Proposed changes to APDP a highlight for automotive industry

By Peter Maxwell and Carridine Brooks

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The recent announcement of proposed changes to the Automotive Production and Development Programme (APDP) by Minister of Trade and Industry, Rob Davies, was one of the highlights of a tough year - one that not only provided much needed clarity on the way forward for South Africa's automotive industry but could also win the confidence of foreign investors.

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We are looking forward to hearing the finer details of the revised guidelines which Davies says will be published by the Department of Trade and Industry (dti) in April next year.

We have followed the extensive consultation process closely with all major stakeholders within the automotive industry, including the National Association of Automobile Manufacturers of South Africa (NAAMSA), the National Association of Automotive Components and Allied Manufacturers (NAACAM) and the National Union of Metal Workers of South Africa (NUMSA), that has gone on for more than a year.

After NAACAM annual general meeting, the general consensus was that, while there were still many unanswered questions, the component industry intended taking the time to digest what the Minister had put forward. All are waiting to see what Davies is going to put on the table in April 2016.

Overall positive effect

The proposed changes probably favoured vehicle manufacturers more than they favoured component manufacturers. However, as all aspects of the supply chain were intrinsically linked, the overall effect should be positive.

The most significant change was undoubtedly lowering the barriers of entry to the automotive industry for potential new investors through the reduction of the minimum volume of vehicles to be manufactured to 10,000 per annum in order to qualify for a reduced volume assembly allowance (VAA) of 10% as well as a suitable capital incentive for the investment in capital equipment.

Realistically, lowering the barriers of entry takes away the responsibility of the current original equipment manufacturers (OEMs) that are battling to manufacture 50,000 units. The question is whether the dti will reduce this VAA accordingly for production targets not met.

This bold move by the dti demonstrated a commitment to the long-term growth of the automotive industry. This should help attract new entrants into the vehicle manufacturing arena who were unable to comply with the previous threshold of 50,000 vehicles per annum. This will assist in setting the industry growth back on course and increase investor confidence in spite of the present economic climate. This will also position South Africa as an attractive vehicle manufacturing destination and improve our competitiveness against other emerging automotive industries such as Nigeria.

Unrealistic goal

When the APDP replaced the Motor Industry Development Programme (MIDP) in January 2013, many hoped that the change to a production based incentive programme would help to increase production to 1.2 million vehicles by 2020 and create additional employment opportunities. The dti had acknowledged that the slowing global economy made this goal unrealistic.

Based on NAAMSA's latest estimates, approximately 622,000 vehicles are expected to be produced this year. Using this forecast of expected vehicle production as a measure of the production growth experienced in 2015 against prior year production, he noted that significant strides were being made by the automotive industry against a recovering economy.

NAAMSA recently commented on the November 2015 new vehicle sales and anticipates that vehicle exports for 2015 should reach a record 340,000 compared to 276,873 units exported last year. While this upward trend in exports is likely to continue into 2016, NAAMSA notes that domestic new vehicle sales are likely to remain under pressure next year.

Instead the interim focus had shifted to stabilising current production output, attracting more foreign direct investment and sustaining the current levels of employment within the automotive industry. Both incentivising existing investors to produce more models in South Africa and attracting vehicle manufacturers that were not yet active in South Africa would ultimately benefit component manufacturers.

Attract manufacturers

First and foremost, we need to attract vehicle manufacturers into the country. You have to have a strong vehicle manufacturing sector and then the component manufacturing sector will follow. The only other avenue for component manufactures, other than supplying the after-market, is to export. However, the export market is very competitive and it is not easy for them to secure profitable export contracts.

The arrival of new vehicle manufacturers and additional investment by existing OEMs should see component manufacturers increasing their volumes. The aim of the APDP was not only to increase the number of vehicles produced but also to broaden the component manufacturers' supply chain and deepen localisation. The introduction of additional support mechanisms by the dti, such as the incubation programme for tier 2 to tier 4 suppliers, reflects the dti's awareness of the current shortcomings and the vulnerability of this industry that could threaten further localisation of automotive components.

To also increase localisation, the dti intends increasing support for tooling manufacturers. Manufacturers of catalytic converters (a component that falls within the vulnerable product category) will enjoy increased support as the dti has frozen the production incentive (PI) in 2017 at 65% and eliminated the continuous phase-down of the PI while tightening the belt for manufacturers of components that are viewed as non-core products.

A major concern remains the future of the APDP and industry support post 2020. Although the current review might attract investors, clarity and stability going forward was needed to retain them. The dti needed to carefully consider its post 2020 master plan to not only enable motor manufacturers to plan ahead but also to clarify other issues, including greater participation of previously disadvantaged groups within the industry.

Ambitious target

The Minister's suggestion that a draft post 2020 master plan by April 2016 is a very ambitious target, which would in all likelihood not be available if the dti intends redrafting an incentive programme starting with a blank page that would enable the industry's growth and continued support post 2020.

Over the past few years, prolonged strikes within the automotive industry had shaken investor confidence. Additional employment could only be created once production had stabilised and both existing manufacturers and new entrants could increase volumes.

In conclusion, the dti's more conservative approach to revising the APDP is welcomed. The dti had to be cautious and had to not only listen to all the participants, but also refrain from making radical changes that could erode investor confidence. Many will have committed expenditure and investment based on the strategy put forward in 2013. It is important to have certainty and not to change the parameters part way through the current programme.

If investors see that the rules are going to be constantly changed, they may not be so quick to commit to manufacturing their next model in this country and give that manufacturing opportunity to another country because of the lack of certainty.

ABOUT THE AUTHOR

Peter Maxwell is director and Carridine Brooks is a senior manager at Deloitte.