STATE OF THE AUTOMOTIVE INDUSTRY 2014

the dti
Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

NAACAM

naamsa

aidc
Automotive Industry Development Centre Eastern Cape SOC Ltd
Your partner in becoming globally competitive

EASTERN CAPE ECDC DEVELOPMENT CORPORATION

Contents

ABBREVIATION AND ACRONYMS

Nepad	New Partnership for African Development
NAFTA	North America Free Trade Area
SADC	South African Development Community
AU	African Union
SEZ	Special Economic Zone
IDZ	Industrial Development Zone
AIEC	Automotive Industry Export Council
APDP	Automotive Production Development Plan
OEM	Original Equipment Manufacture
BBESDP	Black Business Empowerment Supplier Development
MCEP	Manufacturing Competitiveness Enhancement Program
Dti	Department of Trade and Industry

SOUTH AFRICA AUTOMOTIVE INDUSTRY TODAY

Over the past decades the South African automotive industry has been transformed into an internationally more competitive, globally integrated industry supplying high quality automotive products to the domestic and global markets. The South African vehicle manufacturing and associated industries have grown to become the major contributors to manufacturing output in South Africa and currently accounts for about one third of all manufacturing activity in the country.

The APDP, which commenced 1st January 2013, is designed to take the industry to the next level by doubling vehicle production in the country to 1, 2 million units per annum by 2020.

The South African automotive industry has witnessed sustained growth in both domestic sales and exports since the downturn in 2009, despite the uncertain international climate. During 2013, total automotive industry exports increased by R 7, 8 billion or 8,2% to R 102,7 billion from the revised R 94,9 billion in 2012. The economic challenges in Europe are forcing South African companies to look at alternative markets and partners to diversify risk and create new avenues for growth. Indicative of this trend; the export value to 21 of the 152 country export destinations, more than doubled from 2012 and 2013.

The performance of exports remains a function of the performance and direction of global markets. There are, however increasing positive signs that economic conditions are improving in important regions for the domestic automotive industry, including Europe and North America. The domestic automotive sector's significance is premised on its contribution to export earnings, employment and GDP growth. In recognition of the importance of the automotive sector to the country's economy, the South African government remains committed to fast track the growth and development of the domestic automotive industry which it regards as strategically significant.

EASTERN CAPE REGION AUTOMOTIVE INDUSTRY

The Eastern Cape economy is characterised by the concentration of economic activity in urban nodes and the prominence of secondary and tertiary sectors.

The Eastern Cape's gross domestic product contribution of 2.7% in 2011 gave it a ranking of 4th place out of the nine provinces.

Nelson Mandela Bay, the largest city in the province, plays a vital role in the economic activity. It boasts a deep-water port, as well as the Coega industrial development zone (IDZ). Other major GRP contributors include Buffalo City, host of the second IDZ in the Eastern Cape, and Bhisho, the seat of the Provincial legislature.

Eastern Cape Development Corporation subsidiary, the East London IDZ recently announced investments amounting to R640 million by three global automotive components manufacturers.

In September 2013, in a move aimed at further increasing local content in the Eastern Cape automotive components manufacturer industry, the Eastern Cape Development Corporation announced it had approved a R15 million investment into an East London based global automotive company, TrelleborgVibracoustic-Ikhwezi.

The manufacturing sector in the Eastern Cape is largely driven by the automotive subsector. The automotive subsector accounts for 30% of manufacturing employment and 32% of manufacturing gross value added (GVA) in the province.

Four large original equipment manufacturers, Volkswagen, Mercedes Benz, Ford and General Motors, are based in the Eastern Cape. The province produces half of South Africa's passenger vehicles and generates 51% of the country's motor exports.

The province is both the fourth largest exporter and importer of products, driven mostly by the automotive sector.

In the last year alone the East London Industrial Development Zone has announced investments amounting to some R640 million by three global automotive components manufacturers aimed at increased local content. These are the R380 million investment into the expansion of Johnson Controls' current plant at the IDZ, R180 million investment into the IDZ by German automotive component manufacturer Friedrich Boysen GmbH and Co. KG and a R80 million investment by international supplier R G Brose. The decision to localise content is influenced by discussions with government on extending the value chain and local content of the South African automotive sector

TrelleborgVibracoustic currently supplies several suspension mounts for the C and E class Mercedes and has recently been nominated on the next generation C Class, which is scheduled to start production in 2014. The bushings and suspensions are supplied to Mercedes-Benz plants worldwide as well as locally in East London.

TrelleborgVibracoustic announced it had entered into a majority owned R36 million Joint Venture with East London-based Ikhwezi Investment Holding to locally manufacture chassis bushings for the Mercedes-Benz C and E class to support South Africa's leading supplier of automotive suspension systems, Foxtec-Ikhwezi. The plant covers an area of 4000m^2 and production began in 2013. It will initially employ 22 people increasing to around 55 once peak volumes are reached. Ikhwezi has a 30% share and will provide support services such as recruitment, finance and information technology management.

The IAC, Feltex auto components JV in East London and Johnson Controls R380m investment puts SA on higher manufacturing plane

ECDC has invested R15 million into this multi-million rand JV operation. The ECDC's investment, has ensured that modern technology is brought into the Eastern Cape and this will improve skills for the economy and job opportunities in the car manufacturing sector. Currently the TBVC plant in Port Elizabeth supplies bushes for the current model which is manufactured in Poland. The new automotive incentive, the Automotive Production Development Programme has also played a central role in the localisation of content. The APDP provides fantastic opportunities for the Eastern Cape which forms the backbone of Africa's automotive sector. With a refined programme like the APDP, there exists an opportunity to increase local content from the current levels of 40% to 65% through various support mechanisms. With all its successes, the MIDP did not go far enough in supporting component manufacturers. The APDP strengthens this area, which is the lead player for creation of the much needed jobs in the country. As at 2011, about 68 000 people were employed by component manufacturers whilst the OEMs employed about 28 000. The programme includes a local assembly allowance which makes it possible for vehicle manufacturers with a plant volume of at least 50 000 units per annum to import 20% of their components duty-free, reducing to 18% over three years. The APDP provides for stable import tariffs of 25% for completely built-up vehicles from 2012 and 20% for components used in vehicle assembly. An automotive investment allowance also exists and takes the form of a direct grant of 20% of the project over three years. The bedrock of the Eastern Cape economy, the automotive sector has undergone a metamorphosis in recent years with a move towards increased local content in the sector. Currently, the Eastern Cape is home to automotive giants such as Mercedes-Benz, Ford, Volkswagen South Africa and General Motors as well as FAW. The changes in the sector are also influenced by the new incentive for automotive manufacturers, the Automotive Production Development Programme (APDP). The APDP has two major objectives. It aims to increase volumes to 1.2 million vehicles a year by 2020 and to diversify and deepen the components supply chain.

All of these companies are investing in increased capacity. In the Eastern Cape, the automotive industry provides 30% of the jobs in the province's manufacturing sector and accounts for 32% of gross added value. Half of South Africa's passenger vehicles are made in the Eastern Cape and 51% of the country's motor exports originate there.

AUTOMOTIVE INDUSTRY EXPORT COUNCIL (AIEC)

Export Councils are the prime delivery vehicles that stimulate export growth and deepen the export base. This format was initiated by Trade and Investment South Africa in a number of key sectors, and is also aimed at assisting Small Medium and Micro Enterprise (SMMEs) and Black Economic Empowerment (BEE) companies to enter the export market successfully. The Automotive Industry Export Council was established at the end of 1999 and serves as the umbrella body for South African automotive industry export promotion and development and the companies in the automotive sector that are currently exporting or intend to. The AIEC represents the interest of seven motor vehicle manufacturers/ exporters namely BMW, Ford, General Motors, Mercedes Benz, Nissan, Toyota and Volkswagen as well as manufacturers/

exporters of trucks and buses, and over 500 component suppliers in South Africa.

The domestic automotive industry is a vital contributing element to the success of the national economy and the sustainable growth of the country at large. Manufacturing output accounts for 15% of the country's GDP and the automotive industry accounts for about 30% of manufacturing output. Continuous efforts to grow the South African automotive industry's export business are imperative, especially in view of the vision of doubling vehicle production in the country to 1, 2 million units per annum by 2020.

The focus is on building on existing exports and exploiting other new opportunities. The domestic market is generally not large enough to generate sufficient economies of scale for world-class competitiveness/ production; consequently exporting needs to be viewed as a necessary step towards international competitiveness.

The current global economic environment is dominated by intense competition for export markets, investment and technology. This makes it important to gain and maintain access to these markets.

The Dti plays an important role in the promotion of economic development and meaningful participation in the global economic and trade investment. The Export Promotion Directorate of the Dti is responsible for developing and promoting South African goods and service, including specific technical interventions in the form of Export Marketing and Investment Assistance (EMIA) financial support, matchmaking, market intelligence, trade lead facilitation and in-market support.

SOUTH AFRICA AUTOMOTIVE CLUSTERS

South Africa is an open and globally integrated market-oriented economy with a Gross Domestic Product (GDP) of R3 385 billion, at 2013 prices. As the continent's most sophisticated economy, South Africa is regarded as one of the most diversified exporting countries in the world and its increasing trade liberalisation is contributing significantly to the country's growth and future prosperity. South Africa has a substantial mineral resource base to support an economy that generates a third of sub-Saharan Africa GDP. The country has an abundance of natural resources, well developed financial, legal and transportation sectors as well as modern infrastructure supporting the distribution of goods throughout the fast developing Southern Africa region. South Africa is one of the world's richest countries in mineral reserves and production. With access to large aluminium and steel resources and the world's largest deposits of platinum group metals (PGMs), the country's vehicle and parts industry has plenty of growth potential. The Columbus stainless steel facility is the largest in the world as is the Alusaf aluminium-smelting facility at Richards Bay. New manganese smelters are scheduled to be built at Coega. South Africa currently supplies in the order of 10% of the global demand for catalytic converters. The country is also home to over 70% of the world’s chromium, which is an essential ingredient in the stainless steel used to house the catalyst and to produce modern auto exhausts. The improving and modernisation of various border systems and processes to facilitate increased trade with South Africa and the sustained investments in refining its infrastructure will no doubt have significant positive impact on the region’s trade as a whole. The country’s ports provide a natural stopover for shipping to and from Europe, the Americas, Asia, Australia and both coasts of Africa. South Africa is not only an attractive investment destination in its own right but also provides entry to investment in other African countries. The country is ideally positioned for easy access to the countries of the Southern African Development Community (SADC), a free trade area, which consist of 15 countries with total population of about 280 million. The country’s inclusion in the BRICS economies substantiates its production as a globally competitive destination for foreign investment. South Africa consists of nine provinces, namely Western Cape, Eastern Cape, Northern Cape, North West, Free State, KwaZulu-Natal, Gauteng, Mpumalanga and Limpopo, each with its own premier, executive council and legislature. The country has a population of 52,98 million with 11 official languages. South Africa’s vehicle manufacturing industry is concentrated in three of the nine provinces, namely Gauteng, Eastern Cape and KwaZulu-Natal, and in close proximity to its suppliers. However, increasingly, some automotive development is also taking place in the Western Cape and North West provinces. Provincial and local governments have trade, investment and tourism offices to promote economic activity in their regions.

EASTERN CAPE PROVINCE

The Eastern Cape has a sound manufacturing base, primarily in the automotive sector. Finance, government services and manufacturing are the leading sectors in the Eastern Cape economy. The province is well served logistically, with airports situated in Port Elizabeth, East London, Mthatha and Bisho and with ports in Port Elizabeth, Coega and East London. The allocation of two of South Africa's five industrial development zones (IDZs) to the province is confirmation of the potential generated by the shipping traffic that operates between Europe, Asia and the Far East. The Coega IDZ is the largest IDZ in the country and is the main catalyst for Eastern Cape socio-economic development and the getaway to global markets. The East London IDZ has also established an Automotive Supplier Park.

The Automotive Industry Development Centre, Eastern Cape, the Eastern Cape Development Corporation, the Nelson Mandela Bay Municipality and Cacadu District Municipality are among the several organisations promoting the Eastern Cape.

Key Features of Eastern Cape Province

Eastern Cape	
Capital	**Bisho**
Population (% of SA total of 52,98 million)	6,62 million (12,5%)
GDP contributions as % of SA total GDP of R3 385 billion	7,6%
OEMs (Manufacturing Plants)	Volkswagen Group SA, Mercedes-Benz SA, General Motors South Africa, Ford Motor Company of Southern Africa engine plant
Medium, heavy, extra heavy commercial and bus companies	FAW, General Motors/ Isuzu, Mercedes-Benz SA and Volkswagen Group SA
Number of automotive component companies	100
Motor vehicle parc as % of total vehicle parc of 11,01 million vehicles	6,67%
Passenger car sales as % of total 2013 passenger car sales of 450 561 units	3,7%
LCV sales as % of total 2013 LCV sales of 169 262 units	5,1%
MCV/ HCV sales as % of total 2013 MCV/ HCV sales 30 922 units	4,0%

Light vehicle exports by OEMs in the province as % of total 2013 exports of 276 378 units	32,7%

Source: NAAMSA/ Lightstone Auto, NAACAM, Statistics SA

GAUTENG PROVINCE

Gauteng, home of both Pretoria and Johannesburg, is the economic epicentre of the Southern African nation and accounts for approximately 10% of the GDP of the entire continent of Africa. It is the smallest of the country's nine provinces but it is the country's financial and industrial economic centre. It produces one third of the national GDP, generates the highest per capita income and accounts for 40% of South Africa's manufacturing output, construction and financial services.

Gauteng houses three OEMs and the majority of automotive suppliers. The Gauteng Growth and Development Agency (GGDA), via its two automotive specifics subsidiaries, the Automotive Industry Development Centre (AIDC) and the Automotive Supplier Park (ASP) provides support to the automotive industry and is charged with promotion of trade and investment and project implementation to bolster certain specific areas of economic activity.

Key features of Gauteng Province

Gauteng	
Capital	**Johannesburg**
Population (% of SA total of 52,98 million)	2,73 million (24,04%)
GDP contributions as % of SA total GDP of R3 385 billion	33,5%
OEMs (Manufacturing Plants)	BMW SA, Nissan SA/ Renault SA, Ford Motor Company of Southern Africa
Medium, heavy, extra heavy commercial and bus companies	Associated Motor Holdings (AMH), Babcock, Fiat Group, Iveco SA, JMC SA, MAN Truck and Bus, NC 2Trucks Southern Africa, Peugeot Citroen SA, Powerstar SA, Renault Trucks, Scania, Tata Motors, UD Trucks, VDL Bus and Coach and Volvo

	Trucks and Buses
Number of automotive component companies	150
Motor vehicle parc as % of total vehicle parc of 11,01 million vehicles	38,81%
Passenger car sales as % of total 2013 passenger car sales of 450 561 units	37,4%
LCV sales as % of total 2013 LCV sales of 169 262 units	33,2%
MCV/ HCV sales as % of total 2013 MCV/ HCV sales 30 922 units	37,0%
Light vehicle exports by OEMs in the province as % of total 2013 exports of 276 378 units	37,5%

Source: NAAMSA/ Lightstone Auto, NAACAM, Statistics SA

KWAZULU-NATAL PROVINCE

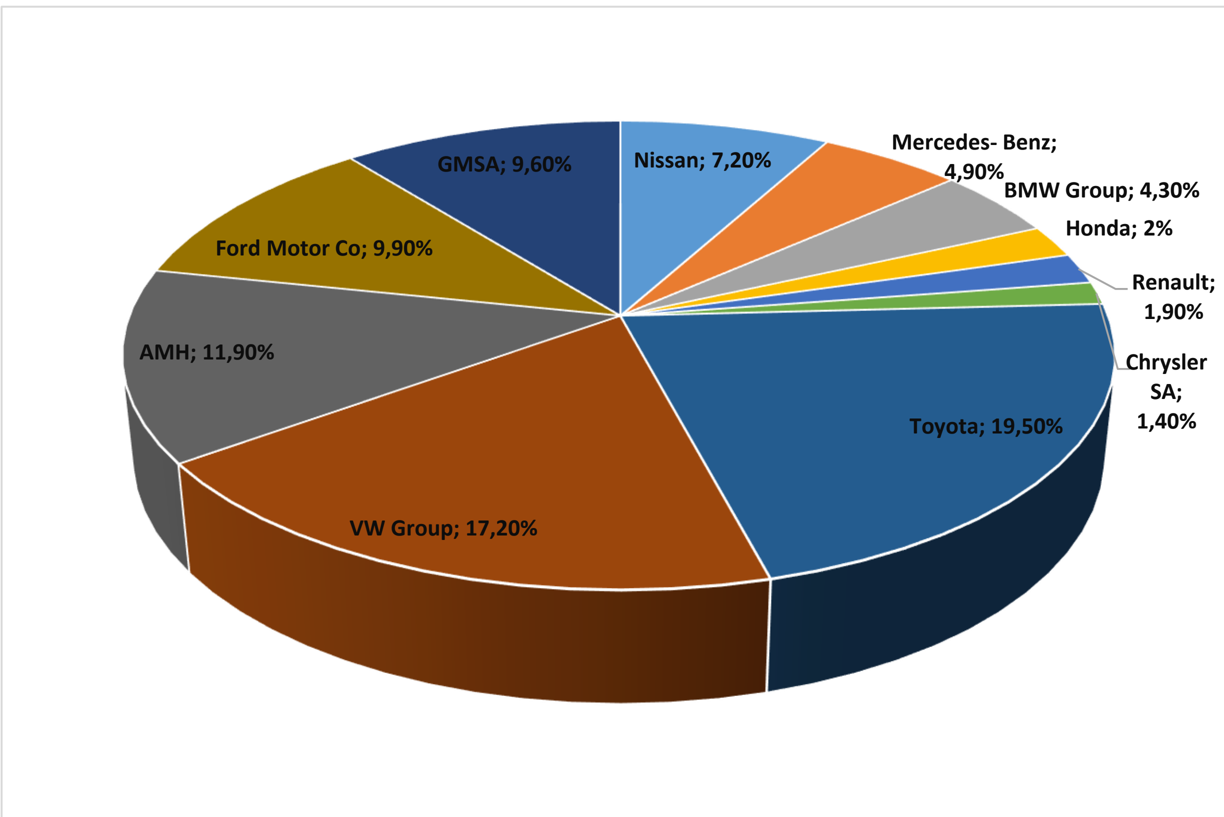
KwaZulu-Natal represents the second largest economy in the country after Gauteng. It consists of two of Africa's busiest ports supported by world-class road and rail infrastructure, the province has the strategic and competitive advantage of being a global gateway for trade into Africa and to the world. Durban is South Africa's second largest city and has a busiest port. Richards Bay was originally developed as a coal exporting port, now it is busiest bulk port and centrepiece of Richards Bay IDZ and Spatial Development Initiative (SDI). Richards Bay and Durban ports handle 75% of the country's tonnage. Manufacturing – dominated by pulp and paper, chemicals and food beverages is the largest sector in the province.

KwaZulu-Natal	
Capital	**Pietermaritzburg**
Population (% of SA total of 52,98 million)	10,46 million (19,7%)
GDP contributions as % of SA total GDP of R3 385 billion	16,1%
OEMs (Manufacturing Plants)	Toyota SA Motors
Medium, heavy, extra heavy commercial and bus companies	Bell Equipment Co SA, Hino, MAN Truck & Bus (SA) and Toyota SA Motors
Number of automotive component companies	80
Motor vehicle parc as % of total vehicle parc of 11,01 million	13,53%

vehicles	
Passenger car sales as % of total 2013 passenger car sales of 450 561 units	12,8%
LCV sales as % of total 2013 LCV sales of 169 262 units	12,5%
MCV/ HCV sales as % of total 2013 MCV/ HCV sales 30 922 units	17,0%
Light vehicle exports by OEMs in the province as % of total 2013 exports of 276 378 units	29,0%

Source: NAAMSA/ Lightstone Auto, NAACAM, Statistics SA

SOUTH AFRICA VEHICLE MARKETS SHARE – 2013



Source: NAAMSA/ Lightstone Auto

Remarks on our South African vehicle markets

For the fourth year in succession, new vehicle sales in South Africa recorded year-on-year gains. Industry trading conditions remained intensively competitive in the new car and light commercial vehicle sectors. According to the Lightstone Auto/ NAAMSA database, 51 brands and 2 295 passenger car model derivatives and 28 LCV brands and 510 model derivatives were available for consumers to choose from in 2013, the biggest ratio compared to its market size in the world.

Toyota SA Motors has maintained its overall market leadership position in South Africa for 34 consecutive years since 1980. In 2013, Toyota SA Motors had an overall market share of 19,5%, followed by Volkswagen Group of SA, Associated Motor Holdings, Ford Motor Company of Southern Africa and General Motors South Africa. The above graph shows the overall market shares of the top 10 OEMs/ Importers in the country in 2013. Domestic new sales vehicle is expected to remain modest at best during 2014.

Passenger cars 2013

OEMs	Vehicle Model
BMW	3-Series 4-door
General Motors	Chevrolet Spark
Mercedes-Benz	C-Class 4-door
Nissan	Livina and Tiida
Renault	Sandero
Toyota	Corolla 4-door and Fortuner
Volkswagen	Polo new and previous series

Passenger Vehicle Segment

The new passenger car sector experienced the steepest decline last month (November 2014), as sales dropped by 5.9% year-on-year, or 2164 units, when compared to sales of 36 431 new cars during November 2012. The Toyota Etios took over the number one spot leading with 2591 units, while Ford Figo dropped from third place to fifth with a total of 1172 units. The BMW 3 Series although not in the top 5 best-selling passenger cars reported the second highest export sales (5917 units) after the Volkswagen Polo which exported a total of 7567 vehicles

Light commercial vehicles 2013

OEMs	Vehicle Model
Ford	Ranger
Mazda	BT-50
Nissan	NP300 Hardbody, NP200
General Motors	Chevrolet Utility and Isuzu KB
Toyota	Hilux

Light Commercial Vehicle's Segment

New light commercial vehicles fared slightly better with sales of 13 719 units during November, reflecting a decline of 610 units or year-on-year drop of 4.3% compared to the 14 329 vehicles sold during the corresponding month last year (2013) .The graph below shows that the Toyota Hilux remains at the top of the top 5 list with an increase of 667 vehicles from last month's 2894 vehicles sold. While the Ford Ranger aggressively moved up to second place with an increase of 421 vehicles from last month's 1516 sales, surpassing both the Toyota Quantum which has moved down to third place and the Isuzu KB which didn't make it to the top 5 but increased by 939 vehicles from last month's 1232 vehicles. The Chevrolet Utility made it back into the top 5 list, slotting in at number 4 with a total of 1279 units.

Medium, heavy and extra heavy commercial vehicle companies are presented in South Africa – 2013 by:

These vehicles serve as productive assets for the entire economy and the cost of such products should be as low as possible to improve the competitiveness of all sectors in the economy and Therefore, the ultimate levels of protection for MCV's and HCV's have been set at a substantially lower level than the passenger vehicle and light commercial vehicle industry. For purposes of the Car and Light Commercial Vehicle MIDP, vehicle manufacture in South Africa must be on the basis of completely disassembled components, which in turn means that body assembly and painting operations, amongst others, are required to be performed locally.

- Associated Motor Holdings (AMH)
- Babcock
- FAW Trucks
- Fiat Group
- Freightliner
- Fuso
- General Motors/ Isuzu
- Hino
- Iveco
- JMC
- MAN
- Mercedes-Benz
- NC2 Trucks
- Peugeot Citroen
- Powerstar
- Renault Trucks
- Scania
- Tata
- Toyota
- UD Trucks
- Volkswagen Group
- Volvo Trucks

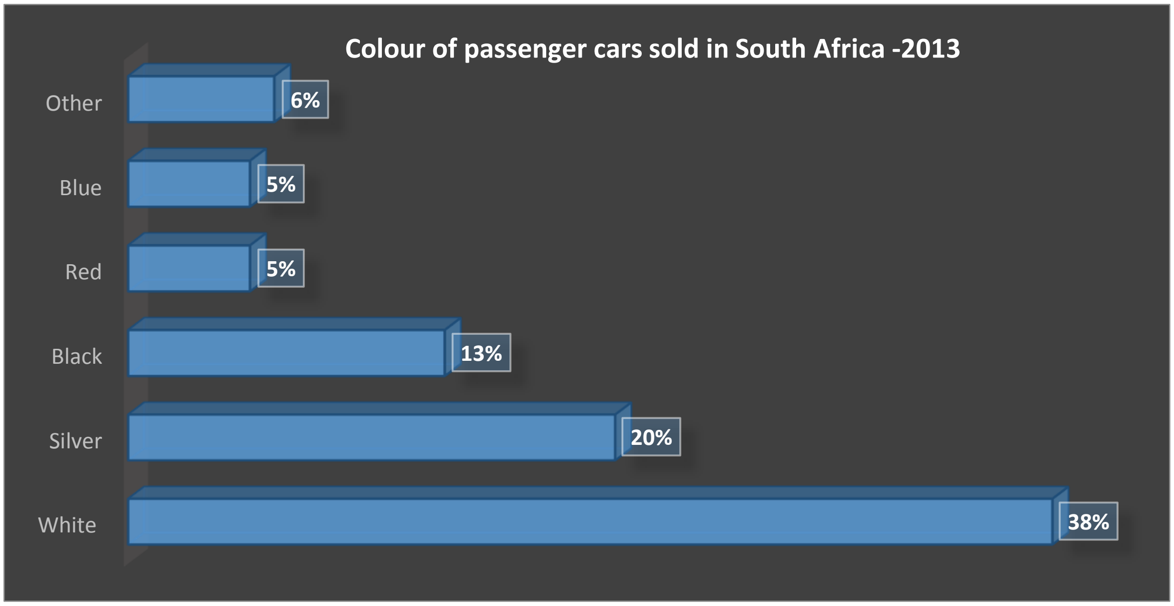
Buses presented in South Africa – 2013 by:

Market Share - 2012

- General Motors – 11,25%
- Iveco – 4,56%
- MAN/ Volkswagen – 7,21%
- Mercedes-Benz – 26,16%
- Scania – 4,77%
- Tata – 5,81%
- VDL Bus and Coach – 0,32%
- Volvo Bus – 7,57%

Sales of the medium, heavy and extra-heavy commercial vehicles performed substantially better than the car and light vehicles sectors in 2013. MCV/ HCV sales are indicative of activity in spending on construction and infrastructure projects.

COLOUR OF PASSENGER SOLD IN SOUTH AFRICA - 2013



Source: DuPont

Colour is a customer's most memorable sense, as the first point of interaction is shaped by the vehicle's colour. According to the 2012 DuPont Automotive Colour Popularity Report, white/ white pearl continued to dominate the global automotive colour ranks. Overall, white/ white pearl represented 23% of the global market and was in the leading position as the most popular car colour in North America, Japan, South Korea, Russia, South Africa and Mexico. On the other side black/ black effect led among vehicle colour popularity in China, however, took second place in the global ranks with 21% of the world's share of automotive colour. Whereas , silver rounded off the top three global colour choice, topping the ranks in South America, Brazil, and India with global market share of 18%.

It must be highly noted that South Africa has world's highest market share of white/white pearl of any region or country analysed, with those vehicles representing more than 38% of local market share.

AUTOMOTIVE EXPORTS AND IMPORTS (EU)

A diverse range of original equipment components, parts and accessories are manufactured in the country by about 500 automotive components suppliers, including 120 first tier suppliers.

Global economic growth is projected to strengthen from 3% in 2013 to 3,6% in 2014 and to 3,9% in 2015, with emerging markets and developing economies growth projected to pick up gradually from 4,7% in 2013 to about 5% in 2014 and 5,25% in 2015. This anticipated growth is shifting from traditional developed regions to the emerging markets of Asia, Africa and Latin America, where the growth rates over the past two decades have raised income and consumption to unprecedented levels.

Europe remained the South African automotive industry's most important trading partner, accounting for R35,1 billion of the country's total automotive exports of R102, 7 billion in 2o13. Developments in the EU have direct and measurable impact on the local automotive industry overall performance.

South Africa's trade relations with EU are governed by the Trade, Development and Co-operation Agreement (TDCA). The main objective of the TDCA was to create a free-trade area between South Africa and European Union (EU). The SA-EU Free Trade Agreement on trade, development and co-operation became effective on 1 January 2000. The agreement was based on preferential rates of import duties for certain products having been deemed to originate in the partner country. South Africa had granted duty-free status to 86% of its EU imports by 1 January 2012, while the EU had provided duty-free status to 95% of South Africa's exports since 1 January 2010.

For South Africa, the success of its relationship with the EU has shown the value of pragmatic, interest-based foreign policy. Total automotive exports (vehicles and components) to the EU increased by R1,07 billion to R35,1 billion in 2013 from the R34,0 billion in 2012, with notable increases in exports to the UK, Germany, Belgium and Spain.

EXPORTS TO THE EU 2010 TO 2013				
Component	**2010**	**2011**	**2012**	**2013**
Total (R million)	33 116,4	38 577,4	34 030,7	35 096,2
Total (average Euro million)	3 410,5	3 827,1	3 225,7	2 737,6
Air conditioners	4,4	17,7	22,1	22,1
Alarm systems	41,0	35,0	29,6	39,0
Automotive tooling	56,7	104,0	160,6	161,5
Axles	34,8	125,7	92,5	186,6
Batteries	20,8	35,5	28,7	68,8
Body parts/ panels	28,2	25,8	22,1	30,9
Brake parts	31,9	37,4	21,7	21,7
Car radios	11,0	30,0	36,1	0,5
Catalytic converters	11 886,1	16 013,7	12 389,9	13 288,6
Clutches/ shaft couplings	198,0	143,8	140,1	169,8
Engines	17,6	6,1	16,3	7,5
Engine parts	728,1	741,0	834,0	1 019,3
Filters	143,0	165,3	131,7	157,0
Gaskets	31,5	29,6	34,2	42,7
Gauges/ instruments/ parts	38,1	45,2	42,9	44,7
Gear boxes	7,0	68,8	14,8	4,5
Glass	284,1	256,0	210,6	324,9
Ignition/ starting equipment	35,5	22,2	15,4	21,7
Jacks	20,4	14,2	22,8	10,6
Lighting equipment	137,7	139,2	131,4	154,7
Radiators/ parts	489,2	642,3	577,3	74,4

Seats	0,3	0,6	0,3	0,5
Seat belts	0,5	1,1	0,7	0,4
Stitched leather seats	2 871,1	2 157,3	1 693,4	1 499,3
Shock absorbers/ suspension parts	296,6	373,8	366,5	386,6
Silencers/ exhaust	1 415,9	1 790,4	1 326,8	839,7
Springs	21,3	21,5	7,8	7,3
Steering wheels/ columns	131,0	110,0	123,9	131,8
Transmission shafts	159,6	230,5	247,0	217,1
Tyres	381,3	624,3	392,5	274,4
Wiring harnesses	40,4	61,1	63,9	75,9
Other parts	714,2	1 423,5	1 250,0	1 838,9
Light vehicles	12 446,2	12 619,2	13 327,2	13 841,6
Medium/ Heavy vehicles	69,6	64,2	4,4	7,5

Source: AIEC, SARS

NORTH AMERICAN FREE TRADE AREA (NAFTA)

North America Free Trade Area consists of the USA, Canada and Mexico and was South Africa's second largest trading region. Exports amounted to R19,1 billion of total automotive exports of R102,7 billion in 2013.

South Africa is a beneficiary of the USA's Generalised System of Preference (GSP), which was instituted on 1 January 1976 and grants duty-free status to some goods. Since 2001 trade with the USA has significantly increased under the African Growth and Opportunity Act (AGOA), which is an extension of the GSP and allows duty-free access of additional products into the USA.

AGOA represents a non-reciprocal gesture by the USA aimed at liberalizing trade and assisting the growth and development of sub-Saharan African countries by extending duty-free and quotation free access into the market in respect to a broad range of products. Under AGOA, trade in automotive products between United States and South Africa has grown substantially in recent years as American consumers benefit from reduced import duties. The interests of American automotive corporations are well represented in South Africa. Ford Motor Company and General Motors are long established, leading automotive producing corporations in South Africa. Also, top American automotive parts suppliers are represented in South Africa, including Johnson Controls, Lear, TRW Automotive, Tenneco, Federal Mogul, Delphi, Visteon and ArvinMeritor, amongst others.

Where are the AGOA negotiations today?

Under the rules of the World Trade Organisation, developed countries may grant trade preferences to developing countries. The US appears to use the legal principle to justify any potential withdrawal or reduction of AGOA benefits that South Africa enjoys. In short, South Africa faces the challenge to convince US political and economic constituencies that extending the validity of the AGOA scheme to South African products is to their benefit

In 2013 exports to NAFTA amounted to R19,1 billion, a decline of 8,4% from R20,9 billion exports in 2012. The decline may be attributed to model switch overs to new generation models by both BMW SA and Mercedes-Benz SA.

EXPORTS TO NAFTA 2010 TO 2013

Component	2010	2011	2012	2013
Total (R million)	16 496,0	20 912,1	20 900,7	19 138,2
Total (average Euro million)	2 253,6	2 884,4	2 545,8	1 983,2
Air conditioners	1,3	0,2	0,1	0,1
Alarm systems	2,6	1,9	2,8	2,9
Automotive tooling	38,1	77,4	36,9	46,5
Axles	41,6	119,3	80,9	40,6
Batteries	-	-	0,3	0,1
Body parts/ panels	1,2	3,0	3,4	1,3
Brake parts	1,0	1,6	3,7	2,6
Catalytic converters	1 810,6	2 263,0	2 416,1	2 399,7
Clutches/ shaft couplings	10,3	14,6	19,9	26,2
Engines	2,1	44,2	13,4	6,5
Engine parts	370,8	807,0	791,9	675,1
Filters	37,5	20,1	39,5	25,0
Gaskets	2,1	1,5	1,9	2,9
Gauges/ instruments/ parts	17,9	50,4	54,1	18,7
Gear boxes	25,3	31,0	41,4	33,7
Glass	3,8	1,3	0,5	0,1
Ignition/ starting equipment	3,7	2,9	10,2	4,0
Jacks	28,8	39,4	34,0	17,3
Lighting equipment	37,4	19,7	12,9	24,6
Radiators/ parts	146,1	199,9	20,0	34,7
Road wheels/ parts	3,5	13,3	5,7	5,5
Seats	0,2	0,4	4,8	0,1

Seat belts	0,1	0,3	-	-
Stitched leather seats	15,4	16,0	16,7	16,1
Shock absorbers/ suspension parts	1,4	9,0	22,5	3,6
Silencers/ exhaust	178,4	221,9	257,8	262,2
Springs	0,2	0,5	0,8	0,4
Steering wheels/ columns	21,9	27,5	31,7	47,5
Transmission shafts	8,9	20,4	28,0	9,9
Tyres	27,0	106,7	128,9	58,5
Wiring harnesses	2,6	5,1	7,4	2,1
Other parts	162,2	339,6	880,3	418,6
Light vehicles	13 454,9	16 336,9	15 928,8	14 951,1
Medium/ Heavy vehicles	37,1	116,1	3,4	-

Source: AIEC, SARS

NEW PARTNERSHIP FOR AFRICA'S DEVELOPMENT (NEPAD)

Africa is the youngest continent in terms of age of its population with more than 50% being younger than 20, compared with only 28% of China's population, underlining the continent's huge comparative advantage and growth potential.

Africa's challenge is to move off an economic growth path built on consumption and commodity exports onto a more sustainable development path based on industrialisation. Africa's on-going initiatives to advance regional integration and infrastructural development are vital in this respect. The International Monetary Fund (IMF) predicts that over the next five years, Africa will surpass Asia and seven African nations will be in the top 10 fastest growing economies.

South Africa continues to actively participate in African processes and continues to work together with other African countries in pursuing the development of the continent along the lines of the New Partnership for Africa's Development (Nepad), including the pursuit of an economically integrated Africa. The vision of Nepad is for self-reliant, innovative and enterprising Africa through the building of export capacity for

African companies, attracting new investments from around the world and growing inter-African trade to facilitate faster economic growth on the African continent.

South Africa represented the biggest domestic market for vehicles in Africa and accounted for 72% of the continent’s vehicle production in 2013. Africa remained South Africa’s main export region for commercial vehicles in 2013. Vehicle exports to 42 African countries declined from 80 293 units in 2012 to 78 787 units in 2013

EXPORTS TO AFRICA 2012 TO 2013

Component	2010	2011	2012	2013
Total (R million),including BLNS country data	17 707,4	19 997,2	25 862,2	
Total (R million), excluding BLNS country data	8 719,2	11 588,9	17 796,9	
Air conditioners	10,7	12,6	18,6	18,1
Alarm systems	22,3	14,7	21,4	21,6
Automotive tooling	88,5	99,7	314,8	291,1
Axles	13,7	20,9	42,9	61,4
Batteries	94,3	106,3	146,7	166,6
Body parts/ panels	26,2	23,6	80,8	77,6
Brake parts	49,1	33,6	54,4	70,6
Car radios	8,6	5,8	9,9	8,2
Catalytic converters	29,2	63,8	90,2	86,1
Clutches/ shaft couplings	16,2	20,9	31,9	29,6
Engines	97,8	104,7	194,2	187,3
Engine parts	181,2	182,5	339,5	334,1
Filters	99,1	110,4	162,4	154,7
Gaskets	35,0	33,1	59,1	79,1
Gauges/ instruments/ parts	126,1	164,6	210,5	244,7
Gear boxes	16,7	19,3	31,6	41,2
Glass	10,8	11,9	13,4	15,7
Ignition/ starting equipment	37,1	61,1	73,3	64,5
Jacks	7,8	14,3	15,0	24,0
Lighting equipment	22,7	25,6	34,5	42,6

Radiators/ parts	16,4	22,2	32,4	29,5
Road wheels/ parts	21,0	21,3	70,8	68,3
Seats	2,9	2,0	3,7	4,3
Seat belts	1,2	1,5	1,5	1,7
Stitched leather seats	3,4	10,0	2,4	4,7
Shock absorbers/ suspension parts	19,3	31,7	33,1	33,8
Silencers/ exhaust	6,4	4,6	8,7	5,7
Springs	2,2	4,7	6,8	10,2
Steering wheels/ columns	7,3	5,9	11,0	12,1
Transmission shafts	172,6	219,7	276,2	322,9
Tyres	583,4	685,6	810,8	725,3
Wiring harnesses	2,9	2,8	12,3	12,2
Other parts	1 494,4	1 768,4	2 517,2	2 846,8
Light vehicles	4 627,5	6 917,7	10 857,2	10 598,9
Medium/ Heavy vehicles	765,2	761,4	1 216,7	1 192,7

Source: AIEC, SARS

SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC)

In Africa, automotive exports to SADC comprised 72,4% of the continent's automotive exports and 21,3% total South African automotive exports of R102,7 billion in 2013.

Sub-Saharan Africa represents 1,6% of the world economy. Over the 20 to 30 years, sub-Saharan Africa's urban population is expected to more than double, creating lucrative demand opportunities for domestic and international manufactures of goods.

South Africa's participation in the Southern African Development Community (SADC), comprising of 15 sub-Saharan African countries, allows access to a market of approximately 280 million people. SADC operates as a Free Trade Area. The 15 SADC countries include Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. South Africa joined the SADC in August 1994. The SADC Protocol on trade was signed on 24 August 1996 and came into force on 25 January 2000. SADC FTA was launched in 2008 when 85% of tariff lines became duty-free. The remaining 15% tariff lines were deemed sensitive and were accorded a longer liberalisation time frame up to 2012, except for Mozambique, which would complete its tariff phase down with respect to imports from South Africa by 2015.

Total automotive exports to SADC, excluding BLNS country data, increased by only R102 million, following the significant 59,5% increase of the previous year. Total automotive exports, including BLNS country data, increased by R4,3 billion, mainly due to an increase in export sales to Namibia and Botswana.

EXPORTS TO SADC 2010 TO 2013				
Component	**2010**	**2011**	**2012**	**2013**
Total (R million)	13 880,7	14 331,4	17 521,8	
Total (average Euro million)	4 907,1	5 930,9	9 456,4	
Air conditioners	3,9	11,8	16,2	12,0
Alarm systems	12,3	10,4	14,5	29,5
Automotive tooling	44,9	68,3	157,1	262,8
Axles	12,9	19,5	59,5	85,4
Batteries	92,9	105,2	164,2	207,4
Body parts/ panels	21,9	21,7	72,7	140,0
Brake parts	24,5	28,3	56,1	131,2
Car radios	7,1	5,4	7,6	23,6
Catalytic converters	18,4	57,4	64,9	85,8
Clutches/ shaft couplings	14,1	17,1	24,0	66,9
Engines	86,2	79,6	178,2	229,7
Engine parts	157,3	152,8	277,2	277,9
Filters	88,9	101,4	144,5	137,0
Gaskets	29,4	26,7	48,1	70,2
Gauges/ instruments/ parts	83,8	112,5	159,4	181,9
Gear boxes	14,2	18,6	28,2	38,0
Glass	8,9	9,6	10,4	11,9
Ignition/ starting equipment	33,4	55,7	67,0	56,5
Jacks	6,1	11,1	12,6	19,5
Lighting equipment	19,4	20,6	26,0	35,6
Radiators/ parts	14,1	18,8	27,9	25,8

Road wheels/ parts	19,8	20,3	66,2	65,8
Seats	2,5	1,9	3,2	3,6
Seat belts	1,0	1,4	1,2	1,4
Stitched leather seats	3,3	1,4	2,2	4,2
Shock absorbers/ suspension parts	17,8	30,8	31,4	31,5
Silencers/ exhaust	5,2	3,9	7,5	5,3
Springs	1,8	4,5	4,4	8,9
Steering wheels/ columns	5,6	5,3	9,2	7,8
Transmission shafts	111,9	153,2	198,5	243,1
Tyres	432,5	450,5	596,2	555,0
Wiring harnesses	2,2	2,3	10,8	11,6
Other parts	1 204,4	1 438,6	2 093,6	2 386,8
Light vehicles	1 561,8	2 130,0	3 724,1	3 440,0
Medium/ Heavy vehicles	742,7	734,3	1 157,5	1 128,5

Source: AIEC, SARS

EXPORTS OF VEHICLES TO COUNTRIES

South Africa automotive industry exported left and right hand drive vehicles to 187 destinations in 2013. The 276 378 completely built-up vehicle (CBU) exports from South Africa comprised of 153 524 passenger cars, of 121 653 light commercial vehicles and 1 201 medium and heavy vehicles and buses. Passenger car exports as a percentage of passenger car production totalled 57,3% and LCV as a passenger of LCV production totalled 48,8% in 2013.

Average volume of passenger cars and light commercial vehicles per model produced by the OEMs has increased from 39 278 units in 2012 to 39 522 units in 2013. Five models achieved production volumes in excess of 40 000 units of which one model achieved a production volume in excess of 100 000 units. A key challenge that remains is to raise local content, particularly in the vehicles being exported in large volumes.

Passenger cars and light commercial vehicles exports 2010 to 2013

Component	2010	2011	2012	2013
Total (R billion)	37,9	42,3	48,7	57,7
Ranking of exporters number 1 to number 5	1-VW, 2-Toyota, 3-MBSA, 4-BMW, 5-Ford	1-Toyota, 2-VW, 3-BMW, 4-MBSA, 5-Ford	1-Toyota, 2-VW, 3-MBSA, 4-BMW, 5-Ford	1-Toyota, 2-BMW,3-VW, 4-MBSA, 5-Ford
Total (units)	238 604	271 654	276 916	275 177
USA	58 370	68 948	66 219	63 457
UK	39 865	43 688	41 111	40 763
Algeria	11 757	24 191	24 281	29 917
Japan	21 348	22 475	17 226	24 869
Australia	18 112	8 612	14 325	14 975
Nigeria	7 151	11 671	14 874	11 704
France	13 389	13 549	11 558	11 461
Angola	931	1 911	7 758	7 476

China	987	1 202	5 369	6 068
Russia	217	1 455	6 082	5 158
Other	66 477	73 952	68 113	59 329
EU	90 734	98 044	87 620	79 811
NAFTA	58 370	68 948	66 219	63 457
Africa	42 533	67 442	79 228	77 589

Source: NAAMSA/ Lightstone Auto

Medium, heavy commercial vehicles and buses exports 2010 to 2013

Component	2010	2011	2012	2013
Total (R billion)	0,9	1,0	1,3	2,8
Ranking of exporters number 1 to number 5	UD Trucks, MAN, Scania, Iveco, GMSA	UD Trucks, MAN, Scania, Powerstar, Iveco	UD Trucks, MAN, Powerstar, Iveco, VW	MAN, Scania, UD Trucks, Iveco, GM/Isuzu Trucks
Total (units)	861	803	1 076	1 201
Zimbabwe	272	316	246	263
Tanzania	120	59	109	214
Kenya	71	105	127	175
Zambia	69	91	303	173
Mozambique	173	60	145	168
Malawi	134	129	105	107
Angola	3	23	25	94
Other	19	20	16	7
Africa	859	803	1 063	1 198

Source: NAAMSA/ Lightstone Auto

IMPORTS OF VEHICLES TO SOUTH AFRICA

Light vehicles (passenger cars and light commercial vehicles) were imported from 29 countries in 2013. Total passenger car and commercial vehicle imports increased from 360 723 units in 2012 to 379 271 units in 2013.

India, with 95 964 units, followed by South Korea with 59 806 units and German with 53 566 units were the main countries of origin of imported light vehicles in volume in terms in 2013.

Light vehicle imports (passenger cars and light commercial vehicles) 2010 to 2013

Component	2010	2011	2012	2013
Total value (R billion) (FOB)	R33,5	R42,0	R47,4	R60,6
Country of origin				
German	24%	25%	24%	26%
India	7%	9%	11%	14%
Korea Republic South	14%	16%	15%	11%
Japan	20%	13%	12%	10%
UK	9%	8%	10%	9%
USA	6%	8%	9%	7%
Thailand	2%	4%	3%	5%
Spain	3%	2%	2%	5%
France	2%	2%	3%	2%
Czech Republic	-	1%	1%	1%
Other	13%	12%	10%	10%
Number of light vehicle components	260 301	312 153	360 723	379 271

Source: NAAMSA/ Lightstone Auto

EASTERN CAPE PROVINCE PARTICIPATION CONTRIBUTION IN THE AUTOMOTIVE SECTOR TODAY

The Eastern Cape is home to four of the seven OEMs operating in South Africa and up to 100 major component manufactures. Eastern Cape based international vehicle assemblers include Mercedes-Benz in East London, General Motors, Volkswagen and Ford which produces engines for the domestic and international market at its plant in Port Elizabeth.

The Eastern Cape manufactures half of the country's passenger vehicles and provides 51% of South Africa's vehicle exports.

The sector accounts for over 40 000 formal sector jobs in the Eastern Cape – 10 000 employed at OEMs and an additional 30 000 employed by some of 150 supplier companies.

The Eastern Cape Government remains committed to strengthen this automotive sector in the province and this is evident in the fact that it has undertaken the following initiatives:

1. Provided funding for the establishment of the automotive logistics park (ALP) in Nelson Mandela Bay in support of the automotive industry and its OEMs (first, second and third tier suppliers) for international contracts. The Government has committed R30-million over the next 5 years to develop this logistic park.

2. Provided funding for the establishment of the automotive supplier park (ASP) in the East London Industrial Development Zone (IDZ).

3. The Establishment of a multi-OEM model in the East London IDZ in support of the automotive industry.

4. Support for the Eastern Cape Automotive Cluster.

EASTERN CAPE PROVINCE, AUTOMOTIVE IDZ

The Coega Development IDZ

The 11,000ha Coega, near Port Elizabeth, is South Africa's largest IDZ. The multibillion-rand industrial park is adjacent to Ngqura, the new dedicated deep-water port with purpose-built container, bulk and break-bulk terminals.

In the past financial year alone, eight new investors signed up to take space in the zone. Investment total of more than R40-billion and more than 15 000 jobs have been created. A strategic Development Framework Plan for the Coega IDZ has been developed focusing on infrastructure development and facilities for the Core Development Area, which covers 6 500 hectares.

The Nelson Mandela Metro consists of a strong and diverse automotive cluster that includes original equipment manufacturers (OEMs) such as General Motors and Volkswagen. The more than 150 suppliers in the area include Goodyear, Bridgestone, Corning, Visteon, Hella, Faurecia, LUK and Johnson Controls. The OEMs and most of the suppliers serve both the local and export markets.

The East London IDZ

East London was South Africa's first operational IDZ, with its bulk infrastructure finalized; the 430ha greenfield site is now a world class industrial zone with 11 investors on site. Seven of these investors moved in during year 2006 and 2007. Together, they invested R395-million into their operations in the IDZ, bringing the value of investment since inception in 2002 to R755-million, creating 578 direct jobs, bringing the number of direct manufacturing jobs created in the zone so far to 1 118. New investors include Johnson Controls, Feltex and TI Automotive.

The Buffalo City Municipality consists of one major original equipment manufacturer, DaimlerChrysler South Africa (DCSA). An exciting development at the IDZ was the commissioning and construction of an automotive supplier park (ASAP). Many of the investors are located in automotive supplier park.

SPECIAL ECONOMIC ZONE

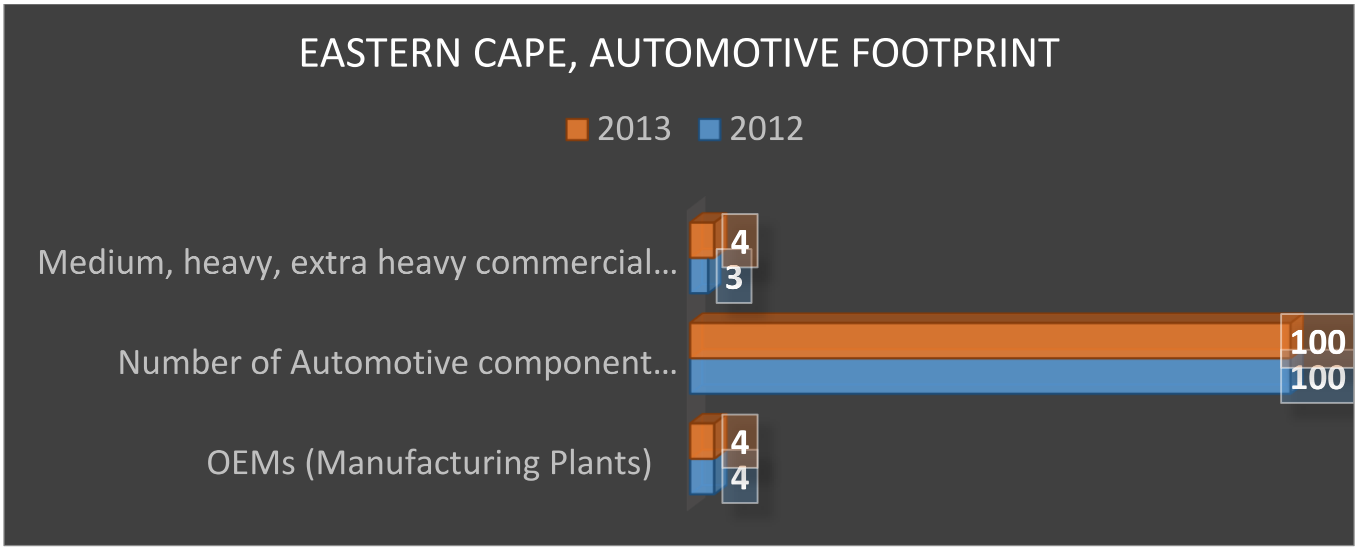
The designation of special economic zones (SEZs) will support a broader-based industrialisation growth path in South Africa, while helping the country achieve the objectives of the National Development Plan (NDP). . Special economic zones are defined as geographically designated areas of the country that are set aside for specifically targeted economic activities, and supported through special arrangements and systems that are often different from those that apply to the rest of the country. To date, South Africa has five designated industrial development zones (IDZs), namely Coega, East London, Richards Bay, OR Tambo and the recently designated Saldanha Bay. Three of the five IDZs, in Coega, East London and Richards Bay, are fully operational. Whilst these have achieved some major successes - for example, 42 operational investments worth R4-billion - some weaknesses on the implementation were identified. These included weak governance, lack of IDZ incentives, and poor stakeholder co-ordination. The criteria for IDZ designation were also biased towards the development of coastal regions and ignored economic potential existing in inland regions. SEZ Bill sought to boost private investment, both domestic and foreign, in labor-intensive areas in order to increase job creation, competitiveness, skills and technology transfer, and exports of beneficiated products. To cater for various socio-economic and regional planning considerations, the Bill provides for the designation of the following types of SEZ:

- Free ports: duty-free areas adjacent to a port of entry where imported goods may be unloaded for value-adding activities, repackaging, storage and subsequent re-export, subject to special customs procedures
- Free trade zones: duty-free areas offering storage and distribution facilities for value-adding activities within a special economic zone
- Industrial development zones: purpose-built industrial estates that leverage domestic and foreign fixed direct investment in value-added and export-oriented manufacturing industries and services
- Sector development zones: zones focused on the development of specific sectors or industries through the facilitation of general or specific industrial infrastructure,

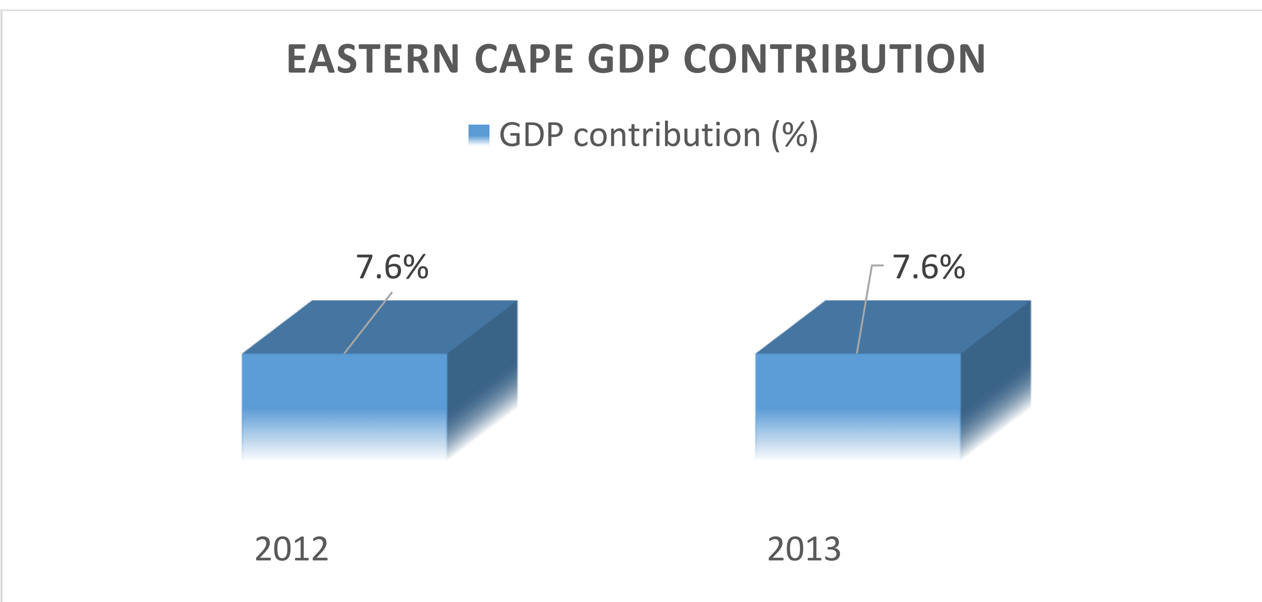
incentives, technical and business services primarily for the export market

EASTERN CAPE AUTOMOTIVE DEVELOPMENT

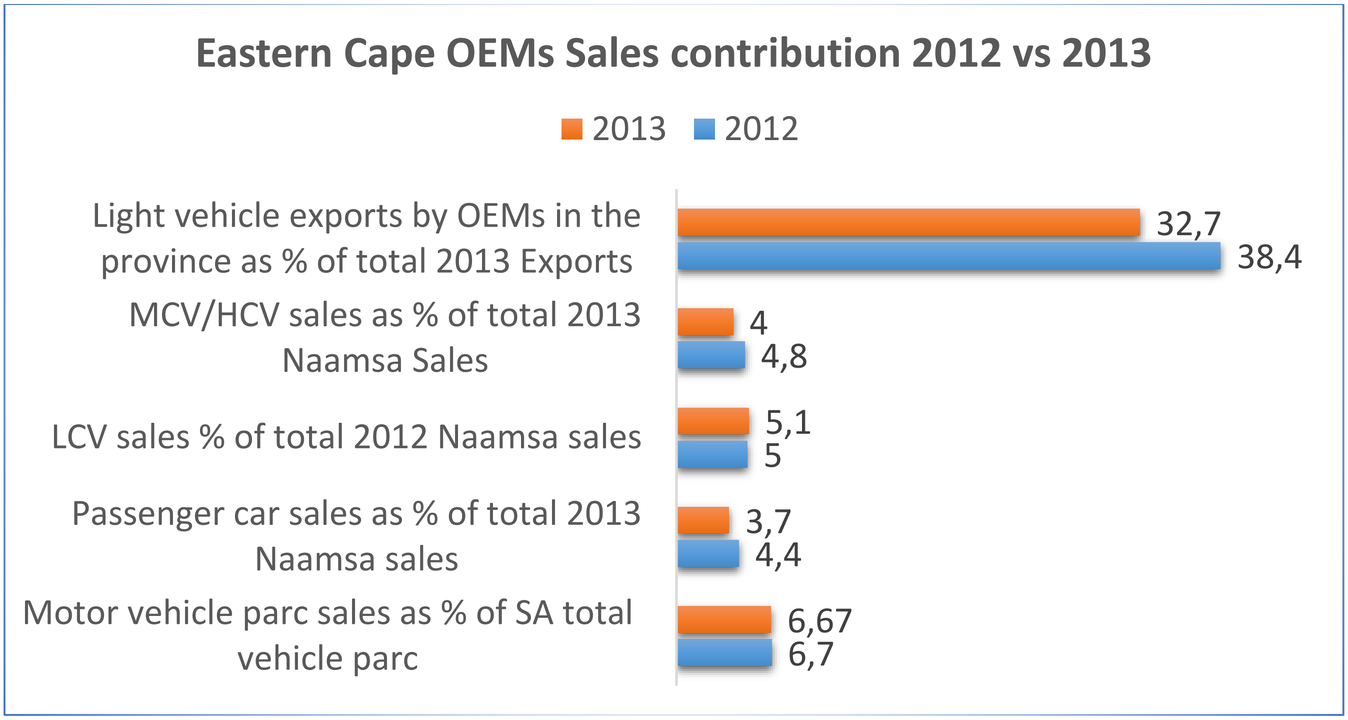
Eastern Cape Province, number OEMs vs. Automotive Components between 2012 and 2013



Eastern Cape Province, GDP contribution 2012 to 2013



Eastern Cape Province, OEMs sales contribution 2012 to 2013



LOGISTICS IN SOUTH AFRICA

Overview of logistics in South Africa

The performance and growth of the Southern African logistics industry are both inputs to and outflows from the performance and growth of the South African economy-especially in the primary and secondary sectors. The exchange rate, inflation rate and interest rate directly impact the cost performance of the industry. Other macro-economic issues such as the structure of the South African economy, balance of payments, budget deficits and the human resource problem affect the economy as a whole, which influences the demand for logistics service. The logistics costs as percentage of GDP have remained at a stable level of 12.5% for 2011-2013 due to growth in the tertiary sector and are forecasted to show a slight increase in 2014, depending on the magnitude of fuel inflation.

Supply Chains in South Africa

South African supply chains have moved beyond survival mode, where costs, inventories and lead times have been minimized within individual supply chain functions. End-to-end integration of supply chain functions is the next major shift required in South Africa to make business more customer-centric and competitive.

LOGISTICS SOLUTIONS FOR SOUTH AFRICA

While South African companies need to change the way they manage their supply chains, the public sector needs to create an enabling environment for effective logistics. Appropriate logistics infrastructure and a greater drive towards intermodals are key enablers to reduce costs and improve performance in South Africa's logistics.

Investment in rail, road, port, pipeline and airport infrastructure continues to be a high priority for the country with hundreds of billions of rand invested annually in various projects.

Transnet's aggressive strategy to win back rail-friendly cargo over the past few years is starting to show results in the annual freight-flow statistics. By providing additional capacity and improving reliability on the bulk mining and agriculture lines successfully implementing intermodals, significant loads could be shifted from road back to rail.

The country's national road network has remained in a good condition between 2009 and 2013 under the jurisdiction of SANRAL. Unfortunately, many provincial road networks have deteriorated considerably-part due to the accelerated wear caused by trucks carrying rail-friendly freight

Transport Efficiency

Fuel costs are by far the most significant and volatile cost driver in transport costs. Despite the expectations by some that the crude oil price may actually decrease in the short term, South Africa's diesel price is also very dependent on the exchange rate and additional levies added to the base price of fuel. Calculated scenarios show how sensitive overall logistics costs are to changes in the exchange rate and crude oil price. Externally, costs, especially emissions and accident costs, will also be improved by reduced fuel consumption, reduced congestion, and better road safety.

Human factor

Undoubtedly a lack of skilled personnel at all levels hampers the performance of supply chains. Only about a fifth of students currently study supply chain-related degrees due to a passion for the industry, with other motivations being more discipline-generic. This indicates that perhaps more needs to be done to show case supply chain management in the working environment to students to ensure a stream of suitable candidates are drawn.

STATUS OF LOGISTICS IN SOUTH AFRICA

Over the past 20 years, growth of the South African economy has relied mostly on consumption expenditure. This was the result of government policies supporting demand rather than production in the domestic economy. Demand found support from central government cutting taxes for lower income groups, expansion of welfare payments to large and growing sectors of the population, easy credit being available at some stages, cutting interest rates to relatively low levels and the granting of salary and wage adjustments in excess of the inflation of productivity rates. At the same time the,business sector had to cope with service tariffs at rates in excess of the inflation rates, volatility in the financial markets-especially the foreign exchange market –strikes disrupting production, salary and wage settlements in excess of the inflation rate and productivity improvements and the abrupt in tariff protection following the 1994 election.

The huge demand-supply imbalance in South Africa is serviced by imports of mainly manufactured and customer goods. The value of these imports is far greater than the value of the millions of tons of bulk commodity exports the country sells to finance its demand.

The Rand

The rand remained volatile up until the general election held on 7 May 2014. It is affected by international and domestic political and financial developments, the inflow and outflow of foreign capital as well as the labour unrest in the country. The outcome of the election can also influence the value of the rand if the party loses more than anticipated support and this affects government policies.

Inflation

Current forecasts project that the average inflation rate will be less than 6% in 2015. The upward pressure on prices emanates mainly from the weakness of the rand, tariff increases higher than the inflation rate as well as salary and wage increases higher than the inflation rate or productivity improvements. Forecasts of the production price index, indicate levels of approximately 7% in 2014 and just more than 5,5% in 2015.

THE SUPPLY CHAIN CHALLENGES IN THE SOUTH AFRICAN AUTOMOTIVE INDUSTRY

The automotive industry is critical to the South African economy yet its supply chain faces enormous challenges. OEMs are scrambling to slash production and reduce manufacturing costs. They are required to enhance quality, improving styling, increase organizational efficiencies and drive innovative features into their products in an effort to attract customers and expand markets.

OEMs are putting pressure on their tiered suppliers to reduce costs, increase output and quality. These challenges imply that automotive manufactures need to be flexible and responsive to customer demand in order to succeed.

Under these conditions, suppliers are unable to sense customer orders and manufacture solely on schedules with 12-16 weeks of lead time. Constrained, inflexible production and assembly capacities and long delivery lead times also contribute to high dealer inventory levels in the form of safety stock.

Another supply chain issue that affects the automotive industry is lack of collaboration in product development. Communication channels between OEMs and other supply chain partners remain manual in many cases.

Small enterprises are unable to afford investment in electronic data interchange (EDI) technology that is used between OEMs and their larger suppliers. Logistics operations in the automotive supply chain are complex and represent a major expense and opportunity for improvement.

The lack of communication and co-ordination of inbound and outbound logistics operations often prevents automakers from optimizing their supply chains, reducing inventories and accurately forecasting and responding to customer demands.

Automotive Investment Scheme (AIS)

The AIS is an incentive that aims to grow and develop the automotive sector and has been administered by the Dti since July 2009.

According to the Dti as at March 2014 a total of 195 projects were approved with the total incentive value of R6,2 billion of which R8,4 billion were Original Equipment Manufacturers (OEMs) and 177 Component Manufactures (CMs) valued at 1,3 billion. A total of 46 373 jobs were sustained and 9 850 created as a result of investment by the approved companies and the incentive disbursed.

The amended AIS guidelines provide clarity on the non-taxability of the grant as well as on the eligibility of tooling company's benefits as component manufactures under the scheme.

The P-AIS, a sub-component of the AIS, has to date approved two applications both of which were Original Equipment Manufacturers (OEMs). The total approved is R26,1 million and a total 191 jobs have been created in this sector.

By 2014, the end of term Industrial Action Plan has become the centerpiece of the Dti work.

Automotive Production Development Programme (APDP) has already supported significant new investment in the sector. Projected capital expenditure for 2011 is anticipated to reach a record of R7,9 billion. Adjustment to the APDP and the designation of buses in terms of the PPPFA have resulted in Mercedes-Benz, Volvo and MAN winning tenders to provide locally assembled buses for Metro's commuter bus expansion and for the production of the uniquely South African "Sesifikile" taxi.

In the coming year, the APDP will undergo an early review which will allow to take stock of efforts and determine what more could be achieved in growing the industry in South Africa. In addition, the Automotive Supply Chain Competitiveness Initiative (ASCCI) launched in 2013 to enhance localization, production and supplier capabilities is growing to be successful.

MANUFACTURING COMPETITIVENESS ENHANCEMENT PROGRAMME (MCEP)

MCEP is a R5,8 billion initiative supporting South Africa's manufacturing industries to improve competitiveness and sustain employment. It is backed by Department of Trade and Industry (Dti) and Industrial Development Corporation (IDC). Cash grants and concessionary industrial financing facilities at a fixed rate of 4% are available to companies operating in certain key manufacturing industries. Funding is available to enhance competitiveness and improve resource efficiency.

The Manufacturing Competitiveness Enhancement Programme (MCEP) is one of the key initiatives of the Industrial Policy Action Plan (IPAP) 2012/13 – 2014/15. The scheme offers multiple incentives that are designed not only to promote competitiveness in the manufacturing arena, but also to ensure job retention.

Objectives

The objectives of the MCEP are to promote enterprise competitiveness and job retention, and to support sustainable economic growth, achieved through the following specific grants and loans:

Production incentive

- Capital investment
- Green technology and resource efficiency improvement
- Enterprise-level competitiveness improvement
- Feasibility studies and
- Cluster competitiveness improvement.

Industrial financing loan facilities

- Pre- and post-dispatch working capital facility; and,
- Industrial Policy Niche Projects Fund.

The following projects will qualify for assistance under the MCEP:

Capital Investment

- Machinery & Equipment
- Building improvements / additions to existing buildings
- Forklifts
- Moulds, tooling, jigs and dies.

Green Technology & Resource Efficiency Improvement

- Solar (PV) Panels, pumps and motors
- Air compressors, pumping and steam systems
- Lighting efficiency

- Waste water treatment
- Cleaner production audits e.g. ISO50001 & ISO 50010

Enterprise-Level Competitiveness Improvement

- Process Improvement (e.g. world-class manufacturing practices)
- Product design improvements
- Product development improvements
- Conformity assessment of products
- Product efficiency (including fees for the design of production information systems)
- Consumer acceptability studies
- Packaging design
- Quality Management improvement
- Accreditation
- Improving Logistic efficiencies
- IT systems (acquisition and deployment of systems, e.g. ERP systems)
- Skills Development (outsourced training – must be accredited by SAQA)
- Procurement process improvement

BLACK BUSINESS EMPOWERMENT SUPPLIER DEVELOPMENT PROGRAMME (BBESDP)

The BBESDP is a cost-sharing grant administered by the Department of Trade & Industry which offers support to black-owned enterprises in South Africa to assist them in improving their competitiveness and sustainability.

Benefits

The BBESDP provides grants to a maximum of R 1,000,000 per eligible firm over the lifetime of the programme (2010 – 2017).
80% of Business Development and Training intervention costs will be paid by the Dti.
50% of Qualifying Tools, Machinery and Equipment purchases will be paid by the Dti.

Qualifying Interventions

- Projects aimed at upgrading the capability of the management team of the enterprise through generic management Training programmes.
- Projects aimed at improving the effectiveness of the management systems of an enterprise, e.g. Company Diagnostics; Business Strategy; Marketing Strategy; Organisation and Management Improvements; Management Information Systems; Production planning and Control Systems; Quality Improvement Systems, e.g. ISO 9001 and ISO 14000; Financial Management Systems; Productivity Improvement; Patent & IP
- Rights; BBEEE Scorecards; Product
- Improvements; Star Grading (Tourism) Expansion Modernisation Strategy and Planning
- Purchase of Tools, Machinery and Equipment

ACKNOWLEDGEMENTS

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