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Subsidies and secrets: new plan, same old questions

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AFTER three years of anticipation, the trade and industry department has at last announced its Automotive Production and Development Programme (APDP). This will replace the Motor Industry Development Programme (MIDP) and extend it until 2020. (The MIDP began in 1995.)

The MIDP was never easy to understand. Nor is the APDP.

We can be sure, of course, that the major vehicle companies are intimately familiar with the programme, having been involved in all stages of the trade and industry department's "stakeholder consultations".

But for taxpayers and vehicle buyers who have to pay for the subsidies, and their representatives in Parliament, the programme is less than transparent. Never even considered are sectors, jobs, exports and investments that are crowded out by heavily subsidised industries such as this.

We can be grateful, therefore, to two experts for describing the rationale for the APDP on this page recently.

What have they told us?

The motor industry has been "one of the largest recipients of state support". How large? In their article, Justin Barnes and Anthony Black suggested something relatively modest. Unfortunately, the trade and industry department has never given the numbers.

My own calculations suggest the support is not quite so modest. I estimate that motor vehicle producers are receiving subsidies of R11bn-R12bn a year. The cost to consumers, in higher prices, is close to R20bn a year. From 1995 through to last year, the industry received subsidies of more than R100bn and consumers paid almost R200bn. And this does not include support given by the used-car import ban, and many additional incentives under other government programmes. The MIDP subsidies have ranged from 225% to 700% auto makers' investments. To me, this suggests a rather heavy foot on the pedal of state support.

The programme's designers probably never imagined handouts of this magnitude. But this is only one of the MIDP's unforeseen and unintended consequences.

The MIDP is portrayed as supporting an integrated South African motor vehicle industry. Headline statistics point to the growth of vehicle exports. It is less well known that most export support (twice as much as to vehicles) goes to a few components. Last year, the export just of catalytic converters — canned platinum — received as much support (R8bn of import rebate credits) as motor vehicles. The bulk of this was for the export of platinum, which would have been exported without the MIDP. The subsidies went to a few vehicle firms, who profited from importing vehicles and components free of duty and selling them on at higher duty-inclusive prices.

And what has this support bought us?

Some suggest that without continued support at current levels, despite a dozen years of state support worth more than R100bn, the industry is still unable to compete. If this assessment is correct, it is a strong indictment of the government's strategy. If it is wrong, SA is being misled by sophisticated auto industry lobbyists enhancing their South African profits through state subsidies.

In either case, what is the rationale for further state support?

The initial intent of the MIDP was to assist an uncompetitive industry adjust to trade liberalisation and to encourage it to improve competitiveness by rationalising production. This was not a bad idea, especially if it was accompanied by a clear time line for the phasing out of support, and if it was backed up by a programme of worker assistance to help those left out in the process of industrial adjustment.

The focus shifted, however, to viewing this as a "strategic" sector to spearhead SA's industrial development through proven competitiveness in world markets.

We are now told that this is a failed strategy. While productivity has increased, the inherent obstacles of geography make it impossible for SA to compete against producers that are much closer to the largest world markets.

And so what should we do now? It is recommended that we continue to support the South African industry so that we can be prepared to sell in regional emerging markets, such as Brazil, India and Nigeria.

Maybe. But where is the evidence that we can compete in these markets? When? We are already importing from India. What are we exporting? How large is the Nigerian market, especially with falling oil prices, and for how long should we support the South African industry just in case it does, some time, take off? Even if it did, why would we have a locational advantage relative to Morocco or Europe; or producers in Nigeria itself? As a Business Day letter writer asked, why do we think we could compete in more distant markets when our immediate neighbours prefer to import new and used cars directly from Japan?

What is the trade and industry department proposing under the APDP? There have been suggestions of declining or at least stabilising levels of support. My own estimates suggest the contrary — when we move from the MIDP to the APDP in 2013, the rates of producer support will increase, not decrease. It looks very much like business as usual; a phase-out of state support is not on the horizon. Heavier on the throttle.

Potential investors suggest that the APDP will be a major barrier to the entry of new players in the industry, another unintended consequence in an industry that has been yellow-carded in Competition Commission investigations.

Of course all of my claims, and also those of Barnes and Black, can be disputed. Without access to the underlying policy analysis it is difficult to judge whether the government's support for this industry is based on solid economic foundations, or whether policy makers have been captured and SA consumers and taxpayers are being exploited by industry lobbyists.

The danger of capture in programmes such as the MIDP was highlighted in a recent report on SA by the Organisation for Economic Co-operation and Development. The danger is greatest when decisions are made behind closed doors and in consultation primarily with the principal beneficiaries of the programmes.

The recent MIDP review included two major studies, by Blueprint and by Barnes and Black. The Industrial Development Corporation has conducted a cost-benefit analysis of the trade and industry department’s proposals. There have been several previous reviews of the MIDP. A former trade and industry director-general was commissioned to review major incentive programmes, including the MIDP. Maybe the department has conducted its own internal analysis of alternatives. To the best of my knowledge, none of these reports has been made available to the public or even to Parliament.

In the interests of transparency and accountability, and in the spirit of the department’s own Industrial Policy Action Plan, is it not time to make this basic information and analysis available for parliamentary scrutiny and public consultation? This should have been done before new and costly policy initiatives were announced, not as an afterthought. It is equally important for the government to follow up with regular and truly independent reviews and economic assessments of this and other incentive programmes.

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