

Smart thinking will keep SA's motor industry on course

By [Thomas Schaefer](#)

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Even the most distracted observer of the South African economy will have noticed that [new vehicle sales are depressed](#), falling 9.2% in the first quarter of this year, compared with the same quarter in 2015. Sales of commercial vehicles fell more than 13% in that period.



Thomas Schaefer

At Volkswagen (VW), we're as concerned as anyone else about this. Despite our Uitenhage-built cars proving to be more resilient to the downturn than most, it is a challenge the domestic industry faces in the short- to medium-term, in addition to the introduction of new broad-based black economic empowerment (BEE) codes, wage negotiations and currency volatility.

Under such conditions, it is easy to dismiss the potential of the South African automotive industry, but the dynamism of the regulatory space offers much promise. The announcement by Trade and Industry Minister Rob Davies earlier this month that he has [established a technical advisory team](#) to establish a post-2020 automotive master plan, is an example of this.

All the right people are on board - ourselves and the other manufacturers through the National Association of Automobile Manufacturers of SA (Naamsa), our components suppliers through Naacam and, of course, our colleagues through the National Union of Metalworkers of SA. It is terrifically encouraging because amid all the acronyms and discussions about technical targets, it is crucial to remember that more than 113,000 people are employed by this industry and its suppliers.

Nothing is ever perfect, but I'd like to be clear on this: the interventions the government has made in the industry have created an extraordinary opportunity and gave Volkswagen the confidence to announce last year a further R4.5bn investment in SA. It is clear the industry is at a pivotal point; a crossroads where taking the wrong course or getting distracted by the wrong detail, could be very damaging indeed. The Automotive Production and Development Plan and the preceding Motor Industry Development Plan have served the industry superbly, getting us to a point where not only is this country growing its automotive exports, but also exporting cars of a quality factories in the developed world are struggling to match.

It is not at all surprising, in this context, that the industry has become a net contributor to SA Inc, or balance-of-payments positive, if you like. We're proud our work with the department and other arms of the government have got us to the point where this industry exported vehicles to the value of more than R150bn and contributed 7.5% to total gross domestic product in 2015. It is also good we're starting the discussion early because I feel that, while there are many challenges on the road ahead, none of them is insurmountable.

Firstly, it is critical we get through the next round of wage negotiations without disruptions to production. One of the upshots of our domestic market's struggles is that the focus on our export business is more exacting than ever. The domestic motor industry watched in horror as the Australian motor industry collapsed as a result of a decline in competitiveness due to their comparably high labour costs and the swift liberalisation of their vehicle-import market.

The two countries are not immediately comparable, but there are certainly some fundamental truths and tough lessons for us from the Australian experience, the first of which is that we live or die by our ability to compete on price and productivity.

We are vulnerable, and to protect ourselves, we have no option, but to be globally competitive, something the Australians were unable to achieve. When a South African-built Volkswagen Polo goes on sale in London, its landed price needs to compete with a Polo built in Spain, for example. As an exporter, our competitors are not in Durban or Pretoria; but in China, Eastern Europe and other low-cost manufacturing hubs with vast economies of scale. We simply cannot lose our edge on labour costs.

If we become expensive, the contracts will go elsewhere. If we have production interruptions that damage our reputation as a reliable exporter, or cause us to default on contracts, the volume will be allocated to other factories.

Other challenges, such as our geographical location, put pressure on our global competitiveness. While South African ports are world-class, they are simply too expensive - in some cases, 700% higher than other major export hubs. In addition, notions that VW SA has benefited significantly from the rand's recent weakness are misguided because we are still a major importer. This needs to be remembered during wage negotiations because as a major importer and exporter, our business is finely balanced.

Another challenge we face as an industry is the transformation imperative, and specifically, the new broad-based BEE codes. I want to tackle a narrative around these codes that I do not enjoy. Given the nature of our economy and society, any large-scale growth, any expansion in our production network and any growth in the customer base will, by its very nature, be transformative. It is crucial to our future as a manufacturer and as a committed ethical corporate citizen that we embrace with goodwill, not only the codes, but also the spirit and the aims of empowerment law.

We won't buy our way around the 'problem' and we won't take part in any standoff over the matter. We were the first to reach level four in the old BEE codes and that push for sustainable transformation will continue, but it might not happen as fast as the government would like. To be honest, we're going to struggle initially to comply with the enterprise and supplier development element in the new codes. That's because of the scarcity of black-owned suppliers in the auto industry and the very high domestic content of our cars.

Recently, we hosted a [black-owned suppliers' day](#) in Uitenhage after reaching out across various sectors to find black-owned companies that might join our supply chain. It was a great success; of the 430 companies that applied to be part of the event, 45 black-owned potential suppliers that meet Volkswagen's requirements were able to present themselves to

industry executives. It was also a wake-up call for all. It is clear we have a long journey to travel.

The South African motor industry is in many ways nascent. It produces less than 0.7% of all vehicles, but given our position in Africa and the growth potential at home and on the continent, I believe the return on today's prudent investments will benefit SA handsomely in years to come.

Source: Business Day

ABOUT THE AUTHOR

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