



The Philippine Automotive Industry: Roadmap Localization for Competitiveness

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Presentation Outline

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- 2 | AEC: Impact & Challenges for Auto
- 3 | New Automotive Policy Direction
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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>

	Production		Domestic Sales	
Thailand	1,880,007	47%	881,832	27%
Indonesia	1,298,523	33%	1,208,019	37%
Malaysia	596,418	15%	666,465	21%
Philippines	88,845	2%	269,164	8%
Vietnam	121,084	3%	133,588	4%
Others	-		65,557	2%
TOTAL ASEAN	3,984,877		3,224,625	
TOTAL GLOBAL	89,930,670		88,240,088	

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

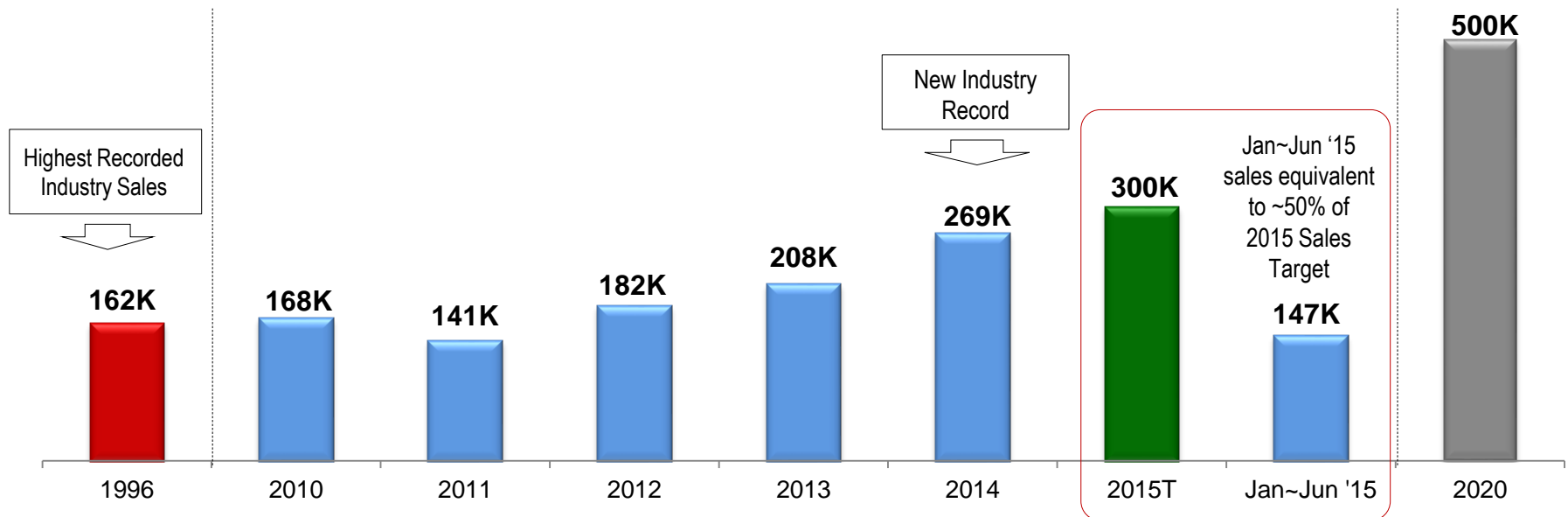


Regional Auto Landscape

□ 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, PACCI

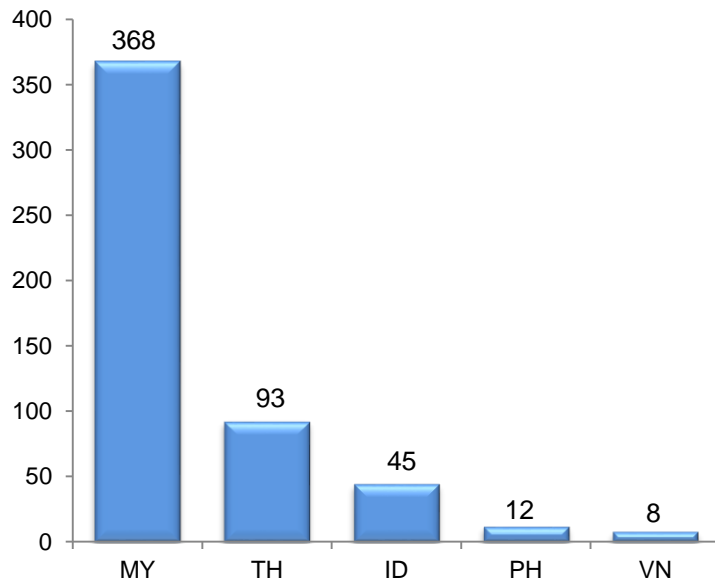


Regional Auto Landscape

❑ 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>

	GDP per Capita (In Current US\$)	Population (In Millions)
2015	3,256.26	101.42
2016	3,568.72	103.45
2017	3,913.08	105.52
2010	4,292.84	107.63
2019	4,711.91	108.78

Source: IMF World Outlook Economic Database



AEC: Impact & Challenges

- ❑ **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)



New Auto Policy

- ❑ **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

Main objective	To revitalize automotive industry and develop PH as a regional automotive manufacturing hub
Key strategies	<ol style="list-style-type: none">① Address cost handicap through localization of bulky parts② Strengthen and expand domestic supplier base③ Increase domestic market base

<http://www.gov.ph/2015/05/29/executive-order-no-182-s-2015//>



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.

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

❑ 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 w/ 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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