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Minister of Trade and Industry
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Dear Minister

Minute 2/2011: AMENDMENT TO CHAPTER 98 OF SCHEDULE NO.1 OF THE CUSTOMS AND EXCISE ACT TO MAKE PROVISION FOR SEMI KNOCKED DOWN (SKD) ASSEMBLY OF CERTAIN MONO-BUILT MOTOR VEHICLES.

The Commission considered an application for an amendment to Chapter 98 of Schedule No.1 to the Customs and Excise Act, 1964, to make provision for the Semi Knocked Down (SKD) assembly of mono-built motor vehicles for the transport of 14 persons or more but not exceeding 35 persons including the driver and with a vehicle mass exceeding 2000kg. The extent of domestic manufacture would require that the manufacturer imports a trimmed and painted body, including steering mechanisms and wiring harnesses. The engine and transmission assemblies, axles, radiators, suspension components and braking system may be imported and will be fitted in the SACU region.

The existing MIDP legislation makes no provision for the SKD assembly of motor vehicles, only for the Completely Knocked Down (CKD) assembly as defined under Note 5 of Chapter 98 of Schedule No.1 to the Customs and Excise Act. A technical team within the Medium and Heavy Commercial Vehicles Forum supported *thedti* in formulating a policy stance to accommodate the SKD assembly of minibuses or midibuses in the SACU region, for the remainder of the MIDP.

The current tariff structure for the vehicles in question is shown below:

Tariff heading	Tariff subheading	Description	General	EU	EFTA	SADC
8702		Motor vehicles for the transport of ten or more persons, including the driver:				
	8702.10	- With compression-ignition internal combustion piston engines (diesel or semi diesel):				
	8702.10.87	-- Other, of a vehicle mass exceeding 2 000kg: with a value for ad valorem customs duty purposes or ad valorem excise duty purposes of less than R130 000; or vehicles for the transport of 14 persons or more, including the driver	20%	15%	15%	Free
	8702.90	- Other				
	8702.90.87	-- Other, of a vehicle mass exceeding 2 000 kg: with a value for ad valorem customs duty purposes or ad valorem excise duty purposes of less than R130 000; or vehicles for the transport of 14 persons or more including the driver	20%	15%	15%	Free

Currently, rebate item 317.07 of Schedule No.3 to the Customs and Excise Act provides original equipment medium and heavy motor vehicle manufacturers a rebate of the duty on imported components entered under Chapter 98 of Schedule No.1 to the Customs and Excise Act.

The existing Note 5 of Chapter 98, providing for a duty of 21% ad valorem for original equipment components, reads as follows:

Original equipment components for motor vehicles enumerated under heading 98.01, shall not include automotive components of which:

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 3500 kg and for chassis fitted with cabs of a mass exceeding 1 600 kg and a G.V.M. exceeding 3500 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*
- (i) the bodies/cabs are fitted to floor pans or chassis*

Currently, motor vehicles for the transport of persons in this segment are fully imported into the SACU. There is a considerable interest by OEM's to start localizing the manufacture of certain mono-built motor vehicles.

The National Association of Automobile Manufacturers of South Africa (NAAMSA) and the National Association of Automotive Component and Allied Manufacturers (NAACAM) supported the application. According to NAAMSA, the extent of manufacture would add a significant value domestically compared to the alternative CBU importation.

The Commission noted that *thedti* is currently developing a comprehensive Medium and Heavy Commercial Vehicle (MHCV) Strategy and one of the objectives is to gradually shift from imports of the vehicles in question, to SKD manufacturing operations in the short term. However, the long term objective is to have the complete CKD operations localized in the SACU region.

The Commission recommended an amendment of Note 5 of Chapter 98 of the Customs and Excise Act, 1964, as follows:

- (a) Original equipment components for motor vehicles enumerated under heading 98.01 (excluding those covered by Additional Note 5(b)), 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*

- (b) *Original equipment components for mono-built motor vehicles for the transport of 14 persons or more including the driver but not exceeding 35 persons including the driver and with a vehicle mass exceeding 2 000 kg, trimmed and painted but not fitted with any of the following - engines, transmission assemblies, axles, radiators, suspension components, or braking equipment.*

Yours sincerely



Siyabulela Tsengwe
Chief Commissioner
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