

IQnews



SA AUTO INDUSTRY MEETING THE CHALLENGE

by Douglas Comrie,
B&M Analysts



Scores in benchmarking study rank South African upper quartile firms in top position...

FROM THE CEO

The past quarter has been a productive one for the Group. We have focussed on exploring substantial opportunities in the market as well as leveraging existing synergies to add value to our offering. While IQquad Treasury Management has added specialist economic expertise to their range of services, new strategic business unit, IQquad Finance Solutions will focus on business funding requirements. We have also made considerable progress towards listing on AltX, the alternative exchange and look forward to bringing you further news as this develops.



Trevor Hayter,
IQquad Group Limited

While domestic automotive vehicle and component manufacturers are increasingly exposed to international competition, they are facing additional Free Trade and Preferential Trade Agreements which will expose them to further competition. An expanding European Union and new Trade Agreements between the EU and East European countries mean SA component manufacturers face tougher competition in their primary export market, Western Europe. Changes in trade relations, a reduced Motor Industry Development Programme and lower import duties, are also set to affect the domestic market and European export market. Against this background the ability of South African component manufacturers to compete with Asia Pacific and Central/East European regions becomes particularly relevant.

To this effect the South African Automotive Benchmarking Club undertook a study of the competitiveness position of South African component manufacturers. The ranking and scoring analysis was fairly simplistic but their findings provide some interesting insights. The average performance of a 129 firms from South Africa, Central/Eastern Europe and the Asia Pacific region was compared across a range of competitiveness measures. Of the 19 competitiveness measures explored across six 'Market Drivers', the average ranking scores placed the South African upper quartile in top position, followed by the Asia Pacific average. The South African firm average was ranked third overall, while the Central/East European firm average was placed fourth. The South African average attained third place for most measures. In contrast, the SA upper quartile led for all measures except four. Areas of weaker performance include total inventory holding, absenteeism, investment in training and suggestions received and implemented per employee per annum.

The strong performance of the South African upper quartile suggests a significant proportion of our automotive components industry is able to compete effectively and should continue to do so in the medium term. But the performance of the weaker and average firms show there are issues to be addressed, especially given the interdependence of all firms in the automotive value chain. In conclusion while these findings are relatively positive, international industry trends, along with domestic trade relations and incentive policies, will have a strong influence on the future of the industry. 



WILL VOLATILITY LEVELS CONTINUE TO DECLINE?

The domestic currency market is improving all the time and the rand is no longer the one way bet that it was...

Articles of government's economic achievements in recent years are usually related to the implementation of inflation targeting, the improvement in the stability and levels of growth being achieved and the tremendous strides made by the Department of Finance to follow the virtuous path of fiscal discipline.


A consequent success which is not as well publicised is the gradual reduction in the volatility levels of the rand. After the massive volatility which was experienced in 2001 and 2002 when the rand collapsed against most currencies, its volatility has been on a steady decline since the start of 2004. A function of reduced inflation, it is also a function of the building up of the country's reserves and the increased level of turnover in the rand currency market.

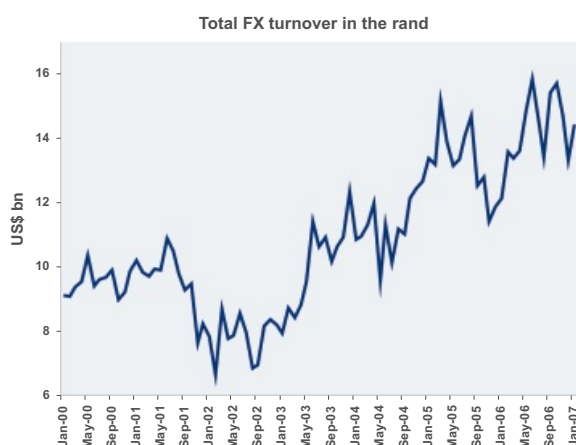
Low levels of reserves are often linked with higher levels of speculative activity because speculators know the central bank does not have the firepower to intervene and influence the market. Investors also utilise the balance in reserves as an indication of the months' worth of imports that a country could finance. The more months that can be financed, the lower is the risk in doing business with that country.

That turnover has increased in recent years is equally important. It shows that there has been far greater participation by foreigners in SA's economy. As turnover increases, the rand becomes less susceptible to corporate inflows and localised events helping reduce levels of volatility.

Companies would do well to understand that the domestic currency market is improving all the time and the rand is no longer the one way bet that it was. This is supported by the fact that the rand has not succumbed to the record current account deficit the country is experiencing. It is being financed through investment and portfolio inflows into the SA economy which are expected to continue, at least to some extent.

This means that a company can no longer rely on conventional wisdom of anticipated rand weakness in order to build a strategy for FX hedging. For those companies that do not utilise the expertise offered by a treasury outsourcing company, a more proactive style is required to cope with a more developed and less predictable currency environment.

Introducing a well thought out company policy on FX hedging which takes all the risks of the company into consideration is a start, whilst the company itself also needs to benchmark its FX hedging activities not against prevailing spot rates but against the company's own costing rate. This introduces an element of certainty into how a company deals with what is a two way market and what currency levels are acceptable or not. Doing things any other way amounts to little more than speculation and guesswork. 



by George Glynos, Econometrix Treasury Management (Pty) Ltd



REBATE VERSUS REFUND

GLOBAL TRADE ISSUES MADE SIMPLE



by James Whittle, Indevco Business Consultants (Customs) (Pty) Ltd


Importers quite often do not appreciate the difference between using a rebate or a refund facility to minimise their import duties...

The cash flow advantage offered by a rebate instead of a refund facility can be enticing but then importers find themselves with additional administration or having fallen foul of Customs requirements. Choosing the best option depends on numerous factors including product type, administration capability and sales channels.

Firstly, it is important to understand the basic terminology involved. A rebate facility allows a company to avoid paying duty by meeting certain criteria, while a refund or drawback means they can claim a refund of the duty paid at importation. Imports of rebated goods must be kept in a rebate store until put into production, while imports of dutiable goods may temporarily be kept in a bond store until they are required. Only on removal is duty and VAT payable. These facilities are provided by the government to promote the manufacturing and export of South African goods across a range of industries.

When opting for a rebate facility over a refund, importers should consider the onerous administration required. Section 75 of the Customs Act dictates, inter alia, that rebated goods must be kept in an approved rebate store, a rebate register must be maintained, and manual stock cards kept. In addition a bond or surety needs to be lodged and it is not uncommon for Customs to request a bond of R1million.

In terms of rebate items 317.06 and 470.03 there is the additional requirement of having to submit a quarterly return or acquittal to Customs which proves the goods have been disposed of in accordance with the requirements for the rebate item: ie. these must be manufactured into a finished component and sold to an OEM or exported. To further complicate using rebate facilities Customs may not allow the use of the FIFO method of allocating imports to finished goods and generally limits wastage to 5% of imports.

Indevco services both rebate and refund users. Quarterly compliance audits ensure that rebate users' exposure to penalties is minimised. In the case of Schedules 317.06 and 470.03 we compile the quarterly returns or acquittals while the importer administers the rebate store and register. For users of the refund or drawback facility, Indevco provides a complete turnkey service with the importer providing the relevant source documents and Indevco doing the rest. 



Customs tariff schedules for rebates and refunds in the case of local OEM Sales and Export Sales:

3rd Schedule

Industrial Rebates (IR)

- Specific Raw Material or Intermediate Goods
- To be used for manufacturing purposes
- Example frequently used in Motor Industry - 317.06

4th Schedule

General Rebates (GR)

- Based on certain circumstances , e.g. import for re-export
- Example frequently used in Motor Industry - 470.03

5th Schedule

Refund / Drawback

- Claim a refund under certain circumstances or for specific material.
- Examples frequently used in Motor Industry - 536.00 / 521.00

OEM SALE

317.06

- 1st Tier only
- Components only
- Imports for OEM only

536.00

- 1st & 2nd Tier
- Components only
- Imports for OEM, P&A or export

REBATE

REFUND

470.03

- Components or Material
- Single importer / Exporter
- Imports for Export only


521.00

- Components or Material
- Multiple Importer / Exporter
- Imports for export or domestic

EXPORT

PRO'S & CONS	REBATE	REFUND
Cash flow	no upfront duties	pay duty upfront
Administration/compliance	complex	minimal
Ability to outsource	limited	total
Exposure to penalties	large	minimal
For use with second tier	no	yes



The latest subsidiary to join the IQud stable is IQud Finance Solutions (Pty) Ltd. Managing Director, Barry Wiseman, who has extensive experience in banking and finance, says "We believe an overall assessment of a client's banking and funding needs can provide a big picture scenario ensuring we deliver solutions that are tailor made for their needs. Our services include the raising of short to long term finance, securing additional capital for growth, assistance with assessing new acquisitions and independent input into the business and strategic planning process." 

STRATEGIC ACQUISITION FOR IQUD'S TREASURY SOLUTIONS

The transaction adds specialised economic expertise to the IQud Treasury Solutions' service offering...



Rory McCance-Price, MD of IQud Treasury Solutions (Pty) Ltd shakes on the deal with George Glynos of Econometrix Treasury Management after acquiring a 26% stake in the company.

IQUD Treasury Solutions recently acquired a 26% stake in Econometrix Treasury Management (ETM). The balance of shares is held by ETM management. Trevor Hayter, IQud Group, and Rory McCance-Price, IQud Treasury Solutions, have joined Dr Azar Jammine, George Glynos and Quinten Bertenshaw on the board of directors.

The transaction adds specialised economic expertise to Treasury Solutions' service offering and provides clients with real time financial market analysis and research. "Strategically it increases our penetration into the corporate FX market by providing a new service for clients who prefer to handle their treasury function in house," says Rory McCance-Price, MD, IQud Treasury Solutions.

ETM's product suite caters to both the professional and the corporate markets. A web-based interface makes real-time analysis of financial markets available to the former which include banks, financial institutions and asset managers. The needs of corporate treasurers are met by dissemination, via a web-based feed, of research on the economy as well as strategic input for foreign exchange management. "Users have access to a platform that allows them to request indicative pricing and execute trades at the best possible price." ETM economist, George Glynos adds, "Consulting and presentations of topics with an economic and strategic focus are also available to clients." 

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DID YOU KNOW

...they said this?

"There is no reason anyone would want a computer in their home" – chairman & founder of Digital Equipment, 1978

"I think 64k ought to be enough memory for anybody" – Bill Gates, 1981

"I think there is a world market for maybe five computers" – IBM chairman Thomas Watson, 1943

"Computers in the future may weigh no more than 1.5 tons" – Popular Mechanics, 1949

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