

VEHICLE IMPORTERS ASSOCIATION OF SRI LANKA - IMPORT BAN

Vehicle Importers Association of Sri Lanka (VIASL)

We are an association inaugurated in the early 1980's as the Vehicle Importers Association of Sri Lanka (VIASL). Our members are the pioneers of the motor vehicle trade in Sri Lanka.

Import ban on motor vehicles

The government has imposed a complete ban on Motor Vehicles since March 2020 sighting foreign currency out-flows as the main reason. This measure has been strictly imposed and even those vehicles with already established letters of credit have not been permitted in to the country.

This has negatively impacted the Sri Lankan economy as well as vehicle importers and all related industries. These entrepreneurs have been in the motor vehicle industry for generations. Furthermore, those providing supporting services for motor vehicles have been adversely affected.

Erroneous information received by the Government regarding existing stocks

The government officials have been provided with blatantly overestimated figures regarding current motor vehicle stock levels. Consequently, Dr. P.B. Jayasundra stated that the current vehicle stock is sufficient for 2.5 years. As a responsible association, VIASL carried out a survey regarding the current stock situation. As per this report, there are less than 3,000 motor vehicles in the market and this is not even sufficient to cater to at least two and half months demand. Hence, lifting the import ban immediately is paramount for the survival of our trade.

Issues regarding purchasing a vehicle locally under the concessionary permit

Even though a circular has been issued detailing an arrangement for permit holders to purchase cars locally, no instructions have been issued to importers detailing how the permits can be redeemed. Furthermore, since most importers are without stock, the importers are facing the difficulty of catering to the preferred choice of permit holders.

Severe issues faced by vehicle importers and related parties

There is a huge community of vehicle importers from large scale to sole trader level. As purchasing a quality vehicle is a dream for most Sri Lankans there is a massive supply chain built around it. Vehicle importers provide various employment opportunities ranging from accountants, sales executives, marketing executives, drivers, cleaners, security staff, etc. Furthermore, service areas such as clearing agents, interior cleaners, mechanics, car carrier operators and service centers are directly dependent on importation of motor vehicles. As there is a ban on motor vehicle imports, vehicle importers as well as related service

providers have faced severe difficulties maintaining their business premises, paying off bank loans, rent and paying the salaries of their employees. Since the industry was only at the recovery stage after the Easter attack, most vehicle importers carried out importation with minimum stock, as the holding cost of our industry is substantial. Hence currently there are a large number of showrooms and importers in the country who are without a single vehicle in their showrooms and are struggling to survive and to pay their employees. If the ban is to continue further, they will be forced to close down their business and make all their employees redundant. As per the calculation carried out by VIASL, around 100,000 direct and indirect employees will have to be made redundant if the ban is to continue further. This would mean around 350,000-400,000 dependents of these employees would be facing severe financial difficulties threatening survival.

Negative Impact on the Economy

For our economy to move forward transportation and mobility is essential. As per the people-centric economic development vision of our Hon. President Gotabaya Rajapakse; Fisheries Sector, Milk Products, Tourism Industry, Construction Industry as well as Small & Medium scale Industries need to be boosted and developed. For this to materialize vehicles such as small and medium size vans, trucks, buses, smaller motor-cars etc need to be imported in to the local market at a very affordable price. At present there is a huge vacuum in these motor vehicles as the importation has been completely banned.

Issues with local assembling

Local manufacturing and assembling however is not the solution for the issues detailed above. VIASL strongly believes that this process does not add any value to the country's economy and is merely designed for tax evasion and higher profit margins. Furthermore, setting up a vehicle manufacturing plant is a lengthy process with extensive planning and research and development. Hence this cannot be set up overnight and needs to be carefully planned in stages.

The vehicle manufacturing and assembling industries have been operating in Sri Lanka for many years and, during the last 10 years various tax exemptions have been provided with the aim of developing this industry in the country, using locally manufactured spares. However, these so-called manufactures have merely established a process aimed at tax evasion. Due to this illegal process, the government is deprived of higher amounts of taxes, as the end consumer is not being given the benefit.

The local assembling companies mainly import an almost finished product and add minimal value to it. Hence the CIF (Cost, Freight & Insurance) value or the amount of foreign currency sent out of the country is perhaps more than the CIF value of a good quality Japanese vehicle; due to economies of scale and lean production mechanisms used in large scale manufacturing. However the import tax paid for a locally assembled vehicle is far less compared to the import tax paid for a car imported by our dealers.

For instance, a certain company carrying out local assembling is currently taking orders to supply a so-called “locally assembled” SUV for around Rs. 6 million. This identical vehicle was sold previously by the same company below Rs. 4.8mn after importing it from China. This Rs. 4.8 mn price tag was inclusive of an import tax of Rs. 2 mn. The important matter however is to note that, the new units sold at Rs. 6 mn is exempted from this import tax of Rs. 2 mn. Hence it is evident that rupees sent out of the country (CIF) is similar or greater to an imported unit while the Sri Lankan government is losing out on Rs. 2 mn worth import taxes. The ultimate victim in this process is the general public who is deprived of a higher quality vehicle as they are forced to purchase a low quality Chinese or Indian product at an inflated price.

Evidently the government is not getting the due tax income while the foreign currency outflow might even be greater. Due the inferior quality of the vehicle, lacking adequate safety and emission standards, sold by these assembling companies the Sri Lankan citizen is at a loss. At an era where safety of a vehicle and its environmentally friendliness is of utmost importance globally, Sri Lanka seems to be lowering its standards through this inferior assembling process. Also it's a fact that the repair cost is extremely high on a locally assembled vehicle. Furthermore, the after market value of a locally assembled vehicle is far less compared to a high quality Japanese vehicle.

It is a fact that actual car manufacturing is a highly automated process carried out by robots. However if the objective of the authorities is to provide employment through this process; there appear to be a conflict of objectives with global manufacturing standards and practices. The loss of government revenue does not justify the minimal number of employment opportunities offered by these “glorified garage” assembling workshops. An already completed product in China or India is dismantled and then carefully repacked in to several parts and imported as spare parts to Sri Lanka, evading the import tax applicable on a finished motor vehicle. Then the same vehicle is reassembled back in these so called workshops and sold to the general Sri Lankan public. Most of these products are of extremely poor quality and are not allowed to be run in their respective manufacturing countries. Sri Lanka is generally used as their testing grounds, and the innocent Sri Lankan citizen become test subjects for these death machines. This entire process will only benefit the low quality Indian and Chinese car manufacturers, whose products will haunt generations of Sri Lankans.

It is evident that there is only a very small market for vehicle assembling in Sri Lanka. Considering our inexpensive labor cost and the geographical location the primary objective of this industry should be to create an export market by inviting large-scale vehicle manufacturers in to Sri Lanka. So far, the intended objective of the government, in promoting vehicle-assembling industry using locally manufactured parts had not been achieved and this process has not generated any export revenue.

Lifting the ban on motor vehicle importation

We urge to government lift the ban on motor vehicles at the earliest for the mobility of our economy and development of various industries. Furthermore,

concessions need to be provided for categories such as small motor-cars, trucks, vans and buses. This will enable mobility and development of people-centric economic sectors while giving the motor vehicle importers to survive.

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