How will localisation and transformation create joint prosperity and unlock growth?

Andrew Kirby
President: Naamsa
22 August 2019
Impact of the Auto Industry on the SA Economy
1. SA Social and Economic impact evaluation

**A. Contribution to GDP**

Substantial contribution of **6.8%** to South African GDP – manufacturing and extended value

<table>
<thead>
<tr>
<th>Year</th>
<th>Manufacturing % of GDP</th>
<th>Auto Industry % of GDP</th>
<th>% Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>24.6</td>
<td>11.6</td>
<td>7.0</td>
</tr>
<tr>
<td>2014</td>
<td>26.9</td>
<td>11.8</td>
<td>6.8</td>
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<tr>
<td>2015</td>
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<tr>
<td>2016</td>
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<td>2017</td>
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<tr>
<td>2018</td>
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</table>

**B. Impact on Balance of Payment**

Industry trade position has shown continuous improvement and moved to a net surplus of **R16.8 billion** in 2018

**C. Contribution to Employment**

**1.4 Million** jobs with a high ratio of skilled to unskilled labour

**D. Progress towards Transformation**

- All OEMs compliant on scorecard – improved average score Level 8 to 7
- **9%** of Tier1 Component Manufacturers Black Owned (BO) in 2018 versus **4.5%** in 2017
- Dealership BBBEE improved by **159%** to **171 BO Dealers** in 2018
- Establishment of OEM Transformation Fund to drive Black industrialist participation in portions of value chain open to national capital – Tier 2-3 of manufacturing value chain, dealerships and authorised repair facilities

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**Sustainable** committed activities towards Industry Transformation

"to be the most credible and respected thought leader and partner for and on behalf of the automotive industry in South Africa"
Delivering the South African Automotive Master Plan (SAAM)

Ex-DTI Minister Dr Rob Davies with members of the executive oversight committee on SAAM
# Auto Industry Development - SAAM

## The South African Automotive Masterplan’s 2035 vision, objectives, and strategic implementation pillars

**SAAM 2035 vision**
A globally competitive and transformed industry that actively contributes to the sustainable development of South Africa’s productive economy, creating prosperity for industry stakeholders and broader society

#### Objectives: 1% of global vehicle production, 60% local content, 100% employment growth, competitiveness to leading competitor standards, industry transformation, increased value addition within GVCs

<table>
<thead>
<tr>
<th>Objective</th>
<th>Estimated impact on SA auto industry</th>
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</thead>
</table>
| 1. SA vehicle production to 1% of global output | • CBU production to 1.39m units annually (129% higher than 2015 levels)  
• Increase vehicle production value to R314bn |
| 2. Increase local content in SA assembled vehicles to 60% | • Increase local content R135bn on 2015 levels  
• 55% more local content per assembled vehicle |
| 3. Double employment in the auto value chain | • Aggregate employment to 224,000 |
| 4. Improve industry competitiveness to leading international competitors | • Comparative price and non-price competitiveness  
• Sustained export competitiveness |
| 5. Transformation of the South African automotive value chain | • 25% Black-owned involvement at T2/3 component levels, and in dealerships and authorised repair facilities  
• Amplified skills development  
• Enhanced employment equity at senior management and technical professional levels |
| 6. Deepen value addition within SA auto value chains | • Growth of auto component exports and production for the aftermarket at the same rate as CBU local content increases  
• Growth in R&D/other innovation metrics within the SA auto value chain |

South African Automotive Industry Masterplan, 2017
2. Development of Value Chain

Component Manufacturers ➔ OEM’s ➔ Dealers & Retail

Develop tier 2/3 suppliers ➔ Advanced manufacturing technology ➔ Upliftment of informal sector

Component Manufacturers

OEM’s

Dealers & Retail

Tier 1

Tier 2/3

NOW

IDEAL

Component Manufacturers

OEM

Tier 1

Tier 2/3

OEM

Tier 1

Tier 2/3

"to be the most credible and respected thought leader and partner for and on behalf of the automotive industry in South Africa"
3. Linkages and Dependencies

Drivers & SAAM Pillars

Competitiveness

Volume
(Economies of Scale)

Technologies
(Investment)

Localisation
(Deeper & Wider)

Transformation
(Employment, Value Chain)

SAAM 1, 2

SAAM 3

SAAM 5

SAAM 6
Creating joint prosperity and unlocking growth

"to be the most credible and respected thought leader and partner for and on behalf of the automotive industry in South Africa"
1. Responding to the SAAM

Naamsa leaders committed to the realisation of a five year business plan which is firmly located within the aspirations of the SAAM.

Potential to 2023 identified

- Vehicle production increase
- Continuous Investment
- Local Content increase
- Employment creation and diversification
- Black industrialist participation in the value chain
2. Production Growth

NAAMSA 5-year business plan to 2023 versus SAAM 2023 target

Local and Regional Market Recovery and growth (31%) will be key
3. Increasing Local Value of Buy

- Increasing the Local Content from 39% to 42% in next 5 years *(SAAM Target 43%)*
- Localisation value to increase by 13% over the next 5 years

**Additional R12,638 billion Local Procurement Value**

![Chart showing localisation weighted total, Rand/unit for OEMs from 2017 to 2023.](chart.png)

*Source: Based on OEM survey data only*
Employment within component supply chain to increase to 135,000 in 2023, 80,900 of whom will be youth and 33,500 female.

- Employment within value chain to still grow 14% (>16,000) - primarily on back of CBU export volumes and local content growth.
- Youth employment to grow from 55% to 60% of total.
- Female employment to grow from 20% to 25% of total objectives.

Note: Total employment youth and female proportion based on OEM survey data only.
5. **Investment drive**

Production and local content growth to 2023 driven by substantial additional investment by vehicle assemblers

- **>R20 billion** in auto **component investments**; create space for Black industrialist participation at Tier 2 and 3 of value chain

**5 Year forecast > R40 billion at OEM Level**

<table>
<thead>
<tr>
<th>Year</th>
<th>Forecast (Rand billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>R 6.8</td>
</tr>
<tr>
<td>2019</td>
<td>R 7.2</td>
</tr>
<tr>
<td>2020</td>
<td>R 7.5</td>
</tr>
<tr>
<td>2021</td>
<td>R 7.9</td>
</tr>
<tr>
<td>2022</td>
<td>R 8.2</td>
</tr>
<tr>
<td>2023</td>
<td>R 8.6</td>
</tr>
</tbody>
</table>
WITH SUPPORTIVE SA GOV POLICIES, THE AUTO INDUSTRY WILL CONTRIBUTE TO ADVANCED MANUFACTURING WITH SIGNIFICANT SOCIO-ECONOMIC BENEFITS AND WILL CONTINUE TO DO SO UNDER IN THE FOLLOWING AREAS:

6. **Our Approach**

**INCREASED LOCALISATION AND VALUE CHAIN DEVELOPMENT**

**INVESTMENT IN TECHNOLOGY AND PEOPLE**

**VALUE CHAIN TRANSFORMATION & EQUITY EQUIVALENT PROJECTS**

**CORPORATE SOCIAL INVESTMENT – YOUTH DEVELOPMENT**

**Automotive Industry Transformation Fund**
Considerations for Localisation and Transformation to unlock prosperity and growth
1. Auto Industry Evolution

- 1920: Establish Manufacturing
- 1960: Focus on Local Content
- 1995: Export Growth & Production Rationalisation
- 2013: Further Export Growth, Localisation
- 2035: Further Export Growth, Localisation

- Steel, Castings, Forgings (Weight based)
- Create 100k+ Plants (Economies of Scale)
- Powertrain
- Advanced Driver Assistance Systems (ADAS)
- Body Electronics
- Infotainment System

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2. Localisation Direction

Areas of Focus

① Deeper Localisation
- Tier 2 Sub Component Localisation
- Tier 3 Raw Material Beneficiation
- Commonisation between OEMs (hardware related)
- Collaboration with other Industries

② Wider Localisation
- Tier 1 New Technology Localisation
- Functional Assembly Parts (Power steering, Electronic Control Units)
- Opportunities for FDI and introduction of new Technology Suppliers

Late 1990’s Electrical comprised 10% ⇒ 2030’s will be more than 46% of vehicle make-up

Typical Vehicle Cost Make-up
- Current 10%
- Future 8%
- Press Parts
- Current 6%
- Future 8%
- Interiors
- Current 52%
- Future 11%
- Drive Train
- Current 15%
- Future 46%
- Electrical
- Current 10%
- Future 7%
- Suspension
- Current 10%
- Future 8%
- Exterior

- Material type Changing
3. Localisation Challenges E.g. Door Assembly

Typical 1990’s

- Manual Window Regulator
- Simple Door Weather-strips & Seals
- Flat Door Trim (Masonite type)
- Glass
- Simple Clips and Hardware
- Uncoated Normal Steels (270MPa)
- Simple Outer Mirror

Typical 2020’s

- Power Window Regulator
- Injected Moulded Door Trim
- Complex Door Weather-strips & Seals
- Glass
- Import Alu Wire
- Import Window Reg Motor & Steels
- Import Resin Raw Materials
- Import W/S Extrusions
- Speaker
- Accoutex Vinyl
- Outer Mirror Controls
- Central Locking
- Power & Blind spot Outer Mirror
- Power Locking & Window Switches
- Coated High Tensile Steels

Local Content

- Typical 1990’s: > 90%
- Typical 2020’s: < 40%

Current Supplier base not capable of producing latest technology – Lack of Investment and Volume

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4. Localisation – 10 Collaboration Projects

<table>
<thead>
<tr>
<th>#</th>
<th>PIC</th>
<th>PART</th>
<th>COMMENT</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Ford</td>
<td>Steering Wheels</td>
<td>HP Die casting; Machining; Foaming</td>
</tr>
<tr>
<td>2</td>
<td>TOYOTA</td>
<td>Hydraulic PS Gear/Rack</td>
<td>HP Die casting; Machining; Foaming</td>
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<tr>
<td>3</td>
<td>VW</td>
<td>Encapsulated Glass</td>
<td>Side glass with rubber moulding</td>
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<tr>
<td>4</td>
<td>ISUZU</td>
<td>TPO/PVC Floor Liners</td>
<td>Hot Press mould &amp; trimmed PVC</td>
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<tr>
<td>5</td>
<td>VW</td>
<td>Safety Restraint systems</td>
<td>Manuf &amp; Assy of seat belts</td>
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<tr>
<td>6</td>
<td>Ford</td>
<td>Exterior Mirrors</td>
<td>Inj Moulding; Painting; Chroming</td>
</tr>
<tr>
<td>7</td>
<td>Ford</td>
<td>RR Axle / EDL</td>
<td>Localised components for RR axle</td>
</tr>
<tr>
<td>8</td>
<td>NISSAN</td>
<td>Headliners</td>
<td>Fibreglass matting</td>
</tr>
<tr>
<td>9</td>
<td>NISSAN</td>
<td>Sunvisors</td>
<td>Locally manuf sunvisors</td>
</tr>
<tr>
<td>10</td>
<td>ISUZU</td>
<td>Alum tube for heat exchangers</td>
<td>Light weight, improved heat transfer capacity</td>
</tr>
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</table>
5. Raw material Localisation

<table>
<thead>
<tr>
<th>Raw material</th>
<th>Opportunities</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel</td>
<td>Zinc Coated, Body Skin Panel, High Tensile, Pressings and Assemblies</td>
<td>Facility Investments</td>
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<tr>
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<td>o Facility Investments</td>
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<td>o Import Parity Pricing</td>
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<td>o Automotive Grade</td>
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<td>o Low Margins</td>
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<td></td>
<td>o Quality Standards Specification</td>
</tr>
<tr>
<td>Aluminium</td>
<td>Body Skin Panel, Thin gauge material, Pressings and Assemblies</td>
<td></td>
</tr>
<tr>
<td>Resin</td>
<td>Compounding, Moulding</td>
<td></td>
</tr>
</tbody>
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Increase Local Buy by > R5 billion

Facility Capabilities, Automotive Complexity (Process control etc), Competitive environment
6. OEM’s and Suppliers Transformation

**Ownership**
- Globally Owned - No Black Ownership
- Slow diversification of structures

**Skills & Technology**
- Continuous transfer of skills to T1
- Keeping track of technology changes

**Value Chain**
- Low number of Black Owned Tier 1

**Tier 1**
- Globally & Family Owned - Minimal BO
- Few suitable partners – Global TA/JV or Linkage
- Long time to conclude deals

**Tier 2/3**
- Viability - High start-up investment

**Challenges:**
- **Funding**
- **Lacking Skills**
- **Shallow value-chain**

Transformation means:
- BO; Skills; EE; Value-Chain; Development

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7. Transformation – Unlocking growth

**Challenges:**

1. **Ownership**
   - Creation of Equity Equivalent:
     - AITF to support Development
   - Incentive bureaucracy removal
   - Development from Inhouse Operations
   - SAAM

2. **Funding**
   - Duplicate OEM skill transfer model – “Grand Masters”
   - Alignment between industries

3. **Lacking Skills**
   - Collaboration between OEM’s
   - Alignment between industries

4. **Shallow value-chain**

**Transformation means:**
- BO; Skills; EE; Value-Chain; Development
8. **Dealer Network Transformation**

<table>
<thead>
<tr>
<th>Group Franchise</th>
<th>Independent Franchise</th>
<th>Non Franchise</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organisation</strong></td>
<td><strong>Skills &amp; Technology</strong></td>
<td><strong>Value Chain</strong></td>
</tr>
<tr>
<td>Status</td>
<td>Weak talent pipeline</td>
<td>Shallow value chain</td>
</tr>
<tr>
<td>Local Corporates, Entrepreneurs and/or Family Owned business</td>
<td></td>
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</tr>
<tr>
<td><strong>Activities &amp; Challenges</strong></td>
<td>Grow talent from with-in</td>
<td>Informal Sector upliftment</td>
</tr>
<tr>
<td>Fair transactions (BO’s demand discounts)</td>
<td>Invest in future leaders</td>
<td>Aftermarket supply</td>
</tr>
<tr>
<td>Lack of understanding Auto Retail</td>
<td></td>
<td>Economic growth for Rural development</td>
</tr>
<tr>
<td>Bureaucracy to land ownership</td>
<td></td>
<td>Lower barriers to entry (AITF etc)</td>
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<tr>
<td>Access to funding (AITF etc)</td>
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### Deliverable Outcomes

- Localisation (by 2023) - additional > R 12 billion
- Employment (by 2023) – additional > 16,000
  (Value Chain >48,000)
- Component suppliers (by 2035) – Tier 2/3 > 500
- Black Owned suppliers (by 2035) > 130

### Deliverable Challenges

- Policy stability and bureaucracy
- Parts and Raw material competitiveness
- Skill transfer and development
- FDI in technologies
- Collaboration
Thank you