

BMW warns of risk to SA as vehicle exports dive

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BMW South Africa will have to pay up to 25% extra to import cars into South Africa because of the continuing motor industry strikes, starkly underlining the havoc caused to South Africa's lucrative motor assembly sector by a series of damaging strikes.



BMW's loss of most of its export business since mid-August means it will be able to claim almost no import duty rebates in exchange for export earnings.

The company says the slowdown is hurting its profile as a reliable supplier. The strikes, first by assembly workers and then component makers, have also affected South Africa's image among foreign investors.

"Customers in Japan and the US don't know or care that this is a South African labour issue," says BMW's managing director Bodo Donauer. "They want their BMWs."

BMW SA, he says, was the first to embrace the Automotive Production and Development Programme (APDP) and its predecessor, the Motor Industry Development Programme and to become a fully fledged exporter.

What did BMW get for its investments?

"There is a clear call in this country to create employment. South Africa needs decent jobs. The terms of the APDP convinced us to invest further. So we have hired hundreds of new workers and our suppliers another thousand or more," Donauer said.

"And what have we got out of it? A series of strikes, the loss of future jobs and serious reputational damage. The damage is not just to us but to the South African motor industry as a whole. We were viewed as an industry that can be trusted to deliver," he said.

The strike by component manufacturer employees shows no signs of abating. Vehicle firms Nissan, VW, Tata and General Motors on Wednesday (2 October) said their plants were still shut or idle.

The National Union of Metalworkers of South Africa (Numsa) said it was still in talks to end the wage impasse. The union says its members want 10%. Bargaining representatives for vehicle manufacturers are offering 8%.

Vehicle sales

The National Association of Automobile Manufacturers of South Africa said on Wednesday (2 October) that export sales fell sharply by more than 75.1%, while overall domestic sales fell by 1.5% in volume terms last month.

All seven of South Africa's major vehicle manufacturers have been badly hit by strikes, first at assembly plants and now at their components suppliers.

BMW SA, though, arguably is the worst affected. It suffered a strike of its own before the others began. More than three-quarters of its production is destined for export markets, notably the US and Japan.

And because it is the only South African assembly plant permanently in operation 24 hours a day, it has no spare capacity to make up lost production and earnings once the strike ends.

Loss of earnings

By Tuesday (1 October), the company's Rosslyn assembly plant, near Pretoria, had lost production of 11,800 3-Series sedans. Instead of the 345 cars it should be building every day, it is currently down to 120, having temporarily fallen to 85. And not all of those being built are complete.

More than 700 have no bumpers because of a strike at the supplier's plant. Donauer says despite the skeleton production, Rosslyn continues to pursue its 80:20 export:domestic ratio.

So far, 9,440 export orders are not met and 2,360 South African customers will have to wait for their cars.

Donauer says two German BMW plants - in Munich and Regensburg - have made up 2,177 of the lost export orders, but have no spare capacity for more. "The result is damage not only to the name of BMW SA but to that of its parent company as well," said Donauer.

He confirms the loss of export earnings means the company is no longer earning import duty rebates. Under the 2013-20 APDP, the more a firm exports, the lower its duties.

Import duties

In principle, duties on imported vehicles and components stand at 25%, but BMW SA is one of a number of companies paying no duty.

However, because - like other companies - its exports in the July-September quarter will be so low, it will have to pay duties in later quarters. Donauer says customers will not stomach the extra costs, so BMW SA will have to absorb them.

The company is not alone in losing money. Spokesman Guy Kilfoil says assembly-line workers have lost R17m in their strike alone. The average BMW SA worker lost about R8,000. Wage losses from the supplier strike are still being assessed.

But the biggest damage of all, says Donauer, is to the company's reputation as a reliable supplier of the 3-Series. Though the German parent is "fully committed" to its South African subsidiary, he says the current situation will inevitably make it reconsider the extent of future investments.

Production of the current 3-Series started last year after a R2.2bn investment in Rosslyn. Annual production was raised to 90,000 cars and the move to a three-shift system led to the creation of 600 new jobs.

Discussions will soon begin on the next generation of 3-Series. "Now we are seen as an unreliable supplier, it will affect the level of investment and future volumes they allocate to us in South Africa," Donauer says.

Already, he says, BMW SA has lost the opportunity to build an additional new model. After four years of talks on the as yet unidentified car, he was confident South Africa would become its only global source, with the possible addition of hundreds of new jobs. But now he says it is lost forever.

What is particularly damning, he says, is the way unions have embarked on strikes without regard for the consequences.

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