The South African Automotive Masterplan to 2035:
Implementation challenges and opportunities post–2020

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Presentation outline

1. The South African Automotive Masterplan (SAAM) process
2. South African automotive industry vision and objectives
3. The SAAM’s six pillars and two foundations
4. Enabling policy post-2020: Critical SAAM considerations
1. The South African Automotive Masterplan process
Five phase project to develop SAAMP to 2035 and complete APDP review and post 2020 policy recommendations

• Phase 5: Policy development post–2020
• Phase 4: SA auto masterplan development
• Phase 3: Detailed auto policy review – three economies
• Phase 2: International auto scan and policy review
• Phase 1: SA auto status quo review
2. South African automotive industry vision and objectives for 2035
SA automotive industry 2035 vision and objectives

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.

1. Grow SA vehicle production to 1% of global output
2. Increase local content in SA assembled vehicles to 60%
3. Double total employment in the auto value chain
4. Improve auto industry competitiveness levels to that of leading international competitors
5. Transformation of the South African automotive value chain
6. Deepen value addition within SA auto supply chains
### SA automotive industry 2035 objectives and associated impact on the industry

<table>
<thead>
<tr>
<th>Objective</th>
<th>Estimated impact on SA auto industry</th>
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| 1. Grow SA vehicle production to 1% of global output | • CBU production to 1.39m units annually (129% higher than 2015 levels)  
• Increase total value of vehicle production to R314bn |
| 2. Increase local content in SA assembled vehicles to 60% | • Increase of R135bn on 2015 local content levels  
• 55% local content increase per vehicle produced |
| 3. Double employment in the auto value chain | • Employment growth of 112,000  
• Aggregate employment from 112,000 to 224,000 |
| 4. Improve industry competitive levels to that of leading international competitors | • Sustainable auto industry based on comparative price and non-price competitiveness  
• Sustained export competitiveness |
| 5. Transformation of the South African automotive value chain | • 25% Black-owned at T2 and T3, dealership networks and authorised repair facilities  
• Amplified skills development of Black South Africans  
• Enhanced employment equity at snr management, artisan, and 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 |
3. The SAAM’s six pillars and two foundations
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

1. Local market optimisation
2. Regional market development
3. Localisation
4. Infrastructure development
5. Industry transformation
6. Technology and associated skills development

Supporting institutional environment (including M&E)

Enabling policy post-2020 (SAAMP phase 5)
1. Local market optimisation

1. Two fundamental domestic market changes required for SA auto industry to realise its growth objectives:

   1. **Market growth**: To 1.2m vehicles by 2035 (to ensure SA remains a Tier 2 market)
   
   2. **Market composition**: With exception of LCVs, existing import penetration levels into the domestic market are too high, e.g. small PV and SUV/crossover market segments

2. **Positive Thailand lessons**: Local production and local demand well aligned – operating as industry growth catalyst

3. **Negative Australian lessons**: Local demand shifted to import models, forcing unsustainable export focus at local OEMs – key reason for industry closure

### SA market

<table>
<thead>
<tr>
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<th>2015</th>
<th>2035</th>
<th>Growth (%)</th>
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<tbody>
<tr>
<td>Domestic production</td>
<td>277,179</td>
<td>695,994</td>
<td>151</td>
</tr>
<tr>
<td>Imports</td>
<td>340,570</td>
<td>483,821</td>
<td>42</td>
</tr>
<tr>
<td>SA market</td>
<td>617,749</td>
<td>1,179,815</td>
<td>91</td>
</tr>
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</table>
Pre-owned vehicle imports decimate SSA’s new vehicle market >> limits new vehicle demand to luxury vehicles and LCVs for mixed use purposes

While the SSA market is attractive to aftermarket component firms the CBU-aligned SA/regional supply chain is not supported >> stunts regional market opportunities for SA and aspirational SSA auto industries

Yet, demographic data reveals major middle class growth across SSA to 2030 >> 137m in 2009 to 341m >> will create demand across spectrum of PVs, LCVs, M&HCVs, off-highway vehicles and motor cycles

SA market of 1.2m units in 2035 + SSA new vehicle market of c800k units = attractive regional market

How does SA play a role in establishing a regional market dynamic benefiting all participants? Phased approach to 2035? SACU >> SADC >> SSA?

Plans require private–public partnerships; inter–governmental working relationships

<table>
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<tr>
<th>SA's export production</th>
<th>2015</th>
<th>2035</th>
<th>Growth (%)</th>
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<tbody>
<tr>
<td>Africa</td>
<td>41,446</td>
<td>347,997</td>
<td>740</td>
</tr>
<tr>
<td>Global exports</td>
<td>289,677</td>
<td>347,997</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>331,123</td>
<td>695,994</td>
<td>110</td>
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3. Localisation

- **SA auto industry is compromised by its ~39% local content** – deepening SA/regional local content is as important as growing vehicle production

- **Core technologies (drivetrain, powertrain, safety, infotainment) unlikely to be sourced in SA to 2035** >> but 60% local content in SA vehicles possible, as per other T2 auto economies

- **Deepening localisation is multi-dimensional challenge, including improving:**
  - SA’s factor costs
  - SA’s technology and skills availability ahead of industry demand
  - Limiting logistics costs and service price increases (electricity, water, waste removal, rates, etc.)

- **Additional key elements:**
  - **Substantially deepening production capabilities in the auto components industry** – in support of exporting and domestic aftermarket supply (hence growth objectives in these markets)
  - **Establishing auto value chain specialisation** >> linking SA’s materials with auto opportunities >> part policy issue/part strategic imperative needing programme interventions >> key ASCCI role as industry and government need to collaborate where local materials provide scope for substantially improved local content and competitiveness
4. Automotive infrastructure development

<table>
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<th>Production infrastructure</th>
<th>Market infrastructure</th>
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<tr>
<td>• Linked to localization, the SA auto industry needs to operate within world class, secure environments comprising advanced logistics linkages and transport infrastructure; efficient industrial parks; and ready access to advanced administration, artisan, and professionally qualified staff and semi-skilled labour</td>
<td>• SA needs <strong>advanced fuel qualities</strong> to align domestic and international market demand. Domestic production may become compromised by SA’s low fuel quality standards, with products for the domestic market needing powertrain and drivetrain adjustments vs products supplied to developed economies &gt;&gt; creates potential diseconomies of scale and unnecessary production complexity</td>
</tr>
<tr>
<td>• SA’s global competitors have all invested heavily in auto-specific infrastructure (e.g. industrial estates, supplier parks, advanced product testing and auto homologation centers). To compete globally, the SA auto industry must have access to domestic infrastructure/services of a similar standard</td>
<td>• SA needs to invest in <strong>alternative technology infrastructure</strong> to enable the transition to EEV use &gt;&gt; SA likely to lag development of developed economy EEV markets, but the market will absorb a large number of EEVs by 2035, and it is incumbent on industry and government to invest in infrastructure to ensure SA is a “fast follower” in the global auto industry’s next evolutionary phase</td>
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In alignment with B-BBEE principles, industry transformation requires four focus areas:

1. Employee cohort brought into the industry should represent SA’s demographic profile (race, gender and physical abilities) across the spectrum of employment categories, including artisans, professionals, management, and executives.

2. Given the auto industry’s advancing skills requirements, employee education and skills development should remain a priority – ensuring technical and management skills are transferred into the SA economy.

3. OEMs and Tier 1 suppliers within the SA auto value chain must prioritise lower tier majority Black-owned supplier development – to substantially increase involvement of majority Black-owned auto component manufacturers within the SA auto industry by 2035 (to 25% of T2 and T3 GVA – from <1% at present).

4. OEMs to focus on enterprise development opportunities through their national dealership structures and authorised repair facilities.

Recommended that ASCCI’s activities align with this pillar progress across each focus area to be monitored annually.
6. Technology and associated skills development

- SAAM requires a technology roadmap to 2035 covering EEVs, other powertrain and drivetrain developments, active/passive safety technologies, material composites, infotainment technologies, nanotechnology, additive manufacturing, product recycling, etc.

- Environmental sustainability also a key driver especially if domestic production continues to supply developed economy markets

- SA also has a set of materials that could be developed in alignment with the evolution of new auto technologies. These materials (e.g. PGMs, aluminium, certain steel grades) represent areas of potential sustained competitive advantage for the industry to 2035

- Finally, the technology roadmap needs an associated skills plan. Global auto industry skills requirements are advancing in tandem with technology changes, necessitating a shift in the number and the level of skilled personnel being recruited into the industry. The SA auto industry, in partnership with government and other social partners, needs to develop skills in advance of industry requirements.
7. The SAAM’s institutional foundations

- SAAM’s step 1 is defining a stakeholder-agreed vision and set of objectives

- Step 2 is securing industry agreement on key intervention areas to realise the vision and objectives. We have identified six pillars, each needing the support of industry and government, along with substantial scoping work, to secure an implementation plan to 2035

- Each pillar also needs enabling auto policy >> hence SAAMP’s final phase

- **M&E** needed to ensure progress vs targets >> requires **SENIOR MIDC** that secures SAAM stakeholder alignment. SAAM implementation will be challenging >> essential that an institutional approach is taken to support its realization

- **Competitor evidence:** Auto industries are not built on once-off policy changes/industrial plans >> they are built through institutionalised learning processes that correct policy and/or programme failures, and amplify successes

- SAAM’s success depends on key industry stakeholders believing in its vision and objectives, and being prepared to work together to achieve mutually agreed outcomes
4. Enabling policy post-2020: Critical SAAM considerations
Enabling policy post 2020 - three critical thoughts

Thought 1: Is the SAAM vision and its associated objectives realizable?

- 1% of global output
- 60% local content
- 2\textsuperscript{nd} and 3\textsuperscript{rd} tier supplier development
- Technical skills development
- Industry transformation
- Dynamic regional market
- 1.2m unit domestic market

“Whether you think you can, or you think you can’t, you’re right.” — Henry Ford
Enabling policy post 2020 - three critical thoughts

Thought 2: Is the existing APDP policy structure enabling in respect of the SAAM’s vision and objectives?

1. CBU and CKD tariff structure
2. Volume Assembly Allowance
3. Production Incentive
4. Automotive Investment Scheme

“If I had asked people what they wanted, they would have said faster horses.”
- Henry Ford

<table>
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<th>CBU assembly</th>
<th>Scale</th>
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<tr>
<td>Localisation</td>
<td>Advanced technology</td>
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The SAAM opportunity

Quantifying the benefits of local content @60% vs. 38.74% base:

- R68 billion in economic GVA (more than doubling present auto industry impact)
- 49,000 additional direct jobs, with strong multipliers
- 61% productivity deflator – conservative estimation methodology
Enabling policy post 2020 – three critical thoughts

Thought 3: What is the relationship between the SAAM’s six pillars and its two foundations?
Objectives
1% of global vehicle production, 60% local content, 100% employment growth, competitiveness to leading competitor standards, industry transformation, increased value addition within GVCs

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

Local market optimisation
Regional market development
Localisation
Infrastructure development
Industry transformation
Technology and associated skills development

Supporting institutional environment (including M&E)
Enabling policy post-2020 (SAAMP phase 5)

CRITICAL CONSIDERATIONS

Major impact

Medium impact
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