EVALUATION OF APPROPRIATE STIMULUS MEASURES TO SUPPORT THE RECOVERY OF THE SOUTH AFRICAN AUTOMOTIVE INDUSTRY

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RECONSTRUCTION AND RECOVERY: RETHINKING INCLUSIVE INDUSTRIALISATION IN RESPONSE TO COVID-19

Methodology

- Internationally:
  - Systematic desktop-based review of Covid-19 stimulus packages in 21 largest vehicle producing countries globally - conducted from 31 July to 21 August 2020
  - Multiple sources: Media articles, consulting reports, formal government publications, automotive associations, employer and union publications
  - In addition, academics contacted in the USA, EU and Thailand to ascertain awareness of any specific support package elements
- Domestically:
  - Surveyed 14 LV and 10 M&HCV OEMs and distributors on their preferred stimulation options
  - Modelled tax impacts on vehicle demand (and fiscus) using 12-years of SA retail data – per market elasticities

Automotive specific demand stimulus packages

Six of 21 leading countries are offering some form of automotive specific demand stimulus

Country	Policy	New	Extended/ adjusted
China	Subsidies for NEVs (Electric, Hybrid)		X
	Local governments subsidies for ICE vehicles	X	
	Increasing vehicle registration quotas	X	
	Subsidies for locally produced vehicles	X	
Germany	Subsidies for EVs. Hybrids		X
	Fleet exchange program aimed at electric mobility, tradespeople	X	
Spain	Scrappage scheme	X	
	National and local government fleet upgrading program	X	
France	Subsidies for EVs, Hybrids		X
	Scrappage scheme		X
Russia	Scrappage scheme		X
Indonesia	Loan payment deferral scheme; administration fee reduction	X	
	Down payment reduction program	X	

Summary of interview results

Light vehicle results (n=14)	Average
1. Tax reduction on new vehicles	1.9
2. Direct vehicle purchasing subsidy	2.8
3. Vehicle finance support	2.9
4. First-time buyers' incentive	3.6
5. Government purchases	4.8
6. Vehicle scrapping allowance	5.0

- Tax reductions on new vehicles deemed the most effective stimulus measure, followed by direct purchasing subsidies and then vehicle finance support

M&HCV results (n=10)	Average
1. Direct vehicle purchasing subsidy	2.0
2. Vehicle finance support	2.4
3. Tax reduction on new vehicles	2.6
4. Government purchases	3.8
5. Vehicle scrapping allowance	4.3

- A direct vehicle purchasing subsidy deemed the most effective stimulus measure, followed by vehicle finance support and then tax reductions on new vehicles

Light vehicle stimulus priorities

- We have primarily focused on light vehicle stimulus interventions **that are fiscally neutral** - as such, we have only considered **tax-based support mechanisms**, and an amendment to treatment of VAT as part of lease agreements
- The impact of the following stimulus interventions were modelled:
  1. Fiscally neutral adjustment of the ad valorem rate (from 0,00003 to 0,000022)
  2. Removal of the CO2 emissions tax
  3. Combination of the above two interventions *(control experiment)*
  4. *Total removal of VAT (control experiment)*
  5. Fiscally "neutral" reduction in VAT (from 15% to 13%)

To model the impact of the proposed stimulus interventions, the SA market's price elasticities for 2007-2018 were used and then applied to 2018 dealership vehicle sales

Price categories	Price elasticities
Average	-1.162***
Quintile 1 (to R214,200)	-1.795***
Quintile 2 (to R303,283)	-1.950***
Quintile 3 (to R408,500)	-1.023***
Quintile 4 (to R613,200)	-0.236***
Quintile 5 (>R613,200)	-0.818***

*** denotes 99% level of confidence

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Light vehicle stimulus priorities

The impact of the considered demand stimulus interventions are shown below:

2018	Fiscal neutral ad valorem	Removal CO2	Adjusted ad valorem + CO2	VAT removal	Fiscal neutral VAT
Additional sales revenue (excl. taxes and levies)	R5 440 311 649	R5 427 493 148	R7 887 170 740	R20 069 228 900	R7 418 568 611
Additional vehicle demand	16 635	11 756	19 489	72 668	20 116
Additional Company Income Tax (CIT)	R132 761 992	R154 506 624	R148 438 120	R604 883 971	R246 076 816
Impact on the fiscus	R163 400	R903 504 487	-R1 804 683 522	-R18 281 706 079	-R163 310 069
VAT	R698 975 336	R812 903 938	R781 125 805	-R19 815 476 126	-R1 533 199 176
Tyre Levy Revenue	R1 969 177	R1 485 618	R2 298 970	R7 563 821	R2 321 829
Ad Valorem	-R1 007 228 603	R859 576 280	-R1 884 579 909	R752 306 712	R997 272 085
Import Duties	R257 750 830	R253 661 880	R320 594 842	R632 129 534	R314 204 942
CO2 Tax Revenue	R48 696 660	-R1 024 123 230	-R1 024 123 230	R141 769 980	R56 090 250

Our recommendation:

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M&HCV Vehicle Stimulus Priorities

The range of stimulus options, as identified from the international scan and the domestic stakeholder survey:

Options	Mechanisms
Vehicle subsidy	• Subsidy to SME transport operators
Tax reduction	• Provision of tax relief for lower emission M&HCVs, e.g. with Euro 5 engines • Accelerated wear and tear (depreciation allowance) on company vehicles allowing companies to replace their fleets in shorter cycles
Vehicle finance	• Government credit guarantee

- Interventions to stimulate M&HCV demand in a fiscally neutral manner could not be modelled as there is no price elasticity data for the SA market. In addition, M&HCV purchases are based on TCO calculations, as opposed to vehicle prices
- M&HCV demand stimulation support is likely to have major fiscal consequences - therefore recommended that NAAMSA engage with national government to extend existing crisis support measures to transport operators
  - COVID-19 loan guarantee scheme
  - COVID-19 SME fund
- Both programmes could be adjusted to support company purchases of modern, fuel efficient M&HCVs

Conclusion and Recommendations

1. Removal of CO_2 tax. Based on our modelling the government's net fiscal position would improve by R1 billion, with the industry benefiting from an additional 11,756 units of sales.

2. A reduction of the ad valorem rate from 0.00003 to 0.000022. Based on our modelling the government's net fiscal position would remain unchanged, with the industry benefiting from an additional 16,635 units of sales.

3. Remove upfront payment or capitalisation of VAT for private lease finance agreements, to allow for the monthly payment of VAT as per rental agreements. This will attract more private purchases through leasing.

4. A set aside for transport operators in the COVID-19 loan guarantee scheme and the COVID-19 SME fund for vehicle purchases to stimulate M&HCV re-fleeting.

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