



Mercedes-Benz South Africa Ltd | P.O. Box 1717 | Pretoria | 0001

Mercedes-Benz

Mr. Alan Wicomb
Parliament of Republic of South Africa
Parliament Street
Cape Town
8000

043 706 2200

Andreas Engling
Andreas.engling@daimler.com

Date
2019/09/06

RE: Mercedes-Benz South Africa Limited's (MBSA) concerns regarding the proposed amendments to the 2019 Budget Draft Tax Bills

Dear Mr. Wicomb,

The purpose of this submission is to address Mercedes-Benz South Africa Limited's concern related to the proposed amendment to section 65 of act 91 of 1964 published on 21 July 2019.

"63. (1) Section 65 of the Customs and Excise Act, 2014 (Act No. 32 of 2014), is hereby amended by the substitution for subsection (8) of the following subsection: "(8) Notwithstanding the provisions of subsections (1) and (4), the value for the purposes of the duty specified in Section B of Part 2 of Schedule No. 1 shall, in respect of imported goods, be the transaction value thereof plus 15 per cent of such value, plus any [non-rebated] customs duty payable in terms of Part 1 and any excise duty payable in terms of Section A of Part 2 of Schedule No. 1 on such goods, but excluding the duty specified in the said Section B of Part 2 of Schedule No. 1 on such goods.". (2) Subsection (1) comes into operation on a date determined by the Minister by notice in the Gazette."

MBSA is a wholly owned subsidiary of the global company, Daimler AG. Our superior value chain in South Africa is provided by the following companies within the group:

- Mercedes-Benz South Africa (MBSA): passenger cars manufacturing, sales and marketing and vans sales & marketing
- Daimler Trucks and Buses Southern Africa: commercial vehicle manufacturing, sales & marketing
- Sandown Motor Holdings (SMH): vehicle retail
- Mercedes-Benz Financial Services (MBFS): vehicle finance and insurance

MBSA has a state-of-the-art manufacturing plant in East London and our products are marketed and financed from the headquarters in Zwartkop, Gauteng. MBSA first acquired a manufacturing Plant in East London over 70 years ago. For over 70 years, the company has provided stable employment in the country, especially at its manufacturing plant based in one of South Africa's poorest provinces, the Eastern Cape. Total employment in the MBSA group of companies is in excess of 4600 people.

Mercedes-Benz South Africa Ltd | Wierda Road (R576/M10 West) | Zwartkop | T +27 012 677 1500 | F +27 012 673 6050 | www.mercedes-benz.co.za

Independent directors: Dr JW Schmidt* (Chairman), PN January-Bardill (Lead Independent), S Zilwa, F De Buck, N Mbhele | Executive directors: A Engling* (CEO), J Fritz* (Co-CEO), C Spohr* (CFO), AM Kgotle | Non-executive directors: Dr J Burzer*, B Seeger*, U Bastert*, M Luehrs* (Alternative director for B Seeger), F Hohenwarter* (Alternate director for Dr J Burzer) | Company Secretary: D Peterson | *German



and Mercedes-Benz are registered trademarks of Daimler AG, Stuttgart, Germany.

MBSA is a leading debt-listed corporate in the South African market, manufacturing Mercedes-Benz C-Class cars both left- and right-hand drive for the local and export markets. We are a strong partner in the Daimler network with the lion share of all C-Class units produced worldwide originating from the MBSA East London Plant and drive a high export rate as a net exporter, exporting variants of the C-Class to over 80 markets internationally.

We contribute to the economic success of this country, together with the six Original Equipment Manufacturers (OEMs) which contribute 7 percent of the Gross Domestic Product (GDP).

Since the start of production for the current C-Class model, several suppliers have been introduced in East London to support the full production value chain. MBSA has committed to further localize its value chain here in South Africa as the number of locally based suppliers has nearly doubled since 2007. We have achieved this by deepening our cooperation with local partners and suppliers, and in this way we are accelerating the country's entire industrial and economic development.

In a bid to tackle persistent youth employment, we launched the state-of-the-art Mercedes-Benz Learning Academy (MBLA) through a Public-Private Partnership with the National Treasury and the Jobs Fund in 2016. The MBLA demonstrates our commitment to youth empowerment and development in the automotive manufacturing industry through the provision of world-class, quality training; work with cutting-edge technology; occupationally orientated training methodology and obtaining relevant workplace experience and exposure to learners and apprentices not just for our operations, but for the benefit of the automotive industry as a whole.

In light of the above, we refer you to previous correspondence that was submitted to the office of Honourable Minister Mboweni on 8 August 2019, the Director General of National Treasury, Mr. Mogajane on 20 August 2019 and the meeting held with the Director General of the Department of Trade and Industry Mr. Lionel October on 20 August 2019, wherein we expressed our concerns regarding the proposed amendments to the abovementioned section 65. In the correspondence we emphasized the following:

South Africa's automotive incentive policy over the past two decades has been attractive to OEMs for its long-term vision and policy consistency under the Motor Industry Development Plan (MIDP) and the current Automotive Production Development Program (APDP). Key to the success of the automotive sector, has been the reliance on additional economies of scale provided by exports and which have increased its competitiveness and been critical to the advancement of the APDP's ambition of increasing South Africa's share of global output.

The relationship between imports and domestic production as governed by the automotive policy is an important aspect of the South African automotive industry that cannot be understated. The current policy instruments of the APDP make provision for OEMs and independent vehicle importers to offset vehicle and original equipment component import duties through duty rebate mechanisms that have been structured to support both the competitiveness and sustainability of the domestic automotive industry.

Furthermore, MBSA is acutely aware of the importance of the South African automotive industry and the role we play in the region of East London in the Eastern Cape beset with poverty, inequality and unemployment. MBSA has been a significant contributor to the South African fiscus and committed investor in the South African economy for

seven decades; providing substantial and meaningful employment and economic multiplier benefits in East London. To illustrate, you may recall that in 2018 MBSA announced the injection of R10 billion into the expansion of our plant in order to prepare for the manufacturing of the new generation C-Class – expected to increase volumes materially. The decision for this investment was made on the basis of a stable policy framework assuming government benefits on the same level as today with the South African Automotive Masterplan (SAAM). Changes to this policy, therefore threaten to destabilise the industry and undermine current and future investment decisions in South Africa’s automotive manufacturing sector.

It is critical that the policy framework under the SAAM, the successor to APDP in 2021, retains the same policy certainty to attract long-term OEM investment.

In light of the above, our areas of concern can be summarised as follows:

- The current treatment of Ad Valorem supports a competitive automotive industry and the potential to provide a wider spectrum of vehicles into the South African market, and also support the ability of manufactures to produce for the wider global market to obtain economies of scale.
- The proposed change will significantly impact the local vehicle market, which is already in a declining state, with more pressure on consumers’ disposable income in an already weak macroeconomic environment. This is a major concern and in our opinion, contradicting the objective of the SAAM to make South Africa’s automotive industry globally competitive.
- More crucially, MBSA produces the majority of its vehicles for the global market. The on-cost to the South African automotive industry would have a severe financial impact should there no longer be the prevailing duty offset mechanism. This policy change will negatively impact the ability of the South African automotive industry to remain competitive with its global counterparts and its ability to create opportunity for further localisation and job creation in the South African Market.

It is important to note that MBSA is not just competing with other OEMs that produce in South Africa, but is also competing with other global Daimler Plants in a continuously changing production and sales environment. Affordable labour and transport costs as well as reliable infrastructure are critical factors in the determination of feasibility to produce in South Africa. The rebates earned through the incentive programmes partially compensate for other challenges, notably: labour costs and transport costs, as a result of the remote geographical location and infrastructure in South Africa that would otherwise not be as competitive to plants in other countries. In the existing global Daimler production network, there are other plants that can produce the C-Class and are advantageously located closer to major sales markets, resulting in lower cost of production and speed to market.

Therefore, we propose to maintain the status quo of being able to offset an element of ad valorem duties as stated in the current policy. Accordingly, we request that the proposed change should be withdrawn.

To support our submission before the Parliamentary Standing Committee on Finance, we wish to make an oral representation on Tuesday 10 September 2019. We will be represented by Ambassador Dr. Nozipho January-Bardill: Non-Executive Director of Mercedes-Benz South Africa Limited and Abey Kgotle: Executive Director Human Resources and Corporate Affairs of Mercedes-Benz South Africa Limited, accompanied by Liezl de Wet: General Legal Counsel, Andreas Striebel: Head of Finance and Christa Erasmus: Head of Customs.

We look forward to further engaging with you.

Yours sincerely,



Andreas Engling
Chief Executive Officer &
Executive Director: Manufacturing
Mercedes-Benz South Africa Limited



Carsten Spohr
Chief Financial Officer &
Executive Director: Finance and Controlling
Mercedes-Benz South Africa Limited