

Mr Ebrahim Patel

Minister of Trade, Industry and Competition

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PRETORIA

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Dear Minister Patel

MINUTE NO. M03/2020: IMPLEMENTATION OF THE POLICY DIRECTIVE FOR THE INCLUSION OF SEMI-KNOCKED DOWN VEHICLE KITS AS ELIGIBLE PRODUCTS UNDER THE AUTOMOTIVE PRODUCTION AND DEVELOPMENT PROGRAMME

1. The Commission considered the implementation of the policy directive received from the Minister of the Department of Trade, Industry and Competition (the Minister) for the inclusion of semi-knocked down (SKD) vehicle kits as qualifying products under the Automotive Production Development Programme (APDP).
2. The policy directive is restricted to kits at a minimum level of production whereby 'the vehicle is manufactured to an untrimmed painted body condition with no parts assembled to the body. Furthermore, the policy directive requires that 'packaging and packing material is excluded from the calculation of local value addition, as this is not part of the production process. Finally, the policy directive requires ITAC to conduct an impact analysis of the inclusion of SKD vehicle kits on the programme and industrialization every 12 months from the date of implementation.
3. In order to participate under APDP, manufacturers of light motor vehicles must manufacture the specified motor vehicles in South Africa according to the extent of assembly provided for in Note 5 to Chapter 98 of Part 1 of Schedule No.1 to the Customs and Excise Act, 1964.

4. The existing Note 5 to Chapter 98 of the Customs and Excise Act, 1964, defines the extent of assembly as follows:

(a) *Original equipment components for motor vehicles enumerated under heading 98.01 shall not include automotive components of which –*

- i. the floor panels, body sides or roof panels are permanently attached to each other (except in the case of cabs for road tractors for semi-trailers of a vehicle mass exceeding 1 600 kg, for motor vehicles for the transport of goods of a vehicle mass exceeding 2 000 kg and a G.V.M. exceeding 3 500 kg and for chassis fitted with cabs of a mass exceeding 1 600 kg and a G.V.M. exceeding 3 500 kg in which case the cabs may be assembled and trimmed);*
- ii. the engine and transmission assemblies, axles, radiators, suspension components, steering mechanisms, braking or electrical equipment or instrumentation are fitted to such floor pans or chassis frames; and*
- iii. the bodies/cabs are fitted to floor pans or chassis frames (except in the case of vehicles of a mono-built construction of a vehicle mass exceeding 2 000 kg).*

5. The existing APDP legislation makes no provision for SKD vehicle kits to benefit under the programme. As such, the inclusion of SKD kits under the current programme would require an amendment to the existing legislative framework.

6. In terms of Note 1.2 of rebate item 317.03, “specified motor vehicles” means

- (i) road tractors or semi-trailers of subheading 8701.20 of a vehicle mass not exceeding 1 600 kg;*
- (ii) motor vehicles for the transport of ten or more persons, including the driver, of heading 87.02, of a vehicle mass not exceeding 2 000 kg, (excluding those of subheading 8702.10.10);*
- (iii) motor cars (including station wagons) of heading 87.03;*
- (iv) motor vehicles for the transport of goods of heading 87.04 of a vehicle mass not exceeding 2 000 kg or a G.V.M. not exceeding 3 500 kg or of a mass not exceeding 1 600 kg or a G.V.M. not exceeding 3 500 kg per chassis fitted with a cab (excluding motor vehicles of subheading 8704.10, shuttle cars and low construction flame-proof vehicles for use in underground mines and off-the-road logging trucks); and*
- (v) chassis fitted with engines of heading 87.06, of a mass not exceeding 1600 kg or a G.V.M. not exceeding 3 500 kg (excluding those for motor vehicles of subheading 8704.10, shuttle cars and low construction flame-proof vehicles, for use in underground mines and off-the-road logging trucks).*

7. There is no justification to effect any changes to rebate item 317.03 of the Customs and Excise Act as the subject motor vehicles are already provided for in the description of this item.
8. The respective vehicle kits are specified motor vehicles as defined in terms of Note 1.2 to rebate item 317.03. They are classified under tariff subheadings 8702, 8703 and 8704. The subject products attract an ordinary customs duty of 20 per cent ad valorem and 25 per cent ad valorem, as applicable. The World Trade Organisation (WTO) bound rate is 50 per cent ad valorem.
9. Comments in support of the policy directive were received from the National Association of Automobile Manufacturers of South Africa (NAAMSA) and the National Association of Automotive Component Manufacturers of South Africa (NACAAM). The support centred on the reason that, the inclusion of the SKD vehicle kits under APDP represents the opportunity for the local industry to boost its production volumes and create additional employment within the automotive value chain.
10. The South African Revenue Service (SARS) was consulted for a description to give effect to the policy directive in the Customs and Excise Act. Below is the proposed amendment to Note 5 to Chapter 98 to the Customs and Excise Act, 1964 which requires an insertion of new section (b):

a) Original equipment components for motor vehicles enumerated under heading 98.01 shall not include automotive components of which –

i. the floor panels, body sides or roof panels are permanently attached to each other (except in the case of cabs for road tractors for semi-trailers of a vehicle mass exceeding 1 600 kg, for motor vehicles for the transport of goods of a vehicle mass exceeding 2 000 kg and a G.V.M. exceeding 3 500 kg and for chassis fitted with cabs of a mass exceeding 1 600 kg and a G.V.M. exceeding 3 500 kg in which case the cabs may be assembled and trimmed);

ii. the engine and transmission assemblies, axles, radiators, suspension components, steering mechanisms, braking or electrical equipment or instrumentation are fitted to such floor pans or chassis frames; and

iii. the bodies/cabs are fitted to floor pans or chassis frames (except in the case of vehicles of a mono-built construction of a vehicle mass exceeding 2 000 kg).

b) Original equipment components for specified motor vehicles as defined in rebate item 317.03, destined for assembly outside the borders of the Republic, in the form of kits that have untrimmed painted bodies with no parts assembled to the body.

11. Note 9.1 to the APDP Regulations will require an amendment to include SKD vehicle kits as eligible products under the APDP. Below is the proposed amendment to Note 9.1, by insertion of Note 9.1.6, to make provision for SKD vehicle kits as qualifying products under the APDP.

“The following products qualify as eligible products under the APDP:

- 9.1.1. specified motor vehicles fitted with an engine and gear-box manufactured in a licensed, special vehicle manufacturing warehouse in South Africa;*
- 9.1.2. specified motor vehicles not fitted with an engine or gear-box manufactured in a licensed, special vehicle manufacturing warehouse in South Africa;*
- 9.1.3. automotive components applicable to specified motor vehicles;*
- 9.1.4. automotive tooling;*
- 9.1.5. automotive components applicable to heavy motor vehicles as defined in Note 1 to rebate item 317.07 of Schedule No. 3 to the Customs and Excise Act, 1964; and*
- 9.1.6. Specified motor vehicles manufactured in a licensed, special manufacturing warehouse in South Africa for supply to vehicle assembly plants outside the borders of the Republic, (excluding those of subheading 8701.20 and 8706).**

12. The amendments to the APDP Regulations require publication in the Government Gazette for implementation in line with the International Trade Administration Act (ITA Act), whilst SARS must similarly publish the amendments to Note 5 to Chapter 98 of the Customs and Excise Act, 1964.

13. The policy directive also requires that the packaging and packing material in the case of SKD vehicle kits be excluded from the calculation of local value addition. Consequently, all packing material and packaging must be deducted as non-production costs in calculation of the Production Incentive (PI) and Company Specific Percentages (CSPs) used in the calculation of the Volume Assembly Allowance (VAA).

14. The respective provisions in the APDP Information Documents have been amended to include SKD vehicle kits as eligible products under the APDP as well as the exclusion of packaging and packing material from the calculation of local value addition. ITAC will publish the relevant amendments to the APDP Information Documents on its website following the publication of APDP Regulations in the Government Gazette.
15. ITAC will review the respective policy to determine the impact of the inclusion of the SKD vehicle operations on the programme and industrialization every 12 months from the date of implementation.
16. The Commission recommended that SKD vehicle kits be included as eligible products under the APDP as follows:
- a) Amendment to Note 5 to Chapter 98 of the Customs and Excise Act, 1964 to make provision for SKD vehicle kits for export in line with the SARS' proposal;
 - b) Amendment to 9.1 to the APDP Regulations to include SKD vehicle kits as eligible products under APDP (the publication notice is attached as Annexure A);
 - c) Amendment to the APDP Information Documents to make provision for SKD vehicle kits; and
 - d) Review the respective policy to determine the impact of the inclusion of the SKD vehicle kits on the programme and industrialization every 12 months from date of implementation.

Yours sincerely



Meluleki Nzimande
Chief Commissioner

Date: 12/10/2020