Industrials

MIDP replacement agreed

Tense negotiations have resulted in a new motor industry support programme, which will focus on production, job creation and additional support for the component sector

Tim Cohen
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The Department of Trade and Industry (DTI) and SA's motor manufacturers have agreed on a replacement to the Motor Industry Development Programme (MIDP), by far South Africa's largest and most significant industrial support programme, government sources have confirmed.

The discussions over a new scheme have stretched over several years, with numerous delays and much controversy over what form it will finally take. The new scheme has yet to be presented to the unions and cabinet, but the DTI is confident agreement will be achieved.

It plans to formally announce the agreement on Monday, although some of the technical details will only be released after next Wednesday's cabinet meeting where the plan will be formally introduced.

The MIDP had to be revised because it's export support focus contravenes World Trade Organisation's rules which forbid countries from boosting exports.

Instead of focusing on exports, the new scheme is understood to focus on providing incentives to increase production. The new focus is intended to try and address some of the criticisms of the MIDP, including the claim that despite massive government support, the scheme failed to create a significant number of new jobs.

The production focus is also intended to resolve another of the DTI's problems with the MIDP; that it tended to focus on motor manufacturers and only secondarily support the component industry.

According to a report in Business Day, eleventh-hour talks only achieved agreement on Wednesday night, with the DTI making "considerable concessions to boost the benefit of the production allowance to satisfy industry".

This will come as music to the ears of SA's small but locally significant coterie of car assemblers and component makers - but it could also come in for criticism from free marketers who sense the industry is getting extraordinary benefits with little to show for it.

Supporters of the MIDP have pointed to the massive increase in the size of the local industry - by far Africa's largest - and its important role in boosting the local manufacturing sector.

When the MIDP was initiated in 1995, SA imported 22 000 cars and exporting fewer than half that number. This year, car imports are likely to reach ten times that and exports just below 20 times those numbers. Total sales of cars increased from 256 000 in 1995 to last year's record of 435 000.

Sales of all types of vehicles in SA last year, came in at just on 676 000 although this figure is likely to decline significantly to about 580 000 this year - a significant decline but still better than any year other than the past two.

Supporters claim the motor industry is a key part of a much wider and more significant industrial supply chain which underpins the sector, provides jobs, encourages skills transfer and supports the balance of payments.

Yet critics of the MIDP have argued that all these factors are outweighed by the implicit costs involved in the scheme.

A few years ago, Queens University professor Frank Flatters caused a mini-storm by calculating the implicit benefits to the industry under the scheme. He calculated that from 1996 to 2003 car producers received and used import rebate credit certificates worth more than R55bn.

In both 2002 and 2003, their value exceeded R15bn a year, which was 50% higher than the total annual spending on higher education at the time. The certificates were roughly equal to SA's total customs revenue collections in those two years.

The scheme had failed to generate cheaper cars for South African despite effective protection for the industry ranging from 29% of production cost in the case of vehicle exports, between 52% and 83% for domestic vehicle sales. Job creation in the industry was only marginally improved over the first decade of the programme, and skills transfer was also not significant, he calculated.

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