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Surprise MIDP break for vehicle manufacturers

Mathabo le Roux

Department says review will be completed
six months earlier

Trade and Industry Correspondent

THE trade and industry department yesterday moved to reassure vehicle manufacturers that the Motor Industry Development Programme (MIDP) would be extended until 2020, downplaying suggestions that the programme was a shambles and had to go back to the drawing board.

Deputy director-general Lionel October, in a bid to clear up confusion about the programme's future, said the review process would be fast-tracked and finalised by year-end — six months ahead of schedule.

In an exclusive briefing, October said the department would maintain support for the industry until 2020 in a bid to entrench the sector in the economy. Part of the plan to prolong the programme, which October said had the backing of President Thabo Mbeki, was to double vehicle production to 1,2-million units a year by 2020.

October's comments come amid reluctance by the treasury to see the programme continue, apparently due to high costs to the fiscus and local consumers.

"The aim is to achieve the economies of scale of world-class production plants. If we reach critical mass, unit costs will reduce. The industry will then not be footloose anymore, they will be imbedded here. If you get to that point you can debate dropping protection," October said.

But he also tempered vehicle manufacturers' expectations, reiterating that while existing levels of support would be maintained, support would not be increased, something manufacturers had asked for.

"The main thrust is to keep the basic architecture of the programme and maintain the instrument as a support mechanism for the industry."

October defended the department's rationale for continuing with the programme, in response to reports of a rift between it and the treasury over the efficacy of the MIDP.

The treasury is understood to be reluctant to see the programme continue because of its cost to the fiscus in foregone customs duties and also its cost to consumers because of the high cost of vehicles in SA — as a direct result of the MIDP.

October took a broad swipe at critics of the MIDP, noting that the major vehicle producers in the world had been established with similar support that was extended for as long as 30 years. SA's MIDP is in its 12th year.

"Of course there are going to be costs to the country, but you could sit with the revenues (of duties currently forfeited by the treasury because of the MIDP) and you will still have an uncompetitive industry.

"Free marketeers only look at the costs, but not at how the successful industries got there. Of course you have to start reducing the levels of support gradually, but you can't change the ship's course midway," he said.

October disclosed some of the key direction changes of the reviewed MIDP.

The most pertinent was that levels of support for vehicle manufacturers, in contrast with the recommendations in the commissioned mid-term review report, would not be increased.

Furthermore, with the programme under threat of being challenged before the World Trade Organisation (WTO), the support will shift from an export-based incentive to a production allowance.

October also confirmed that the department was looking to give more support to locally produced components — most of which were excluded under the old MIDP — in line with the broader industrial policy thrust to boost value-add manufacturing.

October confirmed that the productive asset allowance, in terms of which manufacturers can claim back 20% of new model-related investments, would be maintained, but not increased, as manufacturers had requested.

The department has reverted to Anthony Black, professor of economics at the University of Cape Town and architect of the original MIDP, to formulate the technical parameters of the new programme. Black originally turned down the job of reviewing the MIDP because its terms of reference were too tight.