the dti
THE DEPARTMENT OF TRADE AND INDUSTRY SOUTH AFRICA

Automotive Development Programme Announcement

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1. History

In 2005 **the dti** initiated a review of the MIDP in order to assess its impact and recommend options to deal with identified gaps, whilst also ensuring that support to industry is consistent with South Africa's multilateral obligations, as well as domestic priorities.
A process of extensive research and consultation resulted in a report being submitted to the dti by end 2006. After intense evaluation of the report and recommendations therein, it was felt necessary to extend the analysis of industry dynamics and alternative support options going forward.
It should be noted that part of the recommendations was for the introduction of a Production allowance to replace the current export incentive in line with the country's multilateral obligations, however the design and development of such an allowance was not done.

2. Process: A task team involving **the dti** and National Treasury with the assistance of independent experts has from the end of 2007 worked on designing a new architecture for industry support in line with the new targets being set for the industry. Substantial research, followed by intensive and comprehensive industry consultations took place. The United Nations Industrial Development Organisation (UNIDO), Industrial Development Corporation (IDC) provided valuable information and assistance in respect of global industrial policy trends and economic modelling respectively.
The final proposals were arrived at after several interactions with industry stakeholders at various levels, culminating in a consideration by executive cabinet

3. Findings: The automotive industry is the largest and leading manufacturing sector in the domestic economy. Since the introduction of the MIDP the industry has rationalised and restructured in a more efficient basis achieving significant growth in production volumes, exports and investments whilst maintaining significant employment levels.
The industry generates strong linkages with other

- Input industries such as aluminium, chemicals, electronics, leather & textiles, plastics, steel, machinery and equipment,
- Service industries such as engineering, logistics, tooling,
- Others such as financial, wholesale & retail, advertising.

Automotives continue to be a highly competitive global industry where almost all countries hosting an automotive industry provide substantial support. The industry is also facing one of the worst times globally as automotive growth slows down and also the consumer demand shifting to more fuel efficient vehicles in response to the oil price and environmental concerns.
There is now increased competition from low cost and market booming regions such as eastern Europe and Asia with a continuing overcapacity problem that puts added pressure to our industry that still produces and sells hardly 1 % of the vehicles in the global automotive market.

Notwithstanding the successes achieved since 1995, the industry faces a number of challenges. Economies of scale in assembly and the depth of domestic component manufacturing are not yet internationally optimal. Relatively few automotive components dominate the export basket whilst the local content of the exported vehicles has somewhat stagnated. Also most of the growth in domestic sales has been serviced by imports resulting in a growing trade deficit, however the current domestic downturn and growth in exports is likely to reverse this situation in 2008.

4. Strategic Direction: Government is now looking at further expanding as well as deepening the industry. In this regard more efforts should seek to improve the productivity levels of component manufacturers to provide an opportunity of increasing the local content of domestically assembled vehicles.

The revised MIDP would therefore seek to provide industry with a reasonable level of support in a market neutral manner (that is, it cannot be an export incentive anymore as this might be inconsistent with WTO, therefore there will be no discrimination for products sold domestically and those exported).

5. Strategic Direction: Government is thus now looking at further development of the automotive industry in line with the National Industrial Policy Framework (NIPF) and 2007/8 Industrial Policy Action Plan (IPAP). Long-term development of the sector will be achieved by doubling production to 1.2 million vehicles by 2020 with associated deepening of the local components industry.

6. Revised MIDP: *"Automotive Production/Manufacturing Programme"*
The revised programme will have the following four key elements;

- **Tarriffs:** Stable, moderate tariffs will remain at 25% for light motor vehicles and 20% for components from 2012.
These tariffs are meant to provide just enough protection to justify continued local vehicle assembly.
- **Local Assembly Allowance:** This support will be in the form of duty credits issued to vehicle assemblers based on 20 – 18% of the value of light motor vehicles produced domestically from 2013.
This support is effectively providing a lower duty rate for local assemblers and should provide enough encouragement for high volume vehicle production in line with the target of doubling production.
- **Production Incentive:** From 2013 this support of 55-50% of value added computed in simple terms as sales less raw materials, in the form of a duty rebate credit, will replace the current export based scheme. Thus the actual benefit will be **55% X value add X applicable duty rate** in 2013. **The value-add support will encourage increasing levels of local value addition along the automotive value chain with positive spin-offs for employment creation.**
- **Automotive Investment Allowance:** From 2009, this assistance will replace the current Productive Asset Allowance and will be 20% of qualifying investment paid over to participants over a three year period.
This support will be available to encourage investments by vehicle assemblers and component manufacturers in a manner that supports equipment upgrading.

7. Other Work Areas: Further work is to continue in the following areas;

- Sub-sector investigation aimed at evaluating growth opportunities and appropriate support mechanisms in the Catalytic Converter and other material-intensive industry as well as Medium and Heavy Commercial Vehicles. Further announcements can be expected in due course after more detailed consultations, however within the current financial year.
- Programmes aimed at addressing broad-based empowerment imperatives as well as firm level competitiveness challenges will be enhanced in partnership with relevant stakeholders.
- In partnership with key stakeholders such as DEAT, DME and industry, work aimed at responding to climate change imperatives including tighter emission standards will be given more attention.
- A strong monitoring and review system will be set to allow better information flows for decision making as well as more frequent reviews.

8. Deliverables from the Private sector: Whilst Government would provide support aimed at further stimulating growth in the industry, the private sector is also expected to show progress in the areas of Transformation, increasing Local Content and contribution to Skills acquisition and or Training. Industry will also be expected to achieve high volumes of production so as to benefit from such improved economies of scale.

9.Improved Monitoring and Evaluation: In this current process of designing a new support mechanism it becomes important to build in measures of success to the extent that it then becomes easier to determine the success of the support programme into the future.

10. Implementation Plan: As we set up the necessary regulatory amendments and administration system for the programme, we will ensure that it is in line with the need for a strong monitoring and evaluation system but still not unduly burdensome to stakeholders.

Amendment	**Date**
1. Regulatory amendments	June 2009
2. Automotive Investment Assistance (AIA)	June 2009
3. Value Add Support / Production Incentive	January 2013
4. Local Assembly Allowance (LAA)	January 2013
5. Tariff Phase-down freeze	January 2013

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