Headline: Tie COE to cost of car, not engine size
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Tie COE to cost of car, not engine size

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FOR THE STRAITS TIMES

IT WAS recently reported in The Straits Times that upmarket marques now make up 45 per cent of sales in the up-to-1,600cc category, up from just 0.3 per cent in 2007. Buyers and sellers of bigger and more luxurious cars are also outbidding the others for certificates of entitlement (COEs) in the Open category, which can be used for any vehicle type but end up almost exclusively being used for bigger cars. The result is that some low-end makes that appeal to budget-conscious buyers are struggling or leaving the market.

The high prices of cars due to the bidding up of COEs has led some to suggest balloting as the solution, as Mr Chan Tau Chou did in a letter to The Straits Times Forum page last month. But balloting leads to problems. It would create a black market in which cars would still trade at roughly the same price as today, reflecting that the underlying supply and demand would not have changed, a point also made by other writers to the Forum Page such as Mr Goh Juanq Long and Mr Patrick Low.

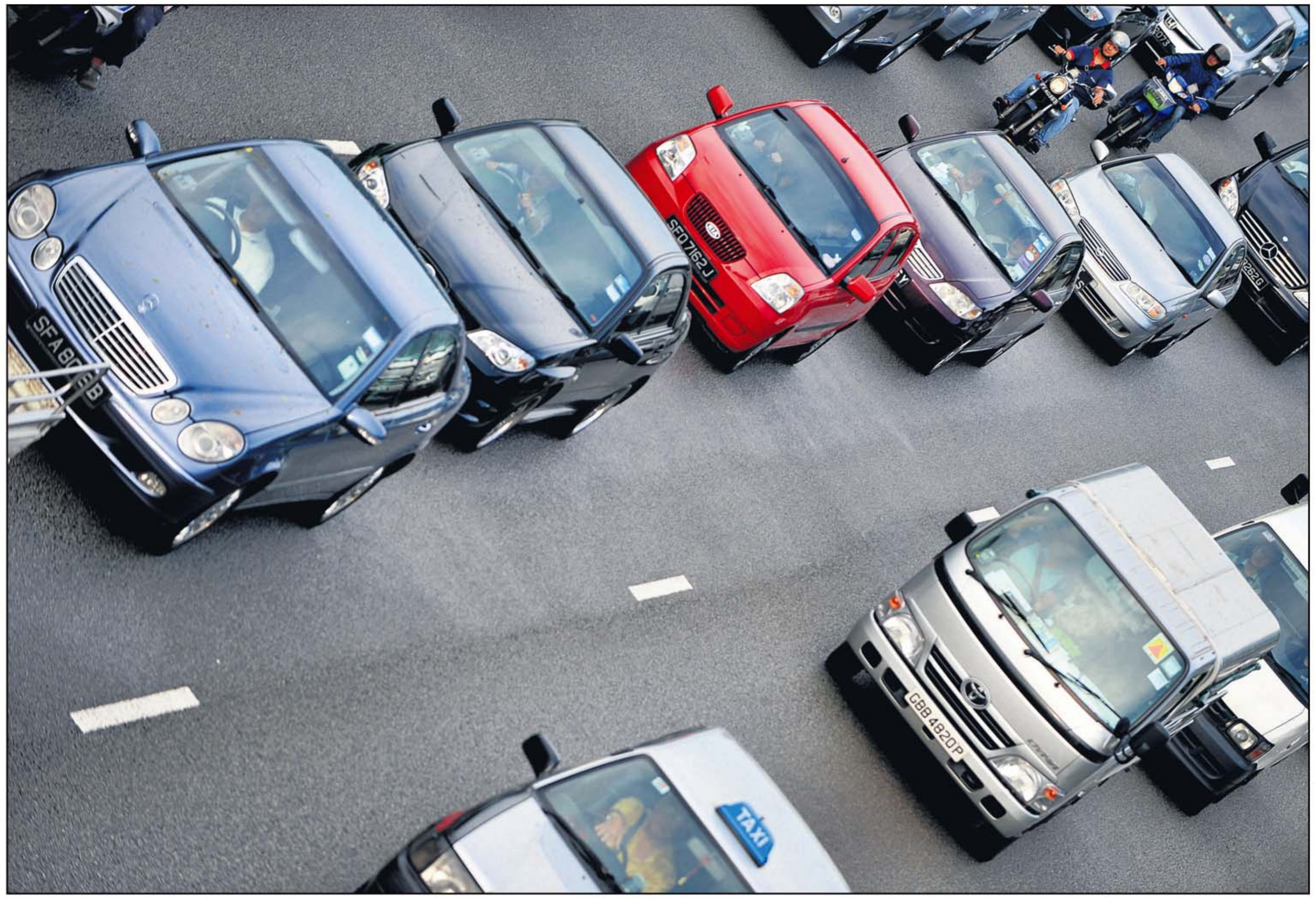
The main effect of balloting would be to shift the revenue currently generated for the Government to those lucky enough to win the ballot (as they could re-sell their COEs to the highest bidder).

If COEs were instead tagged to the person rather than the car to make them non-transferable so as to avoid this problem, as has been suggested by Mr Martin Lee in the Forum Page, then balloting would mean those who really need a car (possibly for their livelihood) may simply miss out, while the winners of the ballot may obtain a car regardless of their particular needs or their willingness to pay. This is not only unfair, but also economically inefficient.

I think quite a different solution is called for. The one I propose seeks to address the problem that prices of COEs that apply to basic car models are being driven up by the high demand for luxury cars. Until recently, this concern had been dealt with by creating two different categories of COEs: Category A (cars with engine size not exceeding 1,600cc) and Category B (cars with engine sizes above 1,600cc). The theory was that the rich would want big cars and so would bid up the price of Category B COEs, while leaving the price of Category A COEs largely unaffected. The problem with this approach was that oil prices tripled from 2004 to 2008, causing luxury carmakers to produce more luxury cars with smaller engine sizes. This resulted in more and more marquee brands selling cars in the small-car category.

My proposal would allow the authorities to do away with categories A and B (and the Open category), so engine size need no longer be the deciding factor in the COE paid. Rather, the COE price would be tied to the underlying cost of a car; that is, the open market value (or OMV) as assessed by Singapore Customs. This is the cost to the importer (before taxes) of bringing a car into Singapore. This is how goods and services tax (GST), custom duty and the additional registration fee are currently computed for cars in Singapore. The COE would therefore no longer be a dollar amount but a percentage amount. The more expensive the car, the higher the COE premium.

Each bidder (individual or car dealer) in a COE auction would bid a percentage amount for a COE. Someone might bid 142 per cent of OMV, someone else 228 per cent. Bids would increase in increments of basis points instead of dollars during the bidding process. The highest percentage bids win.



In today's car market, upmarket marques make up 45 per cent of sales in the up-to-1,600cc COE category, up from 0.3 per cent in 2007. Surging demand for luxury cars in this category, originally meant to cater to smaller and cheaper cars, has driven up COE prices and is causing lower-end brands to struggle or exit the market. ST FILE PHOTO

LINKING COE TO OMV

Make and model of car	OMV*	COE Latest**	COE Projected	Change in car price
Kia Cerato Ex Forte 1.6L 6A/T	$10,879	$64,201	$21,758	▼ $42,443
Toyota Corolla Altis 1.6 Auto	$14,795	$64,201	$29,590	▼ $34,611
Volvo S80 T4 1.6	$40,149	$64,201	$80,298	▲ $16,097
Toyota Wish 1.8 CVT	$21,503	$91,000	$43,006	▼ $47,994
BMW 528I 2.0L	$49,645	$91,000	$99,290	▲ $8,290
Bentley Continental GT 6.0	$193,793	$91,000	$387,586	▲ $296,586

NOTE: *Open market value for cars registered in March 2012
**Second bidding, April 2012

Source: JULIAN WRIGHT

ST GRAPHICS

The prevailing quota premium would be the percentage amount at which the number of bids for higher percentage amounts equals the quota of COEs available. All those bidding percentage amounts above the prevailing quota premium would receive a COE and they (or their dealer) would pay the prevailing quota premium, as that percentage on top of the OMV for the particular vehicle they choose.

To see the possible implications of such a scheme, consider six different cars, the first three belonging to the small-car category and the remaining three belonging to the large-car category (see table). The OMVs are taken from the One Motoring website for cars registered in March 2012. The COEs are taken from the latest bidding round – April 2012, second bidding. Consider how things would change if bidding was based on a percentage of OMV instead. For the sake of argument, suppose the prevailing quota premium that resulted from the bidding was 200 per cent. The implied COEs under a percentage COE scheme are given in the table, along with the predicted change to car prices.

Of course the example is only meant to be illustrative. Regardless of the exact numbers, the point is that consumers who choose to buy luxury cars will need to pay more for a COE and those buying cheaper models will pay less. Government revenues (which depend on the average COE prices across all cars sold) may not change all that much, even though the median car price should fall.

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