

Sector Overview – Automobile Sector

1. Introduction

1.1 Core Business /Principle activities

The Automobile Assembling Industry has been continuing in Sri Lanka for the last 20 years. Regarding the cabinet decisions dated 2004.07.28 and subsequently, 2008.08.27, the Cabinet of Ministers decided to provide tax and tariff relief, formulate regulations and control mechanisms for this industry. The Automobile assembling companies enjoy excise duty concession on domestic value addition.

The component manufacturing sector has been recognized as key sectors with the potential to be developed and promoted in the international market by linking with the Global Value Chains. The sector involves in manufacturing Tyres, Batteries, Rubber components including bushes, Exhausts systems, Seats & seating components, Radiators, Bumpers, Body interior parts, Centre consoles, HVAC systems, Complete dashboard systems, steering racks including conversion kits, Cables, Wire harness, Oil filters, Air filters, Head light, Truck bodies, Bowsers and Sensors.

Further, the component manufacturing industry is currently manufacturing sensors for the world-renowned automobile brands such as Toyota, Honda, Aston Martin, Volvo, Opel and BMW. A significant level of investment in the domestically value-added automobile manufacturing/assembly industry is an important factor to cater to the demand required by the components manufacturing industry to become competitive in the export market.

1.2 Sector Vision

To provide a long-term, stable and consistent policy regime and to have a clear roadmap for the automotive industry, making India a globally competitive auto R&D and manufacturing hub and achieving the targeted objectives of green mobility

1.3 Sector Mission

The National Automotive Policy is envisaged to achieve the following missions:

- To propel the automotive industry in Sri Lanka to be amongst the top 50 nations in the world in engineering, manufacturing and export of automotive vehicles and components.
- To enable the automotive sector to become one of the largest employment creation engines
- To enable the automotive sector in Sri Lanka to become a hub for research

& development

- To drive the automotive sector in Sri Lanka to adopt safe, clean and sustainable technologies

1.4 Subsectors

component manufacturing sector and automobile manufacturing/assembly sector

1.5 Number of employees (local/ foreign/Gender wise)

the sector is strengthened with 15 domestically Value-Added Automobile Assembling Industries, 25 Ministry Registered Domestically Value-Added Auto Mobile Components Manufactures and 06 Locally Assembled World-Renowned Brands. The industry provides employment for about 20,000 direct employments.

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|----------------------------------------------------------------------------------|-------|
| Domestically Value-Added Automobile Assembling Industries | 15 |
| Locally Assembled World-Renowned Brand | 06 |
| Ministry Registered Domestically Value-Added Auto Mobile Components Manufactures | 25 |
| Job Opportunities for Technically Skill Persons | 5000+ |
| Reduction of Importation of Spare Parts | 8% |

2. Turnover

2.1. Export earnings - USD 91 million

2.2. Export destinations

USA, Germany, UK, Canada and Switzerland are the major export destinations of the Component manufacturing sector.

3. Government Policy on Sector

Some of the major objectives of the policy:

- Exalt the sector as a lever of industrial growth and employment and to achieve a high degree of value addition in the country
- Promote a globally competitive automotive industry and emerge as a global source for auto components
- Establish an international hub for manufacturing small passenger cars and a key center for manufacturing Tractors and Two-wheelers in the world
- Conduce incessant modernization of the industry and facilitate indigenous design, research and development

To achieve these objectives, some of the key policy measures and themes outlined are:

- Automatic approval for foreign equity investment up to 100% in manufacturing of automobiles and components.
- Proper maintenance, upgradation and development of roads by encouraging private sector participation besides public investment and incorporating latest technologies and management practices to take care of increase in vehicular traffic.
- Promotion of R&D by providing suitable fiscal and financial incentives such as increase in weighted tax deduction for sponsored research and in-house R&D expenditure by vehicle and component manufacturers.
- Encouragement of use of low emission fuel technology and formulation of an auto fuel policy to plan a roadmap for auto fuel quality as per emission norm requirement and ensure availability of appropriate auto fuels / fuel mixes at minimum social costs, across the country.

Policy Guidelines

- Roll out a comprehensive long-term roadmap for the automotive industry
- The policy therefore proposes to roll out a comprehensive long-term roadmap for the automotive industry.
- Define the emission standards that will be applicable after a target of harmonizing with the most stringent global standards by 2030, across all vehicle segments; introduction of new norms shall initiate in 2023.
- This roadmap will in turn enable the industry and support agencies to define the requirement of technologies, testing facilities, skill development and plan long-term investments

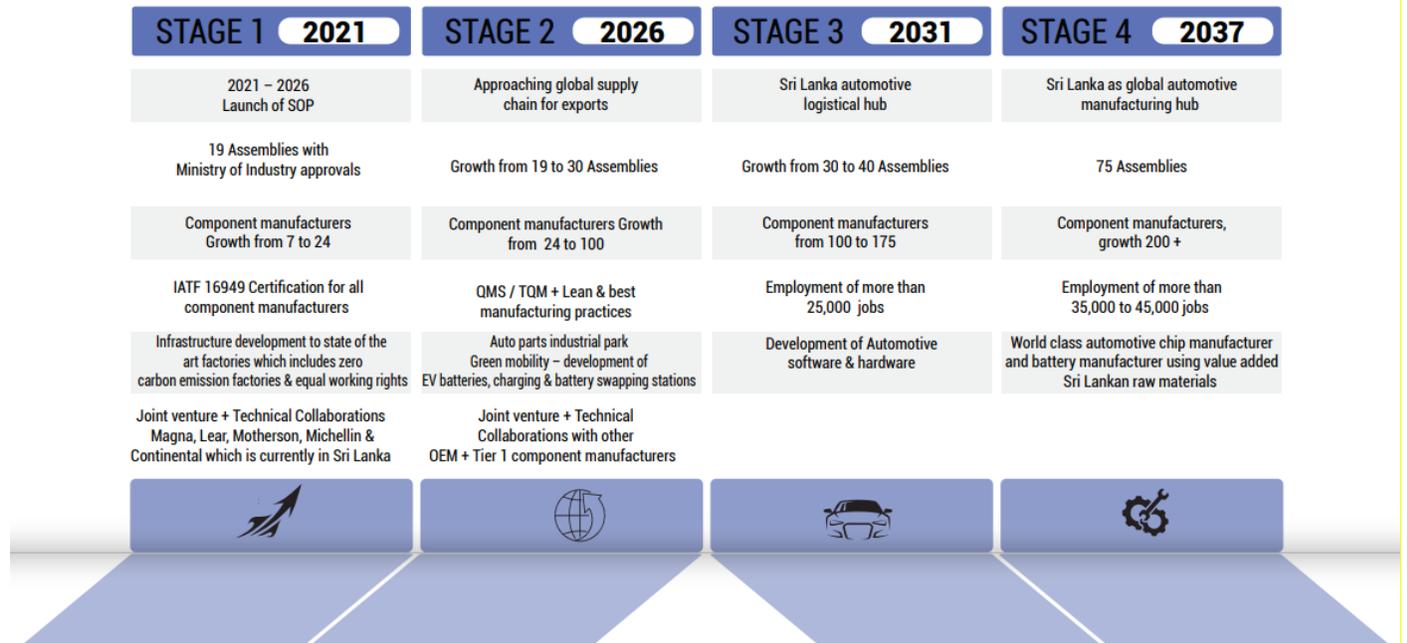
- Implement reduction in CO2 emissions through Corporate Average Fuel Economy (CAFE)
- Policy supports a continuous reduction in CO2 emissions through Corporate Average Fuel Economy (CAFE) regulations

4. Strategies

| No | Strategy | Programme / Project | Process/ Activity |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 01 | Promotion and Development of Local Assembly | Review the existing Standard Operating Procedure | Appoint the committee consisting of Public ,Private and Academia |
| | | Encouraging and facilitating subcontracting between established assemblers and the local SMEs | Conduct the Awareness Program for selected local SME,s and existing assemblers. |
| 02 | Development and Promotion of Local Parts / Components Production | Supporting capacity building to the component manufacturers to produce local content that meet the quality standards of the OEMs | Conduct the B2B meeting |
| | | Establishing an “Internationally Recognized Accredited Testing Center” as a Public Private Partnership | |
| 03 | Accredited Quality and Standards | Formulate quality and standards guideline for the industry as well as upstream and down stream industries and services for the protection of the consumers and fair trade | Enact a Automobile Standards Institute/Authority whose sole responsibility is to advise and update the Government mechanism in a financially independence manner |
| 04 | Building KPI for Automobile Assembly Industry | Review the history of Sri Lanka and global Vehicle development programs | Build a lasting KPI based vehicle brand development program with connectivity to the entire SOP |
| 05 | Building KPI for automobile component Manufacturing Industry | Review the history of Sri Lanka and global supply chain | Build a lasting KPI based technology development program with connectivity to the MATRIX of the SOP |
| 06 | Workforce recourse Development | Increase the Image of the industry and its employment opportunities | Educate school children to pursuit careers in STEM education by providing factory visits and motivational programs |
| 07 | To simplifying and shortening of procedures and guidelines for issuance of business approvals, permits and authorization by investors in establishing and running businesses | Establishing “ One Stop Shop” | |

5. Sector Master Plan

20 YEAR MASTER PLAN



6. Sector Objectives

- Increase contribution to GDP

To support the growth of the automotive industry in Sri Lanka and become one of the major contributors to the country's GDP and comprise a considerable proportion of the manufacturing sector GDP by 2030.

- Increase exports

To scale-up exports to 30-40% of the overall output over the next decade and improve the brand recognition, competitiveness and technological advancement of the Sri Lanka automotive industry across the world

- Drive employment generation and skill development

To become a solid foundation for job creation in the automotive sector, both direct and indirect, over the next decade.

- Increase local R&D investments

To drive the R&D efforts in the automotive sector towards indigenous research, design and engineering in both automotive vehicles and components

- Promote clean, efficient and sustainable mobility

To promote clean, safe, efficient and comfortable mobility for every person in the country, with a focus on environmental protection and affordability

8. SWOT Analysis

| Strengths | Weaknesses |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> ▪ Government Incentive Schemes based on Local Value Addition ▪ A Standard Operating Procedure (SOP) to enable Component Manufacturing and Vehicle Assembly ▪ Quality oriented production ▪ Creative Engineers with new technology inventions ▪ Resilient Workforce ▪ Access to Main and Trans-shipment shipping lanes for proper Supply Chain management ▪ Supportive ICT sector for new age automobile integration ▪ Availability of essential raw materials for new age components (Silica, Rubber, Ilmenite, Phosphate, and Graphite) | <ul style="list-style-type: none"> ▪ Low number of Vehicle Manufacturers and Assemblers ▪ Low number of Component Manufacturers ▪ Low number of Original Equipment Manufacturer (OEM) for Local Components ▪ Limited domestic market for various components and assembled vehicles. ▪ Comparatively poor infrastructure for supply chain and exports. ▪ No Automobile Specific Technical body to assist Research and Development as well as homologation ▪ No opportunity for benchmarking the industry performance against global practices ▪ Duplication of procedures ▪ No any Standards Institute or an authority to look after consumer needs for safety and performance. ▪ Lack of Educational System for developing automobile design, development and production mentality ▪ Manual application process for assembling project approval ▪ Lack of FOREX for Import of Raw Materials ▪ High Interest rate and overhead level |

| Opportunities | Threats |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> ▪ Capture the local vehicle market due to Temporary Suspension of CBU importation ▪ As the Global Supply Chain is disrupted, new Investor can start Component Manufacturing using local natural resources (Silica, Rubber, Phosphate, and Graphite) to the local and global market ▪ Combining two or three Industries to provide upstream opportunities ▪ Demand for EV vehicles due to the local fuel crisis and rising global fossil fuel costs ▪ Focusing on Renewable energy-based mobility solutions | <ul style="list-style-type: none"> ▪ Unstable supply chain for raw materials ▪ High Fuel Prices ▪ Restrictions of Mother Companies for adding more local components ▪ Low manufacturing cost in the neighbouring countries ▪ Development of new technologies like Fuel Cell, Hydrogen Powered Vehicles which may affect the local auto component industry |

9. Challenge(s) the sector is facing due to Government rules and regulations.

Policy instability and governance issues: The mandates for the automotive industry in Sri Lanka are currently being decided or influenced by multiple stakeholders, which may, at time, lead to unforeseen and abrupt changes for the industry. There is also an opportunity to adopt a more transparent and robust basis for major regulatory and policy changes which is backed by strong scientific or commercial analysis.

Absence of a long-term industry roadmap: Currently, the industry needs a long-term visibility of automotive regulations in Sri Lanka and hence avoid any uncertainty on the future requirement of technologies, testing and skills. Better alignment is needed between the planning horizon required for automotive investments and announcements and implementation timeline for regulatory changes, thereby facilitating investments in the sector.

Potential for improvement in technology access and R&D expertise: Technological progress of the automotive industry in Sri Lanka has been restricted by limited access to emerging technologies and innovations. Also, the domestic research and development eco-system has significant potential which can be tapped by increased levels of investments in building domestic engineering capabilities and better collaboration between industry and academia.

Shortage of skilled manpower: The automotive industry is in continuous need of skilled manpower, given the limited training capacity and employability of the trained workforce. Penetration of vocational education and training in India is also not at par with other leading countries.

Issues with the supply chain infrastructure: Inadequate development of logistics and supply chain infrastructure leads to inefficiencies, delays and high costs. This is a critical bottleneck to the expansion and competitiveness of the automotive industry.

In addition to the above, there are specific issues that are hindering development of different parts of the automotive value chain in Sri Lanka. Considering this situation, the National Automotive Policy to be formulated to create an enabling environment for the automotive industry and address the key issues impacting the industry. Through a comprehensive policy framework, it envisions the growth of the automotive industry.