

TRANSMISSIONS FOR MOTOR VEHICLES EXPORTS FROM KWAZULU NATAL

1. Overview

The automotive industry encompasses all companies that manufacture, sell, repair and recycle motor vehicles and motor vehicle parts and accessories

Various sectors contribute to the final product. The manufacturing process involves:

- Foundry Operations, which whether they are integrated with motor vehicle assembly facilities or independent shops, cast metal products that play a key role in the production of motor vehicles and motor vehicle equipment
- Metal Shaping and Machining where vehicle parts, including bumper bars, hubcaps and body parts are manufactured in metal galvanising and electroplating shops
- Metal Coating to inhibit oxidation, prevent corrosion and extend the life of the product
- Motor Vehicle Assembly; and
- Motor Vehicle Painting and Finishing

South Africa's automotive industry is the country's largest manufacturing sector, contributing about 7% to South Africa's GDP. NAAMSA reported that 2012 sales improved by 9.2% to 623 914 compared with 571 415 in 2011. The market generated approximately R182bn for the year and new vehicle export sales were estimated to have added a further R52bn to total industry revenue for 2012. Export sales reached 277 844, which was the second-highest annual export figure on record. Total industry exports are projected to reach about 361 000 units during 2013.

2. Vehicle parts exports globally

South Africa's automotive exports have grown substantially on the back of the MIDP. The country's track record as a reliable manufacturer and supplier of high quality vehicles and automotive components to world markets is well established with vehicle exports currently destined for 148 international markets.

South Africa exports automotive parts to more than 70 countries. The average local content of the components produced in South Africa is estimated at 60%, with those being exported averaging 78%. However, the net value of local components used in vehicles is significantly lower, less than 40% of the total component value. While one of the objectives of the APDP is to encourage localisation, the benefits offered to local component production under the APDP is lower than under the MIDP. As a result some global vehicle manufacturers have not renewed their contracts for the supply of catalytic converters, which have been South Africa's leading component export product for the past few years. Approximately 20 million units per annum are manufactured and costs, exfactory, are equivalent or lower than from most competing regions as shown in the table below.

Comparative Costs of Catalytic Converter Production by Geographic Area

Region	South Africa	Western Europe	Eastern Europe	Asia	Latin America
Normalised Cost	100%	115%	102%	97%	105%

[Source: www.saimm.co.za]

In August 2012 BASF South Africa (SA) stated that it would be downsizing operations at its mobile emissions catalysts plant in Port Elizabeth (PE) due to decreased demand for the catalysts from the company's European customers. Global demand from the automobile industry decreased by 7.2%.

3. Government support

Government support plays an important role in the success of the country's vehicle manufacturing sector and has assisted the South African automotive industry to become globally competitive. As a result of the MIDP, vehicle and automotive component exports increased from less than \$1bn of vehicles and components a year in 1994 to \$8bn by 2011. However, many respondents believe that the incentive structure of the new APDP which was implemented on 1st January 2013 does not do enough to encourage vehicle manufacturers to increase the percentage of locally produced components they use. NAACAM's director Roger Pitot agreed, calling the "a duty rebate system" where OEMs cash in their benefits by importing vehicles and components at lower duty rates.

This provided little or no protection to component makers in South Africa as there was "effectively no import duty paid on components. The more OEMs export and add value, the more they can also import." According to Pitot, from 2009 to 2011, OEMs imported R108bn worth of components and subcomponents, while duties paid on these were R446m, or 0.41%, compared with the R21bn, or 20% which would have applied without the MIDP duty rebate.

The economy would also be without a major non-commodity export industry. Nevertheless, there have been questions over the cost of the industry and in 2011 the Treasury noted that the motor industry had enjoyed more than R51bn in state support in the preceding three years. According to Strachan, total support to the industry in the past two years amounted to about R14.5bn. He added that the costs of supporting the automotive industry are far outweighed by the economic benefits and multipliers to the economy, including employment retention and creation in the industry and related up and downstream sectors.

The incentive for localisation has been increased from 30% to 35% on cash back in investment over a three year period. Incentives for consumers who buy the electric vehicles are still being considered.

4. Barrier to Entry

Barriers to entry include:

- High capital expenditure to establish a manufacturing plant;
- Recruiting skilled labour, which is in short supply; and
- High input costs pressures, which include wages, raw materials, electricity and the cost of training employees.
- For entrants into the components sector, counterfeit parts and cheaper imports pose a challenge while in the Motor Body Repair market new entrants will find that the sector is overtraded as there are no legislated minimum standards for motor body repairers.

5. Product

Description of Product: Transmission for motor vehicle parts

Description as per product code: 8708402000 - Gear boxes and parts thereof, for the industrial assembly of: pedestrian-controlled tractors, motor cars and vehicles principally designed for the transport of persons, vehicles for the transport of goods with compression-ignition internal combustion piston engine diesel or semi-diesel engine of a cylinder capacity $\leq 2500 \text{ cm}^3$ or with spark-ignition internal piston engine of a cylinder capacity $\leq 2800 \text{ cm}^3$, special purpose motor vehicles of heading 8705, n.e.s

Product & code	Trading partners	Barriers to entry					Trade Agreements	Key Industry Role Players
		Tariffs			Non-Tariffs			
H 870840 TRANSMISSIONS FOR MOTOR VEHICLES		Tariff Regime	Applied tariff	Total ad valorem equivalent tariff	Non Tariffs Measures (NTM) Code	Measures applied by importing country	Preferential tariff for SA	
	Germany	MFN duties (Applied)	3%	3%	B700	Product quality or performance requirement	Certificate of Origin(EUR 1)	Federal Mogul
		Preferential tariff for SA	0%	0%	B830	Certification requirement	Rules of Origin(Protocol 1)	DUYs Engineering
	Canada	MFN duties (Applied)	0%	0%	None recorded	None recorded	Certificate of Origin	
		Preferential tariff for SA	0%	0%			Rules of Origin	
	United Kingdom	MFN duties (Applied)	3%	3%	B700	Product quality or performance requirement	Certificate of Origin(EUR 1)	
		Preferential tariff for SA	0%	0%	B830	Certification requirement	Rules of Origin(Protocol 1)	
	Mozam bique	MFN duties (Applied)	7.5%	7.5%	None recorded	None recorded	Certificate of Origin	
		Preferential tariff for SA	0%	0%			Rules of Origin	
	Zambia	MFN duties (Applied)	15%	15%	None recorded	None recorded	Certificate of Origin	
Preferential tariff for SA		0%	0%			Rules of Origin		

6. Industry Associations

National Association of Automobile Manufacturers of South Africa (NAAMSA)

Tel No.: +27 12 323 2980/1

Fax No.: +27 12 326 3232

Website: www.naamsa.co.za

National Association of Automotive Component and Allied Manufacturers (NAACAM)

NAACAM represents component manufacturers in the formulation of government policies affecting the automotive industry, trade agreements, monetary issues, transport, standards, BBEEE and other legislation. 40% of NAACAM's members are Tier 1 suppliers.

Tel No.: +27 11 392 4060 / 392-5748

Fax No.: +27 11 392 4698

Email: roger@naacam.co.za

Automotive Industry Export Council (AIEC)

The Automotive Industry Export Council (AIEC) which was established at the end of 1999 provides a cost effective administered central body to assist companies in the automotive sector that are currently exporting, may be interested in exporting in future, or may become capable of exporting in future

Tel No.: +27 12 323 2980

Fax No.: +27 12 326 3232

Website: www.aiec.co.za