

## **CMTA Press Release on Duty Changes for cars below 1000cc**

The Ceylon Motor Traders Association (CMTA), was established in 1920, and is the one of the most senior automotive trade associations in the region. The CMTA represents all major international motor manufacturers in Sri Lanka.

The Association fully understands the current state of Sri Lanka's economy which has been marked by the poor performance of its external balances. The association also understands that the government and our economy is unable to sustain a significant outflow of foreign exchange. We concede that the imports of motor vehicles, which have more than doubled from January to June 2018 vs the same period for 2017, is a contributory factor towards this.

This situation has added a further strain on the nation's current account which is already seeing an expanding fuel import bill given the rising global oil prices.

Concurrently, the Government needs to maximise its collection of revenue from the import of motor vehicles. The CMTA understands that Government policy that impacts the automotive industry is largely governed by their external balances and their need to collect revenue.

The CMTA applauds the Governments' policies to encourage the import of hybrid and electric motor vehicles, such as the Carbon Tax introduced in the budget of 2018, and assures the Government that this strategy will in the long run contribute to a lower fuel import expenditure. The import of fuel is one of the Governments largest import expenditures, and much larger in magnitude than the expenditure on the import of motor vehicles.

The excise duty structure that was proposed in the budget 2018 had a favorable differential for small motor cars (vehicles under 1000 CC) which is likely to have driven the strong vehicle growth experienced in 2018. For Instance, in 2017 according to the Department of Motor Traffic, approx. 60% of all motor vehicle registrations, for that year, was accounted for by vehicles under 1000 cc. Subsequent to the tariff revisions proposed in the budget 2018, small cars accounted for approx. 86% of all motor vehicle registrations during the first two months of 2018. In addition, this growth in the quantum of vehicles is likely to have resulted in a significant rise in the levels of congestion, specially within the cities.

Taking the above factors into account, we understand the Government's policy decision taken on the August 1, 2018 to increase excise duties targeting the small motor cars segment.

While the raising of excise duties is likely to stem the growth for small cars, we believe that this needs to be coupled with medium to long term policies that would result in the sustainable growth of the motor industry. This would also reduce the need to resort to such ad hoc excise duty changes, which leads to the 'stop-go' nature of new vehicle imports, that leads to uncertainty and causes a strain on both the consumers and firms in the industry.

The CMTA looks forward to participating in a long term policy dialogue with the Government, so the aspirations of the industry and the international manufacturers they represent could be aligned with the requirements of the Government.