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21 November 2008

Cruise control

By JOHAN VAN ZYL

Critics of the Motor Industry Development Programme tend to ignore the achievements and structural changes in the SA automobile industry attributable to the MIDP as well as the fact that the industry's integration into global markets would have been impossible without it.

Introduced in 1995, the MIDP sought to restructure the SA auto and associated industries from what was a highly protected, inefficient industry to an outward looking, more globally competitive vehicle and component manufacturing industry.

Under the MIDP, the industry's contribution to SA's GDP has grown from less than 3% to about 4,5%, the seven vehicle manufacturers have invested about R34bn, supplemented by billions of rand of foreign direct investment in domestic component production, technology transfer, better quality and productivity, greater new vehicle affordability, a huge increase in exports and locally sourced components, growing and relatively stable employment and the abundant creation of high-level skills in the industry.

The industry has remained a net user of foreign exchange. However, in 2008 as new vehicle exports reached their full potential (277 000 units) together with component export growth, this is expected to change and the industry may record a small trade surplus.

The essence of the criticism by resident foreign academic Frank Flatters is that, under the MIDP, manufacturers are subsidised at the expense of consumers by 225%-700% of manufacturers' investments, that subsidies are enjoyed by a few auto firms (who allegedly profit from importing vehicles and components free of duty and sell them on at duty inclusive prices), that the restriction on imports of used vehicles provides additional support for the industry, and that the authorities have not released all the information about MIDP costs versus benefits.

He has a point about the need for greater transparency regarding the MIDP cost-benefit analysis. We believe the findings of the UN Industrial Development Organisation, the IDC and the MIDP review consultants that the benefits to SA overwhelmingly outweigh the costs of support measures.

For the rest he is wrong. Firstly, it is untrue the MIDP is restricted to a few firms. It is used extensively by component producers, vehicle importers and manufacturers. Export credits are used by suppliers to improve their pricing to vehicle manufacturers or by manufacturers to rebate import duties on imported vehicles. Average new vehicle price rises have been well below inflation in 10 of the past 13 years. SA prices are up to 35% cheaper than the equivalent vehicle in Australia. Secondly, local manufacturers and importers have been net payers of MIDP duties.

T he importation of used vehicles may sound appealing but such vehicles tend not to comply with basic safety and environmental standards and to be supplied without technical or parts backup. Elsewhere, this has led to the decline of the domestic auto industry.

Official policy is all about alternative choices in relation to limited resources. Auto industry policy is no different. But a key requirement is predictability and certainty.

The new Automotive Production & Development Programme for 2013-2020 should enable the industry to plan strategically and to finalise investment decisions with confidence, though the global environment is highly competitive. Most countries with vehicle markets similar to SA's protect their industries with much higher tariffs and more attractive support measures. On balance, the industry under the MIDP remains one of SA's most impressive business success stories. Ultimately, the National Association of Automobile Manufacturers of SA (Naamsa) views job retention and creation as critical to SA's future.

Van Zyl is president of Naamsa and CEO of Toyota