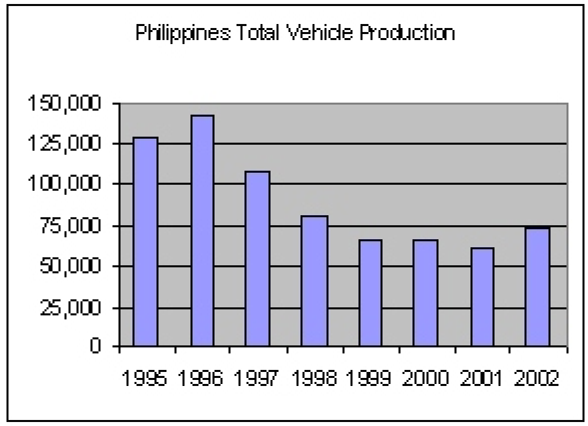
Philippines

Motor Vehicle Market Overview



*Source: Automotive News

Imports/Exports

Total U.S. exports to the Philippines in actual U.S. dollars and units

Type	2000	2001	2002
Passenger Vehicles & Light Trucks	$66,911,576	$47,529,898	$84,642,195
Passenger Vehicles & Light Trucks-UNITS	4,336	2,923	4,732
Medium & Heavy Trucks and Tractors	$517,443	$653,423	$289,461
Medium & Heavy Trucks and Tractors-UNITS	29	11	102

*Data Source: compiled from tariff and trade data from the U.S. Department of Commerce, U.S. Treasury, and U.S. International Trade Commission

U.S. General Imports from the Philippines in actual dollars and units

List of Commodities	2000	2001	2002
Passenger Vehicles & Light Trucks–UNITS	1	1	2
Passenger Vehicles & Light Trucks	$3,000	$2,289	$9,900

*Data Source: compiled from tariff and trade data from the U.S. Department of Commerce, U.S. Treasury, and U.S. International Trade Commission

Market Summary

The Philippines is a member of the Association of South East Asian Nations (ASEAN), a regional trading block with combined annual vehicle sales of 1.5 million units in 2003 (see companion paper on the ASEAN Auto market). The vehicle industry in the Philippines is less developed than many of its ASEAN neighbors. Since the Asian Financial Crisis, the industry has struggled to regain steady market growth, and has only experienced moderate recovery. This can be partially attributed to government automotive policies and political instability. However, recent changes in legislation and the lowering of tariffs are improving prospects for Completely Built-Up (CBU) imports that would help expand the domestic industry.

Sales since the financial crisis have not grown substantially. In 2000, vehicle sales reached 75,240 units and increased to 85,587 units in 2002.

The Philippines' vehicle market is approximately 55 percent passenger vehicles and 45 percent commercial vehicles. Japanese manufacturers dominate this market with over 80 percent market share, while Korean manufacturers hold 15 percent. All other manufacturers hold the remainder.

Motor Vehicle Investment in the Philippines

Ford:

Ford set up operations in late 1999 and built their manufacturing plant in the Greenfield Automotive Technology Park located near Manila. In 2001, the plant produced 2,834 vehicles and holds current capacity at 29,000 units. The cumulative total exports was 12,000 vehicles in 2002. The Santa Rosa plant has four different platforms assembled from completely knocked down (CKDs) or "kits" that are imported from Thailand. Several of Ford's traditional suppliers have also set up facilities near the new Ford plant. Ford assembles both Ford and Mazda platforms at their Santa Rosa assembly plant.

Ford has committed to turn the Philippines into a regional export hub for its ASEAN operations. Over the next couple of years, the company will invest an additional $50 million into its Santa Rosa manufacturing facility. Ford is the only manufacturer in the Philippines to export completely built-ups (CBUs) to ASEAN members. Ford Philippines exports the Ford Lynx and Escape and the Mazda Protege and Tribute to Thailand and Indonesia. The export program has been encouraged by the export incentives program initiated in 2003 (see Export Incentives Program section at the end of the paper for more details).

General Motors:

Philippines General Motors was established in 1996, and is the sole distributer of GM vehicles (Opel, Chevrolet and Subaru). All vehicles are imported as CBUs into the Philippines primarily via Thailand. Annual sales around 1,000 units for a share of 3 percent of passenger car and less than 1% of trucks.

DaimlerChrysler:
DaimlerChrysler currently has a joint venture in the Philippines with Transfarm and Co., Inc. which produces a limited number of Chrysler badged vehicles (cars and Jeeps). Proposed capacity in 2001 was 4,400 units. All vehicles are imported as CBUs.

Toyota:
Toyota is the largest vehicle assembler in the Philippines and has two plants in the country. The plants assemble the Corolla and Corona passenger cars and a few commercial vehicles, which are imported as CBUs. Toyota also has a Joint Venture with Thai Rung to design and produce vehicles for domestic and export markets starting in 2004.

Honda:
Honda sources it models sold in the Philippines from its local assembly plant with the Civic and the CRV being the two largest-volume models. The company is expanding their motorcycle manufacturing facility and plans to participate in the CBU export program in 2004.

Mitsubishi:
Mitsubishi assembles the Lancer, the Pajero, and the L300 series in the Philippines.

Trade Barriers

Tariffs:
Tariffs range from 3 to 30 percent, depending whether its a passenger or commercial vehicle (with commercial vehicles getting the lower rates). The Philippine Government had previously announced intentions to reduce rates to 10 percent in 2004. The Philippine Government has indicated a general policy shift toward slowing down liberalization and tariff reductions. In an Executive Order issued in late 2003, that would modify the Motor Vehicle Development Plan, the government also made reference to a policy of benchmarking its auto tariff rates to that of its neighbors.

Taxes:
President Arroyo ratified a rationalized tax scheme in September 2003 and implemented in October 2003. While the implementation of the revised tax system was slightly delayed, the Philippines Government is now using its proposed value-based system. Car taxes were previously based on engine displacement, fuel type or seating capacity. After the October 2003 revised tax scheme was imposed, the Philippines' excise tax system is a valued-based tax system rather than a tax based on engine size.

The Approved Tax Rate:
In order to simplify the tax rates, the amount listed below was converted into U.S. dollars with the exchange rate of 1 USD = 54.53 PHP.

For vehicles with a manufacturer's price of:

1.) $11,003 and below, the tax will be only two percent;

2.) $11,003 to $20,172, the tax will be $220 plus 20 percent of the amount in excess of $11,003

3.) $20,172 to $38,511, the tax will be $2,054 plus 40 percent of the amount in excess of $20,172

4.) over $38,511, the tax will be $9,389 plus 60 percent of the amount in excess of $38,511

Other Measures:
Importation of the following automotive parts is regulated by the Bureau of Import Services (an agency under the Department of Trade and Industry), which requires clearances/permits prior to importation:

Dashboards	Doors	Fenders	Ext. luggage racks
Grilles	Hoods	Luggage compartments	Running boards
Plate brackets	Visors	Radiator cowlings	
Trunks/trunk lids	Mudguards	Floor Boards	

Floor mats (other than of textile material/rubber)

- The importation of bodies (including cabs and body shell) and chassis fitted with engines for vehicles weighing below 6 tons is not allowed.
- The lack of development in the automotive component segment is exacerbated by the higher tariffs that components and raw materials attract. Independent manufacturers without strong links to assemblers for consigned components are not able to compete effectively in the domestic market.

Trade-related Investment Measures (TRIMs) Phase-out:
In 1995 the members of the WTO including the United States became signatories to the TRIMs Agreement, agreeing to remove those provisions, which grant special tax/tariff benefits to companies on the basis of their investments in a country by January 1, 2000. However, in the wake of the economic crisis of 1997-1998, many developing countries requested extensions to the TRIMs deadline. In the absence of a new WTO round to address the issue on a multilateral basis, the U.S. Government was forced to pursue this issue on a country-by-country approach. After extended negotiations, the final deal with the Philippine Government allowed for a total extension of 3.5 years (until June 30, 2003), with a phase out of the local content requirement. The foreign exchange balancing requirement was removed at the new deadline, and as of June 2003, the Philippine Government has fulfilled its WTO TRIMs requirements.

Import Quotas/Bans:
- All import quotas on CBU and CKD vehicles have been eliminated.
- SKD vehicles can no long be imported at CKD tariff rates.
- Used cars cannot be imported, except for imports of returning residents and members of

the diplomatic corps. Used trucks, buses and special-purpose vehicles are allowed but are subject to Bureau of Import Services (BIS) approval.

Investment Requirements:

- Car Development Program (CDP) Category I and II participants must earn 50 percent of their foreign exchange requirements for CKD imports through the generation of parts exports earnings.
- CDP Category III must earn 100 percent of foreign exchange requirements in this manner.
- Terms and Conditions: The Philippine Board of Investments (BOI) may cancel the registration of a participant if the company fails to meet at least 20 percent of its production commitment in a one year period.
- The foreign exchange requirements for CKD kits are 50 percent for passenger cars and 7.5 percent for commercial vehicles.
- Prior to the issuance of a Certificate of Registration, the BOI requires applicants/participants to establish a new plant (the suppliers can be asked to do this) which can be 100 percent foreign owned.
- The Car Development Program requires an investment of $10 million in parts and components manufacturing for export and domestic markets as a mandatory step to establish a vehicle assembly facility ($8 million for trucks/commercial vehicles).
- Foreign exchange self sufficiency regulations require assemblers to earn 5-100 percent of their foreign exchange needed for the importation of CKD kits through the promotion of CBU exports.

<u>Export Incentives Program</u>

The Philippine Government has recently passed an initiative to help make the Philippines a regional export-manufacturing hub. The incentives would be a form of tax credit that may be applied to any of the tax requirements of auto parts manufacturers such as income tax or VAT. The incentives will apply only to incremental increase in the volume of exports.

Ford Motor Company is currently the only company to take full advantage of the Philippines' automotive export program and export completely built up (CBUs) from the Philippines. The incentive program grants domestic manufacturers an export incentive in the form of tariff preference through the application of credit of $400 for every $5000 worth of exports phased down over the next five years (from 2005-2009).

Export initiative comes under the ASEAN Industrial Cooperation (AICO) program, which allows the trading of vehicle at preferential tariffs of zero to five percent. The program has enabled Ford to locate the assembly of brands such as Lynx and Escape to the Philippines, and also allowed Ford to move the manufacturing of the Ford Ranger to Thailand.