

## JKSB COMMENT : TARIFF REDUCTION ON IMPORTS

- ✓ The government announced a series of tariff reductions on imports in a bid to stimulate domestic demand on consumer items as well as ease raw material and other input costs for manufacturers.

Among the key revisions are

- A withdrawal of the 15% surcharge on import duty
  - A reduction of import duty on imported raw materials and machinery from 11% to 8%
  - A simplified 3 band tariff structure of 5%, 15% and 30%
  - A significant unprecedented reduction on tariffs pertaining to motor vehicles and electronic items, details of which are listed at the end of this brief.
- ✓ High import duties that were raised in a bid to protect foreign reserves and shore up government coffers early last year reached intolerable levels for most businesses and consumers. Whilst it did stem the outflow of foreign currency for a short period, the measures proved counter productive with the upward rate revisions pushing prices beyond the reach of businesses and consumers, resulting in lower import volumes and a consequent decline in revenues to the government. The sharp decline witnessed in new vehicle registrations since 2007 is indicative of duty rates that proved to be prohibitive.

Year	2006	2007	2008	2009*
Total New Vehicle Registrations	300,522	298,892	265,189	204,075
YOY Decline		0.54%	11.28%	23.05%
New Private Car Registrations	27,578	22,603	20,237	5,762
YOY Decline		18.04%	10.47%	71.53%

Source: Department of Motor Traffic

\* Provisional

- ✓ The unprecedented reduction in tariffs would be welcomed by businesses and consumers alike and reflects a long term view to grow state revenues by stimulating growth and trade as apposed to impulsive and ad hoc upward rate revisions.
- ✓ The increased import volumes as a result of the duty reductions would compensate in part for the decline in government revenues however it remains to be seen what other policy measures the government undertakes in its bid to incrementally narrow the fiscal deficit over the next few years. The interim budget to be presented later in June is expected to spell out more details on how the government intends to tackle the fiscal deficit and is likely to give further insight as to whether the policy of tariff reduction would precipitate further into revision of taxation rates such as an easing of excessive taxation in the banking sector.

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### Implications on selected sectors

- ✓ Motor vehicle sales which had dried up are expected to pick up aggressively over the second half of the year which would boost motor company earnings. Sequential quarters have indicated significant operating cost efficiencies resulting in healthy earnings growth and the jump in sales volumes would boost net margins further.
- ✓ Trading companies would also benefit significantly from the sharp reduction on duties detailed overleaf on consumer electronics. Trading companies reported sound growth in revenue and earnings over the quarter ended in

**June 2010**

31<sup>st</sup> March and sharp reduction in duties on certain product categories are expected to result in a sharp rise in earnings in the second half of the year.

- ✓ Leasing businesses for which motor vehicle leases account for as much as 90% of business volume are likely to face some short term stress in its assets as the value of collateral on leased vehicles drop. However an increase in new business volumes would more than compensate for this in the medium term.
- ✓ The general insurance business for which motor insurance accounts for 52% of premium income would benefit from a pick up in new vehicle registrations although the sector would be affected in the short term by lower motor premiums on insurance renewals as a result of an expected 30% decline in motor vehicle prices.
- ✓ Banks would also benefit from increased trade finance activity while an expected increase in imports could create moderate volatility on exchange rates.
- ✓ A reduction from 11% to 8% on machinery and raw material imports would also result in wider margins for Manufacturing entities.

Details of key tariff revisions pertaining to motor vehicles and consumer electronics are listed below

DUTY REVISIONS	Existing Tariff Structure %											New Tariff Structure %											Total Reduction in Eff. Tariffs
	Customs Duty	VAT	PAL	SRL	Surcharge	Cess	RIDL	NBT	Excise	Total Eff. Tariff	Customs Duty	VAT	PAL	SRL	Surcharge	Cess	RIDL	NBT	Excise	Total Eff. Tariff			
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%		
<b>VEHICLES</b>																							
<b>1 Cars - Petrol</b>																							
Motor Cars < 1000cc	28	20	5	2	15	10	5	3	34	187	30	20	5	2	0	0	5	3	7	90	52%		
Motor Cars 1000cc < 1600cc	28	20	5	2	15	10	5	3	44	217	30	20	5	2	0	0	5	3	17	118	46%		
Motor Cars 1600cc < 2000cc	28	20	5	2	15	10	5	3	64	288	30	20	5	2	0	0	10	3	27	150	48%		
Motor Cars 2000cc < 3000cc	28	20	5	2	15	10	5	3	64	299	30	20	5	2	0	0	10	3	27	150	50%		
Motor Cars 3000cc <	28	20	5	2	15	10	5	3	64	299	30	20	5	2	0	0	10	3	40	190	36%		
<b>Cars Diesel</b>																							
Motor Cars < 1600cc	28	20	5	2	15	10	5	3	100	412	30	20	5	2	0	0	5	3	40	178	57%		
Motor Cars 1600cc < 2000cc	28	20	5	2	15	10	8	3	120	510	30	20	5	2	0	0	8	3	63	185	64%		
Motor Care 2000cc < 2500cc	28	20	5	2	15	10	10	3	120	524	30	20	5	2	0	0	10	3	68	271	48%		
Motor Cars > 2500cc	28	20	5	2	15	10	10	3	120	524	30	20	5	2	0	0	10	3	74	280	47%		
<b>Motor Cars - Electric</b>																							
	28	20	5	2	15	10		3	23	144	30	20	5	2	0	0	0	3	0	68	53%		
<b>2 Auto Trishaws</b>																							
Diesel	15	12	5	2	15	0	0	3	14	68	15	12	5	2	0	0	0	3	0	40	41%		
Petrol	15	12	5	2	0	0	0	3	4	47	15	12	5	2	0	0	0	3	0	40	15%		
LP Gas	15	12	5	2	0	0	0	3	2	43	15	12	5	2	0	0	0	3	0	40	7%		
Electric	15	12	5	2	15	0	3	4	50	15	12	5	2	0	0	0	3	0	40	20%			
<b>3 Vans</b>																							
13 < 17 persons (Petrol)	28	20	5	2	15	10	5	3	34	187	30	20	5	2	0	0	5	3	20	121	35%		
13 < 17 persons (Petrol)	28	20	5	2	15	10	5	3	64	281	30	20	5	2	0	0	5	3	30	152	46%		
<b>4 Double Cabs</b>																							
	28	20	5	2	15	10	5	3	88	366	30	20	5	2	0	0	5	3	32	152	58%		
<b>5 Luxury Vehicles</b>																							
10 < 13 persons (Petrol)	28	20	5	2	15	10	10	3	64	299	30	20	5	2	0	0	10	3	40	181	39%		
10 < 13 persons (Diesel)	28	20	5	2	15	10	10	3	120	524	30	20	5	2	0	0	10	3	74	290	45%		
<b>6 Motor Cycles</b>																							
	15	12	5	2	15	20	0	3	68	5	12	5	2	0	0	0	3	25	68	0%			
<b>ELECTRIC ITEMS</b>																							
1 Refrigerators and Freezers	28	20	5	2	15	20	-	3	15	139	30	20	5	2	0	0	-	3	15	100	28%		
2 Dish Washing Machines	15	20	5	2	15	15	-	3	15	109	15	20	5	2	0	0	-	3	15	81	26%		
3 Washing Machines	28	20	5	2	15	20	-	3	15	139	30	20	5	2	0	0	-	3	15	100	28%		
4 Air Conditioning Machines	28	20	5	2	15	20	-	3	15	139	0	0	5	0	0	0	-	3	0	8.5	94%		
5 Vacuum Cleaners	28	20	5	2	15	10	-	3	15	123	0	0	5	0	0	0	-	3	0	8.5	93%		
6 Heaters, Ovens and Cookers etc	28	20	5	2	15	10	-	3	15	123	0	0	5	0	0	0	-	3	0	8.5	93%		
7 Telephones Sets	15	12	5	2	15	1	-	3	15	71	0	0	5	0	0	0	-	3	0	8.5	88%		
8 Audio / Video Recording	15	20	5	2	15	1	-	3	15	86	0	0	5	0	0	0	-	3	0	8.5	90%		
9 Video Games	15	20	5	2	15	5	-	3	15	92	0	0	5	0	0	0	-	3	0	8.5	91%		
10 Televisions & Radios	28	20	5	2	15	10	-	3	15	123	0	0	5	0	0	0	-	3	0	8.5	93%		
11 Monitors and Projectors	51	12	5	2	15	10	-	3	15	84	0	0	5	0	0	0	-	3	0	8.5	90%		
12 Parts for above Electric Items	28	12	5	2	15	1	-	3	15	91	0	0	5	0	0	0	-	3	0	8.5	91%		