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A REVIEW OF THE AUTOMOTIVE SECTOR

The material contained in this report was compiled by Mariaan Webb and the Research Unit of Creamer Media (Pty) Ltd, based in Johannesburg.

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LIST OF ABBREVIATIONS AND ACRONYMS

AAAM	African Association of Automotive Manufacturers
AIDC	Automotive Industry Development Centre
AIH	Automotive Investment Holdings
AIS	Automotive Investment Scheme
APDP	Automotive Production and Development Programme
BAIC	Beijing Automotive International Corporation
BBBEE	broad-based black economic empowerment
BEV	battery electric vehicle
BMW SA	BMW Group South Africa
CoC	code of conduct
DC	developed country
DoT	Department of Transport
EU	European Union
EV	electric vehicle
FCEV	fuel-cell electric vehicle
FMCSA	Ford Motor Company of Southern Africa
GMSA	General Motors South Africa
ICE	internal combustion engine
IDZ	industrial development zone
LCV	light commercial vehicle
LDC	less developed country
MMSA	Mahindra & Mahindra South Africa
MVA	manufacturing value-add



List of abbreviations and acronyms

Naacam	National Association of Automotive Component and Allied Manufacturers
Naamsa	National Association of Automobile Manufacturers of South Africa
Nada	National Automobile Dealers Association
Nissan SA	Nissan South Africa
Numsa	National Union of Metalworkers of South Africa
OEM	original-equipment manufacturer
PI	production incentive
PRCC	production rebate credit certificate
SAAM	South African Automotive Masterplan
SUV	sports utility vehicle
TSAM	Toyota South Africa Motors
TET	Toyota Empowerment Trust
VAA	volume assembly allowance
VALA	volume assembly localisation allowance
VWSA	Volkswagen South Africa



Picture by Creamer Media



KEY DEVELOPMENTS

May 2018: Mahindra South Africa appoints Rajesh Gupta as CEO, succeeding Sanjoy Gupta, who will resume the role of customer care automotive division VP at Mahindra, in India.

May 2018: BMW Group South Africa dispatches its first locally manufactured X3 vehicles for export, transporting more than 100 units on 27 wagons to the Durban port, with Europe the final destination.

May 2018: Mahindra & Mahindra South Africa initiates contract assembly of its Mahindra and Bolera bakkies in KwaZulu-Natal. Automotive Investment Holdings is the contract assembler.

July 2018: Ford South Africa and sub-Saharan Africa appoints Neale Hill as MD, succeeding Casper Kruger.

July 2018: Chinese vehicle manufacturer Beijing Automotive Group's South African subsidiary, BAIC South Africa, opens its 88 969 m² vehicle assembly plant, in the Coega Industrial Development Zone, near Port Elizabeth.

August 2018: Ford Motor Company of Southern Africa's Silverton assembly plant, in Pretoria, produces its 500 000th Ford Ranger. The Wildtrak 3.2 double-cab was painted in the model's distinctive Pride Orange and signifies the Ranger's legacy since production started in 2011.

August 2018: Motus, a division of the Imperial group, announces that it will no longer import Chery, Foton and FAW passenger cars and bakkies into South Africa, as some of the Chinese brands have decided to focus on exports to left-hand-drive markets to capture better economies of scale.

October 2018: The Ford Motor Company of Southern Africa produces its first batch of trial Ranger Raptor bakkies at its Silverton assembly plant, in Pretoria.

October 2018: The National Union of Metalworkers of South Africa members embark on a strike about transformation at Toyota South Africa Motors' Prospecton plant, in Durban, as well as its warehouse facility in Atlas road, in Johannesburg. The strike halts production at these facilities.

October 2018: President Cyril Ramaphosa unveils investment commitments of R290-billion, including R40-billion from the seven automotive original-equipment manufacturers.

November 2018: Cabinet adopts the South African Automotive Masterplan, which aims to position the country to produce 1% of global vehicle production, or 1.40-million vehicles, by 2035, while realising local content of 60% and doubling employment to 224 000 jobs.

November 2018: The Ford Struandale engine plant, in Port Elizabeth, starts production of the new-generation diesel engines that are set to power the Ford Ranger Raptor and selected Ranger and Everest models.

February 2019: Ford Motor Company of Southern Africa reports record Ranger exports from its Silverton plant, in Gauteng, with 68 364 units shipped to export markets. This is a 16.20% increase on 2017 exports.

February 2019: BAIC South Africa confirms that its plant in the Coega Industrial Development Zone has been delayed. Initially expected to be finished in the first quarter of 2018, full-scale vehicle production is now scheduled for the end of 2019.

March 2019: The third fully electric vehicle makes its debut in South Africa with the launch of the Jaguar I-Pace at a price tag of R1.68-million – more than double the price of the BMW i3.

March 2019: The 500 000th W205 C-Class – the current model – rolls off the line at the Mercedes-Benz South Africa assembly plant in East London, in the Eastern Cape. The car is exported to the UK.

April 2019: Japanese automotive manufacturer Nissan announces a R3-billion investment in its Rosslyn plant, in Gauteng, to provide for the manufacture of the Navara pickup.

April 2019: Ford Motor Company of Southern Africa expands its vehicle export operations by adding Port Elizabeth to Durban as a vehicle departure point.



Picture by Creamer Media





Picture by Creamer Media

VEHICLE SALES

The health of South Africa's automotive industry is strongly tied to the state of the domestic economy, with a strong correlation between economic growth rates and new vehicle sales. The weak macroeconomic conditions battering the South African economy have slowed demand for new vehicles. Consumers' disposable income is under pressure and business confidence is low.

New-vehicle sales have been in negative territory for the past five years, with the exception of 2017, when sales increased by 1.90%. In 2018, new-vehicle sales declined from 557 703 units to 552 190 units.

The domestic market has shrunk significantly since 2006, when it recorded an all-time high sales figure of 714 315 vehicles, of which the new car market represented 481 558 units. In 2006, South Africa's economic growth rate was 5.60%, compared with 2018's growth rate of less than 1%.

It appears that South Africans are still keen to buy cars, but that much of the focus has shifted to the used-car market, highlighting the stress in the new-car market amid pressures on household disposable income.

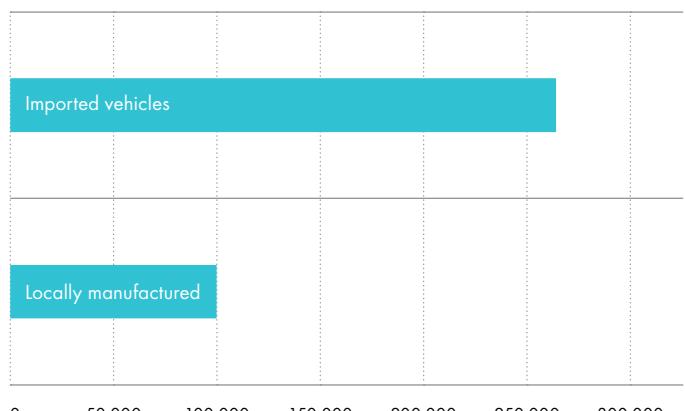
According to statistics by Lightstone Auto – an independent service provider to the National Association of Automobile Manufacturers of South Africa (Naamsa) – new car sales decreased by 0.78% to 365 246 units in 2018 (2017: 368 114 units) and those of light commercial vehicles (LCV) by 2.37% to 159 452 units.

Imports are dominating the new-car market, with 73% of the domestic passenger vehicle market being supplied by vehicles manufactured outside South Africa. The total new-car sales

market comprises 100 208 domestically produced vehicles and 265 034 imported cars. The light-commercial-vehicle market has a higher proportion of locally produced vehicles, with 83% of vehicles sold in this category being South African-made. Imports from Korean brands Hyundai and Kia are strong, but several other brands, including some Chinese names, have dissolved their South African operations in recent years, while Chevrolet, Chrysler and Citroën have also exited the market.

Nevertheless, the country has one of the most competitive trading environments in the world, and offered no fewer than 53 passenger car brands and 3 236 model derivatives to buyers in 2017, affording them the widest choice to market-size ratio anywhere in the world. In the LCV segment, there were 34 brands, with 698 model derivatives to choose from in 2017.

New vehicle sales mix: Imports vs SA-made



Source: Compiled from Naamsa statistics



Aggregate industry sales by sector						
Sector	2014	2015	2016	2017	2018	2018/2017 change
Cars	438 938	412 397	361 265	368 114	365 246	-0.80%
Light commercials	173 492	174 812	159 316	159 317	159 452	-2.40%
Medium commercials	10 780	10 522	8 436	7 890	7 913	+0.30%
Heavy trucks and buses	20 534	19 919	18 535	18 382	19 579	+6.50%
Total vehicles	643 744	617 650	547 552	557 703	552 190	+1.00%

Source: Naamsa

Naamsa states that the car and LCV sectors are characterised by a buying-down trend, with sales of entry-level vehicles, small utility vehicles and crossovers performing well in relative terms, while the premium car segment is under pressure.

Some evidence of this can be found in Mercedes-Benz passenger car sales, which dropped by 22% in 2018 to about 16 000 units. BMW held steady at about 18 000 units, while Volvo Cars defied the trend, growing by 24% to about 2 500 units.

Suzuki, a specialist in largely small, more affordable cars, proved the buying-down trend true, growing by 37% to more than 12 000 units.

The Toyota Hilux remains the biggest-selling vehicle in South Africa, with 40 018 units sold in 2018.

The medium and heavy commercial vehicle sectors recorded growth of 0.29% and 6.51% respectively in 2018. Naamsa states that the stronger sales suggest an improvement in capital investment sentiment in South Africa.

Naamsa is forecasting 2019 new-vehicle sales to increase by 1% to 558 000 units, with growth expected in all segments

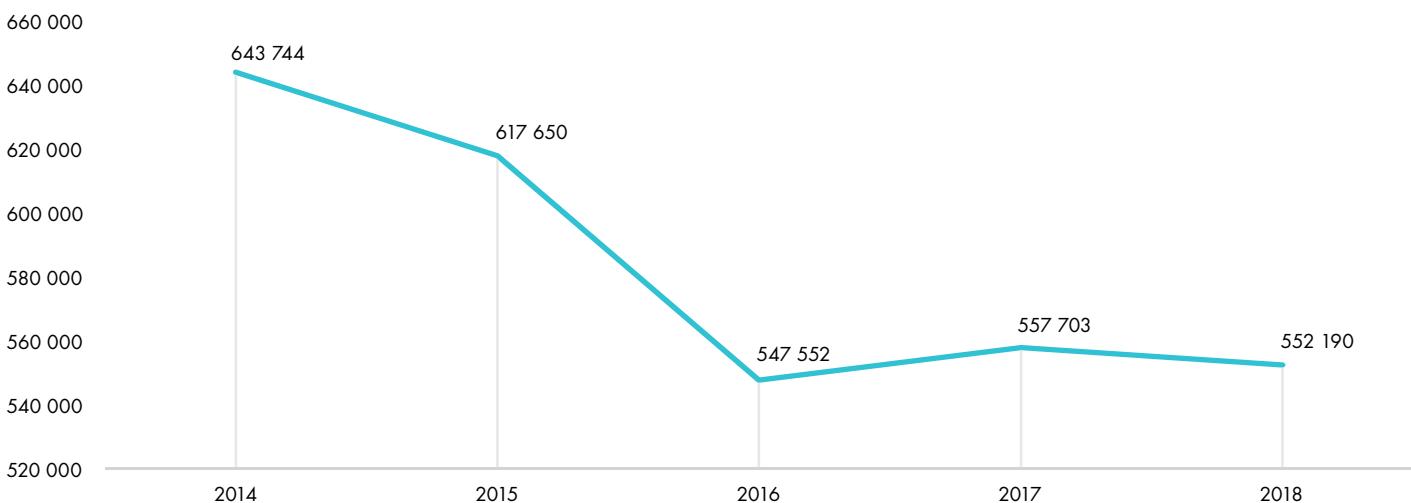
of the market. Most automotive companies are planning their operations on the basis of a flat market in 2019, based on low economic growth forecasts. Finance specialist Wesbank, however, is projecting a 1% decline in year-on-year sales for 2019, noting that there is "little in the way of economic stimulation on the horizon and a slump in the global economy".

Naamsa is basing its sales forecast for 2019 on an economic growth rate of 1.20% and has warned that, should the growth rate fail to materialise, it will lower its estimates for the year. Banking group Nedbank expects the economy to fair better than 2018's 0.80% growth and to expand at 1.30% in 2019, despite the renewed concern about reliable electricity supply, continued legislative and political uncertainties and slowing global economic momentum.

Domestic sales started 2019 off on a weak note, with the market down on the first three months of last year. January sales fell by 7.40% year-on-year to 42 374 units, February sales declined by 6.50% year-on-year to 43 251 units and March sales were down 3.10% to 49 230 vehicles.

The new-car market had been particularly weak at the start of the year, with sales registering three consecutive months of decline.

Aggregate vehicle sales 2014 to 2018



In March, the new car market declined by 5.60% year-on-year to 32 153 units.

Naamsa states that the new-car sales figures confirm that consumers are under pressure and lack willingness to invest in and buy new vehicles.

As is the case with previous years, the car rental industry made a major contribution to new-car sales in the first two months of the year, accounting for 19.90% in January and 14.30% in February. The car rental industry's contribution accounted for 8.80% of new car sales in March.

Out of the total reported industry sales of 47 718 vehicles in March, an estimated 41 235 units, or 86.40% represented dealer sales, an estimated 6.60% represented sales to the vehicle rental industry, 4.30% to government and 2.70% to industry corporate fleets.

Sales of new LCVs, bakkies and mini buses had a stronger start to the year. In January, the sales were virtually unchanged from the 11 679 LCVs sold during the corresponding month in 2018. In February and March, sales registered a year-on-year gain of 7.10% to 14 123 units and 1.90% to 14 994 units respectively.

Medium commercial vehicle sales have been performing well, with sales increasing by 24.60% to 552 units in January, and by 14.30% to 662 units in February. A total of 1 101 heavy trucks and buses were sold in January and 1 466 in February. Both months registered an improvement on the corresponding month of the previous year.

In March, sales in the medium and heavy truck segments had a mixed performance and, at 775 units and 1 601 units respectively, reflected a gain of 45 vehicles or an improvement of 6.20%. In the case of medium commercial vehicles, and heavy trucks and buses, sales showed a decline of 27 vehicles or a fall of 1.70%, compared with the corresponding month of 2018.

The National Automobile Dealers' Association (NADA) reports that dealer sales had declined by 6.40% for the first three months of the year, compared with the same period last year. NADA chairperson Mark Domisse says dealers have witnessed a noticeably slower foot traffic on showroom floors, which highlights the economic pressures on household budgets.

Wesbank executive head of the motor division, Ghana Msibi, attributes the weakness of the first few months of the year to weak consumer and business confidence, which have been rattled by the impact of nationwide power outages.

Further, political uncertainty ahead of the elections in May was expected to affect buying activity, particularly when combined with economic stagnation, soaring fuel prices and State-owned power utility Eskom's inability to secure electricity supply.

2018 Motoring costs highest to date

The average monthly cost of motoring has increased by about R940, or 14%, since 2017, and a staggering 31% since 2013, according to data from vehicle and asset finance specialist Wesbank.

Despite prevailing interest rates remaining at low levels and favourable vehicle price inflation, the rising cost of petrol and an increase in value-added tax from 14% to 15% have resulted in higher overall costs when considering the total monthly cost of motoring.

Vehicle instalments and fuel spend remain the biggest components in the costs basket, accounting for 80% of monthly mobility spend.

These costs are reflected by the Wesbank Mobility Calculator, a tool the bank uses to track and calculate historical motoring costs.

The total mobility basket comprises all fees that are involved in vehicle ownership: monthly instalments, insurance premiums, fuel and maintenance. Over time, these costs are updated to reflect prevalent inflation rates and fuel prices, with the sample vehicle price based on an average entry-level car that travels about 2 500 km a month.

Some good news is that Wesbank's data indicates a slowing in vehicle price inflation for new vehicles, which has had a favourable effect on purchase prices. In July 2018, Wesbank's average new-vehicle financed deal was only 1.43% higher, compared with the same deal in July 2017, at R307 445, while the average used-vehicle finance deal was 6.90% higher at R216 309.

Source: Engineering News

QUALITY OF VEHICLES AVAILABLE IN SOUTH AFRICA

The most reliable vehicles in South Africa remain those manufactured by Toyota and Volkswagen, according to the latest vehicle quality survey, which market research group Ipsos publishes every year.

The survey, which was conducted throughout South Africa in 2017, involving feedback from 7 000 owners of vehicles from 16 brands, calculates a quality score based on customer feedback about three months after they have bought a vehicle. The scores



reflect proportions of problems and issues reported by these customers, so a lower score indicates better quality.

Toyota achieved 13 gold awards – seven for passenger cars and six for LCVs – from 16 categories. This compares to nine gold awards won by Toyota in the 2016 survey, so a marked improvement year-on-year.

Volkswagen was the runner-up, with eight golds in 2017, after collecting four in the 2016 survey. Other gold award winners in 2017 were Audi, with five; Isuzu and Honda, with three each; and Nissan, Opel and Ford, with two gold awards each.

Toyota collected seven gold awards in the passenger car category, with Volkswagen and Audi each claiming five, while Honda achieved three, Opel two, and Ford and Nissan one each.

Besides winning awards for individual models, Toyota and Volkswagen earned gold for their passenger car manufacturing plants. Audi won the gold award for best overall passenger car brand, owing to Audi as a brand achieving the best combined score across all its models. Toyota, Opel, Nissan, and Ford shared gold in the best volume passenger car brand category.

Toyota was also the dominant player in the category for LCV, collecting six gold awards, while Volkswagen and Isuzu each collected three. Nissan and Ford each garnered one. In the 2016 survey, Nissan won five gold awards, Toyota four, and Volkswagen one.

Toyota and Volkswagen each won gold awards for best LCV brand overall, while Toyota won gold for best LCV manufacturing plant for its assembly facility, in Prospecton, KwaZulu-Natal.

The best-rated passenger premium hatch surveyed was the Opel Adam with a score of 23. It was followed by the Honda Civic sedan (31) and Audi A3 sedan (32). The Datsun Go Plus has a score of 147.

The highest-rated recreational vehicle was the Volkswagen Touareg, with a score of 10, followed by the Toyota RAV4 (33) and the Volvo XC60 (36). The Renault Duster (90) and Renault Captur (92) were at the bottom.

The Toyota Hilux single-cab petrol bakkie, with a score of 30, fared best among the LCVs, followed by the Isuzu KB extra-cab (56) and Volkswagen Amarok diesel double-cab (69). At the bottom of the 19-model list are the now discontinued Chevrolet Utility (128) and the Nissan Hardbody diesel double-cab bakkie (107).

Poor fuel consumption emerged as the major gripe from customers in the 2017 survey for most categories (11), with the only exceptions

'inadequate performance' in the entry, compact car and extra-cab bakkie segments; 'information system malfunction' in the sport and luxury segment; and 'road-holding' in the multipurpose vehicle segment. Ipsos automotive director Patrick Busschau says there is probably an element of manufacturers publicising fuel consumption at a lower level than experienced by the consumer, and that there could be some sensitivity to the fuel price.

Brands that do not participate include BMW, Mercedes-Benz, Hyundai, Haval and Kia.

EXPORTS

While South Africa's new-vehicle market remains under pressure, having contracted in 2018, exports have increased to its highest volume ever. A total of 351 139 South African-made left- and right-hand drive vehicles were shipped worldwide in 2018, an improvement of 13 058 vehicle exports, or a gain of 3.86%, compared with the 338 096 vehicles exported in 2017.

To put this into perspective, South Africa exported only about 25 000 vehicles in 1998. Exports have increased sharply in the past two decades, spurred on by the incentives-based support programme that government introduced in 1995.

Europe is the dominant region for South African vehicle exports, accounting for two-thirds of all exported vehicles.

In 2018, South Africa exported 233 772 vehicles to Europe, a 22.71% increase on the previous year. Asia is the second-biggest export market, with 50 277 vehicles having been shipped to Asian countries in 2018, which was 4.83% less than in 2017.

North America was previously South Africa's third-largest export partner, but this market has been affected by the phasing out of the BMW 3 Series exports to the US. Exports of the 2 Series have been replaced by the BMW X3, which will instead focus on Europe. A total of 13 037 South African-manufactured vehicles were exported to North America in 2018, compared with 43 393 units in the previous year.

The African market was South Africa's third-largest vehicle export region in 2018 and has recorded noteworthy growth, following a number of years of sharp decline.

Export sales in 2018 increased by 9.79% to 23 988, which the National Association of Automobile Manufacturers of South Africa (Naamsa) says suggests that demand from the rest of Africa has stabilised and is starting to recover.



South African vehicle exports by major regions						
	2014	2015	2016	2017	2018	% change 2018/2017
Africa	61 015	41 431	21 505	21 848	23 988	+9.80%
Asia	34 031	34 929	46 665	52 827	50 277	+4.80%
Australasia	14 608	22 946	22 735	25 125	22 767	-9.40%
Central America	600	496	410	812	1 511	+86.10%
Europe	116 064	173 883	196 727	190 503	233 772	+22.70%
North America	48 136	53 606	52 024	43 393	13 037	-70%
South America	2 482	6 554	4 750	3 588	5 787	+61.30%
Total	276 936	333 845	344 816	338 096	351 139	+3.90%

Source: Naamsa, Automotive Industry Export Council, South African Revenue Service, Lightstone Auto

Exports sales to Africa reached 61 015 units in 2014, dropping to 41 431 units in 2015 and to 21 848 units in 2017.

The Mercedes-Benz C-Class, which is manufactured in East London, is South Africa's biggest vehicle export, followed by the Ford Ranger, which is manufactured in Silverton, Pretoria, and the BMW X3, which is produced in Rosslyn, north of Pretoria.

Using information from July to December 2018, IOL Motoring calculates that a monthly average of 9 258 Mercedes-Benz C-Class cars, 6 420 Ford Ranger vehicles, 5 613 BMW X3 units, 5 126 Volkswagen Polo cars and 4 229 Toyota Hilux bakkies are leaving the country's borders.

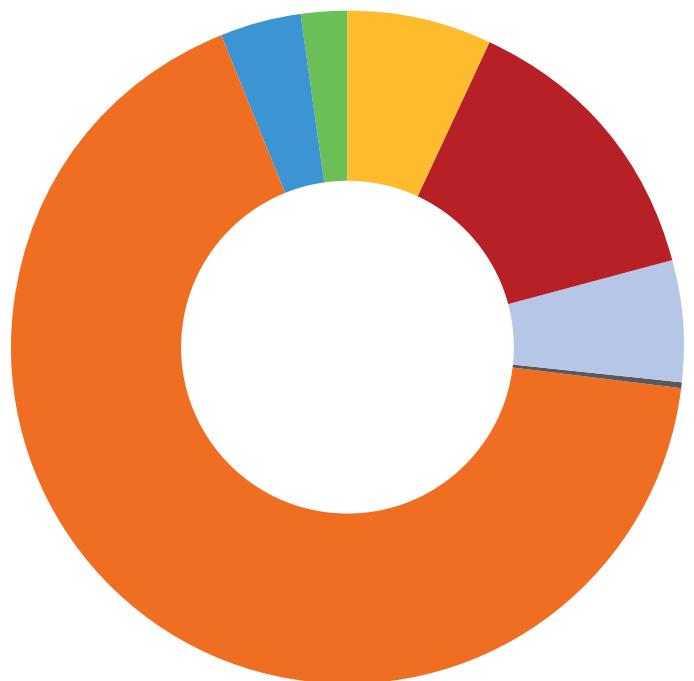
Other exports include the Nissan Hardbody bakkie, Isuzu pickups, Toyota Fortuner and Toyota Corolla vehicles.

With a weak domestic market for vehicles, automotive companies are expected to intensify their supply efforts on export markets. There is uncertainty over Brexit – Britain leaving the European Union (EU) – considering the block's importance to South African exporters. Should the UK leave the EU without a deal, automotive imports will face a 10% tariff, which South African Trade and Industry Minister Rob Davies says will prove to be fatal for South African vehicle exports to the UK.

Another obstacle to export growth, particularly in Africa, is that many countries permit the importation of thousands of used vehicles. Africa, however, is vital to the South African industry's aim of increasing production volumes. Naamsa expects the African market to expand from the current 1.20-million new cars and commercial vehicles to two-million vehicles in five to ten years.

Naamsa is forecasting exports to increase to 384 150 units in 2019 and to 400 200 units in 2020.

Aggregate vehicle sales 2014 to 2018



Africa	7%
Asia	14%
Australasia	6%
Central America	0%
Europe	67%
North America	4%
North America	2%

Source: Compiled from Naamsa data





Picture by Creamer Media

MANUFACTURING AND INVESTMENT

South Africa is a relatively unimportant automotive producer when compared with the world's tier-one producers, which all manufacture more than 1.50-million vehicles a year. At about 600 000 units a year, South Africa holds second-tier status, although government has an aspirational target of capturing 1% of global output, resulting in production of between 1.30-million and 1.50-million units by 2035.

Although relatively small globally, the South African automotive industry is a critical part of the domestic economy, with its contribution to gross domestic product estimated at 7.70%. It is the country's most important manufacturing sector, with about one-third of value-addition within the domestic manufacturing sector derived either directly or indirectly from vehicle assembly and automotive manufacturing activity.

Seven original-equipment manufacturers (OEMs) – BMW Group South Africa (BMW SA), Ford Motor Company of Southern Africa (FMCSA), Isuzu Motors South Africa (Isuzu SA), Mercedes-Benz South Africa (MBSA), Nissan South Africa (Nissan SA), Toyota South Africa Motors (TSAM) and Volkswagen South Africa (VWSA) – have light-vehicle assembly plants in South Africa.

The major local vehicle manufacturers invested a record R8.17-billion in the sector in 2017, and followed this up with an investment of R7.24-billion in 2018. These figures reflect investment projects by the major vehicle manufacturers in terms of the Automotive Production and Development Programme (APDP) and projected higher levels of production for export markets.

The CEOs of the seven automotive OEMs pledged in October 2018 to invest a combined R40-billion over the coming five years,



Picture by Nissan SA

President Cyril Ramaphosa during Nissan SA's announcement of its R3-billion investment into its Rosslyn plant

as part of President Cyril Ramaphosa's \$100-billion investment drive. These investments will bring new model tooling, advanced manufacturing technology and additional localisation of parts to South African shores.

The major medium- and heavy-commercial vehicles, as well as yellow metal manufacturing companies, include Iveco, Scania, MAN, Marco Polo, Bell Equipment, Hino, FAW, Isuzu SA and MBSA.

The automotive industry has warned that power utility group Eskom's inability to provide continuous supply of electricity



is "extremely dangerous" to local manufacturers. National Association of Automobile Manufacturers of South Africa president and TSAM CEO Andrew Kirkby has said that the automotive industry does not do well with stop-start operations. The financial impact of losing production hours is also significant, as these have to be made up through overtime.

BMW SOUTH AFRICA

BMW SA's plant is situated in Rosslyn, near Pretoria, Gauteng. The German group's local subsidiary has invested R6.20-billion in the plant to move production from the 3 Series sedan assembly to building the new X3 sports utility vehicle (SUV). BMW SA exported its first X3 models to Europe in May 2018.

The Rosslyn plant's new capacity is 76 000 units a year, up from 71 000 units previously. The plant is still ramping up to its full capacity level and produced 53 105 units in 2017. BMW SA CEO Tim Abbott expects the Rosslyn plant to set a new record in 2019. Peak production, to date, was in 2015, at 71 353 units.

BMW SA aims to progress to 100% renewable electricity at the Rosslyn plant. About 30% of Rosslyn's current electricity supply comes from the Bio2Watt project, which uses manure from more than 25 000 cattle to generate electricity. The company is investigating ways of increasing that to 50%. BMW SA hopes to get off the grid by 2019 using renewable credits.

The German car maker has invested significantly in its South African operations in the past two years. Besides its R6.20-billion investment in its Rosslyn plant, it has also built a new R73-million training centre at the plant, a R260-million co-investment in a new regional distribution centre and R2.20-billion in to the national BMW dealer network.



Picture by Irma Venter

BMW SA, Rosslyn plant

In addition, it has invested R260-million on an expanded and revamped campus in Midrand, Gauteng, which comprises BMW SA's head office, BMW Financial Services, a new dealer training centre, an information technology (IT) centre with seating for 500 employees, a new welcome centre, restaurant and gym.

The relocation of parts warehousing from the head office, in Midrand, to nearby Waterfall, created space at BMW SA headquarters, allowing for a reconfiguration of the site – in particular the addition of 500 IT staff. BMW SA's IT operations have expanded at a rapid rate in recent years, expanding from 134 people in 2014 to more than 1 000 people. These 1 000 people are working on projects for the BMW group globally, such as assignments related to block chain, cloud computing and the development of a self-driving forklift.

In 2018, BMW SA exported more than R1-billion worth of IT expertise to sister companies.

NISSAN SOUTH AFRICA

The Japanese vehicle manufacturer's Rosslyn plant has a capacity to produce 70 000 units on a two-shift system.

The plant currently manufactures the NP200 and NP300 light commercial vehicles, with about 40 000 units a year rolling off the production line. The production of the NP200 and NP300 models was previously expected to end in 2019, but it has been extended to beyond 2022. These vehicles are exported to selected markets in sub-Saharan Africa.

The Rosslyn plant has also been selected to produce the Navara pickup. Nissan SA announced in May 2019 that it would invest R3-billion in its South African plant to prepare for the production of the 2020 version of the Navara single cab, double cab and cab-and-a-half. About 30 000 Navaras will be assembled each year, depending on demand, with about 12 000 of these exported to markets in sub-Saharan Africa. Adding Navara to the production mix will add a second shift at the Rosslyn plant. Assembly will start in November 2020.

Local parts content in the Navara will start at 35% and will increase to 48% shortly thereafter.

Engineering News reports that the decision to produce the Navara at Rosslyn comes after a seven-year investment hiatus for Nissan SA in terms of new models. It was first announced that the company would produce a new one-ton pickup in 2012. However, this investment did not materialise until the announcement in May.





Picture By Creamer Media

Nissan SA – Rosslyn plant

Nissan Africa, Middle East and India region chairperson Peyman Kargar has attributed the delay to the need for the Nissan SA plant to improve its quality and global competitiveness. Nissan has invested about R1-billion in the Rosslyn facility over the past three years, with more than R500-million at improving and modernising production facilities.

The revamped plant is to act as the mother plant for Africa. Kargar has said that Nissan wants to double its production capacity in Africa by 2022, through the investment in South Africa, as well as investments and/or expansion in Ghana, Algeria and Nigeria. Sales also need to double.

Nissan alliance partners, Renault and Mitsubishi, will be welcome to produce their vehicles at Nissan facilities globally, and in South Africa, should they express interest to do this.

FORD MOTOR COMPANY OF SOUTHERN AFRICA

FMCSA operates an assembly plant in Silverton, near Pretoria, which builds the Ford Everest SUV and the Ford Ranger bakkie for the local and export markets.

FMCSA produced a record 98 505 Ranger units in 2018, which was 8 386 more than in the previous year. Ranger exports were also at an all-time high in 2018, with the company shipping 68 364 units to export destinations – 16.20% increase on units shipped in 2017.

FMCSA's capacity has increased from 100 000 units a year to 167 000 units a year through a R3-billion capacity expansion programme announced in November 2017. The investment focused on upgrading the Silverton plant to build

Ford adopts dual-port strategy

Ford Motor Company of Southern Africa (FMCSA) has expanded its vehicle export operations by adding Port Elizabeth to Durban as a vehicle departure point. This multiport strategy has already seen the first shipment of 1 000 locally assembled Ford Rangers departing from Port Elizabeth to markets in Europe.

Prior to this, all of Ford's incoming and outbound vehicles were processed through Durban's Roll-On Roll-Off terminal, which is the country's primary import and export hub for most original equipment manufacturers, vehicle importers and distributors.

"We are experiencing unprecedented demand for the Ford Ranger around the world," says Ford Middle East and Africa operations VP Ockert Berry. "Together with Transnet, we evaluated how a multiport strategy could benefit both parties by improving the use of current assets, reducing costs, avoiding the ongoing congestion in the Durban Terminal and utilising other ports for imports and exports."

The result of this is that FMCSA will now be shipping vehicles twice a month to various receiving ports in Europe.

The Ford Rangers, which are produced at Ford's Silverton Assembly Plant, in Pretoria, are transported to Port Elizabeth using Transnet Freight Rail. Traditionally, Port Elizabeth-based vehicle manufacturers transport units to Gauteng by rail, with these rail assets returning empty. Ford will now use the return leg to move export vehicles from Silverton to Port Elizabeth, for shipping to selected markets around the world.

"This will assist us in making the shipping and delivery from South Africa more cost effective, efficient and faster," notes Berry.

Source: *Engineering News*

the face-lifted Ranger and Everest, as well as the new high-performance Ranger Raptor. Trial production of the Raptor started in October 2018 and production of the 2019 Ford Ranger started in February 2019.

The R3-billion investment also focused on capacity and capability improvements at the Struandale engine plant, in Port Elizabeth, which manufactures engines for the Silverton assembly plant. The investment includes the installation of a sophisticated new assembly line for an all-new diesel engine programme that will power the new Ford Ranger Raptor. FMCSA is also boosting capacity for the Duratorq TDCi engine that is used in the Ford Ranger and Everest.

The new assembly line has an installed capacity to produce up to 120 000 engines a year, doubling the combined installed capacity to 250 000 units a year. The new assembly line will





Picture by Creamer Media

FMCSA – Silverton plant

produce eight derivatives of the new engines, including the 157 kW/500 Nm biturbo unit. The new engine assembly line incorporates a cylinder head subassembly line that uses four fully automated robots for the precise fitment of components, as well as high-pressure leak testing.

TOYOTA SOUTH AFRICA MOTORS

TSAM manufactures the Corolla sedan, the Corolla Quest, the Quantum minibus, the Hilux bakkie and the Fortuner SUV at its plant in Prospecton, KwaZulu-Natal. Total plant capacity is 242 000 units a year, although it has been producing only about 135 000 units a year in recent years.

The Durban plant will not produce the new, twelfth-generation Corolla, which will be launched in South Africa in 2020. TSAM CEO Andrew Kirkby said in February 2019 that the local arm of the Japanese manufacturer was working hard to secure a successor contract to the Corolla. TSAM has to demonstrate to its Japanese parent company that it is globally competitive and that it can achieve the required volumes to make the product viable.

TSAM has been producing the Corolla for 43 years – since 1975. During this period, more than one-million units have been produced and sold in South Africa. TSAM will continue to produce the current, eleventh-generation Corolla, the Quantum minibus, as well the Hilux bakkie and Fortuner SUV ranges, built on the international multipurpose vehicle, or IMV, platform. IMV vehicles are either rear-wheel drive or four-wheel drive.

South African-built bakkie wins 2019 Dakar rally

A South African-built bakkie has clinched the 2019 Dakar rally, held from January 6 to 17, in South America. Driven by Qatari driver Nasser Al Attiyah and French co-driver Mathieu Baumel, the Toyota Gazoo Racing South Africa's Hilux powered to the checkered flag, nearly 47 minutes clear of second-placed Nani Roma and Alex Haro Bravo in their Mini.

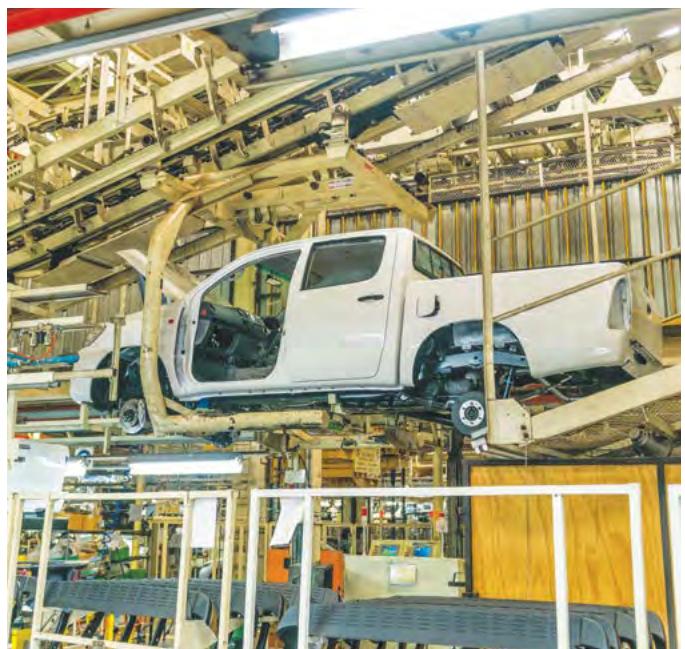
Giniel de Villiers, from South Africa, and German co-driver Dirk von Zitzewitz, also from Toyota Gazoo Racing SA, ended the race in ninth place.

Not only was Dakar 2019 a first win for Toyota, it was also the first rally where a petrol-powered car won in the South American era, with the race historically staged in Africa.

While consistently placed in the top five since Toyota Gazoo Racing SA was first established in 2012, the team had not managed better than second place in the Dakar, doing so in 2013, 2015 and 2018. Team principal Glyn Hall and his team take the Hilux bakkies, made in South Africa, and convert them into racing machines at his workshop in Midrand, Gauteng.

The Toyota Gazoo Racing SA crews fielded the latest evolution of the Toyota Hilux, which had a major revamp for Dakar 2018, when the car was updated with a midengine layout and new suspension geometry for the race.

Source: *Engineering News*



Picture by TSAM

TSAM – Prospecton plant



MERCEDES-BENZ SOUTH AFRICA

The MBSA plant, in East London, started production of Mercedes-Benz passenger cars in 1958. Today, the plant produces the C-Class sedan for export to right- and left-hand markets, and is one of four C-Class plants in the world. MBSA also started production trucks in 1962, and currently produces the trucks and buses of the Mercedes-Benz brands, as well as trucks of the Fuso brand. In 2017, MBSA produced a record 121 000 vehicles – 117 071 C-Class passenger cars and 4 200 commercial vehicles.

In March 2019, the 500 000th W205 C-Class – the current model – rolled off the assembly plant. The 500 000th car is a right-hand-drive automatic C200 full-roof sedan, which was exported to the UK.

The German group confirmed in June 2018 that the new-generation C-Class would be built at the East London MBSA plant, while MBSA announced that it would invest €600-million to expand the plant and equip it for the future. This includes the construction of a new paint shop and new body shop, an upgrade of the assembly shop and new logistic warehouses. Overall, the new buildings comprise about 100 000 m². The new workshops will incorporate environment-friendly and state-of-the-art technologies. The new body shop is designed for higher capacities and features more than 500 Internet of Things-ready robots laying the foundation for Industry 4.0 readiness. Using new methods, the new paint shop will be more energy efficient and more environment-friendly. Overall, the energy consumption for each vehicle produced will be reduced by 25%. This is in line with the plant's initiative of "greener" manufacturing. Other examples include on-site battery storage containers, rain water harvesting on rooftops, water storage of one-million litres and the creation of green corridors.



MBSA plant

VOLKSWAGEN SOUTH AFRICA



Picture by VWSA

VWSA – Uitenhage plant

Local arm of German car manufacturer Volkswagen VWSA produces the Polo hatchback, including the GTI, for local and export markets, as well as the Polo Vivo for the local and selected African markets at its Uitenhage plant, in the Eastern Cape. VWSA produced 126 413 vehicles in 2018, of which 75 900 units were exported. The company expects 2019 to be a record year and is forecasting production of 161 900 vehicles. VWSA CEO Thomas Schaefer tells *Engineering News* that the company is "maxed out". "If we could produce more, we would. We are on three shifts a day and we are already working on Saturdays."

VWSA has invested R6.10-billion since 2015 at the Uitenhage plant to allow for the production of the Polo and Polo Vivo. The investment has included new production facilities, local-content tooling, quality assurance and manufacturing equipment, as well as information technology upgrades. VWSA also has capacity to produce 175 000 engines a year at its Uitenhage plant.

Elsewhere in Africa, Volkswagen has assembly sites in Kenya and Rwanda, which are supplied with vehicle kits from the VWSA plant in Uitenhage.



ISUZU SOUTH AFRICA

Isuzu SA was officially launched in February 2018, following the departure of General Motors from the country in 2017.

Following the US company's exit, Japan's Isuzu Motors acquired General Motors South Africa's (GMSA's) Struandale manufacturing plant, in Port Elizabeth – where GMSA assembled Isuzu bakkies in accordance with an agreement for more than 40 years – as well as GMSA's minority shareholding in Isuzu Trucks South Africa.

In December 2018, Isuzu SA consolidated its manufacturing plants, relocating its truck production facilities from Kempston road, in Port Elizabeth, to its new headquarters in Struandale, where all truck and bakkie manufacturing is taking place. The relocation took ten months to complete and cost the company R27-million. Isuzu SA is a small automotive manufacturer and the assembly plant produces less than 50 000 units a year. The company is selling about 20 000 bakkies and about 4 000 trucks a year.

The Struandale plant has been manufacturing the D-Max bakkie, previously named the KB, since 2012 and the vehicle is starting to reach the end of its life cycle. Isuzu SA is negotiating with its Japanese parent company about manufacturing the vehicle's successor model in South Africa.

BAIC

Besides the manufacturing plants of the large OEMs, Chinese vehicle manufacturer BAIC, in partnership with South Africa's Industrial Development Corporation, is building a new production facility in the Coega Industrial Development Zone (IDZ), in the Eastern Cape. The R11-billion project entails the construction of a completely knocked-down vehicle manufacturing plant, with an initial capacity of 50 000 units a year, ramping up to 100 000 units a year. The car manufacturer plans to export about two-thirds of its production. The plant will produce small cars, small SUVs and bakkies – three of the most popular vehicles in South Africa. Plans for the BAIC South Africa (SA) plant include the future construction of a supplier park in the Coega IDZ to facilitate parts supply to the assembly line.

The completion of the BAIC SA plant, however, has been delayed. Initially, the company had planned to complete construction by the first quarter of 2018, but by July 2018, BAIC SA said that it had completed only the critical construction and equipment installation milestones for Phase 1. This phase involved the completion of a semi-knockdown line and "satisfactory progress on construction work streams of its vehicle assembly plant".

At the time, BAIC SA announced that the full-scale production of its compact SUV, the BAIC X25, would start in the fourth quarter



Picture by Creamer Media

BAIC SA – Coega Industrial Development Zone semi-knockdown line



of 2018. However, in February 2019, new timelines had been established, with full-scale construction expected to start by the end of 2019 and all construction scheduled to be completed in 2020. The initial production target of 50 000 vehicles a year should be reached in about three years from the start of production. Of the locally manufactured vehicles, 40% will be sold in South Africa and 60% exported.

Although the company intends to import parts from China, it has also committed to buying parts from local suppliers.

MAHINDRA & MAHINDRA SOUTH AFRICA

Mahindra & Mahindra South Africa (MMSA) has initiated contract assembly of its Mahindra and Bolero bakkies in KwaZulu-Natal. Production volume will be 2 500 a year in one shift and can be increased to 4 000 units a year. Production is from semi-knockdown kits, imported from India, and assembly started in May 2018. The greenfield plant is located at the Dube TradePort and belongs to Automotive Investment Holdings (AIH). The combined investment between MMSA and AIH in the plant is about R10-million, buildings excluded. This is AIH's first move into the contract assembly market, with the company focused solely on consulting in the South African automotive

and economic development environment, since its inception 12 years ago.

The Level 2 black-empowerment company has assisted the BAIC and BAW groups, among others, in establishing their plants in South Africa. AIH shareholders include a list of names well known in the automotive industry, including Johan Cloete, formerly from the Department of Trade and Industry, where he participated in drafting the Motor Industry Development Programme, and Paulo Fernandes, former Automotive Industry Development Centre MD. The company's chairperson is Dempsey Naidoo. He was the former CEO and founder of black-empowered consulting engineering firm PD Naidoo & Associates, as well as Mott MacDonald Africa Unit MD.

Mahindra will receive some duty benefit from local contract assembly. Fully built-up vehicles are normally imported at 25% duty. However, MMSA's assembly volume falls short of the 10 000 units-a-year threshold required to qualify for benefits under the current Automotive Production and Development Programme. MMSA plans to use the Durban plant as a springboard for exports into the rest of Africa. The company aims to add local parts to the Mahindra Pik-up and Bolero bakkie kits. MMSA will start by adding local oil, batteries and tyres, with an ultimate plan to use 40% local content.



Picture by MMSA

MMSA – Durban semi-knockdown plant



Tshwane aims to be South Africa's automotive manufacturing capital

The Automotive Industry Development Centre (AIDC) has launched the first phase of a R50-billion development, which will transform Rosslyn, north-east of Pretoria, into the automotive manufacturing capital of South Africa.

Dubbed the Tshwane Auto City, the AIDC will oversee more than 7 000 ha of development in the area over the next ten years, with the ultimate goal of transforming Rosslyn and Klerksdorp into a concentrated manufacturing cluster and the City of Tshwane into an automotive investment destination.

Rosslyn is already home to four automotive plants for BMW, Nissan, Iveco and Tata, as well as an array of automotive suppliers. The idea is to emulate well-established automotive cities like those in Spain, China, Germany and Japan.

The first phase of the project entails the R3-billion Rosslyn Hub, which will be a 100 ha mixed-use project in Rosslyn. A sod-turning event for this phase was held in May 2018.

Upon completion, the hub will include about 1 200 houses and 250 rental apartments, schools and university, shopping centres, industrial parks, motor retail areas and other amenities like hospitals and clinics.

Source: BusinessTech

Meanwhile, new research by the University of Witwatersrand has shown that government could provide a major boost for local automotive manufacturing, should it adopt a policy of buying only locally produced cars, bakkies, buses and trucks at national and provincial level.

Through various multiplier effects, such a policy could increase South Africa's gross domestic product by R36.80-billion a year.

In 2017, about 25% of vehicles bought for national and provincial government use were imported.

A number of these imported vehicles were luxury vehicles for use by high-ranking officials. National and provincial government spent R2.60-billion on imported vehicles in 2017, and R6.20-billion on locally produced vehicles.

Government officials will be able to choose from a range of locally produced vehicles, including the Volkswagen Polo, Polo Vivo, Isuzu bakkie, BMW X3, Mercedes-Benz C-Class, Nissan NP300 bakkie, Nissan NP200 half-ton bakkie, Ford Ranger bakkie, Ford Everest, Toyota Quantum minibus, Toyota Fortuner and Toyota Hilux bakkie.

COMPONENT SUPPLIERS

The South African component manufacturing sector comprises about 100 Tier 1 companies, which deal directly with the original-equipment manufacturers (OEMs), and about 400 lower-tier companies, which supply the subparts that are incorporated into completed components.

The South African automotive industry supply chain is concentrated around OEMs and Tier 1 component suppliers.

Tier 1 component suppliers are, typically, large multinational companies supplying subassemblies consisting of many parts to OEMs assembly lines. In a normal global vehicle supply chain, the OEM will be responsible for 20% of value addition, with Tier 1 suppliers responsible for 30% and the remaining tiers for 50%. In South Africa, however, the OEM is responsible for 40% of the value addition, as are Tier 1 suppliers, with the remaining tiers responsible for 20%.

The local automotive industry suffers from a significant under-development of the smaller Tier 2 and 3 component suppliers, says lead consultant on the South African Automotive Masterplan, B&M Analysts chairperson Dr Justin Barnes.

Suppliers say the volumes they are called on to produce make it impossible for them to be cost competitive, with overseas suppliers that count production volumes in millions, rather than thousands.

Currently, more than 60% of the parts built into South Africa-produced vehicles is imported, and government aims to change that to about 60% local content. It is hoped that increasing the assembly volumes will provide the necessary scale for component suppliers to be more competitive.

South African suppliers are largely holding their own, but there are some warning lights about the state of local suppliers, the newest 'South Africa Automotive Supplier Performance Report' indicates.

Produced yearly for the National Association of Automotive Component and Allied Manufacturers (Naacam) by B&M Analysts, the study benchmarks suppliers in South Africa against those in Canada, China, Hungary, India, Mexico and the US.

The firms were divided into three groups: South Africa, with 92 components manufacturers participating; developed countries (DC), with 64 companies participating, such as in the US, and less-developed countries (LDC), with 97 companies participating, such as in India.



The benchmark analysis also includes average, upper quartile (UQ), median and lower-quartile performance indicators in terms of South Africa-based firms, with the UQ encompassing the 25% best performers.

The 2019 'South African Automotive Supplier Performance Report' indicates that capital expenditure (capex) among South African components firms remains a major concern, says B&M Analysts MD Douglas Comrie. After increasing in 2017 to almost 5% of sales, levels dropped in 2018 to under 4%. This is well behind the comparative averages for the DC and LDC firms of 8.90% and 7.20% respectively.

Further, the data highlights that 50% of local firms spent less than 2% of sales revenue on capex in 2018, with 25% spending less than 0.60%. About 7% to 8% is considered the "absolute minimum" that suppliers should spend, Comrie says.

If capex numbers do not increase, it will be difficult for the South African automotive industry to reach its short-term target of 42% local parts content on domestically produced vehicles by 2023 and 60% by 2035.

Also problematic is that supplier investment in skills development reflects a slight decline in the past year to just 1.40% of remuneration. Further, 50% of local suppliers spend 1%

or less of their remuneration bill on training and development, confirming that a significant portion of suppliers are spending insufficient funds to improve productivity and, therefore, competitiveness.

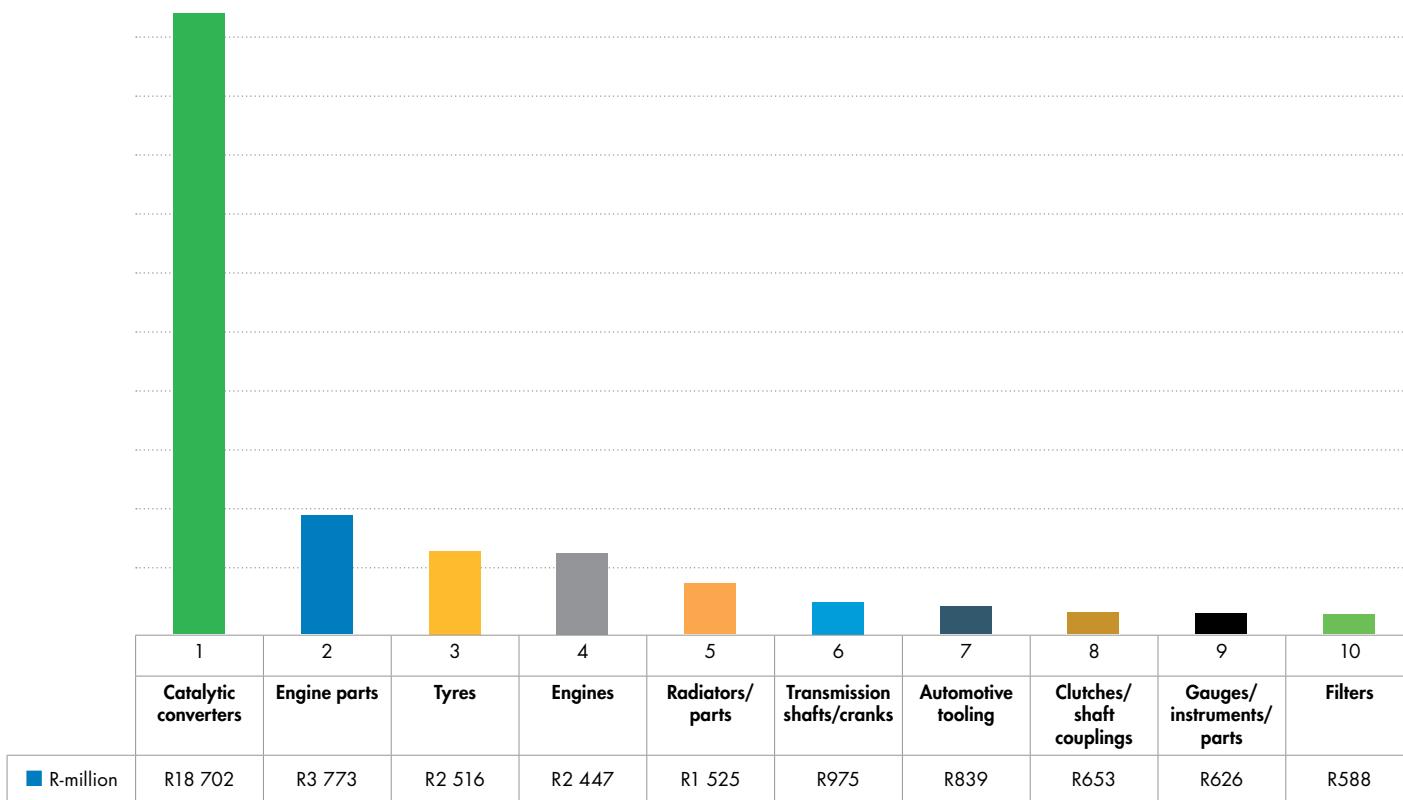
A significant focus on capital upgrading, as well as the introduction of the associated technology and investment in skills, is required by the local supplier industry if productivity is to be bolstered, competitiveness is to be enhanced, and growth opportunities are to be realised, emphasises Comrie.

Failure to focus on investment in operations in line with industry requirements will place significant pressure on local suppliers going forward.

Comrie adds that a major observation from the latest benchmarking findings, especially when considering the spread of performance, is the differential between the top 25% performers (the UQ) and the rest of the local suppliers (the lower quartile).

While the top performers are doing well, the performance of the bottom 25% and, in several instances, the bottom 50%, is "highly concerning", he says. This highlights that up to half of local suppliers require increased focus and support in bolstering their performance in key operational areas.

Top automotive exports by value – 2017



Source: Automotive Industry Export Council and South African Revenue Services



Some good news in the report is that South African suppliers increased their average rand sales by 10.70% in real terms from 2016 to 2018. This means local supplier growth is far stronger than the comparative production volume growth at South African vehicle manufacturers.

Average local supplier employment levels, which include permanent and contract employees, increased by 3.50% from 2016 to 2018, with the increase in 2018 being 2.80%. However, a review of operating profitability levels for local suppliers highlights that, after improving to 6.20% in 2017, the 2018 average declined to 4.30%.

The South African supplier profitability levels remain well behind the comparative DC and LDC averages, with the UQ level of 12% ahead of the LDC average, but behind the latest DC level.

The strides that the local component industry has taken in recent years are evident in its increased ability to compete globally. The main exports remain first-world markets, but emerging markets, such as the Czech Republic, Argentina and Turkey, are also starting to feature as an important export destination for the country's automotive component exports.

The '2018 Automotive Export Manual' report indicates that automotive component exports declined by 5.20% from R53.04-billion to R50.28-billion in 2017. South Africa is a strategic supplier of catalytic converters to the world, and by value, this component category was the dominant export component with a total export value of R18.70-billion achieved in 2017. This equates to 37.20% of total exports.

Engine parts are the second-most important component export industry, having earned R3.77-billion in 2017, and tyres the third-largest, at R2.52-billion.

The export of engines has increased substantially in recent years and were the fourth-highest export earner in 2017, at R2.45-billion. In 2013, South Africa exported R262.80-million worth of engines. The growth is attributed to the EA111 engine that Volkswagen South Africa (VWSA) manufactures locally for the VW Polo and Polo Vivo, as well as the Duratorq TDCi turbodiesel engine that Ford Motor Company Southern Africa (FMCSA) manufactures for the Ford Ranger and Ford Everest. VWSA produces 175 000 engine units a year at its Uitenhage plant, in the Eastern Cape.

FMCSA has recently expanded its engine assembly operations at Struandale, in the Eastern Cape, boosting its engine assembly capacity from 115 000 to 130 000 units a year. The Struandale engine plant assembles 56 variants of the Duratorq TDCi engine and plays a central role in the global Ford network.

The future direction of engine development is uncertain at this stage, owing to the rapid global emergence of electric and electrified drivetrains. South Africa is not currently participating in producing alternative powertrain technologies, but demand could emerge should OEMs secure contracts to build hybrid and electric vehicles in the country. A number of local vehicle manufacturing plants have export contracts to numerous markets abroad, where demand for these new-generation vehicles is escalating.

Besides the measures contained in the APDP, there is potential for further tax-based investment incentives in two designated products streams. These are powertrain components, such as engines and transmission products, as well as high-end telematics and electronics, such as infotainment systems, which are not produced in the country. These new incentives will be in addition to the Automotive Investment Scheme.

Without high-value-added type component projects, such as engine production, it is unlikely that OEMs will reach 60% local content. The APDP allows for automakers to build extra parts and to export these to earn additional benefits. In other words, manufacturers do not need to use all the parts in their vehicles. South Africa-based manufacturers can create suppliers to produce large numbers of parts for their parent companies abroad.

While the automotive manufacturing industry is aware of the changes taking place globally, it still expects catalytic converters and engines to remain an important part of the South African components industry.

Catalytic converters and engine parts are the focus of the new five-year Automotive Sector Business Plan, which Toyota Motors South Africa (TMSA) president and CEO Andrew Kirkby unveiled in January 2019. The plan focuses on improving local capability to manufacture these specialised components.

The business plan is a response to a call by President Cyril Ramaphosa to sectors to create plans for inclusive growth through public-private growth initiatives. Other targets include ensuring more than 50%-black-owned enterprises in the Tier 1, 2 and 3 component industries, and strengthened autotrade relations with African countries.

TMSA, the Department of Trade and Industry and other industry players have formed a Transformation Fund to increase local content, which is how jobs will be created and local purchase opportunities encouraged. The vehicle manufacturer and government are also working towards bringing the informal auto parts sector into the fold.





Picture by Creamer Media

SECTOR SUPPORT

Key summary of the South African Automotive Masterplan 2035

- Achieve 1% of global vehicle manufacturing by 2035.
- Increase local content from 39% to 60%.
- Double employment in the value chain from current levels to about 240 000.
- Achieve at least Level 4 black economic-empowerment status from 2021.
- Support to be based on value-addition, rather than production sales.

Source: The Department of Trade and Industry

The automotive manufacturing sector is the most dynamic manufacturing sector and this has been partly attributed to a supportive automotive industrial policy framework, which stretches back nearly 25 years. The Motor Industry Development Programme was introduced in 1995, and was succeeded by the Automotive Production and Development Programme (APDP) in 2013.

The APDP runs on a number of interrelated mechanisms to incentivise local manufacture, including the Automotive Investment Scheme (AIS), which is a cash grant for qualifying capital investment in plant and equipment.

The APDP is intended to come to an end in 2020. Cabinet approved the extension of the APDP in November 2018 from 2021 to 2035. The extension includes amendments to support the South African Automotive Masterplan (SAAM).

SAAM is the newly developed strategic plan for the long-term development of the automotive industry and the APDP will now operate within the framework of this masterplan. SAAM focuses on six areas – market optimisation, regional market development, localisation, infrastructure development, industry transformation and technology, as well as associated skills development.

The new automotive industry framework places local content at the centre of any future support for the industry, with government having set a target of raising local content from less than 40% currently to 60% by 2035. The SAAM also aims to double employment in the sector to 224 000 jobs by 2035, from 112 000 currently, and position South Africa to account for 1% of global vehicle production, or 1.40-million vehicles, by that date. The South African industry currently accounts for about 0.60% of the global industry, with yearly production of more than 600 000 units. To achieve the 2035 target, the domestic market will have to grow at a compound annual growth rate of at least 4.50% for passenger vehicles, 3.50% for light-commercial vehicles and 3% for medium- and heavy-commercial vehicles.

The key focal point of the APDP amendments is to ensure that the incentives programme benefits earned are correlated with industry localisation levels, and hence industry employment aggregates.

The major amendment that responds directly to this is the replacement of the volume assembly allowance (VAA) with a volume assembly localisation allowance (VALA), to be phased in from 2021 to 2026 to protect existing original-equipment manufacturer (OEM) investments. The current VAA is based on the wholesale selling price of a vehicle produced in South Africa, irrespective of content source. With the incentive no longer based



solely on the wholesale selling price, an OEM has to deduct the value of imported content from the wholesale selling price and multiply that with the applicable VALA percentage. The VALA will start at 40% in 2021, and eventually drop to 35%.

National Automotive Component and Allied Manufacturers (Naacam) executive director Renai Moothilal explains that an OEM will still get an incentive for assembly, but that they will no longer be incentivised for parts content that is imported and built into the wholesale price. Unlike the VAA, the VALA is not an assembly allowance, irrespective of the levels of local sourcing. Essentially, the adjustment to the formula aims to align government's support for the industry directly with a vehicle's local content by removing credit for imported content.

The VALA formula will not be applied to the medium- and heavy-commercial vehicle sectors.

The VALA is one of two duty-offset mechanisms that OEMs use to offset the customs costs associated with imported vehicles not made locally and completely knock-down assembly packs used in their plants.

The other is the production incentive (PI), where a vehicle manufacturer calculates manufacturing value-add (MVA). This is essentially any value added domestically to a raw material or subcomponent until the time it becomes a final domestic product, such as a vehicle, or a component that may be exported for assembly in foreign plants. A higher MVA results in a higher PI valuation. Theoretically, this PI lever should have driven localisation and economic activity in the value chain, but according to Naacam, it has not materialised. Local-parts content on vehicles made in South Africa declined from an average of 46.6% in 2012 to 38.7% in 2016.



Picture by VWSA

Government has set a target of raising local content from 40% to 60% by 2035



Picture by Creamer Media

The revamped APDP replaces the contentious production rebate debit certificates, with duty credits that are tied to local value addition

Moothilal explains that the decline happened to some extent because of how the VAA has manifested itself. Being linked to nothing other than the number of vehicles rolling off the production line, the VAA has dominated the PI, which means volume production has overtaken the importance of local value addition and sourcing.

In the current APDP, the PI nets out to 10% of value-addition within qualifying non-original-equipment manufacturing. In the post-2020 APDP, this increases to 12.50%.

The revamped APDP also replaces the contentious production rebate credit certificates (PRCCs), with duty credits that are tied to local value addition. This is expected to help clean up the current surplus of PRCCs, which are used by OEMs and importers to bring new vehicles into South Africa duty free.

The AIS cash grant for capital investments has been retained, but will be reduced by 5% in those instances where non-South African tooling and machinery are employed. The AIS will further be augmented to include an incentive for investments in new technologies, including investments related to the introduction of electric or hybrid drivetrains.



Five challenges that the South African motor industry faces

National Automotive Association of South Africa CEO Andrew Kirby says there are five challenges facing government and the automotive industry as they gear up to introduce the new South African Automotive Masterplan (SAAM).

1. Responding to the Market

South Africa has a motorisation level of 176 vehicles for every 1 000 people, compared with 206 in Brazil and 679 in Italy. In the rest of Africa, it is about 50. Kirby says if South Africa could reach Brazil's level in the next five to ten years, it would add another 100 000 new-vehicle sales a year to South Africa's market tally. Looking ahead, he says, the biggest portion of growth in the domestic market will come from buyers seeking affordable, practical vehicles with good functionality. When considering electric vehicles (EVs) and other forms of alternative propulsion, South Africa is swimming upstream, even though "we know that electrification is going to come", notes Kirby. Hybrids and EVs currently comprise 0.80% of local sales, having dropped by 39% from 2016 to 2017. In the same period, EV sales increased by 70% in Italy and 45% in the European Union.

Another challenge in responding to the market is that the vehicle retail environment is changing rapidly, with customers, for example, demanding a more digital experience or moving towards shared mobility rather than owning a car. However, Kirby says the good news is that Afrilennials – as opposed to Millennials – still want to own a vehicle. "They are first-generation middle class that are actively in asset catch-up mode."

2. Optimising Regional Integration

New-vehicle sales in Africa could reach two-million units a year in the next five to ten years, up from the 1.16-million recorded in 2017. "We need to get to that million-unit-a-year production mark and Africa is a key component to that," says Kirby, noting that South Africa has the geographic advantage to capture the African market. "We understand Africa. Our vision is to become the base of manufacturing and supply of vehicles into Africa." While South Africa is part of a number of Africa free-trade agreements, none of these are, however, automotive specific. Kirby warns that the local automotive industry has to be aware that there is "massive foreign investment in Africa", and that it is not coming from South Africa. China invested \$36.10-billion into Africa in 2016, which gave it a 39% share of the investment market.

Used-car imports also remain a big challenge in expanding Africa's new-vehicle market. He also notes that there was a 31% increase in vehicle production in Morocco from 2015 to 2017. "We are competing with the North African countries, which are very close to Europe. If we want to achieve the masterplan, how do we compete with other emerging markets in Africa?"

3. Infrastructure

Another challenge South Africa faces in reaching the goals of the SAAM is the uncertainty about when clean fuels will finally be introduced in the country, following repeated delays by government in enforcing its local production and distribution. The country will, at some point, also need to participate in the steady progression towards EVs, and this will require infrastructure. Also, notes Kirby, an increase in the production, export and sale of vehicles in South Africa, as envisaged by the masterplan, will require further enhancements to the country's port and rail infrastructure, despite the gains made in the past three to five years.

4. Global Competitiveness

Local component content is "absolutely crucial to global competitiveness", says Kirby. "We need to increase our local content, but the question is how?" In Thailand, 70% of all components suppliers are Tier 2 and 3. In South Africa, these smaller tiers comprise only 28% of the supply chain. "If we could do that, we could – without selling one more vehicle – make a dramatic impact on our competitiveness, and our contribution to employment and investment," says Kirby. He says vehicle manufacturers in the past focused on developing the large Tier 1 suppliers, and "Tier 1 suppliers find it much easier to work with Tier 1 suppliers. We need to change our mindset. If we want to localise to be globally competitive, we need to make sure that we have good licensing agreements in place to bring technology to South Africa. We also need to break through some global sourcing barriers."

Another challenge the industry faces is to balance the need of localisation with that of transformation, and empower the supply base.

5. Transformed Value Chain

South Africa's automotive industry has to become more empowered and has to create an inclusive and transformed value chain in its entirety. This includes not only parts supply but also the import, distribution and retail environments. "It is a moral and business imperative. It is something we need to commit to. It will not happen by itself."

Source: *Engineering News*



Essentially, from 2021 onwards, the levels of support and incentives for vehicle manufacturers will reduce significantly and the only means for vehicle producers to recoup benefits will be through progressive and substantial increases in localisation.

The National Automotive Association of South Africa (Naamsa) has described the 2035 objectives of the policy regime as "quite ambitious", but emphasises that it should provide vehicle manufacturers and component suppliers with certainty to plan strategically for future investment decisions.

Naamsa president Andrew Kirby has welcomed the certainty that the SAAM and the amended APDP provide for the industry, but acknowledges that the new targets will prove challenging to meet. Kirby, who also leads Toyota South Africa Motors, says OEMs will have to work with their suppliers to adapt to the lower levels of future support and the demand for higher levels of local content. Particular attention will be given to the development of Tier 2 and 3 suppliers, where the greatest potential exists to create black industrialists. Businesses that are successful in implementing major transformational changes will secure a sustained competitive advantage under the SAAM.

Ford Motor Company Southern Africa (FMCSA) MD Neale Hill says the company cannot argue with the intent of the APDP, but highlights that there are challenges. Ford is at about 43% local parts content and it will phase in the 60% target over

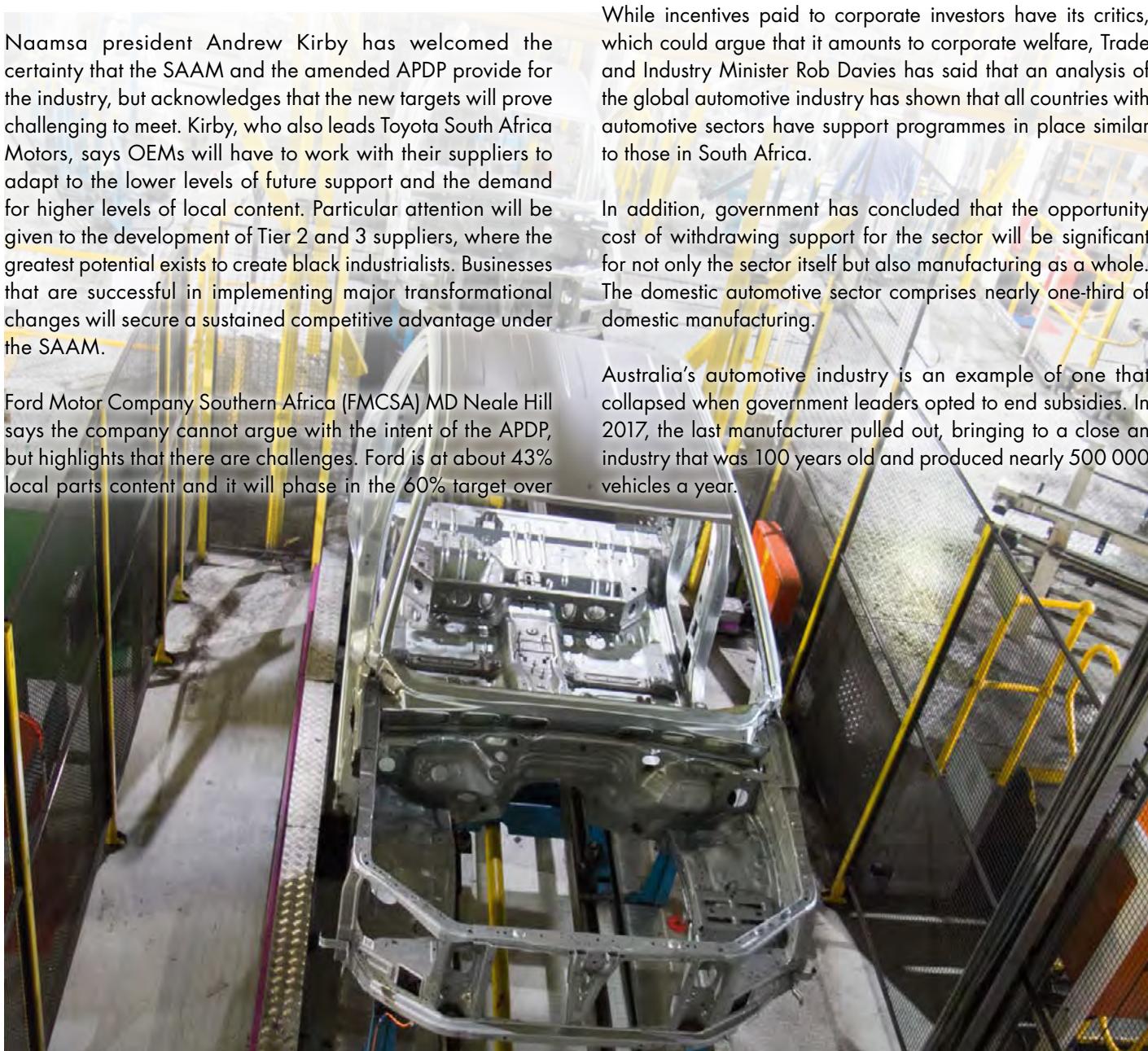
time. He does not believe that the new APDP will jeopardise FMCSA's attempt to secure production of the new-generation Ranger.

Deloitte Africa automotive industry leader Martyn Davies states that South Africa's manufacturing objectives are over ambitious and that they are, arguably, disconnected from the domestic consumption reality. The country's peak for new vehicle sales was in 2008 and sales have declined by about 25% over the past decade.

While incentives paid to corporate investors have its critics, which could argue that it amounts to corporate welfare, Trade and Industry Minister Rob Davies has said that an analysis of the global automotive industry has shown that all countries with automotive sectors have support programmes in place similar to those in South Africa.

In addition, government has concluded that the opportunity cost of withdrawing support for the sector will be significant for not only the sector itself but also manufacturing as a whole. The domestic automotive sector comprises nearly one-third of domestic manufacturing.

Australia's automotive industry is an example of one that collapsed when government leaders opted to end subsidies. In 2017, the last manufacturer pulled out, bringing to a close an industry that was 100 years old and produced nearly 500 000 vehicles a year.



Picture by Creamer Media

The global automotive industry has shown that all countries with automotive sectors have support programmes similar to those in South Africa





Picture by Creamer Media

TRANSFORMATION

The manufacturing industry, particularly the automotive sector, has been slow to transform, according to Trade and Industry director-general Lionel October. It is lagging other industries not only in terms of black ownership but also supplier development, bringing black firms into the supply chain, enterprise development, skills development and bringing black employees into senior management and senior skilled occupations.

The original-equipment manufacturers' (OEMs') main challenge regarding transformation is that they are wholly owned subsidiaries of global multinationals and are not willing to consider anything less than 100% ownership. There is agreement among OEMs that the industry will transform, but it may have to work harder than some other local industries to increase its empowerment level.

The industry is currently at Level 8 in terms of the broad-based black economic-empowerment (BBBEE) scorecard, but has committed to achieve Level 4 by 2020 or 2021.

Transformation is one of the key pillars of the South African Automotive Masterplan (SAAM), which details three focus areas for the industry. The first is tied to black employment and how the employee cohort that will be brought into the industry to 2035 should "broadly represent" the demographic profile of the South African society across the full spectrum of employment categories, including artisans, professionals, management and executives.

The second is linked to advancing skills requirements, employee education and skills development to ensure that technical and advanced management skills are transferred into the South African economy.

The third focus area is prioritising lower-tier majority black-owned supplier development. This is aligned with the SAAM objective of increasing the proportional involvement of majority black-owned Tier 2 and Tier 3 component manufacturers in the industry to 25% by 2035.

Finally, OEMs have the potential to support the transformation of the dealership network and authorised vehicle repair facilities to 2035. This has not been included in the scope of the SAAM.

The industry has devised innovative proposals to meet its transformation objectives, one of which is the creation of a R3.50-billion fund to drive black empowerment. The seven OEMs in 2017 announced the creation of a transformation fund, which will allocate funds to develop black ownership in the car industry supply chain and vehicle dealership network.

The transformation fund is in addition to the various initiatives already being undertaken by individual OEMs to support education and training, supplier development and employment equity, such as the Volkswagen BBBEE Initiatives Trust. Established in 2016, the trust aims to increase the number of quality black-owned suppliers in the automotive sector value chain by providing financial assistance, and nonfinancial assistance, such as business development growth and accessing markets through supplier development relationships. The trust not only supports qualifying black-owned suppliers but also white-owned suppliers that are interested in becoming black owned.

To date, about R70.90-million of the R86-million invested by Volkswagen South Africa (VWSA) has been committed. Four companies – Acoustex, Yenza Manufacturing, Production Logix



and KPL Die Casting have been funded. Acoustex Trim and Yenza Manufacturing are VWSA suppliers, while Production Logix and KPL Die Casting are part of VWSA's Ntinga project, an 18-month intensive business-based mentoring and coaching programme.

In 2017, the R42-million Toyota Empowerment Trust (TET) was launched, focusing on supplier and enterprise development. Its initial focus is the training and qualification of specialised automation technicians. The TET is implanting training and enterprise development initiatives alongside its other education initiatives. These include the Toyota Teach programme that supports more than nine primary schools and the Toyota Technical Education Programme that supports, and often manages, technical high schools in KwaZulu-Natal and Gauteng.

VWSA and Toyota South Africa Motors (TSAM) are also contributing to an initiative driven by the Automotive Supply Chain Competitiveness Initiative aimed at grooming black-owned firms to be Tier 1 and Tier 2 component suppliers. Seven component suppliers are completing the

18-month programme, which started in late 2018, five of which will be developed as Tier 1 suppliers into the VWSA supply chain and two as Tier 2 suppliers into the TSAM value chain.

Nissan South Africa is working with the Automotive Industry Development Centre (AIDC) – a government agency that promotes small businesses in the supply chain and skills development, to develop black businesses. To date, Nissan, together with the AIDC, has incubated eight new component manufacturers and related companies from its BBBEE startup programme. The company has 318 BBBEE suppliers, which encompass 34% of the total number of suppliers in South Africa. The company has identified 15 black-owned companies that it will support together with its preparations for the production of the Navara pickup in Rosslyn, Gauteng.

Isuzu South Africa has indicated that the company will contribute to the R3.50-billion industry fund but, unlike many other OEMs, has not yet directly addressed the issue.



Picture by Creamer Media

The manufacturing sector, particularly the automotive sector, has been slow to transform





Picture by Creamer Media

LABOUR

The manufacturing segment of the automotive industry employs about 112 000 people across its various tiers of activity, from component manufacturing to vehicle assembly.

Combined with the industry's strong multiplier effect, it is responsible for employment to 460 000 people.

More than 76% of the automotive manufacturing sector's workforce is skilled and semiskilled, with 17% highly skilled.

Based on the South African Automotive Masterplan target of increasing production to 1.40-million vehicles a year, at an aspirational 60% local content by 2035, combined with improving productivity, the industry should be able to substantially increase its employment contribution.

The masterplan envisages total industry employment of 224 000 in 2035, although this could be seen as unrealistic, given the global industry's shift towards robotics and automation.

In terms of a more immediate time horizon, the seven original-equipment manufacturers (OEM) representing the automotive industry in South Africa have committed to investments worth R40-billion over the next five years, which will facilitate increased purchases of locally produced components and an increase in production volumes.

This, the National Automotive Association of South Africa estimates, should boost employment in the OEM and original-equipment suppliers sector by 18 000 and, in turn, an increase in direct and indirect employment within the automotive value chain of about 54 000 jobs.

Meanwhile, 2019 is a year of wage negotiations between vehicle manufacturers, component makers and trade unions. The current three-year deal expires in mid-2019.

The National Union of Metalworkers of South Africa (Numsa) has reportedly said it is aiming for a double-digit wage increase, while inflation is at 4.50%. Volkswagen South Africa CEO Thomas Schaefer has said that, although the company cannot afford a protracted strike, it can also not afford to pay a 10%-plus wage increase.

Ahead of the wage negotiations, component manufacturer Atlantis Foundries CEO Mervin Moodley agrees wages have to increase, but has urged employees to be more accountable, calling out issues such as the abuse of sick leave.

Toyota South Africa, which was hit by a strike over a perceived lack of transformation in October 2018, expects negotiations to be tough.

In the previous round of negotiations in 2016, the automotive industry averted a strike and agreed to a total wage increase of 35% spread over three years, with 10% in the first year, 8% in the second year and 8% in the third year. The industry also agreed to a transport and shift allowance increase, as well as a new housing solution.

The Retail Motor Industry Organisation agreed to a 7% increase in each of the three-year agreements, while Chapter 111, which represents automotive component manufacturers, agreed to an increase of 8.50% in the first year, 8% in the second year and 7.50% in the third year.





Picture by Nissan SA

ELECTRIC VEHICLES

The electrification of vehicles has become a key trend in the automotive sector, driven by clean energy and climate change concerns. Globally, there is a rise in the uptake of electric vehicles (EVs), with sales now contributing to about 5% of overall global vehicle sales, compared with 1% ten years ago.

Bloomberg New Energy Finance calculates that there are almost five-million passenger EVs on the road globally and that another 2.60-million will be sold in 2019.

More governments are increasing their support for zero-emission vehicles, particularly in Europe and China.

While the global uptake is happening at an exponential rate, the uptake of EVs in South Africa is lagging. Original-equipment manufacturers (OEMs) Nissan and BMW have been at the forefront of driving a joint initiative to increase the adoption of EVs. These OEMs have been lobbying government to agree to incentives for EVs to reduce the retail price. The automotive industry has called for the temporary scrapping of import duty on EVs to stimulate sales.

The Department of Transport (DoT) is championing the adoption of EVs and hybrid-electric vehicles through the Green Transport Strategy, launched in 2018. To increase the uptake of EVs, the DoT has said it will work with the Department of Trade and Industry and the National Treasury to offer producers of EV vehicle manufacturing incentives to produce and sell affordable EVs in South Africa for the local and export markets. The department is also lobbying for yearly targets to be set for the update of EV and hybrid EV in the government fleet. Other interventions include research on

EV batteries and assisting in establishing and developing local EV OEMs.

Citing information from the South African National Energy Development Institution, the DoT states that despite the higher upfront cost of an EV, the lifetime cost is below that of a conventional car, as a result of the solar refuelling. Secondly, with increased demand and production, and the advancement in battery technology, the high upfront costs are expected to decline.

Currently, locally available EVs are expensive, with the newest EV on the market, the Jaguar I-Pace, retailing for R1.69-million, and the most popular in terms of sales, the BMWi3, starting at R606 800.



Picture by Jaguar

Jaguar I-Pace



Nissan and BMW were the first car manufacturers to introduce EVs to the local market. The Nissan Leaf was launched in 2013 and the BMWi3 made its debut two years later. In March 2019, Jaguar brought its I-Pace to South Africa. Mercedes-Benz and Audi have said they will launch an EV into the South African market in 2019. Mercedes-Benz's special edition EQC models will hit the road in 2019 and will serve to create awareness for the new EQ EV brand. By 2022, Mercedes-Benz will aim to have more than ten all-electric cars on the market. Mercedes-Benz Vans South Africa is also considering the launch of the electric Vito.

Judging from sales volumes, the South African market is not yet too keen on battery EVs, with sales having decreased from 117 units in 2015 to 66 units in 2018. It could be the steep price tag of EVs that is deterring local buyers from switching to EVs, or range anxiety – the fear that the battery will run flat before the vehicle reaches its destination. Either way, Jaguar Land Rover South Africa and sub-Saharan Africa believes that the country will not be able to escape the international trend towards electrification. The car manufacturer is forecasting domestic sales of 43 000 EV units a year within the next six years.

Public infrastructure has progressed since the early inception in 2013. Jaguar is investing R30-million into Powerway – a network of public chargers being developed in conjunction with EV charging service and equipment company GridCars. Powerway will include 80 charging points, some of which will be located at Jaguar Land Rover dealerships and at shopping centres in South Africa.

BMW has 57 ChargeNow charging stations, six of which are shared with Nissan as part of a 2015 agreement. The two have joined forces to build a national grid of EV and plug-in hybrid-vehicle charging stations. BMW aims to extend its South African charging network by adding another 30 ChargeNow stations to its network by the end of 2019.

Fuel company Shell will launch its first EV charging stations in its retail network in 2019.

While South Africa theoretically has the required infrastructure to ensure a larger adoption of EVs, power utility Eskom's serious supply challenges could influence buyers' decisions. Eskom, however, says that it does not believe that the current challenge is insurmountable, noting that load-shedding is generally planned between two and four hours at a time, leaving sufficient time to charge.

Eskom has said that it is committed to its role in unlocking the potential of the EV market in South Africa, online business news organisation Moneyweb reports. It states that Eskom wants to



Picture by Creamer Media

BMW i3

link charging stations to the grid so that they can discharge energy into the national system during peak periods and plans to stimulate electricity use during off-peak periods.

Nissan argues that a comprehensive plan is needed to accelerate the adoption of EV mobility in South Africa, or the country could risk being left behind, compared with international markets.

GreenCape sustainable transport analyst Khanyiselo Kumalo says the biggest opportunity for South Africa, while policymakers catch up to incentivising EVs, is manufacturing in the value chain of EVs such as batteries and charging infrastructure.

The uYilo eMobility Programme, which is profiled as a strategic initiative towards the development of EV components on the DoT's Green Transport Strategy, invests in technology projects to provide a foundation for the growth of the local EV supply chain for domestic sourcing.

Its investments in EV charging infrastructure technology projects include the GridCars alternating current charge point and server in 2014, the MLT Inverters Karoo70 high-voltage inverter for second-life EV batteries in 2015, the Microcare 50 kW dc EV Fast Charger in 2017 and, in 2018, the QBSOFT – an EV BackOffice management system. The total allocation of localisation funding extends across R13.20-million, of which R7.70-million has been from the uYilo grant funding, and R5.50-million in co-funding from the specific project developers and related partners. This funding model has attracted greater participation and commitments towards expanding the local EV ecosystem of technologies. The uYilo smart grid facility also provides a live testing environment for EV fleets and the related infrastructure ecosystem.





Picture by Creamer Media

CLEANER FUELS

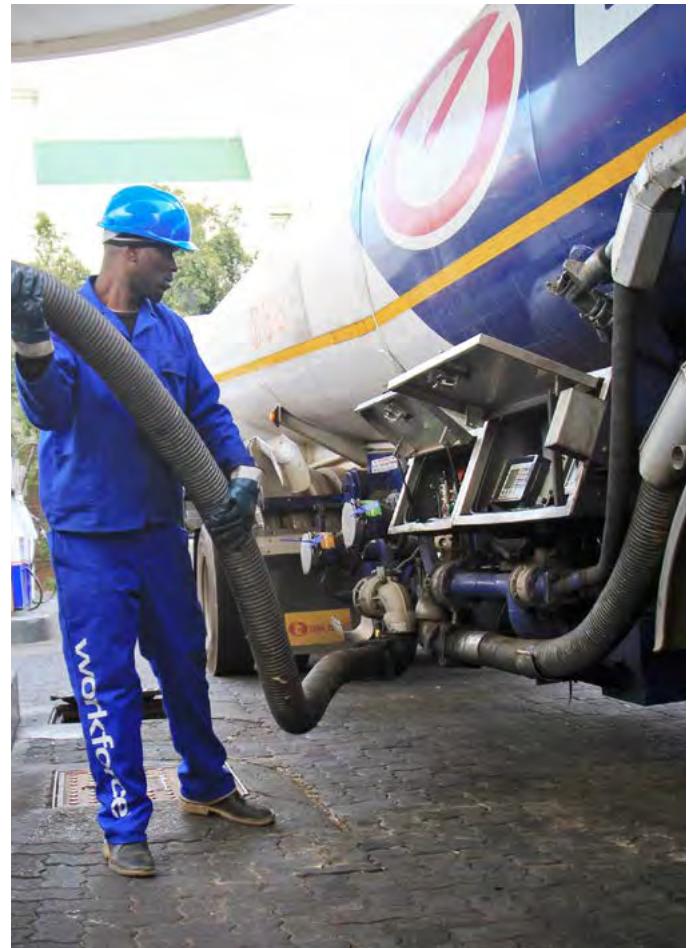
South Africa was meant to introduce clean fuels in 2017, but government has failed to execute its planned policy. The main challenge in implementing clean fuel regulations is the cost recovery mechanism for oil companies, which will have to make significant investments in refinery upgrades to produce cleaner fuels. The upgrade bill was estimated at \$3.90-billion ten years ago.

The delay in introducing cleaner fuels in line with global standards is having a major impact on the local automotive industry. Companies cannot introduce their newest vehicle models and latest in engine technology to South Africa because of the poor fuel quality.

Nissan Motor Corporation has warned that South Africa is falling too far behind and that it will be impossible to have "two worlds running" on a global level – one using the latest in technology and the other using older-generation technology. "We are not going to develop a new bad fuel consumption six-cylinder engine. We are not going to develop any cars in future that do not have technology," Nissan marketing and brand strategy global head Roel de Vries has said.

Vehicle manufacturers will either not bring a vehicle to a market lagging behind others or it will be available at a premium. Considering that the automotive industry is a volumes business, it will be unaffordable to keep producing 20 000 units of a dedicated engine for a specific market. A supplier of so few engines will have to charge a premium to keep the line running.

New-vehicle sales in South Africa account for only 0.60% of the global market of more than 98-million units.



Picture by Bloomberg

The delay in introducing cleaner fuels in line with global standards is having a major impact on the local automotive industry





CODE OF CONDUCT

The Competition Commission of South Africa is drafting a voluntary code of conduct (CoC) for the automotive industry.

In launching the initiative in 2017, the commission stated that the intended outcomes of the code would include small and historically

disadvantaged independent service providers undertaking service and maintenance work while a vehicle is under warranty, these same groups undertaking in-warranty autobody repairs, more historically disadvantaged individuals owning dealerships and using equal matching spare parts, in addition to the manufacturer's parts, to repair motor vehicles.

It is not yet clear when the CoC will be implemented. A second round of consultation is under way.

The National Association of Automobile Manufacturers of South Africa (Naamsa) has voiced its support for the CoC. Automotive companies accept most of the principles in the draft CoC, but Naamsa has said that the code's "proposed operational application" requires "extensive consideration and review".

The association has also submitted its response to the Competition Commission regarding, among other issues, in-warranty work and training. It states that automotive companies are the custodians of their respective brands and remain responsible for the safety and operation of their products, whether bought, serviced or repaired.

However, the National Automobile Dealers Association (Nada) believes that the CoC will undermine investment, employment and consumer welfare in the automotive. The organisation agrees with the fundamental principles of the code, but says that more consultation is needed.

It is a voluntary code, and no party will be forced to adhere to its principles. Nada fears that low adherence may result in the code's being converted into legislation.





Picture by Creamer Media

AFRICA AUTOMOTIVE MARKET

After years of decline, South African export sales to African countries grew by 9.80% from 2017 to 2018. Local original-equipment manufacturers (OEMs) are pinning their hopes for future growth on a regional market in sub-Saharan Africa.

Recognising the importance of a regional strategy, South Africa's OEMs in 2015 joined forces to form the African Association of Automotive Manufacturers (AAAM).

The idea is to develop an automotive sector strategy in Africa that is supported by investments in infrastructure, skills development and in-market localisation programmes. This, AAAM believes, will make vehicles more affordable, boost the industrialisation of the economy and lead to growth of middle-income households, which will be the main driver for new vehicle sales.

"If we do not get Africa right as a combined market, we can say goodbye to the South African [automotive assembly] industry in the next ten years. South Africa is symbiotically linked to the future of Africa," says AAAM CEO Thomas Schaefer, who is also the CEO of Volkswagen South Africa (VWSA).

He says there is a potential market in sub-Saharan Africa for three-million to four-million new cars, up from only 420 000 units in 2017.

The AAAM is pushing for three, possibly four, vehicle production centres on the continent, as part of a pan-African automotive deal. These include South Africa, Nigeria, Kenya and possibly Ethiopia. South Africa could, for example, produce bakkies, while Kenya could possibly assemble trucks and buses.

The Kenya and Nigerian new-vehicle markets have the potential to develop to the same level as South Africa's, at about 600 000 new vehicles sold a year.

One of the biggest challenges in Africa is the large number of second-hand imports, with only a small portion of new cars sold. Industry participants argue that cars are being dumped by countries such as Japan, where strict vehicle inspections force cars out of circulation in a few years. This distorts the market by allowing dealers to buy the cars at scrap prices and export them to Africa. It is argued that cheap imports are the reason why Nigeria's assembly sector collapsed in the 1980s. At the time, Nigeria built about 150 000 vehicles a year.

The AAAM believes that a ban focusing on vehicles with limited mileage and one-year old vehicles should go a long way towards bolstering new-vehicle sales.

Nigeria – considered the front runner for developing automotive manufacturing capabilities – sold 7 000 new vehicles in 2017. This is eclipsed by imports, with one study estimating that, in 2014, about 410 000 cars were imported into Nigeria, with about 74% of this number being used cars. An analysis of the age of these cars shows that 10% were less than three years old, with about 63% more than 11 years old.

To expand the Nigerian market, the country, and many other African countries, have been urged to step up regulations regarding imported vehicles.

The AAAM has helped African countries draft legislation, establishing standards and incentives. News service Reuters



reports that Nigeria and Ghana are preparing to offer automakers tax holidays of up to ten years and duty-free imports of parts and components used in local assembly. Nigeria also plans to double the levy on new, fully-built imported vehicles to 70% to boost demand for locally produced cars, although the policy's approval has been delayed. Nigeria's automotive policy was completed in 2014 and remains on the President's desk. In an attempt to convince those in power of the merits of such a policy, VWSA invited members of the Nigerian government to South Africa in 2018 to show them the advanced Eastern Cape VW plant that produces the Polo and the Polo Vivo. VWSA indicated that such a domestic plant requires local market demand for new vehicles, which fails to exist if a country imports cheap second-hand vehicles. Nigeria's automotive industry has the potential to be three times the size of the South African industry, but Schaefer says the country lacks political will to create policy able to foster a domestic automotive industry.

In Kenya, automakers will pay no import or excise duties and get a 50% corporate tax break. The Kenya government also plans to wind down imports of cars more than three years old by 2021. Exceptions will be made for passenger vehicles with 1.5 ℓ or smaller engines.

While legislative frameworks are being finalised, companies are already investing in new plants in these countries.

Nissan and FMCSA have established semi-knockdown assembly plants in Nigeria. BMW SA is considering a plant in sub-Saharan Africa, and financial magazine Finweek reports that Nigeria is the likely front runner.

Nissan is also interested in Kenya and Ghana as potential new assembly sites, *Engineering News* reports.

VWSA has established assembly plants in Kenya and Rwanda, which are supplied from South Africa for final assembly. It is also mulling the potential of Ghana, Ethiopia and Côte d'Ivoire.

The VWSA Kigali plant, in Rwanda, opened in June 2018, with expected output of 5 000 units a year. The vehicles to be assembled include Polo, Tiguan, Passat, Teramont (a sports utility vehicle not distributed in South Africa) and possibly also the Amarok. Phase 2 of the Rwanda project could, possibly, result in an expansion at the production facility of up to 10 000 vehicles a year, scaling up the number of vehicles on the road and setting up operations in other cities in the country.

Meanwhile, Morocco, in North Africa, is also – similar to South Africa – aiming for production of more than one-million vehicles a year. Deloitte Africa Automotive Sector head Dr Martyn Davies states that Morocco is ahead of South Africa owing to lower costs, access to European markets, attractive incentives offered to industry and high investment into infrastructure.



Picture by Creamer Media





Picture by Creamer Media

OUTLOOK

The automotive industry is heading into a restructuring and the landscape will significantly change in the next two decades.

Much of the industry "disruption", as National Association of Automobile Manufacturers of South Africa (Naamsa) chairperson Andrew Kirby notes, stems from changes to drivetrain technologies.

New powertrain technologies, such as battery electric vehicles (BEVs), plug-in hybrids and fuel-cell electric vehicles (FCEVs), are making headway, putting pressure on the traditional internal combustion engine (ICE).

Advisory firm KPMG's latest 'Global Automotive Executive Survey' report forecasts that multiple drivetrain technologies will co-exist for some time and that the mix will vary from country to country. Executives participating in the survey believe in a fairly even split of BEVs (30%), hybrids (25%), FCEVs (23%) and ICEs (23%) by 2040.

According to the survey, consumers are not yet ready for fully alternative drivetrain technologies, with hybrids the number-one choice for a consumer's next car choice, followed closely by ICEs.

KPMG further states that, more than ever before, executives agree that, in future, there will no longer be differentiation between the transportation of humans and goods. "One thing is clear: no player will be able to manage it alone. There is awareness among executives – with 83% agreeing – that, with the emergence of what we are calling mobi-listics, companies will need to rethink their business model and recognise the need for cooperation

to create a mobility ecosystem. The company offering the best customer experience to people and goods will likely own the platform," KPMG global and Europe, Middle East and Africa head of automotive practice Dieter Becker states.

The emergence of a new future mobile ecosystem, based on the pillars of "seamlessness, individualised, safe and on-demand", has placed connectivity and digitisation at the top of the KPMG report's trends for 2019.

The report also notes that Western Europe's influence in the global automotive manufacturing industry will shrink from 15% to less than 5% by 2030, while China is becoming the leading nation in terms of battery electric mobility.

These global market trends, coupled with new domestic changes under a new regulatory regime that starts in 2021, are resulting in the South African industry undergoing its "biggest disruption" since the introduction of the Motor Industry Development Plan in 1995.

The industry has to find a unique, local way of dealing with the changes, particularly around transformation and supply chain management. Under the South African Automotive Masterplan, the industry is compelled to achieve higher localisation and transformation targets.

Naamsa believes that the South African motor industry is on the cusp of a growth spurt, but much of its future success relies on how successful a regional African market could be established.



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AUTOMOTIVE 2019

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