

# The Automotive Industry in South Africa

*Provided by Taiwan Trade Center, Johannesburg*

The automotive industry in South Africa is represented by various associations in the manufacturing and retail side, namely the National Association of Automobile Manufacturers of South Africa (NAAMSA), the National Association of Automotive Component and Allied Manufacturers (NAACAM), the Retail Motor Industry Organisation (RMI) and the Automotive Industry Export Council (AIEC).

NAAMSA, (1935), represents the collective, non-competitive interests of the new vehicle manufacturing industry and comprises 22 companies involved in the production of passenger cars and commercial vehicles which collectively employ over 29 700 persons. NAAMSA also represents the interests of a further 19 companies involved in the importation and distribution of new motor vehicles in South Africa. ([www.naamsa.co.za](http://www.naamsa.co.za))

NAACAM, (1980), represents the interest of the automotive component manufacturers in the country and is nationally and internationally recognised as the voice of the South African component industry. The association has 140 members, including 120 first tier suppliers, with 220 regional manufacturing sites, in addition to 23 associate members who provide mainly logistics, information technology and financial services to members.

Almost 70% of South African main Tier 1 manufacturers are NAACAM members, while outside of NAACAM there are some foreign and smaller local companies who are either not members of any association or are affiliated to tyres, plastics, stainless steel, aluminium and similar bodies. Employment in the component sector, including the enterprises not members of NAACAM, comprised 82 790 persons in 2014. A diverse range of original equipment components, parts and accessories are manufactured in the country. ([www.naacam.co.za](http://www.naacam.co.za)).

The RMI, (1908), represents the retail motor trade side of the automotive industry, including 7 500 members across 14 trade associations. OEMs, franchise dealers and repair specialists work closely together to provide maintenance and repair services. They also cooperate to ensure warranty service, driver safety, environmental protection, spare parts availability and information about technical improvements. South Africa had a vehicle parc (number of registered vehicles) of 11,37 million at the end of December, 2014, of which 6,62 million or 58% comprised passenger cars. In terms of the trade which supports this industry, there are approximately 4 551 garages and fuel stations (with the majority having service workshops as well) plus a further 1 898 specialist repairers; 1 374 new car dealerships holding specific franchises; an estimated 1 768 used vehicle outlets; 1 506 specialist tyre dealers and retreaders; 440 engine reconditioners; 171 vehicle body builders; 2 907 parts dealers and around 216 farm vehicle and equipment suppliers. ([www.rmi.org.za](http://www.rmi.org.za)).

The Automotive Industry Export Council (AIEC), (1999), serves as the umbrella body for the South African automotive industry's export promotion and development activities. The AIEC represents the interests of seven motor vehicle manufacturers/exporters, namely BMW, Ford, General Motors, Mercedes-Benz, Nissan, Toyota and Volkswagen as well as

manufacturers/exporters of trucks and buses, and about 500 automotive component suppliers in South Africa. Importantly, the AIEC is the only means of access for about 200 small enterprises not part of the main stream in respect of trade enquiries, invitations to events and other service offerings.

According to the AIEC, South Africa was ranked 24th in the world in terms of global vehicle production with a market share of 0,63%, and was ranked 22nd in the world in terms of global vehicle sales with a market share of 0,73%. Eleven OEMs within the US, Europe and Japan dominate global vehicle production and therefore exercise control over their increasingly concentrated global supply chains. The future of OEMs in South Africa is undeniably linked with that of international OEMs and is subject to the same market forces driving or restraining growth.

South Africa manufactures vehicles for the world (locally manufactured vehicles are identical, regardless of where it is made – US, Europe or SA). South Africa therefore needs to be able to deliver on technology and quality on par with the rest of the world at comparable cost. The global industry requires profitable and timely delivery of quality products at competitive international prices and failure to comply will ultimately force multinational automotive corporations to locate elsewhere.

Accounting for 7.2% of GDP (2014), the automotive sector is the key of the national industrial base. 30.2% of manufacturing output and 11.7% of all SA exports are attributed to the automotive sector. Sustainability, job creation, competitiveness and all-inclusive growth is still driven by the automotive sector. Seen as the largest automotive market and most significant automotive centre in Africa, manufacturing is and remains vital to sustainable growth and job creation.

## **SOUTH AFRICA AND ITS AUTOMOTIVE CLUSTERS**

South Africa has 3 main automotive clusters: (1) Gauteng, (2) Kwazulu-Natal and (3) Eastern Cape.

Gauteng is regarded as the natural destination for international investors wishing to establish a springboard into Africa. Gauteng houses three OEMs and the majority of automotive suppliers. The Gauteng Growth and Development Agency (GGDA) is responsible for the promotion of trade and investment and project implementation in the province and via its two automotive specific subsidiaries, the Automotive Industry Development Centre (AIDC) and the Automotive Supplier Park (ASP), provides support to the automotive industry.

Through two Automotive Incubation Centres (Nissan and Ford) based in Rosslyn, the aim is to establish and nurture small- and medium-sized enterprises that can supply components to the likes of Nissan and Ford South Africa production lines. While receiving training on meeting international standards for automotive parts and components. The Ford Incubation Centre was set up in 2011 and Nissan Incubation Centre in 2015. Only 35% of components and parts used in the production of vehicles in South Africa is produced locally, the balance is imported. Through the incubation centres, South Africa is aiming at radical transformation, modernisation and re-industrialisation of the automotive industry. Nasrec (near Soweto) has been earmarked for the establishment of a Special Economic Zone (SEZ).

KwaZulu-Natal represents the second largest economy in the country after Gauteng. The busiest bulk port is based in Richard's Bay and is the centre of the Richards Bay IDZ. The largest sector in the province is dominated by manufacturing (pulp and paper, chemicals, automotives and food and beverages). Dube Tradeport has been marked for the development of a Special Economic Zone (SEZ). IDZ benefits such as fiscal and customs incentives apply to manufacturing enterprises located within Dube Trade Zone. Dube TradePort also gives the strategic and competitive advantage of being a global gateway for trade into Africa and the world.

The Eastern Cape has been linked to as a key growth area for growth and development. Leading sectors are finance, government services and manufacturing. Housing 2 of the 5 industrial development zones and a sound manufacturing base in the automotive sector, the IDZ's are well established to service the global markets. The East London IDZ has also established an Automotive Supplier Park.

### **OEM REPRESENTATION AND COMPONENT MANUFACTURING**

OEM representation in South Africa is mostly represented by the following:

European	-	Mercedes-Benz, BMW and Volkswagen
Japanese	-	Toyota
American	-	General Motors and Ford

Other major imported vehicles:

European	-	Peugeot, Citroen and Volvo
Japanese	-	Daihatsu, Honda and Subaru
Korean	-	Hyundai and Kia
Indian	-	TATA, Mahindra

Chinese brands such as Geely and Chery are growing brands in the South African market due to their affordability.

OEM employment in SA is approximately 30,000.

For light motor vehicles, Ford, Nissan and BMW have their manufacturing plants in Gauteng, whereas Toyota is based in KZN, Mercedes-Benz in East London and Volkswagen and GM in Port Elizabeth.

Global first tier suppliers of components include companies such as Faurecia, Johnson Controls, Mothersons, Yazaki, Sumitomo, Bosch and Behr.

There are over 120 1<sup>st</sup> tier component suppliers in SA of which 75% are multinationals, over 200 2<sup>nd</sup> and 3<sup>rd</sup> tier suppliers of which are mostly local. This sector employed approximately 80,000 people in 2014.

### **SA AUTOMOTIVE EXPORTS**

The major SA exports for OEM's are as follows:

Nissan 1-ton pickup into Africa, VW Polo series to EU, BMW 3-series to Japan, Australia and the USA. Mercedes-Benz C-Class and the Toyota Corolla/Hilux to the EU and Africa.

Top 5 components exports are: (1) catalytic converters, (2) engines and parts, (3) tyres, (4) Seats, stitched leather, (5) radiators.

## **SOUTH AFRICA'S AUTOMOTIVE POLICY REGIME**

The Motor Industry Development Programme was replaced by the Automotive Production Development Programme (APDP) in January 2013. The aim of this was stimulating local production of automotive components while maintaining the incentives for OEMs to manufacture passenger cars and light commercial vehicles in the country for export and the local market.

The vision of the APDP is to double vehicle production in South Africa by 2020 to 1,2 million vehicles per annum, elevating the country's automotive industry up to an anticipated global market share of over 1%. Recognising that the APDP will not be able to achieve this vision on its own, it is critical to have the support, coordination and alignment between all stakeholders.

Through NAAMSA, a "Roadmap to automotive industry sustainability" has been outlined and outlines the key strategic interventions needed to deliver on objectives:

- Stability in the Automotive Policy Regime – the APDP
- APDP – Strategic "vulnerable" sector support
- Industrial Development Corporation financing at preferential rates
- Industry localisation and supplier development initiatives
- Tooling initiative and additional funding for the tooling industry
- Preferential procurement to enhance demand for local vehicles
- Retention of existing international trade agreements
- Development of new international trade agreements
- Implementation of beneficiation strategy
- Reduction in infrastructure, logistics and other input costs
- Initiatives to promote labour stability
- Attraction of global suppliers and to support additional local content
- Early introduction of Euro V fuel and improved fuel quality
- Promotion of low emission and zero emission vehicles
- Steps to support market growth through improved vehicle affordability and a review of the disproportionately high tax burden on buyers and users of motor vehicles in South Africa
- The need for alignment between industrial policy and fiscal policy

## **SOUTH AFRICAN NEW VEHICLE MARKET FEATURES**

With just about every segment of the market having a benchmark product, South African consumer are spoilt for choice. In 2014 there were 55 brands and 4,406 passenger car models to choose from. This is the largest choice to market size ratio in the world. Light commercial vehicles offered 31 brands with 615 models.

Of extreme importance to government institutions, economists, automotive and component industries, dealerships and the public is new vehicle sales data. This data is used for policy formulation, policy review, official decision-making and monitoring. Light commercial

vehicles and more affordable cars dominated the 2014 market. Nine of the top selling passenger and light commercial vehicle models were manufactured locally. Included are the Toyota Hilux, Ford Ranger, Nissan NP200, Isuzu KB and Chevrolet Utility. Passenger cars included Toyota Corolla/Corolla Quest, VW Polo, VW Polo Vivo and the Toyota Quantum.

Toyota SA Motors has maintained its overall market leadership in 2014 for the thirty-fifth year running with a market share of 19,8%, followed by Volkswagen Group of SA, Ford Motor Company of Southern Africa and Associated Motor Holdings.

*“A strong supplier base is vital for the future sustainability of the automotive industry in South Africa and hence the APDP’s particular focus on the development of the component sector in the country as well as the increased support for component suppliers under the Automotive Investment Scheme (AIS) effective from July, 2014.”*

### **AUTOMOTIVE PARTS AND COMPONENTS – IMPORTS**

A significant portion of the value of automotive imports comprises original equipment components, which are subsequently exported as part of completely built-up vehicles after local value-adding processes. Capital-intensive components such as engines, gearboxes and interior electronic components are mainly imported by the OEMs and the remainder sourced in the domestic market. Original equipment component imports by the OEMs amounted to R70,2 billion in 2014 in line with higher vehicle production in the country coupled with a weakening exchange rate.

### **MAIN AUTOMOTIVE TRADING PARTNERS**

With expanding levels of South African automotive trade the past few years, South Africa forms an important part of international supply chains. Main automotive trading partners (exports and imports combined) for 2014:

- |                         |                                 |
|-------------------------|---------------------------------|
| 1. Germany              | (Total trade R74 613,8 million) |
| 2. USA                  | (Total trade R28 962,2 million) |
| 3. Japan                | (Total trade R29 886,9 million) |
| 4. Thailand             | (Total trade R13 293,4 million) |
| 5. UK                   | (Total trade R12 770,9 million) |
| 6. China                | (Total trade R10 746,8 million) |
| 7. India                | (Total trade R10 665,4 million) |
| 8. Korea Republic South | (Total trade R7 829,1 million)  |
| 9. Spain                | (Total trade R7 560,3 million)  |
| 10. Brazil              | (Total trade R5 411,1 million)  |

### **SOUTH AFRICAN AUTOMOTIVE INDUSTRY – PROSPECTS AND IMPERATIVES TO GROW**

The automotive industry remains well-placed to continue to make a positive contribution to the South African economy. The official vision of 1,2 million vehicles produced per annum by 2020, or a more realistic target of one million vehicles produced, is consistent with industry’s vision to remain a premier supplier of high quality and competitive vehicles, original equipment components, and parts to international markets.

As the South African automotive sector is export-market oriented, international competitiveness is critical to success. Improvement of the industry’s competitiveness

centres on supplier development, localisation, achieving economies of scale and competitive logistics costs. The country's attractiveness as a sub-contracting hub for automotive manufacturing includes:

- *Long term policy certainty and predictability;*
- *Internationally competitive incentives and support measures;*
- *Favourable trade arrangements with the EU, EFTA, the US and SADC;*
- *World-class logistics suitable for import and export operations;*
- *Abundant and cost competitive labour pool;*
- *First-world business sector;*
- *High quality office and business park facilities;*
- *Superior quality private schools, sophisticated cosmopolitan cities and unmatched quality of life;*
- *The common use of English;*
- *European time zone*

The imperatives for the successful realization of the automotive industry's 2020 vision and to ensure a sustainable automotive industry in South Africa include:

- *A globally competitive local supplier base that sources materials from locally produced second and third tier suppliers and local resources;*
- *A local steel industry that produces international quality steel at competitive prices;*
- *A robust, well thought-out and competitive logistics network which includes access via multiple ports and incorporates sea, rail and road freight;*
- *Top quality and productive ports which operate at high levels of efficiency at internationally competitive prices;*
- *Maintenance and enhancements of trade agreements;*
- *On-going support in terms of the APDP pre- and post-2020;*
- *Cohesive government planning which incorporates all aspects of the industry including duties and rebates, exchange rate volatility, environmental taxation, fuel legislation and standards, vehicle benefit taxation, transformation policy and industrial policy;*
- *Development of basic skills and education at all levels;*
- *A social compact/accord between the industry, employers and workforce that recognises the long-term success of the industry overall is more important than its individual parts*

"The South African automotive industry has been and will remain a vital contributing element to the success of the national economy and the sustainable growth of the country at large."

Source: NAAMSA, NAACAM, RMI, SARS, DTI