Automotive Industry

An overview of the Eastern Cape automotive industry and its opportunities in the South Africa context

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1. South African Automotive Industry

South Africa has a history of automotive assembly since 1920. Today, the country is the leading producer on the continent – in 2003 SA produced 84% of the vehicles in Africa.

BMW, Mercedes-Benz, Audi, Volkswagen, Toyota, Chevrolet, Opel, Ford, Nissan, Fiat, Mazda, Mitsubishi and Isuzu are assembled in the country. There are approximately 250 first tier suppliers and in excess of 300 second and third tier suppliers.

The auto industry in South Africa has undergone change in recent years due to government policy shift from import substitution to export promotion. Tariff protection has been scaled down from 65% to 36% on CBU's (1995 to 2004) and duty free allowances have been introduced based on the value of exports.

The real value of vehicle and automotive component imports rose by 12% annually from 1996 to 2001, and exports rose by a massive 32% per annum over the same period - the fastest export growth rate for a major sector of the South African economy.

Investment in vehicle assembly and component manufacture has also increased at an annual rate of 12% in real terms from 1996 to 2001. There is evidence that much of this investment has been export-driven and located in the Eastern Cape to access world trade routes.

1.1 South African Market Size and Production Volumes (units)

	2004	2005	2006	2007
Cars				
Domestically Produced	200 264	225 000	230 000	235 000
CBU Import	127 387	155 000	163 000	170 000
Exports	100 699	120 000	150 000	170 000
Light Commercials				
Domestically Produced	123 467	135 000	140 000	145 000
CBU Imports	8 938	11 000	12 000	13 000
Exports	9 360	25 000	30 000	35 000
Medium & Heavy Commercials				
Domestically Produced	20 814	22 500	23 500	24 500
CBU Imports	650	700	700	800
Exports	448	500	500	500
Aggregade SA Production	455 052	528 000	574 000	610 000
Aggregade Exports	110 507	145 500	180 500	205 500
Total Domestics Market	481 520	549 200	569 200	588 300

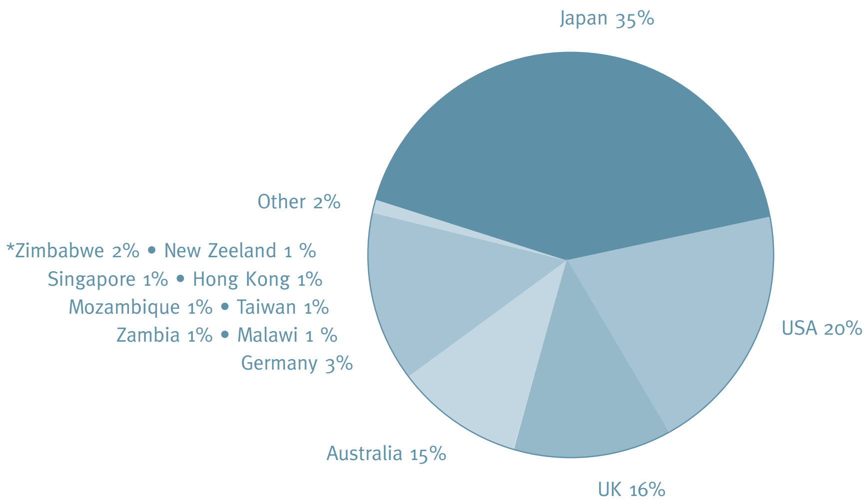
1.2 Export Market

Exports of assembled vehicles and automotive components have risen rapidly to become the second most important South African export after basic metals. Exports in 2003 were R18,4-billion in assembled vehicles and coachwork and R21,3-billion in automotive components.

The major trading blocs in 2003 were: the EU (19,5%), NAFTA (19,5%) and SADC (5,6%). Exports to the EU and USA take advantage of reduced duties under the African Growth and Opportunities Act (AGOA) and the EU-SA Trade Agreement. See www.agoa.gov and www.eusa.org.za/Content/TradeandEconomic/homepage.html for more detail.

Automotive Industry

Destination of Vehicle Exports by value (R18,4 billion in 2003)



Major Component Exports (2003)

Component category	R'm	% of total
Catalytic converters	8 104	38,1%
Stitched leather components	2 899	13,6%
Tyres	1 278	6,0%
Engine parts	843	4,0%
Road wheels & parts	809	3,8%
Engines	564	2,7%
Automotive tooling	529	2,5%
Wiring harnesses	427	2,0%
Car radios	332	1,6%
Silencers/exhaust pipes	327	1,4%
Automotive glass	307	1,3%
Ignition/starting equipment	270	1,2%
Transmission shafts/cranks	263	0,9%
Brake parts	198	0,9%
Radiators	191	0,8%
Body parts/panels	168	0,7%
Filters	142	0,6%
Gauges/instruments/parts	128	0,6%
Axles	119	0,5%
Batteries	106	0,5%
Other components	3 265	15,3%
Total component exports	21 269	100%

Source: the dti/TISA

2. Eastern Cape Automotive Industry

The Eastern Cape is known as the "Detroit" of South Africa because of its coastal location, which allows for the easy access to global networks.

The auto industry in the Eastern Cape is of national importance. Around 40% of South African car sales and 60% of car exports by unit are produced in the Eastern Cape. When the components industry is included, 26% of South African auto sector value added and 30% of employment is provided by the Eastern Cape Province.

2.1 Original Equipment Manufactures (OEM's)

Daimler Chrysler in East London, was recently awarded a contract to assemble the W204 – new generation of Mercedes-Benz C–Class vehicles, for right-hand drive markets worldwide. R1-billion has been committed to the new plant, which is one of only three plants to produce the W204. The plant also produces the Mitsubishi Colt for local and export markets.

Volkswagen in Uitenhage, export new generation Golf 5's to UK and Europe. Over R1.7-billion has been invested over the past three years. VWSA has won a six year export contract worth more than R12-billion for the supply of engines to the Hanover plant in Germany.

General Motors, has committed R1.5 billion capital investment into its assembly plants in Port Elizabeth where they produce the Opel Corsa, Astra, Kaddet and Isuzu.

2.2 Automotive Components

The three local assemblers purchase over R13.2 billion of components annually, 40% of which is sourced locally, supporting a major industry of about 165 automotive component manufacturers. Local production of automotive components includes:

Engines and engine components: Ford Motor Company SA in its Port Elizabeth plant, is one of the two plants producing the 1.3 and 1.6 Rocam engine. The plant produces 240 000 units at full capacity per annum. The local content for the engine plant is the highest at 95%.

Catalytic converters: The rapidly growing Eastern Cape catalytic converter industry now has 10% of world production, with the government targeting 25%. The full value chain is established in the province with Corning, Engelhard, Degussa & ASEC, Faurecia, Tenneco, 3M, SJM, Ebberspacher and CalsonicKansei. Recent investments by Saffil Automotive and Calsonic have further enhanced the industry in the province.

Leather seats and upholstery: Recent investments by the Lear Corporation, Mario Levy and Johnson Controls have highlighted the potential for high-quality leather production.

Safety glass: Shatterprufe, the largest windscreen and safety glass manufacturer in South Africa also produces door glass for the C-Class Mercedes.

Tyres and tubes: Bridgestone/Firestone, Goodyear and General Tyres, all based in the Nelson Mandela Metropolitan Municipality (Port Elizabeth, Uitenhage and Despatch), produce much of the tyres and tubes for the auto industry.

2.3 Raw Material and Semi - Finished Products

Sheet and pressed metal: There has been a lot of new investments in the past three years. Some of these were Murray & Roberts, upgrading its aluminium foundry at Gemtec, Port Elizabeth. BelMec, a joint venture company between Bel Essex and Italy's Almec opened doors of their Aluminium high-pressure die casting plant in Uitenhage for supply into Ford Engine Plant. Trident Steel also opened a R50 million steel service centre, supplying the automotive industry. The black owned company, Yenza Manufacturing, was recently awarded a R3 million a year contract for the supply of metal pressings for the C-Class Mercedes.

Chemicals and plastics: The auto industry is a big user of plastic components and paints and there are a number of companies supplying local and export markets.

Industrial textiles and fabrics: Cordustex and Industex supply fabric for upholstery and tyre cord respectively.

3. Comparative Advantage

Infrastructure:

SA has one of the best infrastructure and service industries among developing nations, particularly in roads, telecommunication, harbours, banking systems, insurance and shipping. The COEGA and EL IDZs, and the Nelson Mandela Bay Supplier Park provide further infrastructure advantages for companies located in the Eastern Cape Province.

First world production testing:

A unique range of First and Third World vehicle operating conditions coupled with sophisticated R&D resources are now recognized around the world for providing low-cost vehicle testing and development opportunities. The Eurotype test site in East London providing emission test facility is one such example.

Emerging market cost advantages:

A comparison of electricity costs indicated that at 13,76c/Kwh or US1,6c/Kwh, SA is one of the lowest in the world, - appreciably lower than countries such as Japan with a rate of US9,6c/Kwh and Germany with a rate of US5,1c/Kwh (2001 Rand/Dollar index). In terms of the cost of living index, SA was ranked the cheapest country in the world in 2002.

Flexible production ability:

Through its history, the SA automotive industry has the ability to competitively produce low volumes, such as the case with lower volume vehicles and niche markets or at model run out.

Raw material availability:

SA has an abundance of raw materials and holds the world's largest reserves of gold, platinum group metals, manganese ore, chrome ore, titanium minerals, alumino silicates and vanadium. SA produces in excess of 60% of the world's platinum group metals including platinum, rhodium and palladium, which are essential catalysts in the converter.

Low tooling costs:

With the lower labour and material costs, tooling under 30cm can be produced at about half the European cost in SA.

4. Investment Opportunities

Vehicle assembly:

Some vehicle assemblers stand out as either having rapidly growing imports into South Africa, such as Renault, or as having potential for supply to the rest of Africa, such as Tata.

Catalytic converters:

The Eastern Cape industry is in major expansion with the demand from all major economies for 'clean air' vehicle emissions. Further opportunities exist throughout the value chain from substrate production, coating and up to canning processes.

Leather seat covers and parts:

Clear opportunities exist in the production, tanning and polishing of high quality leathers and in metal fittings and seat springs. There is a constant demand for high quality leather.

Engines and engine parts:

Major investment by Ford in the Rocam engine plant proved that the Eastern Cape can produce highly complex, high value-added auto products. The challenge is to increase the local content including blocks, pistons, heads and engine fittings.

Mechanical Components:

Gearboxes, cams, axles and drive shafts, and cabling are potential supply opportunities. Road wheels have also been identified as having production potential.

Automotive tools:

Technology licensing agreements and joint ventures with northern hemisphere tooling companies are possible, based on the provinces existing tooling capacity and South Africa's reputation for quality. There are significant export opportunities.

Safety glass:

Window trimmings and rims.

Tyres and tubes

All major tyre manufacturers in the province are expanding, resulting in increased demand for raw material supplies of rubber, plastics, tyre cord and industrial fabric.

Batteries:

Production of plastic casings, acid and metals.

Radiators

South Africa has a technological advantage in aluminium welding for radiators to cope with the high temperatures experienced in vehicle use in South Africa. There are opportunities in the supply of metal components and pressings.

Auto Plastics:

Plastics are increasingly used in the auto industry and the industry has a rapidly growing presence in the Eastern Cape. There is potential for production of dashboards, door panels, interior and upholstery fittings, bumpers, air conditioning, and hosing.

Metal products:

The recent investments by Gemtec and Trident Steel have shown the demand for metal product supplies. These include flat metal products, pressings, sheet metal, sub assemblies and frames, stainless steel flanges and springs, aluminium foundry and air-conditioner components.

Electronic components:

Including power steering and control systems.

Specialised vehicles:

The major opportunities are in niche markets. The assembly and supply of rescue vehicles and mobile clinics has been identified. Hi-Tech Automotive in Port Elizabeth exports the specialist GT70 sports car to European markets, employing over 200 staff and achieving a turnover of more than R15 million per annum.

Other targeted products include:

Interiors: airbags, centre consoles, instrument panels.
Engine parts: air-con compressors, manifolds, bottle and air-ducks and metal substrates.
Electronics: connectors and terminals and on board computers.
Drive train component: Springs and Chassis comp.
Body parts: bumpers, glass and lights
Aluminium components: forged and die cast.

5. The Motor Industry Development Programme (MIDP)

The MIDP provides a stable policy for the automotive industry and is effective till 2012.
The key elements of the programme are:

5.1 Gradual tariff reduction and an import rebate credit facility

Year	Export Value	Value Portion	Duty	Import rebate for OEMs	Independent exporters' OEM portion	Cash value to independent exporters
Import Rebate Credit Certificate on CKD import						
2005	100	0.86	0.27	23.22	4.644	18.576
2006	100	0.82	0.26	21.32	4.264	17.056
2007	100	0.78	0.25	19.5	3.9	15.6
2008	100	0.74	0.24	17.76	3.552	14.208
2009	100	0.7	0.23	16.1	3.22	12.88
2010	100	0.7	0.22	15.4	3.08	12.32
2011	100	0.7	0.21	14.7	2.94	11.76
2012	100	0.7	0.2	14	2.8	11.2
Import Rebate Credit Certificate on CBU import						
2005	100	0.86	0.34	17.544	3.5088	14.0352
2006	100	0.82	0.32	15.744	3.1488	12.5952
2007	100	0.78	0.3	14.04	2.808	11.232
2008	100	0.74	0.29	12.876	2.5752	10.3008
2009	100	0.7	0.28	11.76	2.352	9.408
2010	100	0.7	0.27	11.34	2.268	9.072
2011	100	0.7	0.26	10.92	2.184	8.736
2012	100	0.7	0.25	10.5	2.1	8.4

5.2 Competitive components for export.

The ratio of components exported versus CBU light motor vehicle imports are being adjusted downwards to 1:0,6 by 2007 to encourage component manufacture.

5.3 Duty Free Allowance (DFA)

A Duty Free Allowance of 27% of manufacturers ex-factory turnover on imported components (CKD) to encourage assembly of passenger and light commercial vehicles.

5.4 Productive Asset Allowance (PAA)

The PAA is a non-tradable duty credit calculated at 20% of qualifying investment in qualifying assets spread equally over 5 years. Assemblers and their suppliers will be able to utilise this credit against CBU imports and imports for component manufacture.

6. Other Relevant Incentives

- Small and medium enterprise development programme (SMEDP)
- Foreign investment grant (FIG)
- Skills support programme (SSP)
- Competitiveness fund
- Sector Partnership fund
- Short term export finance guarantee facility
- Export marketing and investment assistance

7. Useful Contacts

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8. Summary

The Eastern Cape offers a perfect location for any investor looking to establish in the southern hemisphere both to service the growing local market and/or the export markets. The various developments offer purpose built facilities for new and existing investors looking to establish facilities.

ECDC is the first point of call for companies wanting to invest in the Eastern Cape and in partnership with our local stakeholders we are well positioned to facilitate any new or expansion investment.

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