

# **Portfolio Committee on Trade and Industry**

## **South Africa Automotive Masterplan: Post 2020 Policy Framework**



10 September 2019



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# Delegation

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Industrial Development Division
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Automotives Unit

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- South Africa Automotive History and Structure
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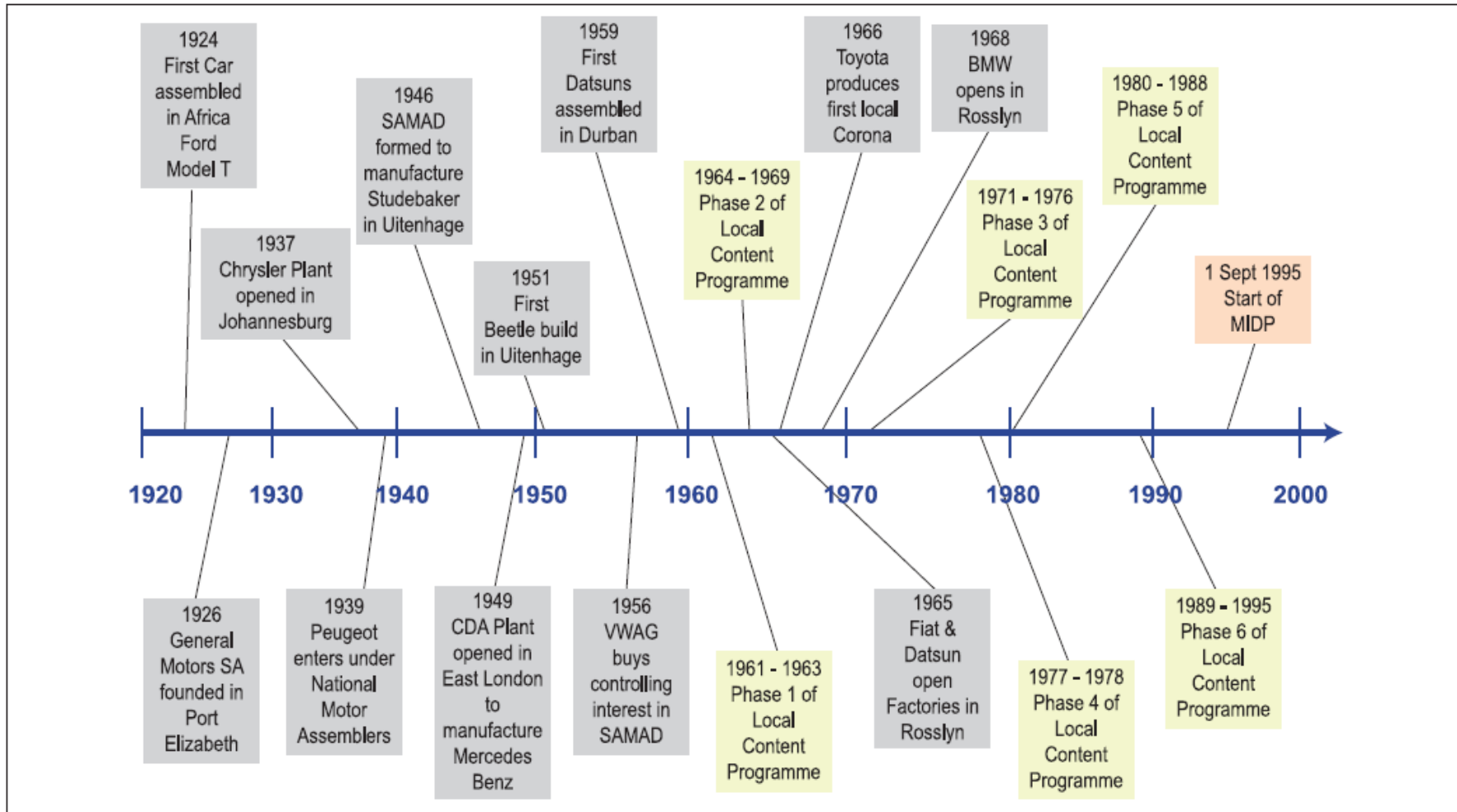


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# South Africa Automotive History



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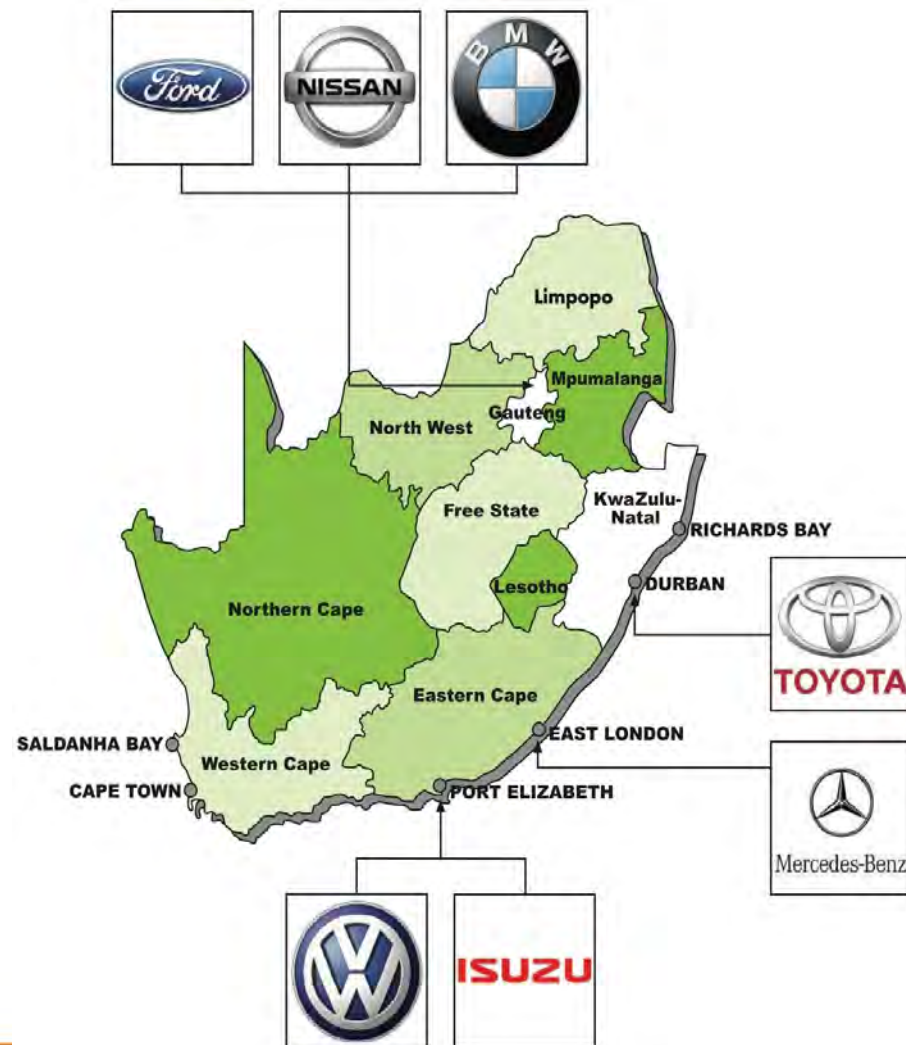


# Automotive Industry Structure

European light motor vehicle manufacturers represented in SA - **Mercedes Benz, BMW, and Volkswagen** are all wholly owned subsidiaries.

Japanese and American manufacturers, **Nissan, Toyota, Isuzu, and Ford** are also 100% controlled subsidiaries.

Other major marques imported - European (Peugeot/Citroen, Volvo), Japanese (Daihatsu, Honda, Subaru), Korean (Hyundai/Kia), Indian (Tata, Mahindra), with Chinese brands also growing in the SA market.



OEM employment levels: approx. 30 000



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# Automotive Clusters

Key Automotive Features (2018)	Gauteng	KwaZulu-Natal	Eastern Cape
Manufacturing plants (light motor vehicles)	BMW SA Nissan SA Ford Motor Company of Southern Africa	Toyota SA Motors	Volkswagen Group SA Mercedes-Benz SA Isuzu Motors SA
Number of component firms	200	80	150
Motor vehicle parc as % of South Africa's total parc of 12,46 million	38.5%	13.3%	6.6%
Light vehicle production as % of total production of 582 183 units	33.2%	23.5%	43.3%
Light vehicle exports as % of total exports of 350 003 units	34.6%	14.8%	50.6%

# Automotive Industry Performance (2018)

- Contributes 6.8% to the Gross Domestic Product (GDP) (4.3% manufacturing & 2.5% retail).
- Accounts for 29.9% Manufacturing output & 14.3% of Exports.
- Employs about 110 000 people in vehicle and component production.
- Annual investment by vehicle assemblers at R7.2 billion.
- 0.64% of global production (601 178 units) and 54.3% of Africa's production.



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# Challenges

- South Africa remains a small market (0.6% of global market).
- Regional market has major potential, but undermined by lack of common automotive regime and pre-owned vehicle imports.
- Duty-free sub 1000cc (one litre engine) vehicles from the European Union (EU) into the Southern African Customs Union (SACU).
- South African average vehicle local content low at just below 40%.
- Stricter emissions standards in major export markets.
- Growth of telemetry and movement towards autonomous vehicles.
- Empowerment levels relatively poor.



# Automotive Production & Development Programme (APDP): Structure till 2020

1. Stable, moderate **import tariffs** since 2012:
  - 25% for Completely Built Up Vehicles (CBUs).
  - 20% for components used by vehicle assemblers.
2. A **Volume Assembly Allowance** that allows vehicle assemblers with a plant volume of at least 10,000 units per annum to import a percentage of their components duty free:
  - This is valued at approximately 3.6% of a vehicle price.
3. A **Production Incentive** in the form of a duty credit aimed at raising manufacturing value-added:
  - This is valued at 10% of manufacturing value-added.

# Automotive Production & Development Programme (APDP): Structure till 2020

4. An **Automotive Investment Allowance** in the form of a direct cash grant to support investment in new plant and machinery:
  - This benefit is valued at between 20% and 35% of project value payable over 3 years from start of production with the specific level of benefit influenced by a variety of issues such as expenditure on local tooling, local research & development as well as employment creation and localisation, amongst others.



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# South African Automotive Master Plan (SAAMP): Vision 2035

- *A globally competitive and transformed industry that actively contributes to the sustainable development of South Africa's productive economy, creating prosperity for industry stakeholders and broader society.*

Industry workshopped and agreed: NAAMSA, NAACAM, NUMSA

# The SAAMP's six objectives

1. Produce 1% of global production (projected to be 1.4m units in 2035).
2. Increase local content in South African assembled vehicles to 60% (from <40%).
3. Double employment (to 224,000).
4. Improve manufacturing competitiveness levels to that of leading competitor levels.
5. Transform the industry across the value chain in areas of identified opportunity.
6. Deepen value addition, especially in respect of regional market supply.

# The SAAMP's eight focus areas

1. Local market optimisation (to 1.2m units).
2. Regional Market Development (to over 1m units).
3. Localisation (to 60% local content).
4. Infrastructure development (to leading international competitor standards).
5. Industry transformation (in identified areas of opportunity).
6. Technology & associated skills development (focusing on future industry needs).
7. Institutionalising the masterplan for improved monitoring & evaluation and to ensure implementation accountability.
8. Supportive policy (amendments to the APDP post 2020).



# APDP: post 2020 Amendments

1. Keep Import Duties stable, **however there is a need to harmonise duties on vehicles of less than 1000cc (one litre) engines from the European Union** by negotiating an increase from the current level of 0% to 18% in line with the Economic Partnership Agreement (EPA).
2. Change the current Volume Assembly Allowance to a **Volume Assembly and Localisation Allowance (VALA) that will be based on a vehicle price but exclude all imported content**. At current local content levels this would mean a reduction in benefits by almost a third (from 3.6% to 2.4% of sales).
3. **Increase the Production Incentive** from the current 10% to 12.5% of manufacturing value added in order to encourage further localisation.
4. The **Automotive Investment Scheme (AIS) to be reduced by 5 percentage points if there is no investment in local tooling** but should broadly remain as a cash grant payable over three years, fiscal resources permitting.



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# Other proposed interventions

- Review the *ad valorem* tax regime to remove the current bias against locally assembled vehicles (subject to further consultation and consideration in a process led by National Treasury).
- Introduce a registration requirement for new vehicle brands entering South Africa: There should be adequate service and maintenance parts in the country, as well as demonstrated service capabilities.



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# APDP post 2020 Amendments:

## Associated Costs

- Primary cost relates to Trade Related Investment Measure (TRIM), payable in form of duty rebates:
  - R16 billion in the Volume Assembly Allowance (VAA) and Production Incentive (PI) rebates; and
  - R11 billion in foregone duty on re-exported imports.
- Only R2 billion of direct fiscal costs (AIS grants) – for annual economic gross value added (GVA) of R74 billion (vehicle assemblers and component manufacturers).
- Post 2020 amendment reduces the industry's TRIM-related benefit by nearly R2 billion annually (based on 2016 prices, volumes and local content); with firms only able to recover this benefit if they increase their local content or grow their volumes – as per the objectives of the SAAMP.



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# Transition: 2021 to 2024

- To temper adjustment costs relating to the Volume Assembly and Localisation Allowance (VALA), it is proposed that the change be implemented over a few years:
  - 40% of vehicle sales less all imported content in 2021;
  - 39% in 2022;
  - 38% in 2023;
  - 37% in 2024;
  - 36% in 2025; and
  - 35% in 2026.



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# Preparations for implementation

- **the dti** and the International Trade Administration Commission of South Africa (ITAC) in consultation with the South African Revenue Service (SARS) developing relevant APDP guidelines and regulations.
- Engagements with the National Treasury taking place regarding the *Ad Valorem* tax.
- Terms of reference and framework for the Executive Oversight committee under development.
- A study exploring possibility of collaboration with some sub-Saharan countries just completed.
- Engagements with industry regarding a Transformation fund at an advanced stage.



# Africa Market

1. Vehicle demand is expected to increase over the next two decades.
2. There are binding constraints that need to be attended to including lack of reliable vehicle registration, financing, market regulation and supportive policies in the various countries.
3. A few countries have ambitions of developing own automotive industries.
4. South Africa therefore needs to support such industrialisation efforts in order to secure a market for local products into the future, for example exporting kits for final assembly in market.
5. Further work in this space is continuing in partnership with industry.



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# Localisation

SA OEM manufacturing sales and local content value

Year	Vehicles (billion)	Local content (billion)	Local content (%)
2012	R 75.3	R 35.2	46.60%
2013	R 92.5	R 37.9	40.92%
2014	R 113.5	R 47.1	41.48 %
2015	R 136.7	R 52.9	38.69%
2012-13 % change	22.84%	7.67%	-12.19%
2013-14 % change	22.70%	24.27%	1.37%
2014-15 % change	20.44%	12.31%	-6.73%
2012-15 % change	81.54%	50.28%	-16.97%



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# Localisation

- SA auto industry is compromised by its 39% local content, therefore deepening SA/regional local content is as important as growing vehicle production.
- Core technologies (drivetrain, powertrain, safety, infotainment) unlikely to be sourced in SA to 2035 but 60% local content in SA vehicles possible.
- Deepening localisation is a multi-dimensional challenge, including improving:
  - SA's factor costs;
  - SA's technology and skills availability ahead of industry demand; and
  - Limiting logistics costs and service price increases (electricity, water, etc.).
- Additional key elements:
  - Substantially deepening production capabilities in the auto components industry** in support of exporting and domestic aftermarket supply (hence growth objectives in these markets).
  - Establishing auto value chain specialisation** linking SA's materials with auto opportunities where local materials provide scope for substantially improved local content and value chain specialisation.



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# Transformation

- The South African automotive industry has become increasingly multinational dominated over the last two decades. Most of the vehicle assemblers are at level 8 on the BBBEE scorecard with the Ownership element being the “problematic” one.
- Tier 1 automotive component manufacturers are also facing the same challenge as vehicle assemblers in relation to ownership.



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# Transformation

Industry transformation has 4 focus areas:

1. Employee cohort brought into the industry should represent SA's demographic profile (race, gender and physical abilities) across the spectrum of employment categories, including **artisans, professionals, management, and executives**.
2. Given the auto industry's advancing skills requirements, employee education and skills development should remain a priority thus ensuring **technical and management skills** are transferred into the SA economy.
3. OEMs and Tier 1 suppliers within the SA auto value chain must prioritise lower tier **majority Black-owned supplier development** so as to substantially increase involvement of majority Black-owned auto component manufacturers within the SA auto industry by 2035.
4. OEMs to focus on enterprise development opportunities through their national **dealership structures and authorised repair facilities**.



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# Key Delivery Partners

Partner	Focus
ITAC (International Trade Administration Commission)	APDP implementation (Registration of participants, calculation of rebates, etc.)
IDAD (dti division)	Administration of AIS (Automatic Identification System)
SARS (South African Revenue Services)	APDP administration in collaboration with ITAC (customs administration)
IDC (Industrial Development Corporation)	Industrial Finance
ASCCI (Automotive Supply Chain Competitiveness Initiative)	Shop-floor interventions
AIDC (Automotive Industry Development Center)	Shop-floor interventions, Incubation support, Supplier Park management
ITED (dti division)	Trade agreement related activities
Invest SA (dti division)	Investment promotion & facilitation
TISA (dti division)	Export promotion and facilitation
SABS (South African Bureau of Standards)	Testing Facilities, Standards setting



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## SAAM 2035 vision

*A globally competitive and transformed industry that actively contributes to the sustainable development of South Africa's productive economy, creating prosperity for industry stakeholders and broader society*

**Objectives:** 1% of global vehicle production, 60% local content, 100% employment growth, competitiveness to leading competitor standards, industry transformation, increased value addition within GVCs

Local market  
optimisation

1

Regional  
market  
development

2

Localisation

3

Infrastructure  
development

4

Industry  
transformation

5

Technology  
and associated  
skills  
development

6

1+2

Supporting institutional environment (including M&E)  
**Enabling policy post-2020 (Amended APDP)**

# Industry Performance

Year	Domestic Vehicle Production	Domestic Vehicle Sales	Imports: Vehicles (units)	Exports: Vehicles (units)	Exports: Components (Rb)	Trade Deficit (Rb)	Employment			Investment (Rb)
							Components	Retail (estimate)	NAAMSA	
<b>2012</b>	546 074	630 619	362 537	277 893	39.9	42.3	70 000	200 000	29 180	4.7
<b>2013</b>	545 913	650 745	381 210	276 378	42.2	63.8	74 640	200 000	30 120	4.4
<b>2014</b>	566 083	644 504	318 343	276 873	45.7	62.2	82 790	200 000	29 715	6.9
<b>2015</b>	615 658	617 749	301 336	333 802	49.6	45.2	82 100	200 000	31 260	6.6
<b>2016</b>	599 004	547 406	293 261	344 859	53.0	32.0	82 000	200 000	30 953	6.4
<b>2017</b>	601 338	557 703	294 461	338 096	50.3	43.5	80 000	200 000	30 050	8.2
<b>2018</b>	610 854	552 226	292 511	351 139	51.3	40.8	80 000	200 000	29 855	7.2



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# Industry Performance

Year	Domestic Vehicle Production (units)	Vehicle Sales (units)	Vehicle Imports (units)	Vehicle Export (units)
2007	534 490	676 108	312 855	171 237
2008	562 965	533 387	254 633	284 211
2009	373 923	395 222	196 246	174 947
2010	472 049	492 907	260 301	239 465
2011	532 545	572 241	312 153	272 457
2012	546 074	630 619	362 537	277 893
2013	545 913	650 745	381 210	276 378
2014	566 083	644 504	318 343	276 873
2015	615 658	617 749	301 336	333 802
2016	599 004	547 406	293 261	344 859
2017	601 3388	557 701	294 616	338 096
2018	610 854	552 226	292 511	351 139

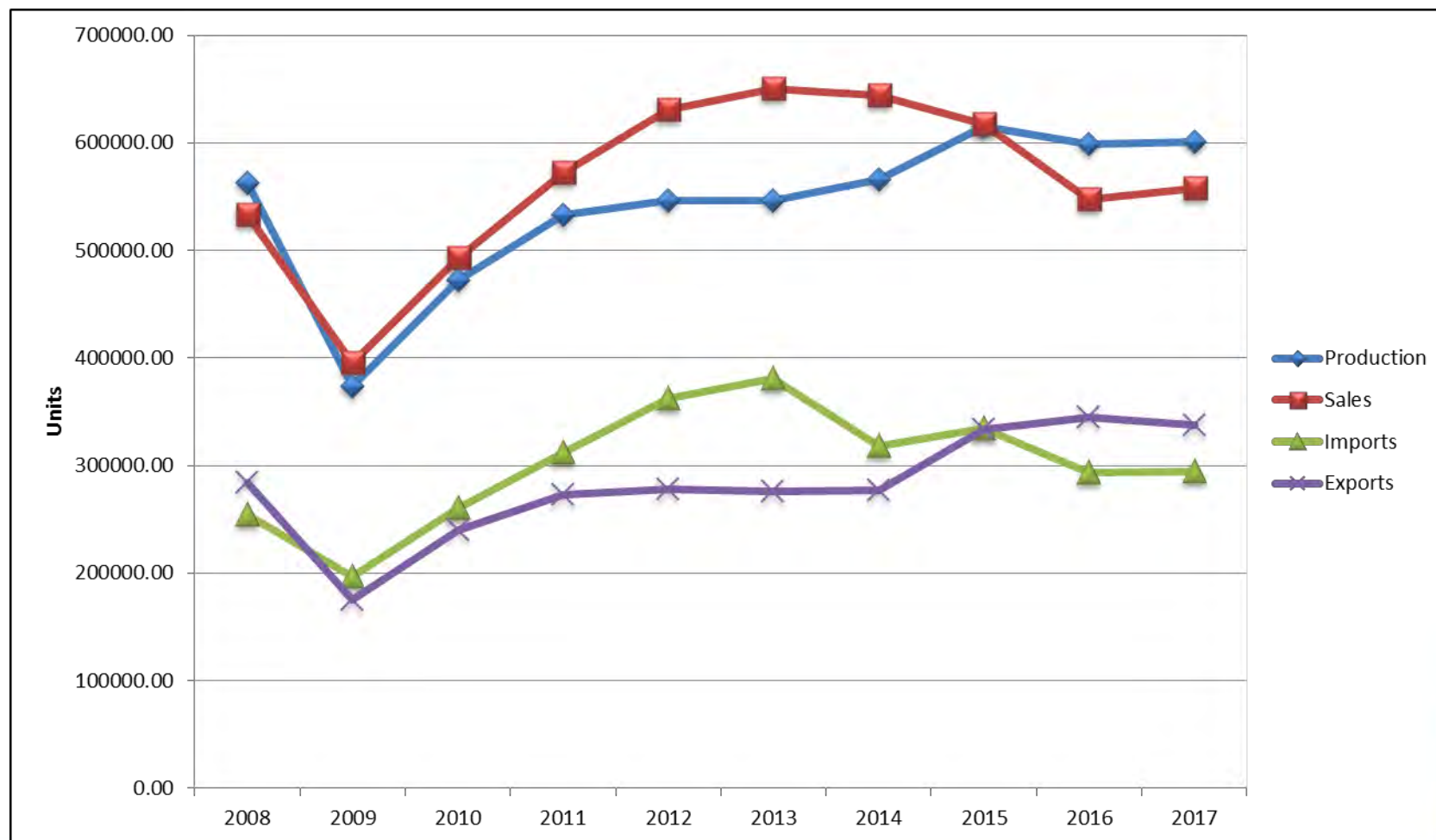


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# Industry Performance



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# Industry Performance

Indicator	2015	2016	2017	2018
GDP Contribution (Broad industry)	7.5%	7.4%	6.9%	6.8%
Investment (R billion) (OEMs & Suppliers)	9.4	9.0	12.2	10.7
Exports (R billion)	151.5	171.1	164.9	178.8
Imports (R billion)	196.7	204	208.4	219.1
Employment (number of persons)	113360	112953	113000	110 000



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# Conclusion

- The proposed amendments are aimed at encouraging increased volumes of vehicle production and higher local content, and ultimately substantially more employment within the automotive value chain.
- Further work to improve the administration of the APDP and to create a clear, transparent monitoring and evaluation framework are also being put in place. Key is the realisation of the SAAMP's objectives in 2035.



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*Thank you*



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