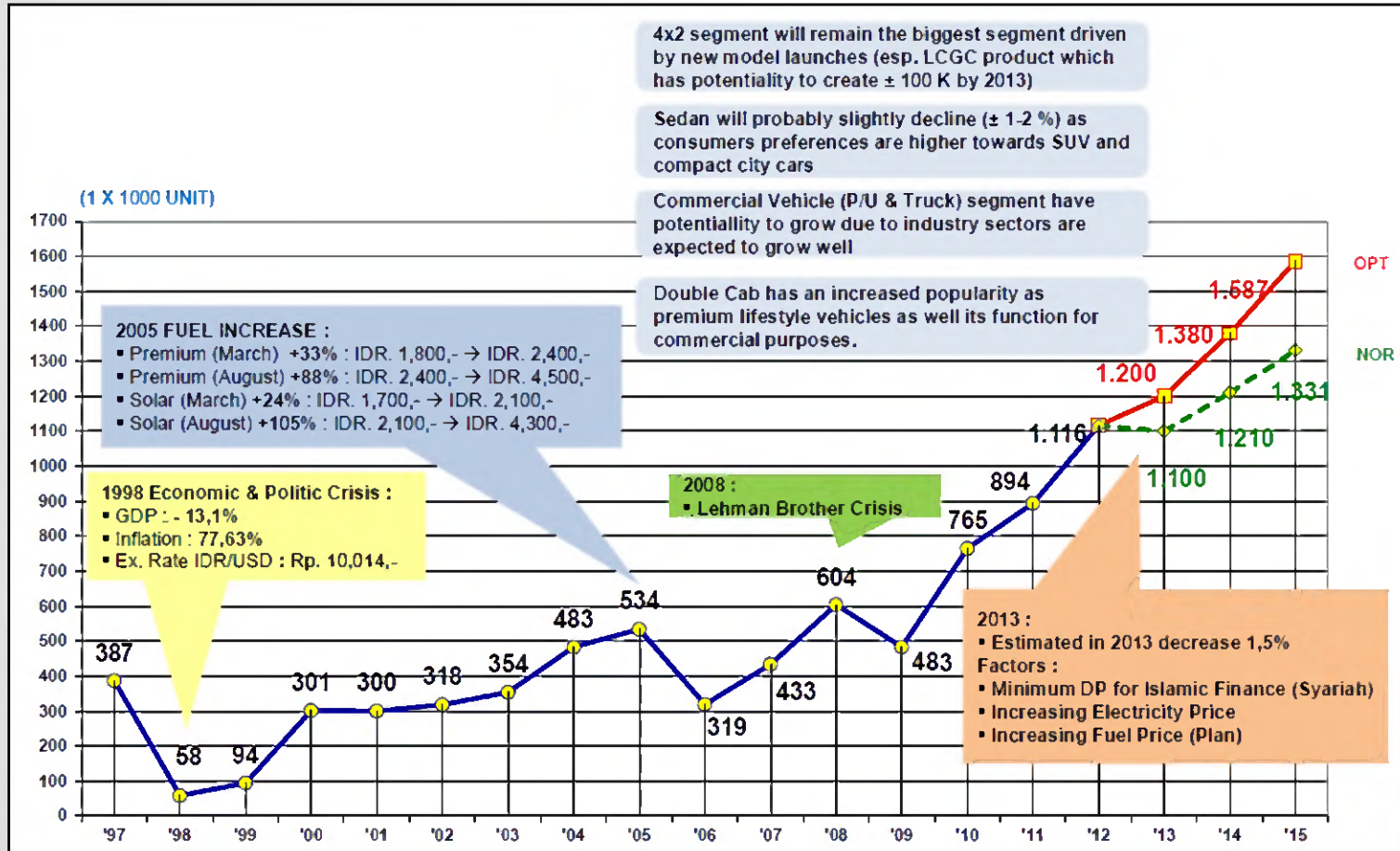
ASEAN Automotive Trend



- The automotive sales in ASEAN are expected to grow from 3.2 million in 2012 in to 4.7 million in 2019 at a CAGR of 5.8 , mainly driven by growth in key regions of Indonesia and Thailand
- Indonesia is expected to emerge as the largest automotive market in ASEAN by 2019 accounting for 2.3 million units and driven by sustained economic growth in the country, growing middle classes with larger disposable incomes, increased investments in automotive sector, and introduction of automotive regulations supporting market growth
- Automotive demand in Thailand is also expected to grow driven by an improved economy, more disposable incomes, capacity expansions by automakers, and launch of several new vehicle models. The Malaysian market is expected to grow supported by foreign model proliferation at competitive price points and by price reduction as a result of market liberalization

Source : Frost & Sullivan

Indonesia Automotive Sales Projection



Source : GAIKINDO

EuroCham Automotive Working Groups Achievements in 2012



1. Issuance of Minister of Finance Regulation No.76/2012 revising Minister of Finance Regulation No. 176/2009 on Exemption of Import Duty for Import of Machines, Goods, and Material for the Establishment or Development of Industry in the Frame of Investment.

MOF Regulation No. 76/2012 provides tax incentives for vehicle assemblers doing new investment or expand minimum 30% or is production capacity, which was previously not provided in MOF Regulation No. 176/2009, and entitles vehicle assemblers to get import duty relief for 2 years for importation of production equipment and material for production purposes.

EuroCham Automotive Working Groups Achievements in 2012



2. Issuance of Minister of Trade Regulation No. 57/2012 and No. 84/2012 revising Minister of Trade Regulation No. 27/2012 on Imported Identification Number (API)
 - a. API-P company is still allowed to do import of finished goods provided that the products are in line with the company's business license and the company have obtained technical recommendation from its supervising government agency.
 - b. API-U company is allowed to import goods more than 1 section provided that the company can prove special relationship with the overseas company.
 - c. Transition period stipulated in Minister of Trade Regulation No. 84/2012 until 31 March 2013

EuroCham Automotive Working Groups Achievements in 2012



3. Implementation for mandatory SNI for tires and wheel rims

After conducting intensive discussion with Ministry of Industry, Ministry of Industry agreed to revise several conditions:

a. SNI for Tires

Ministry of Industry agreed to remove provisions regarding negative list of tire types imported to Indonesia

a. SNI for Wheel Rims

Ministry of Industry agreed to issue technical recommendation for import of wheel rims with special characteristics classification (e.g.: technical specification, production volume, etc.)

Presentation of the Automotive Working Group's Position Paper 2013



- New IKD (Incomplete Knocked Down) Scheme

The Government of Indonesia is targeting an annual production of almost 1.65 million vehicles by 2015. In order to achieve this target, some regulations which could support the development of the national automotive industry need to be issued by the Government – such as the revision of the IKD (Incomplete Knock-Down) Scheme.

The IKD Scheme is proposed to be broadened to include all types of vehicles, thus attract automotive industry to invest more in Indonesia. The IKD Scheme for truck and bus was approved in 2010, with 0 % import duty. The new proposal is to harmonize the IKD Scheme to all types of vehicles. Currently, IKD import duty for non-truck and bus motor vehicle is 7.5%, and the proposal is to harmonize it to become 0%. Considering the significant importance of new IKD scheme for supporting the further development of the national automotive industry. GAIKINDO and EuroCham AWG strongly recommended to issue this regulation.

Presentation of the Automotive Working Group's Position Paper 2013



- Proposal for Inland FTA (free zone) Schemes

Thailand has already implemented the 'Customs free trade zones' aiming at attracting foreign investment and promoting exports. To obtain the license to enter those free trade zones, the companies have to comply with certain legal and financial criteria and prove that they are using at least 40% of local content in their assembly chains. In return, all the companies installed in the free trade zone can import material necessary to the production with 0% import duty, and be eligible for a duty exemption or reduction if they are manufacturing goods to be exported overseas or sold domestically.

The application of such a scheme in Indonesia could have significant impacts: development of the national industry and the infrastructure, attraction of new investments. Despite those obvious benefits, the Government of Indonesia has shown some concern concerning the cost of implementing the necessary controlling measures.

The European automotive industry strongly recommend the implementation of such a scheme and strongly support the idea that the cost for the controls should be deemed by the companies entering the free trade zone. In parallel, the Government of Indonesia has to ensure a strict control over the grant of the licenses to the companies. Each company applying for the entry in the free trade zone should comply with very specific, pre-determined criteria.

Presentation of the Automotive Working Group's Position Paper 2013



- Improvement of fuel quality standards and emission regulations

A high fuel quality with low sulphur content, for both petrol and diesel fuel, is essential for the introduction of modern low emission injection technologies. The low fuel quality in Indonesia is still the biggest hurdle for the introduction of such modern low emission technologies. Therefore, we are proposing the introduction of higher fuel quality standards (EURO 4) on par with more stringent emission regulations. This would lead to lowering emissions and the overall fuel consumption in Indonesia. This lower fuel consumption would result in lower dependency on crude oil imports and exposure to fluctuating prices and have the benefit of a smaller part of the state budget being spent on fuel subsidies. Furthermore, in order to prepare for the ASEAN Economic Community, the alignment of the fuel quality standards with other ASEAN Member States is essential.

The European automotive industry and GAIKINDO recommend the introduction of higher fuel quality standards (EURO 4) as a pre-requisite for stricter emission regulations. The fuel quality has to be improved in order to allow the introduction of environmental-friendly low emission technologies. In preparation for 2015 an ASEAN wide alignment is necessary in order to guarantee free movement of goods without creating technical barriers. A detailed master plan of development of Euro 4 gas stations should be developed by the Government of Indonesia.

Presentation of the Automotive Working Group's Position Paper 2013



- Bio Fuels

Indonesia, as the biggest palm-oil producer in the world, today has a major opportunity to introduce a biodiesel mixture (B5, B7). From a technical point view, engines are able to cope with biodiesel mixtures of B7 as a maximum. Higher blending would lead to technical problems and higher additional costs for both the consumer and the car producer. Additionally, in order to avoid technical problems and additional costs, a high fuel quality has to be ensured. It is therefore essential to increase the fuel quality before adding higher proportions of bio fuel.

The European automotive industry and GAIKINDO perceive as necessary to improve the fuel quality before increasing the bio fuel mixings. Fuel quality should be improved to Euro 4 standards with a B7 biodiesel mixture.

Presentation of the Automotive Working Group's Position Paper 2013



- Technology neutral and emission based vehicle incentive program

Environmental issues are a major concern in the automotive industry worldwide. The Government of Indonesia released in July 2013 the LCGC and LCE program aiming at reducing the luxury tax on certain fuel-efficient vehicles. However this program takes as reference the fuel consumption usage and not the CO2 emissions. To date, it becomes crucial for Indonesia to consider an overall long term plan for its automotive industry to achieve sustainable development including CO2 reduction and the promotion of the use of clean and efficient vehicles. Therefore, the excise tax for vehicles should be based on CO2 emission. This would encourage the use of low CO2 emission vehicles, thus, creating a premium price for clean and efficient vehicles.

It is also important to promote the availability of cleaner fuel (Euro 3 or 4) in Indonesia which can be used by more advanced and environmentally friendly engines used in greener vehicles now available in the international market. Currently such cleaner fuel is not available in the Indonesian market, making the entry on the market and the use of “greener” vehicles using higher standard fuel not possible.

Despite the recent introduction of the LCGC and LCE programs, the Government of Indonesia should introduce further schemes and incentives to promote the use of clean and efficient vehicles. The European automotive industry and GAIKINDO recommends a technologically-neutral and emission based taxation based on CO2 emission for all types of power-train including petrol, diesel, natural gas (CNG), hybrid, and electric vehicles. An environmental policy should be created that will promote the manufacturing of cleaner fuel for the local market to encourage the use of greener vehicles

Presentation of the Automotive Working Group's Position Paper 2013



- Luxury Tax Incentive

In July 2013, the Government of Indonesia issued the regulation No. 41/2013 on Luxury Tax for Vehicles which also governs the luxury tax discount for vehicles with low carbon emissions (LCE program).

The aim of this regulation is to 1) increase the use of motor vehicles with low energy consumption and environmentally friendly; 2) support the energy conversion in the transportation sector; 3) support the effort to increase the capacity of domestic production of motor vehicle industry .

This regulation allows car manufacturers to apply for luxury tax discount if their vehicles are proven to consume less or equivalent of 1 liter of fuel / 20km (25% discount if ≥ 20 -28 km/l; 50% discount if > 28 km/l).

However, the application of this regulation is not yet possible due to the missing technical guideline.

In general, technical guidelines should be attached in annex to all regulations issued by the Government of Indonesia in order to allow the implementation.

Regarding the regulation No. 41/2013, the European automotive industry and GAIKINDO recommend to utilize the testing protocol set up in the UN Regulation No. 101 with a constant speed between 60 km/hour and 80 km/hour and to adapt it to the Indonesian market's characteristics:

- **LCE cars are not designed as city cars and average speed for inter-cities vehicles in Indonesia on primary artery road is between 60 km/hour - 80 km/hour .**
- **Using UN Regulation No. 101 testing method, there is no production car above 1.4 L worldwide that can reach a fuel consumption of 20 km/litre.**
- **Apply a 4% tolerance in accordance with the UN Regulation No. 101 technical requirements.**

Thank you