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Southeast Asia Customs & Global Trade  
Serving the automotive industry



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## Operating or intending to operate in the Southeast Asia region? With its sustained economic growth, competitive workforce and attractive incentives, vehicle importers, parts suppliers and vehicle manufacturers are expanding in the region.

### A growing market with attractive incentives

As the Southeast Asia (SEA) economy grows, so too does the demand for personal transportation. Fueled by increasing purchasing power, improvements in infrastructure and the region's highly competitive workforce, the automotive sector has increasingly looked towards SEA for new market opportunities.

In response, the race among SEA countries for foreign investment has generated a wide array of attractive investment incentives. In addition to opportunities such as corporate tax holidays and facilitation of employment for skilled workers, many SEA countries have implemented duty exemption, reduction, and deferment programmes for importation of qualifying equipment and materials. Moreover, with the increasing economic integration among SEA countries and their neighbours outside the region, there are a number of Free Trade Agreements (FTAs) that offer preferential duty treatment for many types of automotive sector goods.

### Market entry challenges

While automotive opportunities may be abundant in SEA, the region is not without risk. As with any developing region, rapidly changing requirements, lack of transparency in the application of customs laws and aggressive stances toward revenue collection remain a challenge for businesses in both strategy creation and implementation. An unprepared entry into the region can result in challenges impacting not only the bottom-line, but also the brand.



### What defines 'automotive'

Although the term 'automotive' is typically associated with cars, the sector is in fact much broader, including operations in relation to all types of vehicle and vehicular products, such as passenger cars, heavy trucks, buses, motorcycles and wheeled construction equipment.

### Managing issues faced by finished good vehicle importers/distributors

**Import taxes**—vehicles imported into SEA countries can be subject to significant customs duties and other charges, including excise, luxury and indirect taxes. The taxes payable are often dependent upon engine type (petrol, diesel, electric, hybrid), displacement (cubic centimeters/litres), or vehicle selling price.

**Free Trade Agreements**—a comprehensive FTA network provides opportunities to significantly reduce or eliminate customs duties payable on vehicles and aftermarket spares imported into SEA. However obtaining these preferential duty rates requires the supplier satisfying the appropriate Rules of Origin and providing the importer/distributor with the correct documentation for presentation at the time of importation.

**Import value determination**—customs authorities across SEA closely scrutinise values declared for duties and other border taxes, particularly where trading is between related parties. It is vital that the appropriate values for vehicles and aftermarket spares are determined, and can be evidenced, if challenged by customs at the border or on audits.

While a reality of ongoing commercial transactions, changes to the transfer price (particularly among related buyers and sellers) are closely scrutinised by SEA customs authorities. Failure to demonstrate that the parties continue to trade at “arms-length” can result in customs applying uplifts to declared customs values and additional audits.

**Non-tariff barriers**—imported vehicles, and certain sub-assemblies and parts, are potentially exposed to licenses, permits and other pre-importation approvals. Despite efforts to harmonise, these requirements are currently not uniform among the SEA countries.

### Managing issues faced by parts suppliers

**Import taxes**—import duties on automotive parts are generally much lower than those payable on fully assembled vehicles, but can nevertheless present a significant cost element in the overall production process and as a consequence parts suppliers are generally under pressure to reduce the landed cost of their supplies. This is particularly true for those providing high volumes of parts to vehicle manufacturers.

**Tariff classification**—for a wide range of parts, the tariff classification is readily determined, but with the growing trend towards supply of sub-assemblies or vehicle modules the position is often less clear cut. While customs authorities across SEA have adopted the HS Classification System, in practice there are often local variations on interpretation, impacting how goods should be classified. Use of broad “auto part” HS codes are also increasingly being challenged by customs. Failure to determine the correct tariff code can impact not only the duties payable but also exposure to import licenses and permits, and potentially entitlement to be imported under trade facilitation programmes where the vehicle manufacturers are located.

**Free Trade Agreements**—while historically automotive parts were treated as a sensitive category, there are increasing opportunities to benefit from preferential duty treatment, with many categories of parts now entitled to zero duty rates.

**Duty relief/exemption programmes**—many SEA countries offer investment incentives for automotive sector manufacturers (including parts manufacturers) to establish local production capacity. These can include allowing production sites to be designated as Bonded/Free Zones. The ranges of incentives offered typically provide import tax relief, or exemption, on qualifying capital equipment used in the manufacturing/assembly process. Additionally materials/components that are imported for use in the manufacture of the finished parts/assemblies may also be able to enjoy duty relief/exemption.

**Supply trade security programmes**—with just-in-time inventory requirements and high shipping volumes, speed, efficiency and certainty are minimum requirements from a business operations perspective. Those companies with a demonstrated commitment to compliance and supply chain security may be eligible for certain fast track clearance programmes that are offered by customs authorities in SEA. These programmes not only improve customs clearance times, but can also help to reduce costs associated with import/export activity and deliver efficiencies in inventory management. Having a well-documented and effective internal compliance programme is a pre-requisite.

**Pre-importation approvals**—as with vehicle importations, many SEA countries have imposed certain licenses, permits and other pre-importation approvals on imported automotive parts. Knowing which parts are subject to these requirements and developing processes to address them are key to managing penalties and keeping the supply chain running smoothly.

### Managing issues faced by vehicle and vehicular goods manufacturers

**Duty relief/exemption programmes**—investment incentives and Bonded/Free Zone manufacturing programmes are also available for vehicle manufacturers. Some include import tax relief/exemption programmes for imported production parts, even where the finished vehicle is not exported. Some will also allow preferential duty rates to be claimed when the finished vehicle is removed from the Bonded/Free Zones for domestic sale.

**Overseas tooling**—in an increasingly interdependent supply chain, ownership of supplier tooling can become complex. Often the entity owning the tooling may not be the entity using it, and in such instances, the tooling costs may not be captured in the piece price of the parts produced. Proper allocation of overseas tooling costs to the customs value of imported parts is required by customs authorities throughout SEA. However, determining a suitable allocation methodology and developing a process to ensure an accurate uplift to customs value for affected parts is often a challenge for manufacturers. Moreover, there are differences of opinion throughout SEA customs authorities on acceptable tooling cost allocation methodologies. Advance discussion with applicable customs authorities prior to start of production and part importation is crucial.

**Prototype and test equipment importations**—the regular cross-border movement of prototype vehicles and test equipment is a requirement for most vehicle manufacturers, as well as parts suppliers, particularly prior to the start of production for a vehicle programme. The design and engineering costs for such prototypes and test equipment can be significant, often despite a deceptively ordinary outward appearance. Correctly accounting for all dutiable overseas design and engineering costs in the customs value can require extensive pre-importation analysis. Failure to do so can result in serious penalties and potentially confiscation. Despite being non-saleable, many SEA countries impose the same license, permit and other pre-importation approvals required for regular production vehicles, parts, and equipment. Moreover, prototypes and test equipment often may involve temporary importation/exportation, as part of regional roadshows/exhibitions, or multi-country research and development programmes. Upfront planning can reduce the risk of non-compliance and ensure a smooth delivery.



# How Deloitte can help

## Our services

There are a wide range of reliefs and trade facilitations available to the automotive industry, which can significantly reduce duty liabilities and deliver supply chain efficiencies. Equally, failure to understand SEA customs requirements can result in unnecessary exposure to additional liabilities and penalties, and delays in cross-border movement of materials and goods.

As your advisor, we can provide support on a wide range of automotive industry issues, including:

### Customs valuation

- Reduction of duty/tax liability via import price restructuring
- Allocation of dutiable tooling costs to customs value
- Assistance with customs value inquiries, including support of declared values for related party transactions
- Application to customs authorities for valuation rulings

### Free Trade Agreements

- Optimisation of sourcing footprint via review of applicable FTA opportunities
- Advice on preferential duty and Rules of Origin criteria
- Assistance with implementation of third party invoicing structures in FTA transaction flows
- Applications for Certificates of Origin
- Development of processes and procedures to ensure adherence to FTA requirements
- Provision of training on FTA utilisation
- Periodic reviews of FTA processes and procedures

### Duty relief/exemption programmes

- Advice on programmes offering relief from duty and import VAT/GST for qualifying imported parts/assemblies, machinery, and equipment
- Advice on Bonded/Free Trade Zones for storage or processing of vehicles, parts, and assemblies
- Application to authorities for utilisation of duty relief/exemption programmes and Bonded/Free Trade Zones
- Assistance with establishing appropriate internal controls for programme/zones usage
- Periodic reviews

### Classification

- Determination of appropriate part and assembly tariff classification codes
- Mass classification diagnostics of part and assembly databases
- Application to customs authorities for classification rulings

### Our capabilities

Deloitte Southeast Asia's Customs & Global Trade services team is experienced in global trade strategy, automation, export controls and import/export compliance. Our professionals help ensure legal and regulatory requirements are met in a cost-effective manner.

Our multi-disciplinary team contains both private and public sector backgrounds meaning we understand the operational constraints and requirements in today's global environment. The team includes lawyers, accountants, customs brokers, auditors, former government employees and industry specialists. The team also interfaces with specialists in other service lines including international tax, transfer pricing, supply chain management, business and systems implementation/consulting, internal audit and corporate risk management; these capabilities allow us to offer our clients a deep and broad base of services.

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All services are provided through the individual country practices, their subsidiaries and affiliates which are separate and independent legal entities.



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Comprising over 250 partners and 6,000 professionals in 23 office locations, the subsidiaries and affiliates of Deloitte Southeast Asia Ltd combine their technical expertise and deep industry knowledge to deliver consistent high quality services to companies in the region.

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