BUSINESSDAY
NEWS WORTH KNOWING
Monday, 30 July 2007

close window

Posted to the web on: 30 July 2007

Costly MIDP may have outlived its usefulness

Mathabo le Roux

Trade and Industry Correspondent

THE furore over the delay of the release of a midterm review of the Motor Industry Development Programme (MIDP) has been painted as a battle between the trade and industry department and the automotive sector.

It is not. It is a gargantuan clash between the department and the treasury over what is good for the economy.

The automotive sector is happy with the contents of the mid-term review. Now it wants the new programme to be endorsed so it can get on with business in an environment of certainty.

The delay in the finalisation of the post-2012 programme is the result of the department bending over backwards to accommodate the interests of all players in the industry. This has made the review's scope too wide — and its economic implications unpalat-able for the treasury.

The MIDP is a subsidy-based scheme which costs SA money in terms of forfeited import duties.

This is not wrong in principle: if subsidies help an industry gain greater competitiveness in the global market and create a significant numbers of jobs , the social benefits would be deemed sufficient to justify the cost.

The original intention of the MIDP was exactly that: to protect a highly inefficient industry as SA entered the global arena, while steering it towards greater competitiveness as the levels of protection gradually declined.

The programme is very profitable for automotive companies and they are basing their investment decisions on its existence.

But in 2005 a report by Frank Flatters, emeritus economics professor at Queen's University in Canada, found SA was one of the most profitable vehicle markets in the world .

The report showed automotive producers enjoyed benefits worth more than R55bn between 1996 and 2003. T his is more than double the cost of the Gautrain.

But whereas the Gautrain's benefit can be defined, providing affordable transport to commuters between two big cities and alleviating congestion on SA's busiest highway, the broader benefit of the MIDP, apart from boosting multinational company profits, is not clear.

Flatters' study shows that employment in the manufacture of vehicles and components declined 17% in the first five years of the programme.

Since then, employment in vehicle production has stabilised but not grown, while employment in vehicle assembly grew barely 1% a year .

Vehicle prices are high in SA because of the programme . The MIDP subsidises the production of vehicles and components but these subsidies are paid for — not only by the treasury in terms of import duties foregone — but by consumers because of higher prices and restricted choice.

The automotive sector argues that the MIDP has massively boosted foreign investment in SA and that the export of vehicles is earning foreign exchange.

But Flatters' numbers show the effective rate of protection in the first few years of the programme meant every R100000 of export earnings used R160000 of SA's resources. Now, with the benefits reduced, every R100000 earned costs SA R129000.

Flatters' indictment, that the subsidies make "socially wasteful activities privately profitable", is understood to be at the heart of treasury's objection to the MIDP.

The MIDP raises questions about the trade and industry's industrial policy. The aim of the policy is to emulate the MIDP programme in other strategic sectors, to boost growth and create jobs. It may, however, increase domestic cost structures, compromise companies' competitiveness and lead to higher consumer prices.