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THE MIDP SO FAR

Side tracks and successes

By David Furlonger

Before the motor industry development programme (MIDP) was introduced in 1995, SA boasted a supremely inefficient auto sector: tariffs as high as 115% of imports, little investment, variable quality and outdated technology.

Since then, the industry has attracted billions of dollars in foreign investment, encouraged technology transfer and created a thriving export industry. It has also created job security.

The original intention of the MIDP, which expires in 2012, was to create an internationally competitive, export-orientated industry. At its heart is a gradual reduction in import duties. Built-up cars and pick-ups are currently subject to a 30% duty, which will fall to 25% by 2012. The duty on imported components for SA-built vehicles, now 25%, will drop to 20%.

In return for exporting, motor companies are rewarded with duty rebates on imports. At first, rebates were equal to the full local-content value of exports. Though this proportional reward has been whittled away in recent years, exports continue to boom. In 2000, SA vehicle manufacturers between them exported just over 68 000 vehicles. Seven years on, at least one company (Toyota) is on the verge of doing that alone. In all, more than 200 000 vehicles will be exported in 2007.

The problem with this export growth is that it has encouraged companies to import many more vehicles than anyone imagined. At the very worst, imports were expected to make up 35% of the car market. Instead, in 2006 imports accounted for 55% of domestic new-car sales. The main reason is that export credits can be used only to import vehicles, so companies feel obliged to buy in as many as their credits allow. If, as the industry has requested, exporters are to be given the option of tax rebates, there will be less pressure to import.

The MIDP's removal of minimum local content requirements has also enabled motor companies to source more components from overseas. As a result, the industry trade deficit - the gap between imports and exports - has grown alarmingly (see graph, bottom right).

In addition to export credits, companies have enjoyed investment incentives. Vehicle manufacturers that spend on new-vehicle facilities are entitled to a productive asset allowance (PAA) through which they may claim back 20% of their investment over five years. Some components companies may also claim this allowance but only under very restricted circumstances.

The industry has long argued that the 20% is inadequate: in other investment destinations with which SA competes, incentives are a minimum 35% and SA companies want the same. The department of trade & industry has also come under pressure to extend the PAA to all components companies.

Other initial aims of the MIDP were to provide affordable transport and protect jobs. The jury remains out on the first: though sales have rocketed in the past few years, nearly 90% of South Africans still can't afford a car, new or old. Employment in the assembly and components industries has grown under the MIDP, though not to the degree some optimistic planners forecast. Without it, however, thousands of jobs would have been lost.

Before 1995, most SA vehicle manufacturers were locally owned. Today, they are all controlled by multinational parents. Only Toyota SA has any SA shareholding. Multinational components companies have also moved into SA in a big way. Not all of this investment is down to the MIDP, however. Free-trade agreements with Europe and the US have persuaded some companies that it is cost-effective to build vehicles in SA for the tax breaks they enjoy in certain export markets. The total investment value of motor and components companies in SA is estimated at R30bn.

Please press your 'back' button to return to the previous page.