

Mr Parks Tau

**Minister of Trade, Industry and Competition**

Private Bag X 84

Pretoria

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Dear Minister Tau,

**MINUTE NO. M15/2024: AMENDMENTS OF THE AUTOMOTIVE PRODUCTION AND DEVELOPMENT PROGRAMME PHASE 2 (APDP2) LEGISLATIVE FRAMEWORK FOR THE INCLUSION OF ELECTRIC VEHICLES AND ASSOCIATED COMPONENTS**

**INTRODUCTION**

1. On 07 February 2024, the International Trade Administration Commission (“ITAC” or “the Commission”) received a Trade Policy Directive (“the Directive”) from the Minister in terms of Section 5 of the International Trade Administration Act, 71 of 2002 (“ITA Act”) requesting the Commission to exercise its powers to assist with the amendments to and the implementation of the legislative framework governing the APDP2 in line with the Electric Vehicle White Paper (“the EV White Paper”) published on 05 December 2023, to cater for the inclusion of electric vehicles (“EVs”) and their associated components.
2. The Minister further requested ITAC to explore the introduction of a temporary (for a period of 5 years) rebate or reduction of import duties for EV batteries to be used in electric vehicles produced and sold in the domestic market. Moreover, ITAC was requested to look at any potential unintended consequences of the amendments, particularly ones that may negatively impact the achievement of the overall goals of the South African Automotive Masterplan (“SAAM”), and technical ways to mitigate such unintended consequences.

## **BACKGROUND**

3. According to the EV White Paper, the global automotive industry is undergoing significant transition that is being prompted by the urgent goal of decarbonising the world's economies in the wake of climate change, as well as regulatory requirements and consumer demands for lower or zero-emission vehicles.
4. Several regulators have decided to ban the sale of new internal combustion engines ("ICE") vehicles within the next 10 years as part of their contribution to achieving net-zero emissions by 2050, including markets like the European Union ("EU") and the United Kingdom ("UK"), which are key export destinations for South African produced vehicles and components.
5. The European Commission supported the proposal to make all new cars and vans registered in Europe zero-emission from 2035. As an intermediary step towards zero emissions, the new CO<sub>2</sub> standards will also require average emissions of new cars to come down by 55% by 2030, and new vans by 50% by 2030 while all new vehicles must be zero emissions by 2035. Similarly, in the UK, the zero-emission vehicle mandate sets out the percentage of new zero emission vehicle manufacturers will be required to produce each year up to 2030.
6. These global trends will have a significant impact on South Africa ("SA") and its economy due to SA's integration into global automotive supply chains that draw components from across the world and exports the final products to more than 150 countries worldwide.
7. Globally, new sales of ICE vehicles are projected to decline to approximately 25% of total sales by 2035, with the remaining 75% being EV sales. The general trendline of greater EV adoption is clear and SA will need to respond to it
8. The EV White Paper builds on the work of the SAAM, which was published in 2018 with the ambition of increasing productive output of vehicles to 1% of global production, increasing local content in South African assembled vehicles of up to 60%, and increasing transformation and value addition across the automotive value chain.

9. The transition to EV manufacturing and consumption would also align with changing demand in export markets and SA's commitment to reducing greenhouse gases by 2050.
10. Whilst recognising the pivotal role the automotive industry plays in SA's economy as a major employer and a driver of economic growth, the policy is grounded in the principle that decarbonisation should not lead to de-industrialisation but rather be leveraged for growth, deepening the automotive value chain, fostering the growth of local industry, and ensuring the transition aligns with economic priorities.
11. Although there is a possibility of finding alternative ICE vehicle markets, there is no guarantee that the country will be cost-competitive and/or have duty-free access to other markets as it does in the UK and EU. The developments of the African Continental Free Trade Agreement (AfCFTA) show promise over the medium term. However, the pace of growth of the rest of Africa's demand is slower than the projected pace of decline in ICE vehicle demand in the UK and EU. Additionally, second-hand vehicles dominate sales in many parts of the African Continent. Other markets may also become more competitive as other ICE vehicle producers seek markets for their production.
12. A failure to transition the automotive industry will result in the loss of key export markets for both assembled vehicles and automotive components. In terms of automotive assembly, 46,2% of vehicles produced in the country are exported to the UK and EU, markets that have made commitments to ban the sale of new fossil-fuelled ICE vehicles by 2035.
13. On component manufacturing, there are currently a wide range of components for ICE vehicles that are manufactured locally, contributing to the average 40% local value addition in vehicles produced in SA. Almost half of this value comprises of components which are common to all types of vehicles, mainly the body, exterior and interior components. The rest of the current local production, comprising the drivetrain, electrical and most electronic products, may not be useable in Battery-EVs ("BEVs").

14. Furthermore, there are some components that are manufactured for export markets such as catalytic converters, engines, engine parts, tyres, radiators, transmission shafts and cranks. According to the EV White Paper, an estimated 67% of automotive component exports are at risk due to a projected decline in demand for ICE-specific components. According to APDP2 data, approximately 11 243 jobs may be at risk.
15. The maintenance of automotive production in SA should ensure that the transition is just, in this context understood as, at a minimum, limiting job losses and identifying areas of job-creation; supporting continued entrepreneurial opportunities in the value chain; managing the regional impact; re-skilling and redeploying displaced employees; and supporting inclusive, sustainable growth.
16. A successful transition for component manufacturers requires the domestic assembly of EVs to establish demand and support the localisation of production as well as technology partnerships and leveraging the region's critical mineral endowments to backward integrate these into the EV automotive supply chain.
17. In the production of an electric vehicle, the battery is the single biggest contributor to the value addition, and participation in the value chain will be important for achieving the SAAM local content target of 60%. Similarly, as noted in the EV White Paper, "it is important for achieving the 60% threshold for EU and SA value addition in vehicles exported to the EU duty-free".
18. The battery supply chain affects the cost competitiveness of vehicle assembly locations as batteries are expensive relative to standard ICE components and are bulky, thereby increasing the cost of logistics. However, it should be noted that there are currently only a few firms with the technological know-how to produce them, and they are competitively produced in only a few locations in the world, mainly in Asia.
19. South Africa has ambitions to deepen its auto supply chain, including through beneficiation of critical minerals such as lithium, cobalt, copper, zinc, and rare earth elements. South Africa and the SADC region possess significant mineral resources, and the need to deepen the automotive supply chain emphasises the beneficiation of these resources.

20. As noted in the EV White Paper, “By adding value through refining, processing, and manufacturing, South Africa and the SADC region can secure a reliable supply chain of critical minerals, reduce dependence on imports, and position itself as a global industrial player in the EV value-chain”.
21. In terms of domestic production of batteries, the EV White Paper envisions three stages to producing lithium-ion batteries, being (i) Battery pack product and battery management system applications and servicing, (ii) raw material refining and battery active materials and components, and (iii) battery cell manufacturing. Work is currently being undertaken by **the dtic** and Department of Mineral Resources and Energy to provide incentives to the industry, which are envisioned to be administered by ITAC.
22. However, the long lead times in investment decisions in the industry, as well as the investment cycles lasting between 5 to 7 years, mean that most investment decisions need to be taken in the 2020s. This requires the country to ensure policy certainty to support these investments, while continuing to support the demand for ICE vehicles which may arise from markets which transition slower, like parts of the developing world, due to infrastructure gaps and price premiums.
23. While existing policies, such as the APDP2 provide a good framework for transition to EV productive capacity, additional action will be required. The EV White Paper thus identifies policy goals and distinct policy actions to be implemented over specific timelines between 2023 and 2035 which include, but are not limited to:
  - Higher levels of investment funding and support to catalyse EV investment in automotive assembly and component manufacturing;
  - Deepening of the SADC region’s participation in the automotive value chain through facilitation and development of an electric battery regional value chain, including raw material refining;
  - Commercialising green-hydrogen production in South Africa as a source of sustainable fuels and;

- The introduction of a temporary reduction or rebate on import duties of batteries used in electric vehicles produced and sold in the domestic market to improve cost competitiveness.

24. The objective of the APDP2 is to support the vision of the SAAM, which includes: (i) improving the global competitiveness of the automotive industry, (ii) increasing industry transformation, (iii) attaining sustainable development, and (iv) improving the societal contribution of the automotive industry.

25. The APDP2 has four elements: stable tariffs, Production Incentive (“PI”), and Vehicle Assembly Localisation Allowance (“VALA”), which are administered by ITAC and South African Revenue Service (“SARS”). The fourth element, the Automotive Investment Scheme (“AIS”), is administered by **the dtic**.

26. **The dtic** coordinated an assessment of the efficacy of the current incentive regime to support the transition to EVs. The assessment found, amongst others, that:

- a) The current system of incentives results in a decline in the net benefit to the industry in the initial period of the transition to EVs. This decline is caused by the higher share of components that need to be imported thereby attracting higher import duties for domestic production for local consumption (in the short to medium term);
- b) The current investment incentives alone do not mitigate against the decline in cost competitiveness of the domestic industry; and
- c) Support is required in the facilitation of export market access for EV components, including aftermarket sales. The EV White Paper additionally recognized the need for Broad-Based Black Economic Empowerment (“B-BBEE”) conditionalities to be phased in for the production of core components in the value chain. The purpose of phasing in the conditionalities is to strengthen the commercial case for local production.

27. Noting the above, the amendments to the legislative framework of the programme are aimed at:

- Defining and explicitly including EVs and their associated components as eligible products under the APDP2;
- Introducing VALA incentive for battery electric vehicles (“BEVs”) and fuel-cell electric vehicles (“FCEVs”) set at 40% for a 10-year period while that of ICE vehicles declines, as per the APDP2;
- Introducing of a temporary 50% (of 20% duties) reduction of import duties on electric vehicle batteries for a 5-year period, under Chapter 98 of the Customs and Excise Act; and
- Technical amendments for improved administrative efficiencies.

## **DISCUSSION**

28. The products that are affected by the changes to the legislative framework are (i) EVs, (ii) components fitted on EVs, (iii) batteries used in the manufacture of NEVs (including hybrids) and (iv) tooling used to manufacture the EV components and EVs.

29. The policy interventions supporting the production transition are limited to BEVs, FCEVs and alternate electric vehicles that are zero carbon emission, collectively referred to as electric vehicles (“EVs”), and their associated components. Furthermore, it should be noted that the vehicles containing internal combustion engines (including hybrid vehicles) are currently eligible for all APDP2 benefits.

30. Once the amendments are completed, the following respective measures will be available for all manufacturers of EVs and associated components:

- **Import Duties:** Completely Built-up Units (CBU) duties are to remain at the current 25% *ad valorem* for vehicles and 20% for original equipment components, whilst there will be a temporary (a 5-year period) 50% reduction of import duties for batteries imported for the manufacture of electric vehicles that will be sold in the domestic market;
- **VALA:** VALA percentage for EVs is set at 40% and will remain at that level for

a 10-year period while that of ICE vehicles declines, as per the APDP2;

- **AIS:** Government will offer investment incentives of up to 20% of qualifying investment for EVs and 35% for associated components. The incentive will be a combination of tax allowance for vehicle assembly and a non-taxable cash grant for productive assets used in the manufacture of electric vehicles while component manufacturers will only qualify for the non-taxable cash grant on qualifying investments;
- The existing incentive of 20% of qualifying investment for the production of ICE vehicles will remain in place and is applicable to hybrids (“HEVs”) and plug-in hybrids (“PHEVs”) and will be reviewed as per timelines set in the APDP2;
- **PI:** PI benefit will remain the same for all vehicles and their respective components.

31. Table 1 below summarize the benefits for vehicle and component manufacturers under the APDP2 following the amendments:

**Table 1: APDP2 benefits for participants following amendments.**

DESCRIPTION	ICE VEHICLES (INCL. HYBRID VEHICLES) AND ASSOCIATED COMPONENTS	ELECTRIC VEHICLE AND ASSOCIATED COMPONENTS
Light Motor Vehicles	<ul style="list-style-type: none"> <li>• PI Factor = 50%,</li> <li>• VALA=36% reducing by 1% up to 2026,</li> <li>• AIS= 20% non-taxable cash grant</li> </ul>	<ul style="list-style-type: none"> <li>• PI Factor = 50%,</li> <li>• VALA= 40 % for a period of ten years</li> <li>• AIS=Non-taxable cash grant, and a tax incentive on productive assets</li> <li>• Introduction of a temporary 50% rebate on electric vehicle batteries for a 5-year period</li> </ul>
Medium and Heavy Motor Vehicles	<ul style="list-style-type: none"> <li>• PI Factor = Not applicable,</li> <li>• VALA=Not applicable</li> <li>• AIS= 20% non-taxable cash grant</li> <li>• Rebate: duty liability for all imported components can be rebated under rebate item 317-07</li> </ul>	<ul style="list-style-type: none"> <li>• PI Factor = Not applicable,</li> <li>• VALA=Not applicable</li> <li>• AIS= Access to non-taxable cash grant, and a tax incentive on productive assets</li> <li>• Rebate: duty liability for all imported components can be rebated under rebate item 317-07</li> </ul>
Automotive Tooling and Components	<ul style="list-style-type: none"> <li>• PI Factor = 62.5%</li> <li>• AIS= 25% non-taxable cash grant</li> </ul>	<ul style="list-style-type: none"> <li>• PI Factor= 62.5%</li> <li>• AIS= 35% non-taxable cash grant</li> </ul>

32. Tables 2 and 3 below lists all the proposed automotive products that have been identified by the domestic industry as vehicles and components that are EV-specific and that are being proposed for inclusion for benefits under the APDP2.

**Table 2: List of electric vehicles as submitted by industry.**

<b>PASSENGER VEHICLES 87.03</b>	<b>MOTOR CARS AND OTHER MOTOR VEHICLES PRINCIPALLY DESIGNED FOR THE TRANSPORT OF PERSONS (EXCLUDING THOSE OF HEADING 87.02)</b>		<b>GENERAL RATE OF CUSTOMS DUTY</b>	<b>WTO BOUND RATE</b>
8703.80.90		Other vehicles, with only electric motor for propulsion:	25%	50%
8703.90.90		Other	25%	50%
<b>COMMERCIAL VEHICLES 87.04</b>	<b>MOTOR VEHICLES FOR THE TRANSPORT OF GOODS</b>			
8704.60.30	Double Cab not exceeding 2000 kg	Other with only electric motor for propulsion:	25%	50%
8704.60.40	Not Double Cab not exceeding 2000 kg	Other with only electric motor for propulsion:	25%	50%
<b>MED AND HEAVY COMMERCIAL VEHICLES 87.04</b>				
8704.60.90	Other:	Other with only electric motor for propulsion:	20%	50%
8704.90.90	Other:	Other:	20%	50%
<b>BUSSES 87.02</b>	<b>MOTOR VEHICLES FOR THE TRANSPORT OF TEN OR MORE PERSONS</b>			
8702.40.81	Other, of a vehicle mass not exceeding 2 000 kg	With only electric motor for propulsion	25%	50%
8702.40.87	Other, of a vehicle mass exceeding 2 000 kg	With only electric motor for propulsion	20%	50%
8702.40.90	Other:	With only electric motor for propulsion	20%	50%
8702.90.90	Other:	Other	20%	50%

**Table 3: List of components for electric vehicles as submitted by industry.**

DESCRIPTION OF PRODUCT	DETAILED FUNCTION	MHEV	PHEV	BEV	FCEV	TARIFF HEADING	DUTY GENERAL	WTO BOUND RATE
48 Volt to Twelve Volt Converter	A power conversion device that steps down the vehicle's 48-volt mild hybrid electrical system to 12 volts. This lower voltage is essential for operating traditional vehicle systems like lighting, infotainment, and safety equipment, which rely on the standard 12-volt electrical architecture.	•				8504.40.00/ 8	0%	15%
48 Volt Electric Motor and Generator	This component serves a dual function: it assists the internal combustion engine during acceleration, helping to reduce fuel consumption, and works as a generator during braking, converting kinetic energy into electricity for energy recovery, which is then stored in the 48-volt battery of mild hybrid electric vehicles.	•				8511.40.15/ 8	15%	30%

DESCRIPTION OF PRODUCT	DETAILED FUNCTION	MHEV	PHEV	BEV	FCEV	TARIFF HEADING	DUTY GENERAL	WTO BOUND RATE
48 Volt Lithium- Ion Battery	A rechargeable lithium-ion battery that stores energy recovered from regenerative braking or produced by the 48-volt motor generator. It supplies power to assist the engine during acceleration, enhancing fuel efficiency and reducing emissions in mild hybrid electric vehicles.	•				8507.60.00/8	0%	15%
Electronic Brake Actuator	An electronically controlled device that regulates the hydraulic pressure applied to the brake pads. It plays a critical role in regenerative braking systems, which capture and convert kinetic energy into electricity, recharging the battery while maintaining precise braking force for safety and efficiency.	•	•	•	•	8708.30.90/7	20%	30%
Brake Booster and Master Cylinder	This electrically assisted system amplifies the braking force applied by the driver, making it easier to stop the vehicle. The master cylinder converts this force into hydraulic pressure to apply the brakes. Integrated with regenerative braking, it optimises energy recovery while	•	•	•	•	8708.30.90/7	20%	30%

DESCRIPTION OF PRODUCT	DETAILED FUNCTION	MHEV	PHEV	BEV	FCEV	TARIFF HEADING	DUTY GENERAL	WTO BOUND RATE
	providing safe and responsive braking.							
Electronic Brake Control System	A system that electronically balances conventional friction braking with regenerative braking. It prioritises energy recovery through regenerative braking, while ensuring that friction brakes provide sufficient stopping power when needed.	•	•	•	•	8537.10.20/8	15%	30%
High-Voltage Direct Current to Alternating Current Converter	This component converts high-voltage direct current (DC) from the vehicle's battery into alternating current (AC) to drive the electric motor. It also adjusts the motor's speed and torque by varying the AC frequency and voltage, vital for vehicle acceleration and efficiency.		•	•	•	8504.40.00/8	0%	15%
Electronically Controlled Parking Brake	A parking brake system operated electronically, replacing traditional manual or foot-operated systems. The parking brake is engaged and released with the press of a button and can be automatically activated when the vehicle is parked.	•	•	•	•	8708.30.90/7	20%	30%

DESCRIPTION OF PRODUCT	DETAILED FUNCTION	MHEV	PHEV	BEV	FCEV	TARIFF HEADING	DUTY GENERAL	WTO BOUND RATE
High-Voltage Wiring Harness	A specialised wiring assembly that safely carries high-voltage electrical power between components like the battery, inverter, motor, and other high-power systems in hybrid and electric vehicles. It is designed to handle higher electrical loads compared to conventional wiring.	•	•	•	•	8544.30.00/4	5%	15%
High-Voltage Electric Motor and Transmission System	An integrated unit that combines an electric motor, an inverter (which converts DC to AC), and a transmission. It transfers power to the wheels, providing propulsion in hybrid and electric vehicles. The motor can work independently or alongside an internal combustion engine.		•		•	8501.52.15/ 2 /8201.53.15/9	0%	20%
Cooling Fan System for High- Voltage Components	A system that uses fans to cool high-voltage components like the battery and power electronics. By circulating air over these components, it prevents overheating and ensures reliable performance, thus extending the lifespan of the vehicle's electrical systems.		•	•	•	8414.59.00/0	0%	30%

DESCRIPTION OF PRODUCT	DETAILED FUNCTION	MHEV	PHEV	BEV	FCEV	TARIFF HEADING	DUTY GENERAL	WTO BOUND RATE
Cooling System for High-Voltage Units	A liquid or air-cooling system designed to maintain optimal operating temperatures for the high-voltage components, such as the electric motor, inverter, and battery. Effective cooling is essential for preventing overheating and maintaining performance, efficiency, and safety.		•	•	•	8419.50.00/1	15%	15%
High-Voltage Power Control System	A system that manages the flow and distribution of high-voltage electrical power throughout the vehicle. It controls how energy is distributed between the battery, electric motor, inverter, and auxiliary systems, ensuring efficient use of energy and the safe operation of the vehicle's electrical components.		•	•	•	8537.10.20/8	15%	30%
Electrical Cable for Motor and Generator	A heavy-duty cable designed to transfer electrical energy between the motor and generator. It ensures efficient power flow from the generator during regenerative braking to the battery, and from the battery to the motor for driving.		•		•	8544.30.00/4	5%	15%

DESCRIPTION OF PRODUCT	DETAILED FUNCTION	MHEV	PHEV	BEV	FCEV	TARIFF HEADING	DUTY GENERAL	WTO BOUND RATE
High-Voltage Water Pump	A pump that circulates coolant through the vehicle's high-voltage systems, such as the motor and inverter, ensuring they remain within their optimal temperature range. Proper cooling prevents overheating, helping to maintain performance and protect components from damage.		•	•		8413.60.00/4	0%	30%
Direct Current to Direct Current Converter	A converter that steps down the high-voltage direct current (DC) from the vehicle's main battery to lower voltage levels, typically 12 volts, to power auxiliary systems like lights, infotainment, and other electronics. This ensures that both high-voltage and low-voltage systems can operate effectively.		•	•		8504.40.00/8	0%	15%
High-Voltage Electric Vehicle Battery	A high-capacity lithium-ion battery used to store energy in hybrid and electric vehicles. This battery provides power for the electric motor and other high-voltage systems, and is recharged either via an external power source or through		•		•	8507.60.00/8	0%	15%

DESCRIPTION OF PRODUCT	DETAILED FUNCTION	MHEV	PHEV	BEV	FCEV	TARIFF HEADING	DUTY GENERAL	WTO BOUND RATE
	regenerative braking.							
Battery Thermal Management System	A cooling system that regulates the temperature of the high-voltage battery, preventing overheating during charging and operation. By maintaining optimal battery temperatures, this system helps to improve battery efficiency, performance, and lifespan.			•	•	8419.50.00/1	15%	15%
Secondary Low-Voltage Power Supply	A backup battery, usually 12 volts, which powers the vehicle's auxiliary systems such as lighting, infotainment, and safety features. In electric vehicles, this secondary battery ensures that these systems continue to function when the high-voltage battery is inactive or being charged.			•		8507.60.00/8	0%	15%
Electric Front Axle System	An axle that integrates an electric motor and transmission, delivering power to the front wheels of a hybrid or electric vehicle. This system provides front-wheel propulsion and is often used in all-wheel drive configurations where both front			•		8501.52.15/ 2 /8201.53.15/9	0%	0%

DESCRIPTION OF PRODUCT	DETAILED FUNCTION	MHEV	PHEV	BEV	FCEV	TARIFF HEADING	DUTY GENERAL	WTO BOUND RATE
	and rear axles are powered.							
Electric Rear Axle System	Similar to the front axle, this system includes an electric motor and transmission integrated into the rear axle, providing propulsion to the rear wheels. It is often used in conjunction with a front axle motor for all-wheel-drive systems in electric and hybrid vehicles.			•		8501.52.15/2 / 8201.53.15/9	0%	20%
Electric Shift Control System	An electronically controlled system that manages the vehicle's drive, reverse, and neutral modes. It allows smooth switching between power modes, and also enables the vehicle to engage regenerative braking to maximise energy recovery when decelerating.			•	•	8537.10.20/8	15%	30%
Battery Management and Control Unit	This electronic control unit monitors and manages the high-voltage battery's health and performance. It tracks parameters like state of charge, voltage, temperature, and battery cell balance, ensuring that the battery operates efficiently and safely.			•	•	8537.10.20/8	15%	30%

DESCRIPTION OF PRODUCT	DETAILED FUNCTION	MHEV	PHEV	BEV	FCEV	TARIFF HEADING	DUTY GENERAL	WTO BOUND RATE
Onboard Battery Charging System	A system that manages the charging of the vehicle's battery by converting alternating current (AC) from the grid into direct current (DC). It controls the charging rate to prevent overcharging and overheating, ensuring the battery's long-term health.		•	•		8504.40.00/8	0%	15%
Battery for Battery Electric Vehicle	A high-capacity, high-voltage lithium-ion battery that powers the electric motor in fully electric vehicles. This battery is recharged from an external power source or through regenerative braking, and serves as the vehicle's primary source of energy for driving.			•		8507.60.00/8	0%	15%
Fuel Cell Cooling System	A cooling system that regulates the temperature of the fuel cell stack in a fuel cell vehicle. By maintaining the stack at an optimal temperature, this system ensures efficient electricity generation and prolongs the life of the fuel cell.				•	9032.89.00/3	0%	30%

DESCRIPTION OF PRODUCT	DETAILED FUNCTION	MHEV	PHEV	BEV	FCEV	TARIFF HEADING	DUTY GENERAL	WTO BOUND RATE
Fuel Cell Air Supply System	This system supplies oxygen to the fuel cell stack, which is necessary for the chemical reaction with hydrogen that generates electricity in fuel cell vehicles. The system ensures a consistent flow of air for efficient operation.				•	8414.80.00/7	0%	20%
Fuel Cell Air Exhaust System	A system that manages the release of air and by-products, such as water vapour, from the fuel cell stack. It ensures the fuel cell operates efficiently and prevents the build-up of moisture within the system.				•	8503.00.90/1	10%	15%
Fuel Cell Stack for Electricity Generation	The main component in a fuel cell vehicle where hydrogen reacts with oxygen to produce electricity. This stack consists of numerous cells that work together to generate the power needed to drive the vehicle.				•	8501.32.00/5 / 8501.33.00/1	0%	20%
Fuel Cell Mounting Structure	A structural assembly that secures the fuel cell stack within the vehicle. This structure is designed to absorb vibrations and impacts, protecting the fuel cell stack and ensuring stable operation.				•	8708.99.90/1	20%	30%

DESCRIPTION OF PRODUCT	DETAILED FUNCTION	MHEV	PHEV	BEV	FCEV	TARIFF HEADING	DUTY GENERAL	WTO BOUND RATE
Hydrogen Delivery System	A system that transports high-pressure hydrogen from the storage tanks to the fuel cell stack. It ensures a controlled flow of hydrogen for the electricity-generating chemical reaction.				•	8708.99.90/1	20%	30%
Auxiliary Lithium- Ion Battery for Accessories	A smaller lithium-ion battery that powers the vehicle's auxiliary systems, such as lighting, infotainment, and safety features. This battery ensures that these systems remain operational when the main high-voltage battery is focused on propulsion.				•	8507.60.00/8	0%	15%
Multi-Power Energy System	A system that integrates multiple energy sources, such as a battery and a fuel cell, to optimise power delivery and energy efficiency in hybrid or electric vehicles. This system intelligently switches between power sources to maximize vehicle range and performance.				•	8501.32.00/ 5 /8501.33.00/1	0%	20%

DESCRIPTION OF PRODUCT	DETAILED FUNCTION	MHEV	PHEV	BEV	FCEV	TARIFF HEADING	DUTY GENERAL	WTO BOUND RATE
High-Pressure Hydrogen Storage Tank	A specialized tank that stores hydrogen at very high pressures, typically up to 700 bar, for use in fuel cell vehicles. The tank is designed with advanced materials to ensure safety, even under extreme conditions.				•	8708.99.90/1	20%	30%
Hydrogen Delivery Tube	A robust tube that transports hydrogen from the storage tank to the fuel cell stack. The tube must be durable enough to handle high-pressure hydrogen safely and without leaks.				•	8708.99.90/1	20%	30%
Protective Frame for Hydrogen Tank	A protective structure that surrounds and secures the hydrogen storage tanks. This frame is designed to safeguard the tanks from impacts or damage, ensuring the safe storage of hydrogen in the vehicle.				•	8708.99.90/1	20%	30%
Fuel Cell Control Unit	An electronic system that controls and optimises the performance of the fuel cell, managing power output and ensuring safe, efficient operation of the fuel cell stack.				•	8537.10.20/8	15%	30%

DESCRIPTION OF PRODUCT	DETAILED FUNCTION	MHEV	PHEV	BEV	FCEV	TARIFF HEADING	DUTY GENERAL	WTO BOUND RATE
Fuel Cell Hybrid Vehicle Control System	A control system that integrates the fuel cell stack with the vehicle's electric drivetrain, ensuring smooth operation between the fuel cell and the electric motor to maximise efficiency.				•	8537.10.20/8	15%	30%
Fuel Cell to Direct Current Converter Control System	A system that regulates the conversion of direct current (DC) from the fuel cell to the appropriate voltage levels needed by the vehicle's various electrical systems.				•	8537.10.20/8	15%	30%
Fuel Cell Hybrid Vehicle Electrical System	The entire electrical system within a fuel cell hybrid vehicle, managing the flow of electricity between the fuel cell, battery, and electric drivetrain. It ensures efficient power distribution and the seamless operation of the vehicle's electrical components.				•	8501.32.00/5 /8501.33.00/1	0%	20%
Battery management system	A technology dedicated to the oversight of a battery pack.	•	•	•	•	8507.90	0%	15%
AC Motor	Alternating Current" motor, which uses alternating current to power the vehicle's wheels		•	•	•	8501.53.90	20%	20%

DESCRIPTION OF PRODUCT	DETAILED FUNCTION	MHEV	PHEV	BEV	FCEV	TARIFF HEADING	DUTY GENERAL	WTO BOUND RATE
Thermal management module and Sub-components	Regulates the flow of coolant and other fluids in a vehicle		•	•	•	8708.99.90 / 8708.88.30	20%	30%
E-compressor	Electric motor-powered compressor that circulates refrigerant or air under pressure		•	•	•	8414.30	0%	20%
Fuel cell monitor	Continuously scans the health-status of individual hydrogen fuel cells				•	8543.20.00	0%	15%
Motor controller	Regulates the operation of an electric motor, primarily controlling its speed, direction, and torque by adjusting the power supplied to it	•	•	•	•	8542.31.00	0%	15%
Battery and electronics cooling plate	Draws heat away from battery cells and maintain their optimal operating temperature by transferring the heat to a coolant loop		•	•	•	8708.99.90	20%	30%
Electronic integrated circuits, processors & Controllers	Semiconductor chip that combines multiple electronic components like transistors, resistors, and capacitors	•	•	•	•	8542.31.00/ 8542.32.00	0%	15%

DESCRIPTION OF PRODUCT	DETAILED FUNCTION	MHEV	PHEV	BEV	FCEV	TARIFF HEADING	DUTY GENERAL	WTO BOUND RATE
Electronic integrated circuits as amplifiers	Semiconductor chip (IC) that contains all the necessary electronic components	•	•	•	•	8542.33.	0%	15%
Fuel cell	Generates electricity through an electrochemical reaction.				•	8506.30.90 / 8506.80.40	0% / 20%	20%
Membrane Electrode Assembly	The core component of a fuel cell, where the electrochemical reaction occurs to generate electricity from hydrogen and oxygen				•	3904.69 / 8506.90	0%	15%
Electromagnets	Electromagnet is a type of magnet in which the magnetic field is produced by an electric current	•	•	•	•	8505.20	0%	15%

Source: NAACAM, **naamsa** (2024)

33. Table 4 below summarizes the amendments to the legislative framework governing the APDP2 for

- the inclusion of products listed under Tables 2 and 3 above;
- an increase in VALA benefits for the manufacture of electric vehicles; and
- the reduction of import duties on batteries used in the manufacture of electric vehicles vehicles.

**Table 4: Amendments to the Legislative Framework governing the APDP2.**

NO	LEGISLATIVE AND ADMINISTRATIVE FRAMEWORK	PRE-PUBLICATION AMENDMENTS	POST PUBLICATION ADDITIONS
1.	Customs and Excise Act	<p>Included electric vehicles and other means of propulsion as qualifying vehicles under Note 5a to Chapter 98 of Schedule 1 to the Customs and Excise Act</p> <p>Catered for 10% <i>ad valorem</i> duty on batteries used in the manufacture of electric vehicle under tariff subheading 9801.00.03 under Chapter 98 of Schedule 1 to the Customs and Excise Act</p> <p>Aligned the tariff classification for road tractors to cater for those having other modes of propulsion in Rebate items 317.04 and 317.07</p> <p>Separated VALA percentage for ICE and EVs Note 1.2e(ii) of Rebate item 317.04 and</p> <p>Provided for VALA to be set at 40% for a period of ten years on electric vehicles under Note 1.2 (ii) to Rebate item 317.04</p> <p>Included the requirement for participants to register with ITAC under Note 3 to Rebate item 317.07</p> <p>Included lithium-ion batteries under Rebate item 460.17.</p>	<p>Definition of other means of propulsion under Note 9 to Chapter 98</p> <p>Corrected error related to lithium-iron accumulators</p> <p>Inclusion of additional tariff subheadings under Rebate item 460.17 which would cater for the importation of NEV components.</p> <p>Inclusion of a definition for EVs (defined as zero emissions vehicles and other emerging technologies) as part of Note 9 to Chapter 98</p> <p>Introduction of new DA 199 form to cater for the reduced 10% duty on EV batteries in the Customs Account</p>

<p>2.</p>	<p>Amended APDP2 Regulations <b>(See Annexure A)</b></p>	<p>Included and amended definitions for AIS, AITF, EVs, NEVs, Environmental Levy, Importing Entity, SAAM 2035, Semi-Knocked Down, Special Purpose Vehicles, Transformation Fund, TWG, and Qualifying Entities</p> <p>Strengthened the legal requirement for final manufacturers to be compliant with B-BBEE requirements as set out by the Minister in Note 8.1</p> <p>Included the elements of the APDP2 in Note 5.5</p> <p>Highlighted the calculation of benefits for components and vehicle manufacturers in Note 7.2</p> <p>Included vehicles containing electric motor and/or other means of propulsion as qualifying vehicles under the APDP2 in Notes 9.1.3 and 9.1.4</p> <p>Clarified the minimum level of extent of assembly for exports of semi-knocked down vehicles in Note 9.1.8</p> <p>Provided for Technical Working Group Committee in the assessment on the eligibility of products under the APDP2 in Note 9.4</p> <p>Clarified the exclusion of special purpose vehicles and accessories under the APDP2 in Note 9.5</p> <p>Provided for ITAC to put on hold, claims where an applicant is subject to on-going verification in Note 13.2</p>	<p>Included the definition of other means of propulsion.</p>
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		<p>Provided clarity with regard to the usage of PRCs earned on production of either components, tooling and/or vehicles, which can be used to import any automotive products listed in Rebate item 460.17, in Note 14.2 and amended Note 14.3 to clarify the issuance and transfers of PRCs.</p> <p>Expanded the usage Form C2 to make provision for customs duty and VALA purposes in Notes 19.1 and 19.2</p>	
3.	<b>Info Doc A</b>	<p>Included acronym for EVs</p> <p>Expanded the criteria for qualifying entities to cater for those manufacturing with new technologies under Note 2.2</p> <p>Expanded eligible products to cater for vehicles with other means of propulsion under Note 3.3</p> <p>Provided clarity with regard to the usage of PRCs earned on production of either components, tooling and/or vehicles, which can be used to import any automotive products listed in Rebate items 460.17, in Note 7.3 and amended Note 7.5 to clarify the issuance and transfers of PRCs</p> <p>Amended Annexure A1.6 to cater for other means of propulsion in the questionnaire</p>	Technical amendments related to receipt of supporting documents
4.	<b>Info Doc B</b>	<p>Amended the definitions for specified motor vehicles to cater for EVs and other means of propulsion</p> <p>Notes 1.4 and 1.5 were amended to distinguish the VALA benefits for ICE, hybrid and EVs and</p>	No additional changes

		The VALA percentage for electric vehicles and other zero emission vehicles will be set at 40% subject to achieving a minimum 10 000 units annually over four rolling quarters	
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## COMMENTS RECEIVED

34. Comments on the amendments were received from **naamsa**, NAACAM and BMS Services CC. **naamsa** submitted comments citing that:

- It recognized the importance of the transition to electric vehicles but highlighted concerns over the exclusion of Hybrid Electric Vehicles (HEVs) and Plug-in Hybrid Electric Vehicles (PHEVs) from policy support. **naamsa** advocated for hybrids to be included in the government's support measures, as they offer advantages like consumer adoption, lower emissions, and infrastructure flexibility. **naamsa** further suggested a policy directive to support locally produced HEVs and PHEVs alongside BEVs;
- **naamsa** further called for a higher incentive structure under the AIS and the APDP2 for all NEVs to mitigate duty liabilities arising from higher imported content as a result of products not available in the SACU region;
- **naamsa** recommended increased incentives for the industry to encourage localising battery and cell production with policy incentives. Furthermore, **naamsa** proposed a zero-import duty window to introduce Battery Electric Vehicles (BEVs) for early adoption and market growth; and
- **naamsa** called for separate tariff classifications under Chapter 98 of the Customs and Excise Act as well as additional dedicated rebates for NEV components, including Nickel Metal Hydride and Lithium-Ion battery materials, to encourage early adoption of NEVs.

35. NAACAM submitted comments *citing* that it:

- Supports extending current incentives given to ICE vehicles to all types of NEVs (BEVs, HEVs, PHEVs, FCEVs) and advocated for structured incentives for local NEV and NEV component production;

- Supports a reduced 10% duty on lithium-ion battery cells but recommends limiting it to cells, not fully assembled battery packs, to promote local battery assembly;
- Recommends that key NEV components where local manufacturing capabilities exist like high-voltage wiring harnesses, charge ports, e-axles, and thermal management systems should be sourced locally before OEMs can qualify for duty concessions on products not manufactured domestically;
- Opposes the unrestricted duty concession on battery imports, suggesting safeguards be imposed to prevent regression in localization efforts;
- Suggested reviewing the increased VALA benefits for vehicle manufacturers after three years to ensure effectiveness and that these do not harm localization efforts in the country; and;
- Calls for confirmation that all Platinum Group Metals (PGMs) are included in the APDP2 benefits, as they are key inputs for fuel cell production.

36. BMS Services CC submitted comments to the technical amendments under the APDP2 legislative framework citing *inter alia* that it objected to the establishment of the TWG as a Committee assisting in the adjudication of APDP2 applications, citing that the Committee is not established lawfully in the context of the ITA Act and does not consider the prescripts of the Protection of Personal Information Act (“POPIA”).

37. The Commission considered the comments received and concluded that:

- An increase in APDP2 benefits, in the form of additional VALA for hybrids and additional rebates for NEV components that are not manufactured locally, (except batteries for hybrids), without a careful analysis of existing and latent capabilities to manufacture NEV components would reduce the incentive for OEMs to deepen value addition in the value chain for NEV components;
- The Commission considered the above in the context of the current excess VALA and PI benefits according to the report by SARS;

- An analysis by **the dtic** in conjunction with the IDC revealed that an increase in VALA benefits to 40%, combined with the reduced duty on batteries, are sufficient to ensure that OEMs do not have a duty liability on imports used in the manufacture of NEVs. This analysis formed the basis for the Minister's Directive and any benefits in excess of these may compromise deepening of value addition;
- On the request by associations that all PGMs used in the manufacture of lithium-ion batteries be included as Standard Materials under the programme, the Commission considered that **the dtic**, in collaboration with the DMRE and IDC, is still developing the Policy Roadmap for Battery Value Chain Establishment in South Africa. This study builds on the 2022 Battery Storage Market and Value Chain Assessment, as well as key strategy documents and masterplans, including the South African Renewable Energy Masterplan and the Electric Vehicle White Paper;
- Once the work has been concluded, a policy directive should be issued to ITAC specifying the exact magnitude of benefits to be provided to the industry manufacturing EV batteries, including the treatment of the Standard Materials sourced in the SACU and SADC as identified by the Minister;
- On comments whether the 50% duty reduction on the EV batteries imported in terms of Chapter 98 was for completely built-up batteries or semi-knocked down batteries, the Commission considered that the Directive from the Minister and concluded that the reduction was aimed at completely built up batteries as these are not available in the SACU market. Due to similarities in the factors affecting the battery market for both hybrid and electric vehicles, the duty reduction would be extended to both types of vehicles.

## FINDINGS

38. In December 2023, **the dtic** published an EV White Paper which set out six core principles that underpin the policy goals and actions to be taken to transition the automotive industry from the production of ICE vehicles to the production of EVs including that: (i) The pace of the transition to EVs and NEVs is urgent given the speed at which markets for these vehicles are developing, and the long lead-times for investment decisions; (ii) attracting investment requires a technology agnostic approach; (iii) investment support is required to boost productive capacity; (iv) policy actions have to reflect cost effective and fiscally-sustainable solutions; (v) deepening localisation of the auto supply chain, including through beneficiation of critical minerals through the development of regional value chains is essential; and (vi) policy actions must reflect the need for a just transition in the automotive industry.
39. Subsequently, on 07 February 2024, the Minister issued a Trade Policy Directive in terms of Section 5 of the ITA Act, requesting ITAC to effect amendments to the APDP2 legislative framework to cater for the inclusion of EVs and its associated components under the APDP2. Furthermore, the Minister directed ITAC to explore the introduction of a rebate provision or reduction of duties for the importation of batteries to be used in vehicles produced for the domestic market for a period of five years.
40. The objectives of the APDP2 is to support the vision of the SAAM, which includes (i) global competitiveness of the automotive industry, (ii) industry transformation, (iii) sustainable development, and (iv) societal contribution, which represents the aspirational heart of the SAAM vision.
41. The APDP2 programme has four elements: Stable Tariffs, PI, and VALA, which are administered by ITAC. The fourth element, the AIS is administered by the dtic.
42. Amendments were effected on the Amended APDP2 Regulations, and the relevant Information Documents as well as Schedules 1,3, 4 and 5 to the Customs and Excise Act to enable EVs, vehicles containing other means of propulsion as well as

its associated components to qualify for all APDP2 benefits, when manufactured in SA.

43. The amendments are aimed at ensuring that assemblers of EVs and associated components are eligible for all benefits under the APDP2, similar to their ICE counterparts. Additionally administrative amendments were effected to improve efficiencies of administering the programme.
44. There is a need for a policy directive to be issued to ITAC specifying the exact magnitude of benefits to be provided to the industry manufacturing EV batteries, including the treatment of the standard materials sourced in the SACU and SADC.
45. Due to similarities in the factors affecting the battery market for both hybrid and electric vehicles, the 50 percent rebate or duty reduction has been extended to both types of vehicles.
46. The association representing vehicle assemblers requested a higher incentive structure under the AIS and other APDP2 elements for all NEVs to mitigate duty liabilities arising from higher imported content as a result of products that are not available in the SACU region.
47. The Commission concluded that the consideration for higher incentive benefit requires careful analysis of existing and latent capabilities to manufacture NEV components to avoid the risk of eroding the deepening value addition and localization in the value chain for NEV components.

## **PROPOSAL**

48. In light of the foregoing, it is the Commission's recommendation that the Minister approve the amendments to the APDP2 legislative framework for the inclusion of electric vehicles and associated components under the APDP2.
49. In addition, it is the Commission's recommendation that the Minister should extend the 50 percent rebate or duty reduction on the importation of EV battery to both hybrid and electric vehicles as there are similarities in the factors affecting the battery market for both vehicles.
50. Furthermore, it is the Commission's recommendation that the Minister notes the technical amendments aiming at improving administrative efficiencies.



**Mr. Ayabonga Cawe**

**Chief Commissioner**

Date: 14 March 2025