



B-BBEE NEWSFLASH - EDITION 11/2016

The effect of the new B-BBEE Codes on the vehicle manufacturing industry

VWSA has been in the press of late discussing the difficulties of obtaining a reasonable or acceptable B-BBEE level under the amended codes. This has led to some comment:

- It is our opinion that the APDP programme plays a significant role in the viability of the South African motor industry and the cost of the vehicles it produces.

The dti has indicated that a compliant (level 8) certificate is required for companies to receive their APDP benefits. No B-BBEE certificate means no APDP payment which may lead to questions on continued operations. This could have dramatic consequences on the economy.

If people believe there is no way a car manufacturer can close, let's use the Australian car industry as an example: From mid-2017 there will not be an Australian car manufacturing industry, when there was a thriving Australian car manufacturing industry not so long ago. Car manufacturers and suppliers can and do close, and production is then moved elsewhere in the world.

- This is also the first sign of a push back against the current B-BBEE codes. Business raised objections to some of the elements of the new Codes, especially surrounding the practicality of such, and not listening to inputs from the sectors driving the economy.

On PoliticsWeb there was an article by Anton Alberts entitled "***VW provides yet more proof that BEE does not work***" (24 October 2016). This article stated "***Volkswagen SA's warning that a shortage of black suppliers in the automotive industry could have disastrous consequences proves that Black Economic Empowerment (BEE) does not work and that it is an expensive failure, Adv. Anton Alberts, the FF Plus' parliamentary spokesperson on the Economy, says.***"

While Adv. Alberts may argue that B-BBEE is a failure, there is very little doubt that B-BBEE is expensive.

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A skills development spend of 6% of payroll, Enterprise Development spend of 2% of NPAT, and Enterprise and Socio-Economic Development spend of 1% of NPAT each takes a significant bite out of any company’s bottom line. Many companies, especially in the car industry, must spend these amounts to compensate for being discounted due to a lack of black ownership.

A larger concern is that B-BBEE takes a short-term approach to correct long-term problems. The lack of black owned suppliers and the resulting procurement impact is the main concern raised by VWSA. It’s a valid concern as most component suppliers into the South African auto industry are subsidiaries of multinationals and there is a limited likelihood of that changing in the short term. Developing and qualifying black South African owned companies to supply the auto industry and other industries with specialised input requirements is a long, expensive process. Companies need these black suppliers now for B-BBEE purposes, and these companies do not appear overnight. They must be developed and nurtured and prove themselves, and this takes time.

Currently there is no requirement from Government that companies in the auto industry should be level 4 contributors. All that is required is a level 8 to qualify for APDP. Most automotive companies are targeting 55 points (which is a level 7) and are then discounted to level 8 because of a lack of black South African ownership. A score of 55 points is still challenging as summarised below:

Element	Points	Cumulative points	Comments
Points on scorecard	109	109	The total points, ignoring bonus points.
Ownership	-25	84	Multinationals will not score any ownership points, so the most they can score is 84 points, assuming they score full points for all other elements.
Procurement	-15	69	There are 25 points available for procurement and most companies are struggling to score 10 points due to the



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Element	Points	Cumulative points	Comments
			concentration on small business and black owned business.
Management control	-10	59	The amended scorecard has 19 points for Management Control. This is dependent upon having the right mix of African, Indian and Coloured, Male and Female managers. Too many managers of one race or gender category can have a negative impact on the scorecard. Companies are scoring between 6 and 10 points, but may take a loss of 10 points.
Total	59	59	This assumes full points are scored for Skills Development, Enterprise Development and Socio-Economic Development, but only leaves a 4-point cushion.
Level	7	7	
Discounted level	8	8	For ownership

Where does your company stand after considering the matters discussed above? If you need to know targets for Procurement, Skills Development, Enterprise Development and Socio-Economic Development, please send us your Forecasted Income Statement, Forecasted Capital Expenditure, and expected headcount. We can perform the calculations and send you the targets. We will sign Confidentiality Agreements as required. We can then meet to discuss ways to address any shortfalls. December year-end companies have only a short time left to make up for any shortfalls.





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If you have any B-BBEE consulting needs, or need Global to calculate the targets discussed above, please contact either Charlene Skipp at charlene@globalbusiness.co.za (083 780 7209) or me at richard@globalbusiness.co.za (083 440 2130).

Kind Regards

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