



NATIONAL ASSOCIATION OF AUTOMOBILE MANUFACTURERS OF SOUTH AFRICA

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N29
15th September, 2017

The Chairman
Ports Regulator
Private Bag X54322
Durban
4000

Dear Sir,

NPA TARIFF APPLICATION 2018/19: SUBMISSION BY NAAMSA ON BEHALF OF THE SOUTH AFRICAN AUTOMOTIVE INDUSTRY

The National Association of Automobile Manufacturers of South Africa (NAAMSA) represents the interests of 43 vehicle manufacturers and importers of new vehicles in South Africa. NAAMSA's members are appreciative of the considerable advances made on behalf of the industry in recent years by the Ports Regulator of South Africa as well as the Transnet National Ports Authority for their continued efforts to drive port pricing in a direction that is accurate, equitable and increasingly globally competitive.

As the largest manufacturing sector within the South African economy, vehicle and automotive component manufacturing accounted for 33% of the country's manufacturing output in 2016, while the broader automotive industry's contribution to the country's gross domestic product was 7.4%. Automotive policy remains a key driver when positioning the domestic automotive industry to compete globally. In this regard government and industry stakeholders are currently engaged in consultations in respect of the South African Automotive Masterplan 2021-2035 to provide a framework to secure even higher levels of investment and production in the South African automotive industry up to 2035.

NAAMSA hereby submits its comments in response to the NPA Tariff Application for 2018/19, in the hope that our reasonable requests will be considered to be in the best interests of the South African economy, considering the significance of the domestic automotive industry as well as consumers.

Yours sincerely

A handwritten signature in black ink, appearing to read "Brett van Zyl", is written over a horizontal line.

Brett van Zyl
CHAIRPERSON NAAMSA SUPPLY CHAIN WORKING GROUP

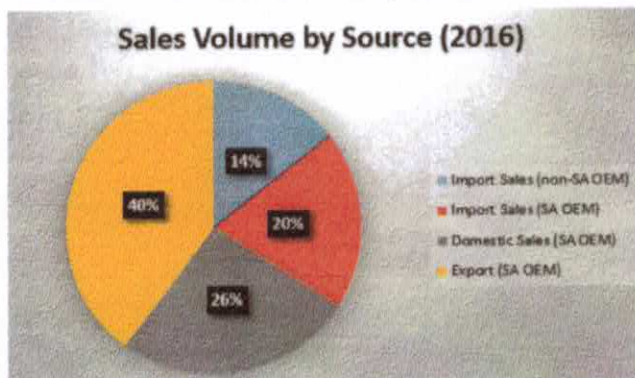
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The National Association of Automobile Manufacturers of South Africa (NAAMSA) welcomes the opportunity to provide comments on the Transnet National Ports Authority’s 2018/19 tariff application. As the representative body of the motor vehicle manufacturers as well as new motor vehicle importers and distributors, the importance of the Ports Regulator of South Africa’s engagement process is appreciated and considered fundamental to ensure that South African port users are able to have access to a competitively priced port network.

Component and motor vehicle exports form an integral part of the South African automotive sector. A competitively priced ports network will allow the South African automotive sector to effectively compete globally since exports of vehicles (R118 billion) and automotive components (R53 billion) accounted for R171 billion, representing 16% of total South African exports in 2016.

In 2016 60% of vehicle production, a total of 342 702 vehicles were exported and 294 501 vehicles were imported. The number of export destinations grew to 154 countries, up from 140 countries in 2015.



The automotive industry remains particularly sensitive to port pricing, as such a competitive pricing strategy

coupled with efficiency improvement gains within the ports system will assist the industry to meet its official mandate in the current challenging trading environment domestically as well as internationally and would improve the industry's overall competitiveness.

Tariff Submission Comment

1. Global Ports Competitiveness

- I. The proposed tariff increases of 5% on motor vehicles and 7.5% on containers further exacerbate the lack of competitiveness of South Africa's ports. Tariff charges in South Africa remain higher than global averages at 128% on vehicles and 182% on containers. We believe that the proposed increase contradicts the mandate of the National Ports Authority of lowering the cost of doing business in South Africa and enabling economic growth, as well as the vision of the Department Of Public Enterprises to unlock growth and drive industrialisation in South Africa.
- II. The proposed vehicle and container tariff increases, as well as the proposed unitised tariff methodology will have a significant adverse impact on the cost competitiveness of the motor industry as it places the heaviest burden on price sensitive vehicles in the entry level segment of the market and significantly increases the cost of export units.
- III. The tariff should be aligned with policy that states that the import tariffs should be twice that of export tariffs, a 2:1 Import: Export ratio, however, the current ratio is 2.57:1. The export tariff should not be increased, but rather the import tariff decreased to align to the policy

2. Methodology

I. Unitised Tariff

The unitised tariff proposal results in an above average increase in tariff costs, which is higher than the industry average. It also places the heaviest burden on the price sensitive vehicles in the entry level segment of the market that will see an increase in tariffs of up to 50%.

Trucks, which are capital inputs to the economy, will also see a rise in tariffs that will impact local manufacturing operations negatively and have the unintended consequence of increasing costs to the economy.

II. Investment / Recovery misalignment

There is disparity between investment and recovery. The Ports Authority plans to spend R34.8bn over the next seven years, with limited direct benefit to the motor industry, where proposed tariff adjustment will be at its highest.

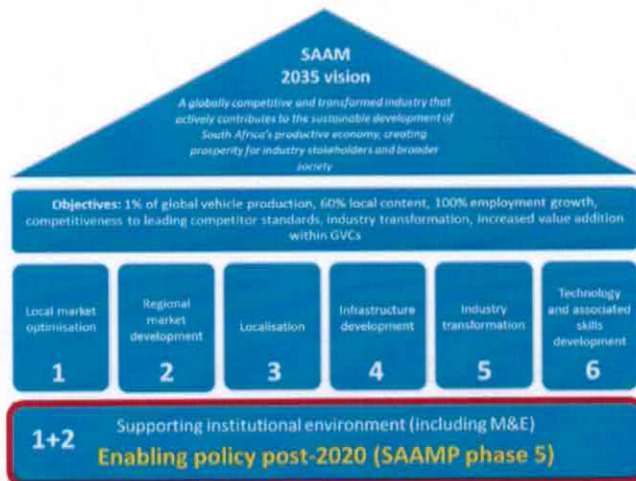
III. Proposed tariff / Transnet Market Demand Strategy misalignment

The unitised tariff proposal will result in an increase in excess of 20% across industry and will result in future increases being based on a higher tariff base.

This is not in line with the National Ports Authority Market Demand Strategy objective of increasing the competitiveness of industry supply chains, reducing the country's logistics costs, and the sustainable development outcome of industrial capacity building.

IV. Proposed tariff / SAAMP / APDP misalignment

The proposed rate increases will render the automotive industry less competitive and are in direct conflict with the objectives of the South African Automotive Master Plan - the post 2020 APDP. To ensure future sustainability of the automotive Industry, Government and



Industry have embarked on various programmes including the APDP and the South African Automotive Master Plan (SAAMP). These initiatives have been established to create a platform to drive industry competitiveness to enable future growth and achieve the challenging targets set by the SAAMP.

The SAAMP advocates for an increase in the competitive levels of the motor industry to that of leading international competitors through comparative price and non-price competitiveness, coupled with sustained export competitiveness.

3. Conclusion

In the light of the above NAAMSA requests consideration of the following:

1. The opportunity to engage with the National Ports Authority through a consultation process between the National Ports Authority and the individual OEMs and importers to address the concerns of each OEM/importer.
2. The opportunity for NAAMSA to engage with the National Ports Authority to gain an understanding of the National Ports Authority's roadmap relating to the stated global competitiveness targets.
3. That the National Ports Authority affords more time to the motor industry to perform an in-depth study of the proposal and make counter recommendations.
4. That the current tariff and methodology remain in place until adequate consultation with the automotive industry has taken place to allow for a mutually beneficial model to be developed.