The Philippine Automotive Industry: Roadmap Localization for Competitiveness
Presentation Outline

1. Regional Automotive Landscape
2. AEC: Impact & Challenges for Auto
3. New Automotive Policy Direction
4. Opportunities in the Auto Industry
5. Summary
Regional Auto Landscape

- ASEAN will be a key auto market and production hub by 2020
  - TH and ID will lead the internationalization of ASEAN auto industry

<2014 ASEAN Production & Sales Performance>

<table>
<thead>
<tr>
<th></th>
<th>Production</th>
<th>Domestic Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>1,880,007</td>
<td>881,832</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1,298,523</td>
<td>1,208,019</td>
</tr>
<tr>
<td>Malaysia</td>
<td>596,418</td>
<td>666,465</td>
</tr>
<tr>
<td>Philippines</td>
<td>88,845</td>
<td>269,164</td>
</tr>
<tr>
<td>Vietnam</td>
<td>121,084</td>
<td>133,588</td>
</tr>
<tr>
<td>Others</td>
<td>-</td>
<td>65,557</td>
</tr>
<tr>
<td>TOTAL ASEAN</td>
<td>3,984,877</td>
<td>3,224,625</td>
</tr>
<tr>
<td>TOTAL GLOBAL</td>
<td>89,930,670</td>
<td>88,240,088</td>
</tr>
</tbody>
</table>

Regional Production & Export Base

ASEAN accounted for 4% of global vehicle production & sales in 2014.

By 2020, ASEAN auto market is projected to reach 5~6 million units.

Sources of data: CAMPI, AAF, OICA

Chamber of Automotive Manufacturers of the Philippines, Inc.
PH is an important auto market growth area in ASEAN

- Although small from a regional perspective, PH is experiencing unprecedented growth in the last 5 years → 500K u by 2020

<PH Auto Market Performance>

Sources of data: CAMPI, PCCI

Chamber of Automotive Manufacturers of the Philippines, Inc.
Passenger vehicles are likely to dominate ASEAN market

- Low car ownership ratio, favorable demographics & rising income indicate high potential for growth in PH auto market

**<Number of passenger cars per 1000 people in 2013>**

**<PH Projected GDP per Capita & Population>**

<table>
<thead>
<tr>
<th></th>
<th>GDP per Capita (In Current US$)</th>
<th>Population (In Millions)</th>
</tr>
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<tbody>
<tr>
<td>2015</td>
<td>3,256.26</td>
<td>101.42</td>
</tr>
<tr>
<td>2016</td>
<td>3,568.72</td>
<td>103.45</td>
</tr>
<tr>
<td>2017</td>
<td>3,913.08</td>
<td>105.52</td>
</tr>
<tr>
<td>2010</td>
<td>4,292.84</td>
<td>107.63</td>
</tr>
<tr>
<td>2019</td>
<td>4,711.91</td>
<td>108.78</td>
</tr>
</tbody>
</table>

Source: IMF World Outlook Economic Database
Integration could result to productivity gains, but it will further intensify competition

The AEC Challenges for Auto

- How will local production capture a significant share of the growing PH market?
  - Need to improve production cost-competitiveness
  - Cost gap estimated at US$1,500~US$2,000 vs. TH and ID
  - Limited local parts supplier base → more than 50% are SMEs with varying capabilities, quality problems, insufficient capital & technology*
  - Small economies of scale in vehicle production → currently operating at 50% of installed capacity

- How will PH attract manufacturing investments to boost vehicle & parts production?

*Source: Auto Parts Roadmap, 2012 (R. Aldaba)
AEC: Impact & Challenges

AEC will change business environment and market dynamics
• Competitive cost, quality and ability to innovate

The AEC Challenges for Auto
• Heightened competition will increase the need to innovate throughout the entire automotive value chain
  ▪ SME parts suppliers face barriers to innovation – limited research, development & design capability; limited or no access to technology; limited expertise to adopt new processes
  ▪ Impact on the overall strength of the supply base
• The condition of the supply base will greatly affect the ability of the entire automotive industry to compete.

*Source: Auto Parts Roadmap, 2012 (R. Aldaba)
AEC challenges present the need for a firm strategy, a new auto plan that will give PH a larger share of auto production in ASEAN

- Executive Order No. 182 providing for the Comprehensive Automotive Resurgence Strategy (CARS) Program was issued on May 29, 2015

<table>
<thead>
<tr>
<th>Main objective</th>
<th>To <strong>revitalize automotive industry</strong> and develop PH as a <strong>regional automotive manufacturing hub</strong></th>
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<tbody>
<tr>
<td>Key strategies</td>
<td>① Address cost handicap through localization of bulky parts</td>
</tr>
<tr>
<td></td>
<td>② Strengthen and expand domestic supplier base</td>
</tr>
<tr>
<td></td>
<td>③ Increase domestic market base</td>
</tr>
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New Auto Policy

- Time-bound, performance-based support to attract investments in PH automotive manufacturing industry
  - The CARS program provides for two (2) types of fiscal support that may be enjoyed for up to a maximum of six (6) years.

<table>
<thead>
<tr>
<th>① Fixed Incentive Support (FIS)</th>
<th>Parts and components manufacturing; establishment of shared service facilities</th>
</tr>
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<tbody>
<tr>
<td>② Production Volume Incentive (PVI)</td>
<td>Production of vehicle model with planned production volume of 200,000 units over a period of 6 years.</td>
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</table>

- Ensuring sustainability of CARS Program
  - Creation of an Inter-Agency Committee on Automotive Industry Development → to enhance effectivity of CARS & related programs
  - Implementation of complementary Non-Fiscal Measures
  - Shared Services Facility (SSF) project of DTI
Opportunities in Auto Industry

- CARS Program requires new model or full model change with 200K volume as participating models
  - Abundant supply opportunities for new parts/new design
  - PH Government is encouraging investments in the following

1. Body shell parts (press parts/welding parts) and large plastic parts (instrument panel, door trims, center console, bumpers)
2. Automotive parts and components that are currently not produced in PH at OEM standards, either for common sourcing or exclusive sourcing by participating car makers
3. Shared service facilities (e.g. testing facilities)

- Even at PH level, car makers are increasingly distributing production in networks of suppliers
  - Specialized suppliers (e.g. plastic injection capability, press parts capability) have advantage
Opportunities in Auto Industry

Supply base expansion and parts manufacturing capability development are at the core of the CARS Program

- Participating car makers are expected to maximize the fiscal support from the CARS Program through higher localization
- Therefore, car makers will necessarily assist parts suppliers in accelerating capability development.

Opportunity for new and existing players to penetrate the value chain of global OEMs

- Potential exports to other production bases producing similar models enrolled under CARS
Opportunities in Auto Industry

- Roadmap localization: Region IV-A is a strategic area for auto manufacturing industry expansion

*<The CALABARZON advantage>*

- Laguna is the automotive capital of PH
  ~ Majority of auto manufacturers have production operations in Laguna including Toyota, Mitsubishi, Honda and Isuzu

- Agglomeration of auto parts suppliers in CALABARZON

- CALABARZON as a potential automotive logistics hub
  ~ Existing infrastructure (Batangas International Port, South Luzon Expressway, Star Toll Way)
  ~ Future projects (Cavite Laguna Expressway)

- PEZA registered zones in CALABARZON are ideal locations for auto parts suppliers
In Summary

① Big potential in the Philippines
   • Positive domestic market outlook, feasible for CKD expansion
   • Stable growth drivers compared to other mature auto markets

② CARS program is fully supported by the PH Auto Industry
   • New policy will jumpstart vehicle and parts production in PH
   • Opportunity for PH auto industry to compete regionally
   • Japanese automakers expressed support to PH Government’s thrust to revive auto manufacturing
   • Efficiency gains from CARS are expected to be felt industry-wide

③ CARS Program will determine the future of auto manufacturing in PH
   • Abundant supply opportunities for new and existing players
   • Parts makers are encouraged to participate in the CARS Program
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