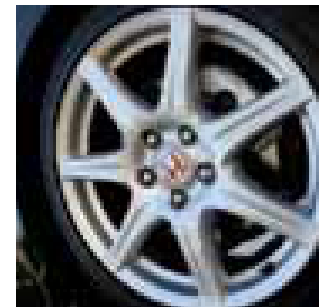


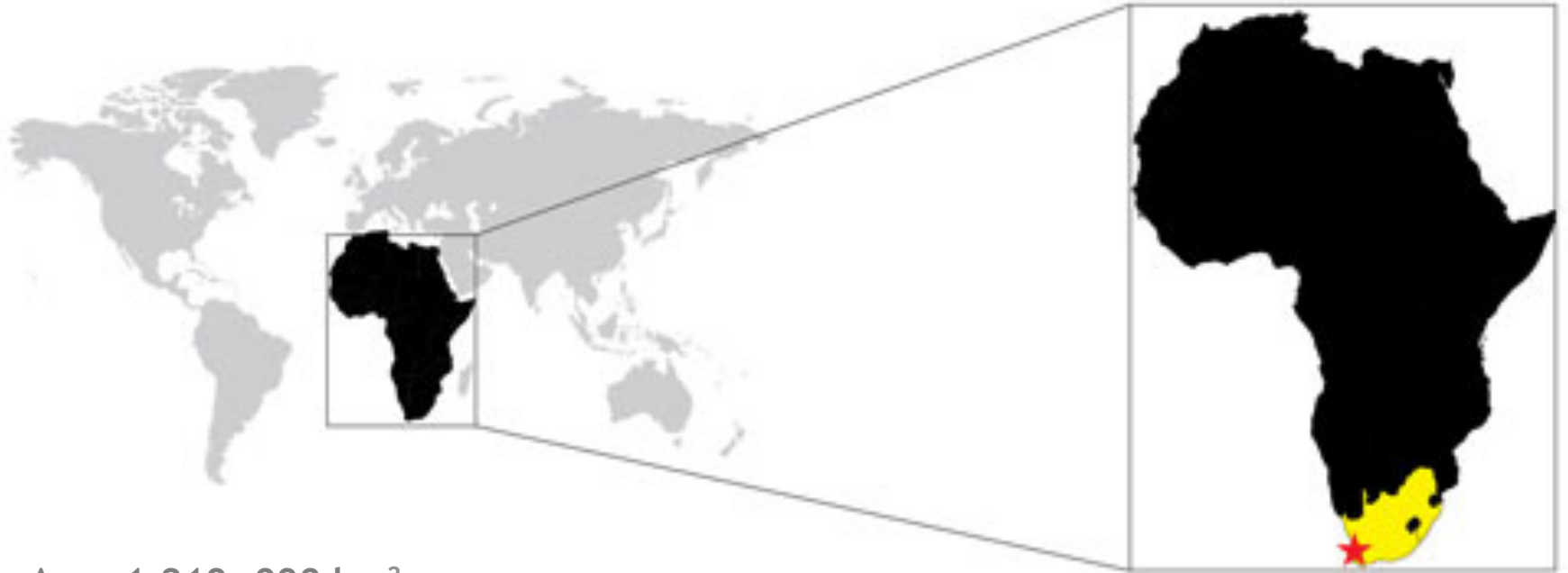
# ***SOUTH AFRICA'S ENVIRONMENT FOR AUTOMOTIVE INVESTMENT***

*Renai Moothilal, the dti*

*June 2012*



# South Africa fast facts



- Area 1,219, 090 km<sup>2</sup>
- Head of the State: President Jacob Zuma
- 11 Official languages with English the business language
- Est. Population: 49,9 million



# South African Economy

Subject Descriptor	2005	2010	2015
GDP (constant prices)	5.277	2.784	4.5
GDP per capita (constant prices)	33,506.98	36,730.29	42,280.50
Investment (%GDP)	17.958	21.698	20.855
Import volume of goods and services growth (%)	10.879	4.584	6.3
Export volume of goods and services growth (%)	8.568	5.036	6.452
Population (million people)	46.888	49.991	52.979

Source: IMF: World Economic Outlook, April 2011

- South Africa positioned as a **manufacturing centre of excellence**
- Diversified Industrial sectors
- **Open** economy
- Sound business case for investment and profit
- **Gateway to Africa** and markets of more than **200 Million consumers (SADC)**



# South Africa at a glance

Indicator	1994	2010	
Total Population	38,283,223	49,991,300	↑
% of Total Population under 15 years	37%	30.1%	↓
Adult Literacy Rate (1990 and 2009)	76.2 %	88.8%	↑
Internet Users (2009)	100,000	4,420,300	↑
Mobile Telephone Subscriptions (2009)	340,000	46,436,000	↑
GDP per capita (PPP, constant 2005 prices)	R 7,423	R 9,476	↑
FDI (net inflows % of GDP)	0.27%	0.43%	↑
Gross Fixed Capital Formation (% of GDP)	15%	25.5%	↑

Source: World Bank Development Indicators 2010



# South Africa - emerging market perspective

Of 14 emerging markets; Australia, Canada, Russia, Mexico, China, Poland, Spain, India, Korea, Brazil, SA, Colombia, Chile & Argentina

South Africa is:

- **2<sup>nd</sup>** most sophisticated financial market
- **2<sup>nd</sup>** lowest effective business tax rate
- **4<sup>th</sup>** ranked i.t.o. the cost of capital
- **6<sup>th</sup>** ranked for infrastructure
- **7<sup>th</sup>** for FDI as a % of GDP (2008)



# South Africa's Tops the BRICS for Ease of Doing Business

Country	Overall Rank	Getting credit	Protecting investors
South Africa	34	2	10
China	79	65	93
Russia	123	89	93
Brazil	127	89	74
India	134	33	44

*Source: World Bank Group, 2011*



# South African Trade Agreements





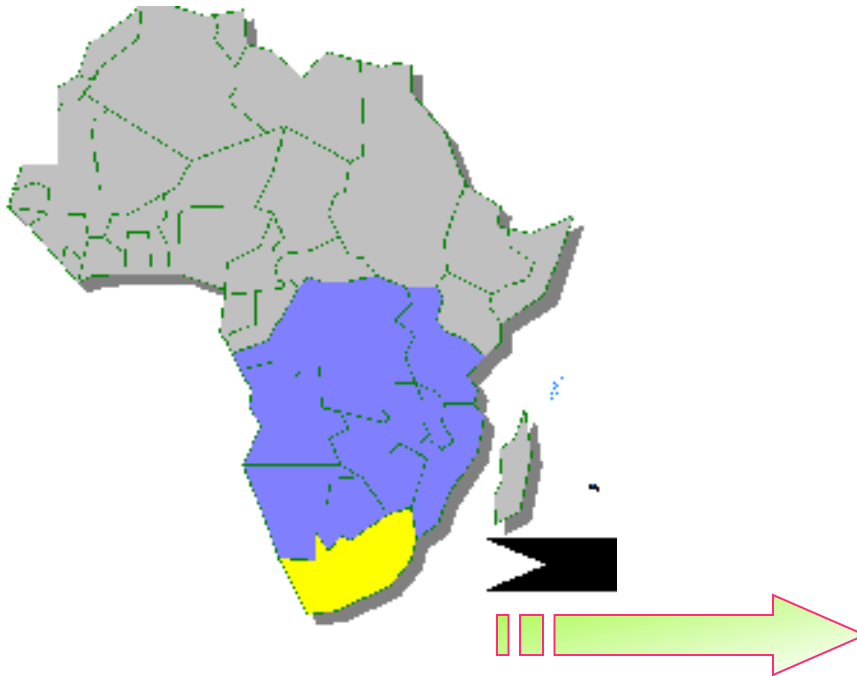
# South African Trade Agreements

Trade Agreement	SA Exporting Sectors benefiting
SACU - EU/EFTA: FTA	Agro-Processing; Machinery; Automotives and Components
SADC: FTA	Machinery; Minerals
AGOA	Machinery; Automotives and Components
* <i>SACU - India PTA</i>	
* <i>SACU-Mercosur: PTA</i>	
* stages of negotiation/ratification	





# SADC and South Africa

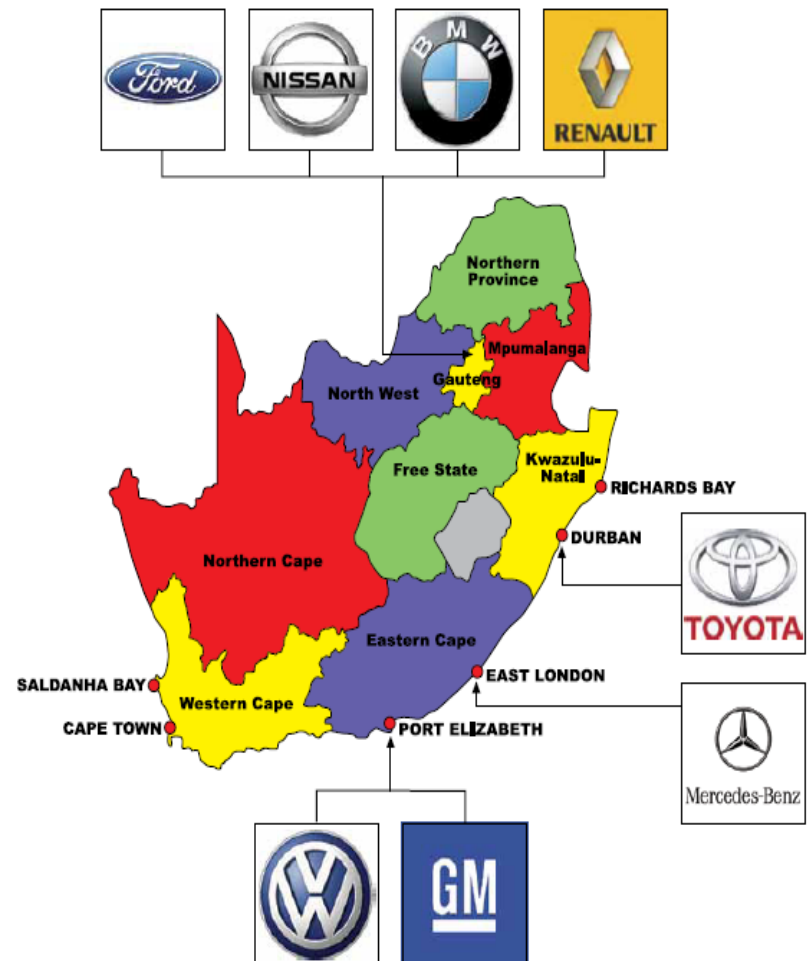


- SADC FTA signed in August 2008 – market of 200 million consumers
- Discussions of Future FTA with SADC, COMESA & EAC with a market of 700 million consumers



# SA Automotive Industry: OEM Representation

- European vehicle manufacturers represented in SA - **Mercedes Benz, BMW, Renault and Volkswagen** are all wholly owned subsidiaries.
- Japanese and other Multinational manufacturers, **Nissan, Toyota, General Motors, and Ford** are also 100% controlled subsidiaries
- Other major marques imported - European (Peugeot/Citroen), Japanese (Daihatsu, Honda, Subaru), Korean (Daewoo, Hyundai, Kia), Indian (Tata, Mahindra), with Chinese brands recently entering the SA market (Chery, Chana, Foton, GWM)



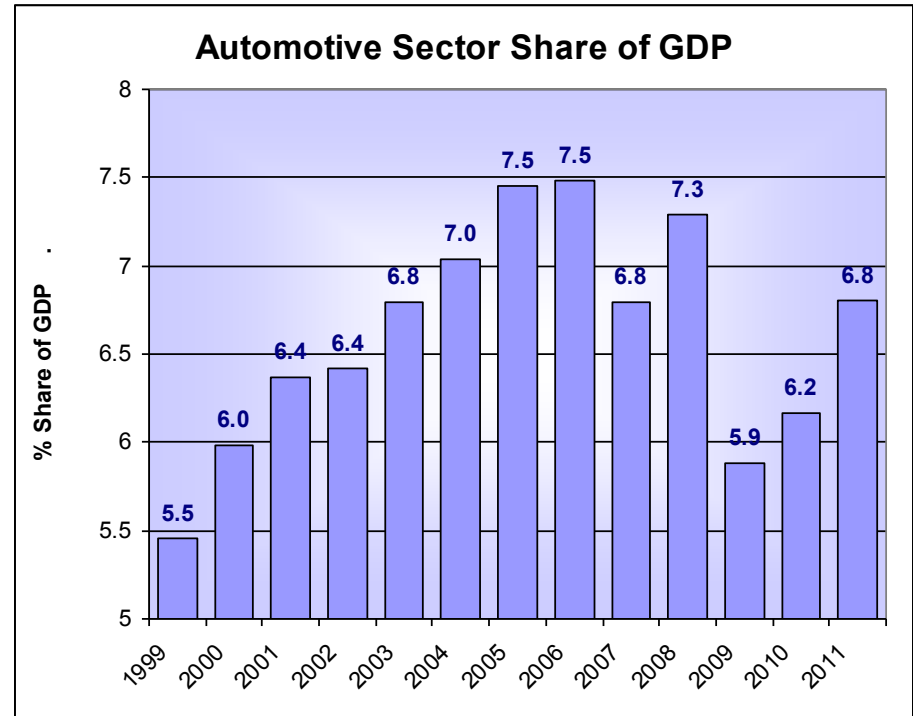
# SA Automotive Industry: Component Manufacturing

- **Widespread base** of auto component suppliers including global first tier suppliers such as Faurecia, Johnson Controls and Benteler
- 120 1st tier suppliers, 75% of them multinationals
- Over 200 2nd and 3rd tier suppliers, mostly local
- Employment totals 68,000, down from the peak of 82,000: **supply of labour**
- Sales exceeded R75 billion, with 40% OEM assembly, 35% export, 25% aftermarket
- All 1st tier and many 2nd/3rd tier are TS16949 indicative of world class adherence to **quality and improvement** through the supply chain



# SA Automotive Industry: Economic Contribution

- The Automotive Industry is the **largest manufacturing sector** in the SA economy and contributed 6,2% of SA GDP of R 2 663 billion in 2010. (2009: 5,9% of R2 423 billion). In 2011, rise to 6,8% of R2 964 billion
- The export led growth model came under pressure in 2009 as a result of the global economic crisis. Significant improvement in both export and domestic business post 2010 and projected for future years
- Approx **540 000** vehicles produced in SA 2011, compared to **470 000** for 2010, resulting in almost 15% production growth rate



# Major SA Automotive Exports

- OEMS:

- Nissan - Hardbody to Africa
- Volkswagen - Polo series to EU
- BMW - 3 Series to Japan, Australia and USA
- Mercedes Benz - C Class to USA
- Toyota - Corolla/Hilux to EU & Africa

- Components:

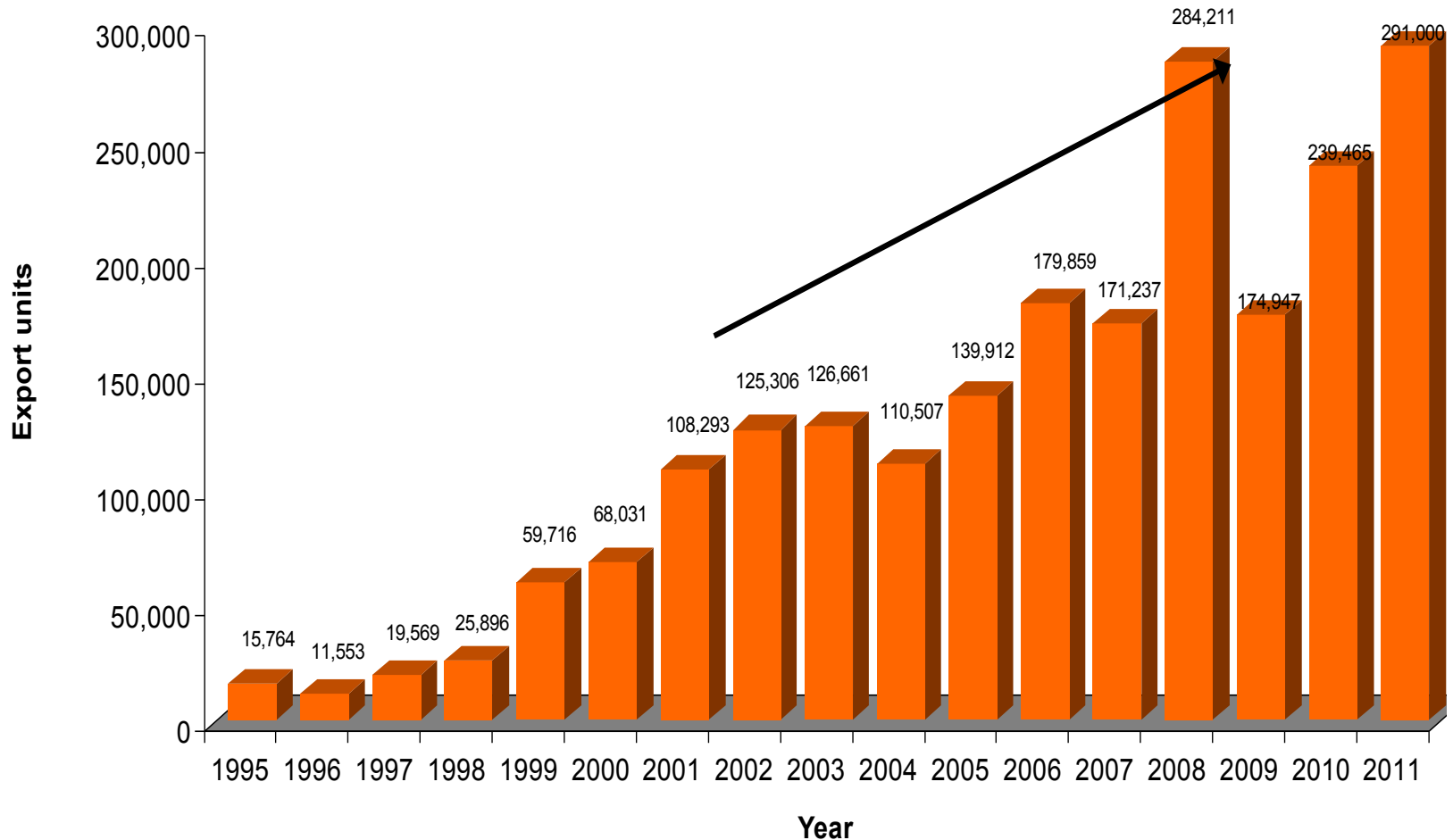
- quoted in R million
- Major export destinations: EU, Africa, USA, Brazil, Japan, followed by Australia, S Korea, India and China

Component	1995	2000	2010	2011 (est.)
Catalytic Converters	389	4 683	14 761	19 600
Seats, Stitched Leather	1 019	1 915	2 898	2 100
Engines and Parts	111	485	2 470	2 800
Tyres	213	682	1 133	1 700
Silencers/Exhausts	76	377	1 696	2 100
Radiators	55	127	782	1 000
Automotive tooling	153	362	518	500
Wheels	157	551	383	500
<b>Total Components</b>	<b>3318</b>	<b>12 640</b>	<b>31 467</b>	<b>37 500</b>



# Industry Performance through MIDP period

## *Vehicle export trends*



# Investment Environment: Automotive Sector

- Vision 2020: Stimulate expansion of automotive vehicle production to 1.2 million vehicles pa by 2020 with associated deepening of the components industry. To be done through long-term partnerships and relationships built with industry
  - Investment support through Automotive Incentive Scheme
  - Encouraging local value addition through APDP
  - Firm level competitiveness improvement programmes
- Recent Investment Announcements: Mercedes Benz, R2.4bn; General Motors, R1bn, Ford R3.6bn, Metair Group R400mill from 2008-10
- Typical component investment of R100mill per new OEM model launch or contract
- Opportunities: Engine parts/components, vehicle interiors, electronic drive train components, body parts and exterior finishes, aluminum forgings & castings (vis-à-vis OEM project specific opportunities)





# Investment Environment: Automotive Production and Development Programme

- **The APDP consists of 4 pillars aimed to support and develop the SA automotive industry**

- Stable import tariffs of 25% for CBUs; 20% for CKD components used in assembly
- Vehicle Assembly Allowance (VAA): manufacturers with a min plant volume of 50 000 pa allowed to import a percentage of their components duty free (20% decreasing to 18% over 3 yrs)
- Production Incentive (PI), being an allowance for duty free import of vehicles or components, calculated at:
  - 55% of value added in SA supply chain reducing to 50% over 5 years
  - Special dispensation for “vulnerable” industries”
- Automotive Investment Scheme (AIS)



# Automotive Incentive Scheme (AIS)

- AIS is part of the APDP and was launched in May 2010
- Targets companies that are:
  - Automotive assemblers (OEM's)
  - Automotive component suppliers
- Objectives:
  - To stimulate investment and job creation in SA's automotive sector
  - Investment in technologically advanced automotive production & new and replacement models/ components
  - Increased plant production volumes & strengthen the automotive value chain



# ALS Incentive Benefits

- A taxable **cash grant** paid over 3 years
- Minimum benefit calculated at 20%;
- An additional 5% and 10% benefit subject to Economic Benefit Requirements
- The base benefit is calculated on the investment in the following **Qualifying assets** that includes:
  - Plant, Machinery, Equipment and Tooling; for example
  - *Jigs, dies, moulds;*
  - *In-plant logistics (software and hardware);*
  - *Material handling equipment;*
  - *Production testing and design equipment;*
  - *IT equipment and supporting software.*
  - *Owned land and buildings - limited to the value of investment in plant, machinery and equipment*



# ALS Incentive Benefits (cont)

- An additional grant of 5 or 10 % can be allocated to projects that contribute to the following economic benefits:
  - Substantial support for the local tooling industry
  - Significant Research and Development in South Africa related to the project
  - Maintain employment levels throughout the incentive period and or result in the creation of new jobs
  - Strengthening the automotive supply chain through backward and forward linkages
  - Substantial increase in local value addition
  - Increase in unit production per plant for OEM's in line with vision 2020
  - Increase in turnover for component manufacturers



# General Incentives

Incentive	Benefit	Main Conditions
<b>The Enterprise Investment Program (EIP)</b>	The EIP (manufacturing) is a cash grant of between 15-30% for locally based manufacturers who wish to establish a new production facility or expand an existing facility	Qualifying capital expenditure up to R200 million.
<b>Foreign Investment Grant</b>	To compensate qualifying foreign investors for the cost of moving and commissioning qualifying new machinery and equipment from abroad to SA.	Foreign investors only
<b>Industrial Development Zone</b>	Exemption from VAT when sourcing goods and services from South African customs territory and duty-free imports of raw materials and inputs for export	Compliance with approved IDZ operating policies



# General Incentives

Incentive	Benefit	Main Conditions
<b>Section 12(i) tax allowance</b>	Tax deductions of up to R 900m depending on status viz. preferred or qualifying projects.  Training allowance/ deduction of up to R30m or R36 000 per employee.	Capital investment > R 200m
<b>Research and Development</b>	Tax deduction increased to 150% for R&D expenditure. Accelerated allowance on R&D assets	Proven R&D related activities as per requisite definition
<b>Critical Infrastructure Fund</b>	Infrastructure projects intended to service IDZ, shall qualify for a grant of 30% of the qualifying infrastructure development cost	The minimum qualifying infrastructure development cost is R15m



# the dti's Investment Services

- Sector Information
- Finance to explore investment opportunities in SA
- Facilitating direct Government support in the form of:
  - - information on investing in SA and the Business Environment
  - - detailed investment Incentives
  - - investment facilitation
  - - after care - ongoing contact

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