

The Philippine Motor Vehicle Industry

(Automotive, Parts and Motorcycle Industries)

I. Overview

The motor vehicle industry represents a significant portion of the global economic activity with extensive upstream and downstream linkages to many diverse industries and sectors. In the past decade, the motor vehicle industry's contribution in output, employment, investments and exports have been increasing. Moreover, the synergy within the industry has strengthened the linkages between the motor vehicle assemblers and the motor vehicle parts and components manufacturers.

The Philippine motor vehicle industry is comprised of two sectors: the motor vehicle assembly and the motor vehicle parts and components manufacturing.

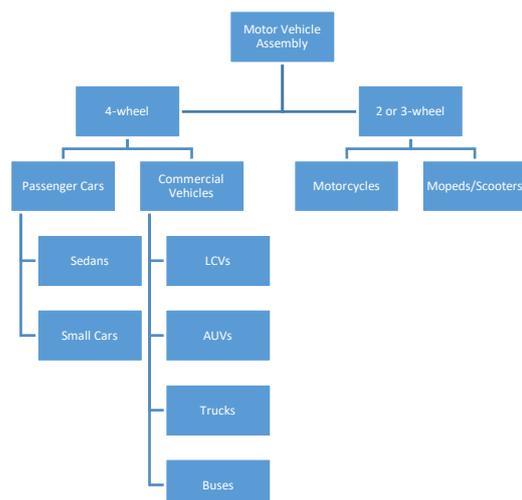
The motor vehicle assembly sector is grouped based on the type of motor vehicles, such as passenger cars, commercial vehicles (utility vehicles, pick-ups, vans, trucks, buses, special purpose vehicles) and motorcycles. Under the MVDP, vehicles are categorized as follows:

Passenger cars refer to any four-wheeled motor vehicle, which is propelled by gasoline, diesel, electricity or any other motive power and principally designed to transport persons and not primarily to transport goods.

Commercial Vehicles refer to any or more wheeled motor vehicle, which is propelled by gasoline, diesel, electricity and any other motive power and principally designed to transport persons and/or goods/cargoes, such as light commercial vehicles, buses, trucks, and special purposes vehicles (for example. Ambulances, fire trucks, and the like)

Light Commercial Vehicles refer to vehicles whether 4-wheeled drive or not, which may be classified under but not limited to the following: utility vehicles, sports utility vehicles, Asian utility vehicles, commuter vans, pick-ups, which are designed to carry both passenger and goods/cargoes.

Motorcycles refer to any two or three-wheeler vehicle fitted with an auxiliary motor, with or without sidecars.



II. Philippine Motor Vehicle Industry

a. Motor Vehicle Assembly

The Philippine motor vehicle industry is principally dominated by Japanese automobile manufacturers such as Toyota Motor Phils. Corp. (TMPC), Mitsubishi Motor Phils. Corp. (MMPC), Honda Cars Phils., Inc. (HCPI), and Nissan Motor Phils., Inc. (NMPI). While Pilipinas Hino, Inc (Hino) and Columbian Motors Corp. (Nissan Diesel) dominate the trucks and buses category. Other vehicle assemblers carry German and Chinese brands: Man Automotive Concessionaires Corp. (MAN buses-rear engine), Dreamco Automobile Co., Inc. (JMC light trucks), Transport Equipment Automotive Components, Inc. (KAMA and Dongfeng light trucks), IKK Ichigan, Inc. (Jinbei light trucks), JAC Automobile (JAC Motors) and Statemotor (Great Wall).

As of May 2017, there are 5 passenger cars assemblers, 22 commercial vehicle assemblers (of which 5 are also passenger car assemblers and another a motorcycle assembler) and 24 motorcycle assemblers in the country.

Classification	No. of Participants	Total Capacity
Automotive	22*	~150,000 units/year**
Motorcycle	24	~1,600,000 units/year**

* 5 assemblers are engaged in PC and CB assembly

** Source: Auto and Motorcycle industry associations

In terms of production and sales, the motorcycle industry is likewise dominated by Japanese manufacturers: Honda Phils., Inc. (HPI), Kawasaki Motor Phils. Corp., Suzuki Phils., Inc. and Yamaha Motor Phils., Inc. (YMPI). Most of the other motorcycle assemblers are carrying Chinese brands such as Sinski, Lifan, Skygo, Shineray, Loncin, Zongshen and others. Others participating motorcycle brands are Taiwanese (SYM and Kymco), Thai (Tiger), Malaysian (Demak) and Indian (Granstar).

b. Parts and Components

There are 256 companies that form the Philippine Automotive Supply Based producing over 330 parts and components made of metals, plastic, rubber and composite materials for both the original equipment manufacturer (OEM) and replacement market. Almost forty percent (40%) of all parts manufacturers produce OEM parts while the remaining sixty percent (60%) caters the aftermarket. The principal parts and components manufacturers such as Yazaki-Torres Manufacturing Corp., International Wiring Systems Phils., Inc., Asian Transmission Corp., Toyota Autoparts Phils., Philippine Auto Components, Inc., are also serving the export market.

The parts and components industry are composed of members from Philippine Parts Makers Association (PPMA) with a total number of 113 members.

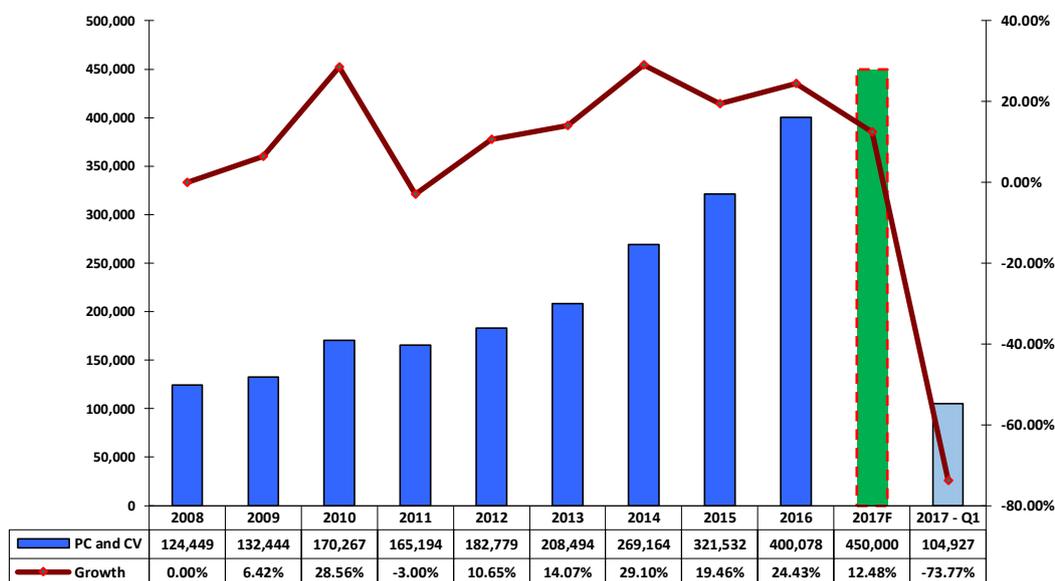
The parts and components industry approximately employs 50,000 workers for 2015. The present workforce is recognized to be highly skilled and trainable. The manufacturers themselves have contributed to the growth of the industry through the continuing education and training of its workers in vocational schools with the assistance of agencies like the Technical Education and Skills Development Authority (TESDA) and foreign funded technical assistance program provided by the Japanese government. The objective is to improve labor skills through issuance of Skills Certification.

c. Industry Performance

Passenger Cars and Commercial Vehicles

The performance of the motor vehicles (passenger cars and commercial vehicles) sector has been doing well since 2006. For 2017, the industry forecasts a total sales of 450,000 units, increasing at 12.5% from the previous year. As of Q1 of 2017, total sales amounted to 104,927 units, 23% of the projected sales for the year.

Figure 1 - Passenger Car and Commercial Vehicle Sales (2008-2017-Q1)

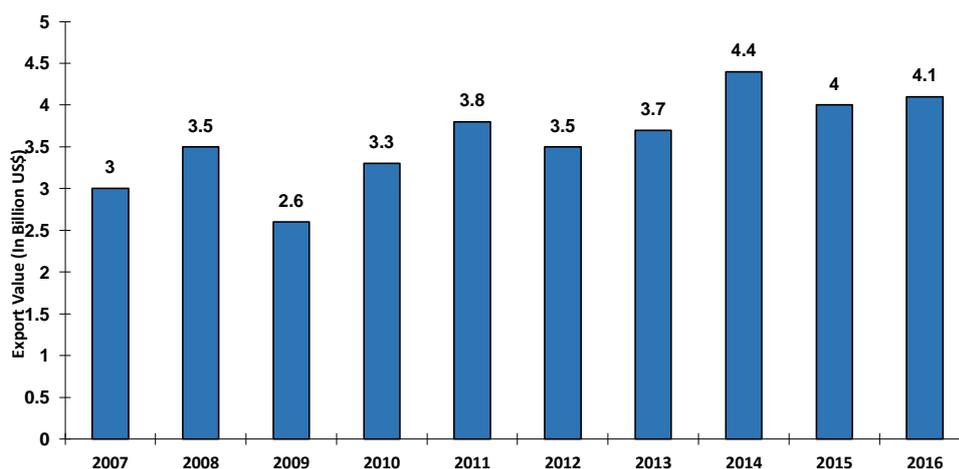


Source: Chamber of Automotive Manufacturers of the Philippines, Inc. (CAMPI)
Truck Manufacturers Association of the Philippines (TMA)

d. Export Sales

Major Export Products (Automotive Parts): The export revenues of the industry have constantly been increasing and maintain its competitiveness. The bulk of total exports were accounted for by wiring harness, lead-acid storage batteries, road wheels, intake air filters, brakes and clutch pedals, steel-belted automobile tires, other gear boxes, body parts and accessories, and other motor vehicle parts (excluding rubber tires, engine and electric parts).

Figure 5 – Export Sales on Automotive Parts (2007 - 2016)



Source: DTI-EMB

In 2014, the parts manufacturing generated US\$ 4.4B in exports from only US\$ 3B in 2007, breaching the US\$4B mark. However, in 2015, automotive parts exports decreased to US\$4B and in 2016, automotive parts exports has increased to US\$4.1B.

Over 90% of exports are accounted for by multinational companies (MNC). More than 50% of local parts manufacturers are largely domestic-oriented, relying on local parts purchases from assemblers for their production and sales.

The current top five (5) markets of automotive parts include Japan, United States of America, Thailand, Canada and the People's Republic of China.

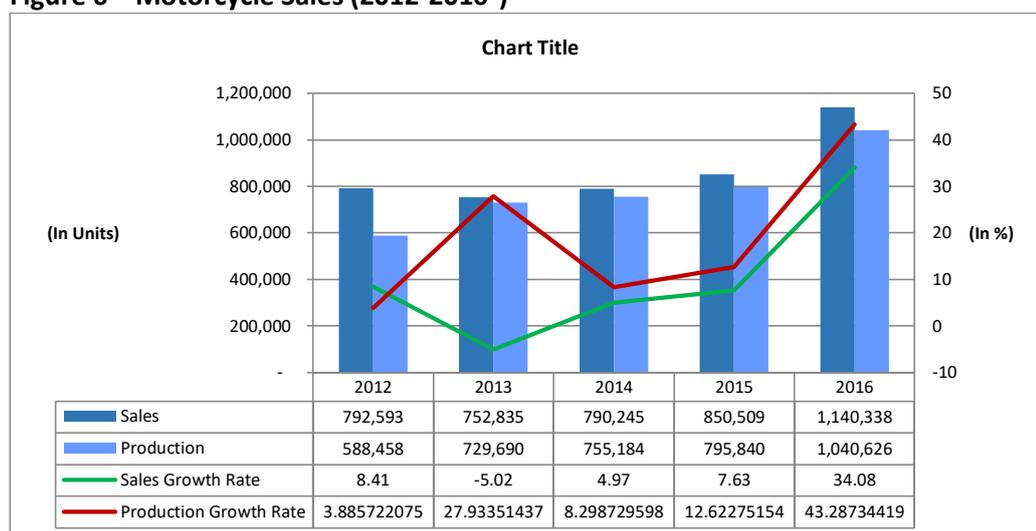
e. Source of Motor Vehicles KD's

The industry's basic activity is assembly of knocked-down (KD) and some manufacturing of parts. KD's are source mainly from Japan, ASEAN countries (Thailand, Indonesia and Malaysia), China, and some from India and Taiwan.

Motorcycle

The Philippine motorcycle market continues to show an increasing sales performance with an average growth rate of 10% for the last 5 years (2012-2016). The local motorcycle industry's total sales volumes posted an increase of 34% in 2016, while production gre at 43%.

Figure 6 – Motorcycle Sales (2012-2016*)



* Only includes production and sales of Japanese Brand Manufacturers (Honda, Kawasaki, Suzuki, Yamaha and Kymco)

f. Tariff Structure

Motor vehicles production is covered under the Philippine Motor Vehicle Development Program being implemented by the Board of Investments, pursuant to Executive Order No. 156, s. 2002, which provides the comprehensive industrial policy for the motor vehicle sector and directions for the MVDP. Import privileges in the form of preferential tariff rates (OEM) on the importation of KD parts and components are available to registered participants of the Program.

AHTN Hdg.	Description	MFN	ATIGA
Completely Built-Up (CBU) / Completely Knocked-Down (CKD)			
87.02	Motor vehicles for the transport of 10 or more persons, including the driver	15% - 20%	0%
87.03	Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	30%	0%
87.04	Motor vehicles for the transport of goods	20% - 30%	0%
87.11	Motorcycles (including mopeds) and cycles fitted with an auxiliary motor, with or without side-cars; side-cars	30%	0%
Knocked-Down (KD)			
87.02 87.03 87.04 87.11	Components, parts and/or accessories imported from one or more countries for assembly of vehicles by participants in the Motor Vehicle Development Program with certificate from BOI for the assembly of hybrid (electric and gasoline/diesel), electric, flex-fuel (bio-ethanol and bio-diesel) and compressed natural gas (CNG) vehicles	0%	0%
87.02 87.03 87.04 87.11	Components, parts and/or accessories imported from one or more countries for assembly of vehicles by participants in the Motor Vehicle Development Program with certificate from BOI	1%	0%

– **Industry Strengths**

- Strengthened Intellectual Property Rights (IPR)
- Pool of skilled workers on after-sales servicing graduated from Technical Education and Skills Development Authority
- Existing training facilities for road safety and responsible driving
- Multi-brand dealership that directly offers financing packages to the consumers
- Domestic demand for motor vehicles is not fully-saturated
- The government through the BOI has installed an online automated processing system that would speed up import application. It is expected to lower substantially the cost of importation process.

– **Industry Opportunities**

There are opportunities in the industry for investors.

- **Assembly operation**

Export Market - though not yet quantified, there is a huge demand in the export market especially ASEAN. The current ASEAN AFTA provides for a zero tariff regime which started in 2007, provided the 40% ASEAN content requirement is met. The Philippine can be one of the centers for motor vehicles assembly for export to ASEAN being ideally situated geographically. The country likewise provides some incentives and policies which could give a competitive advantage to would-be assemblers, not to mention the inherent strength of the industry as mentioned earlier.

- **Manufacture of parts**

In 2015, LTO registration (new and renewal) of motor vehicles (passenger cars, commercial vehicles and motorcycles) reached to 4.9 million units. This represents a rather large market for aftermarket parts. The export market is another bright spot for parts manufacturers.

- **Assembly of Electric Vehicles**

The government is promoting the use of Electric Vehicles – vehicles that run on electric batteries.

- **Policy Agenda**

The Philippines government fully supports the motor vehicle industry. Below are some policies set by the government:

- **Automotive Policy Environment**

- Provision of incentives package for automotive products

Law	Title	Incentives
EO 226	Omnibus Investments Code	Grants fiscal and non-fiscal incentives to enterprises registered under the Investments Priorities Plan (IPP). The 2017 IPP lists the manufacture of industrial goods, including motor vehicles and its parts and components, among the preferred activities for investments.
EO 156/ EO 877-A	Motor Vehicle Development Program	Reduction of duty rates of 0% or 1% for imported parts and components for the assembly of motor vehicles
EO 290	Implementing the Natural Gas Vehicle Program for Public Transport	Reduction of duty rates to 1% for imported NGVs, NGV engines & other NGV industry-related parts & components as certified by the Department of Energy (DOE)
EO 396	Reducing the Tariff Rates of import Duty on Compressed Natural Gas Motor Vehicles and Natural Gas Industry – Related Equipment, Parts & Components under Sec. 104 of the Tariff and Customs code of 1978, as amended	Duty-free importation of compressed natural gas vehicles (NGV), industry-related equipment, parts and components
EO 182	Comprehensive Automotive Resurgence Strategy (CARS) Program	Fiscal support of Php 27 billion spread over 6 years for three (3) car models (Php 9 billion each model). See attached CARS Program Briefer for more information.

- Ban on used motor vehicle regulation under EO 156

- **International Trade Policy**

- The Philippines is engaged in multilateral and bilateral trade agreements that provide greater market access and product diversification. The following are the existing

agreements: ASEAN Free Trade Agreement – Common Effective Preferential Tariff, Philippines-Japan Economic Partnership Agreement, ASEAN – China, ASEAN – Korea, ASEAN-Australia-New Zealand, ASEAN-Japan, ASEAN-India and PH-EFTA.

- **Export Competitiveness**

- There are provisions for export incentives under EO 226.
- The country is an observer in the UN/ECE WP 29 1958 Agreement and is due to adopt its standards.
- Continued implementation of productivity and competitiveness enhancement programs conducted jointly with government and private sector.

- **Other Government Support Facilities**

Financing opportunities from Government Financial Institutions to SME parts manufacturers.