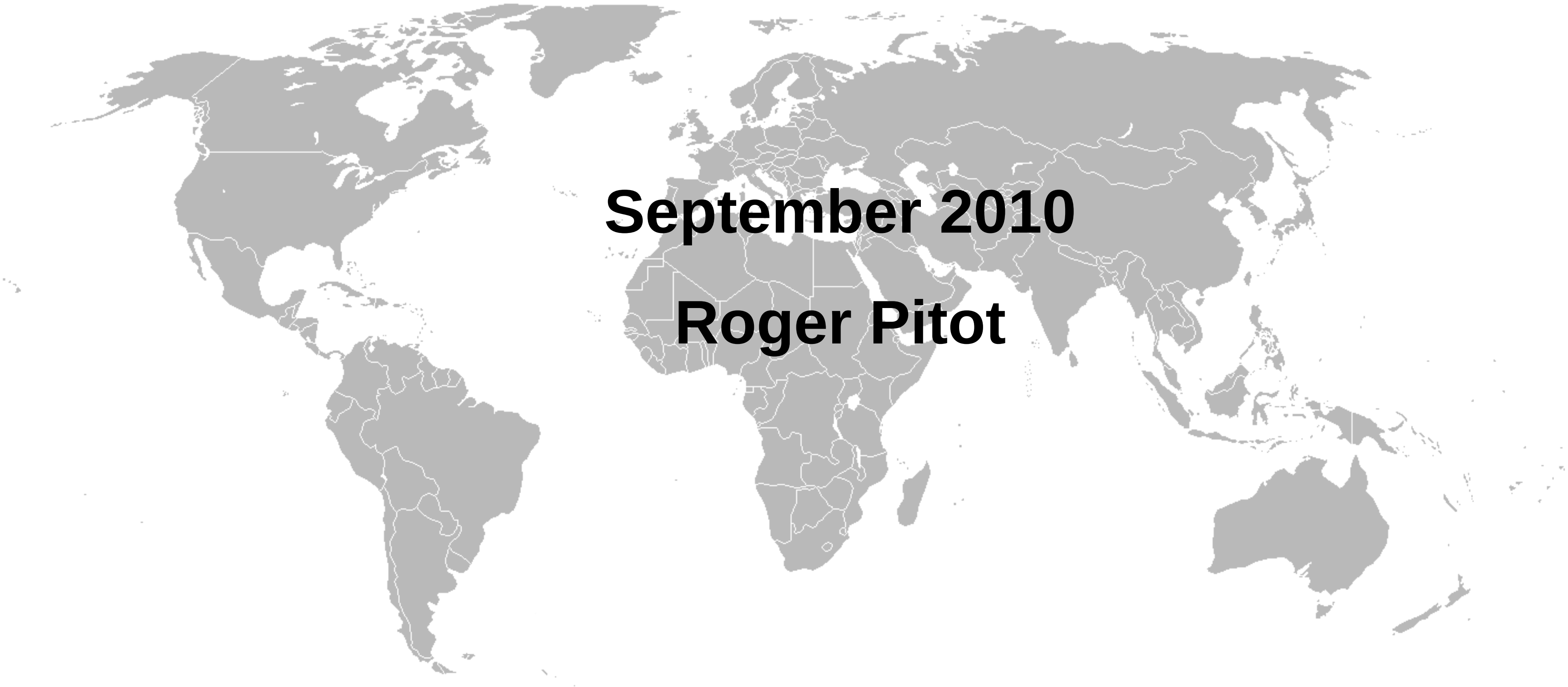
The South African Automotive Industry

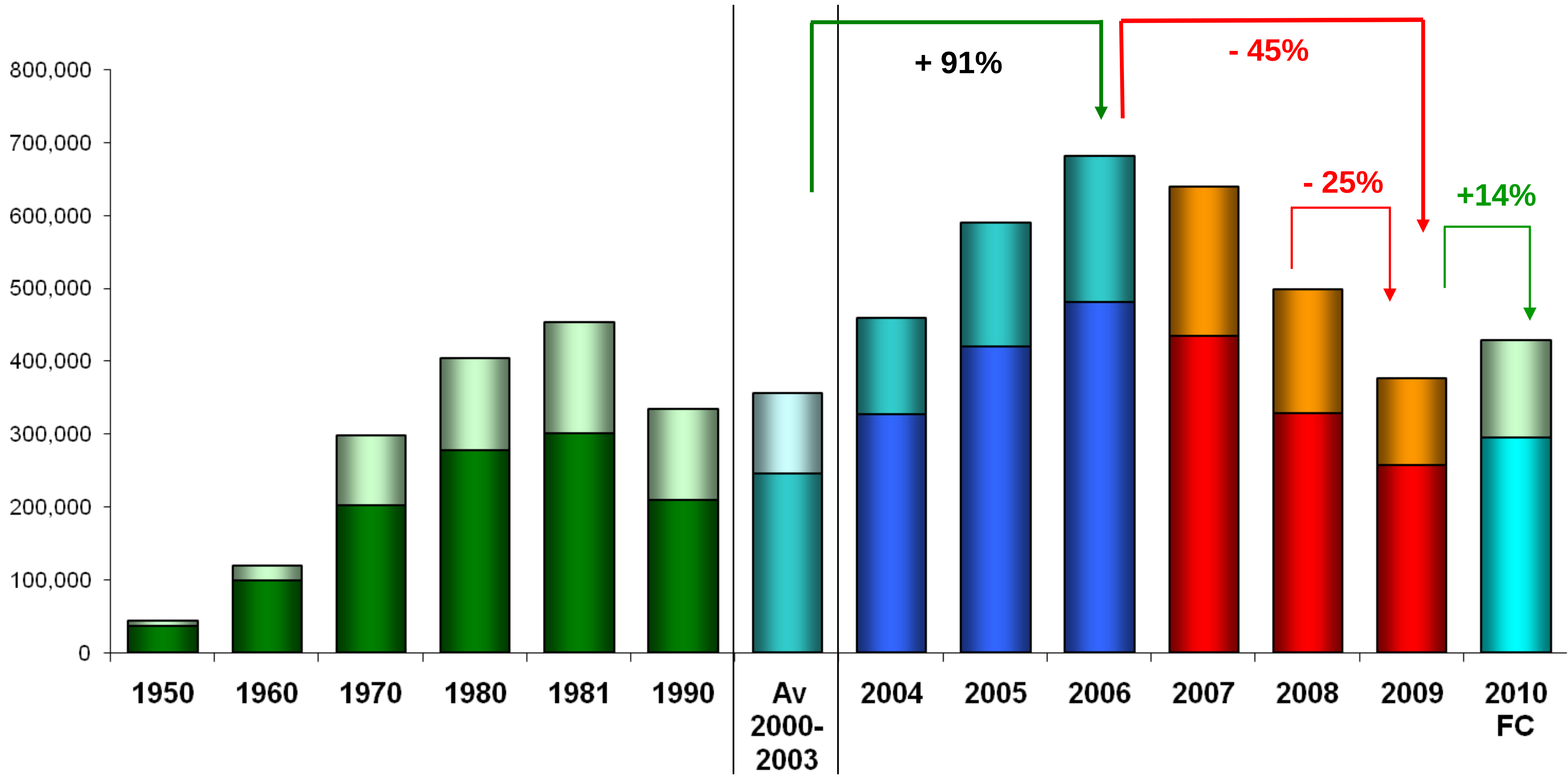


September 2010

Roger Pitot

Evolution of the SA Passenger & LCV Market

1950 to 2009

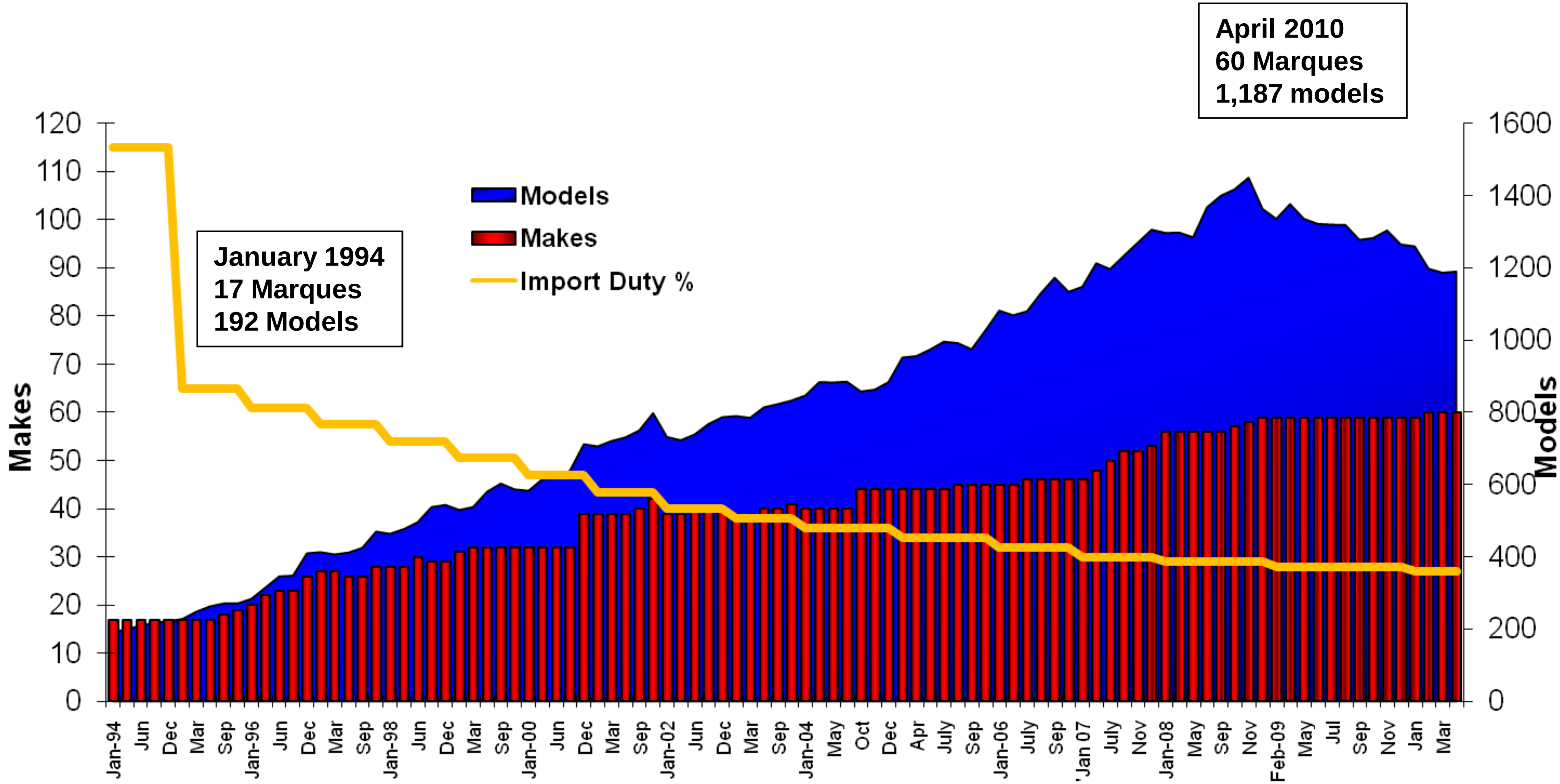


	1950	1960	1970	1980	1981	1990	2000-2003	2004	2005	2006	2007	2008	2009	2010 FC
Passenger	36,758	98,779	201,854	277,058	301,528	209,608	246,386	327,651	419,868	481,558	434,653	329,262	258,129	295,000
LCV	7,676	20,385	95,719	127,708	152,013	125,171	110,128	132,405	170,132	199,677	204,386	169,466	118,159	134,500
Total	**44,434**	**119,164**	**297,573**	**404,766**	**453,541**	**334,779**	**356,514**	**460,056**	**590,000**	**681,235**	**639,039**	**498,728**	**376,288**	**429,500**

Source: NAAMSA

Passenger Car Market

Makes & Models : 1994 to April 2010



Who are the OEMs in South Africa?

- BMW (3-Series)
- Ford (Ranger Pickup from 2011)
- GM (Corsa pickup, Isuzu pickup)
- Mercedes Benz (C-class)
- Nissan/Renault (various sedans and pickups)
- Toyota (Corolla 4-door and Hilux pickup)
- Volkswagen (Polo –old and new)

FBU Import Duty

MIDP introduced 1 September 1995

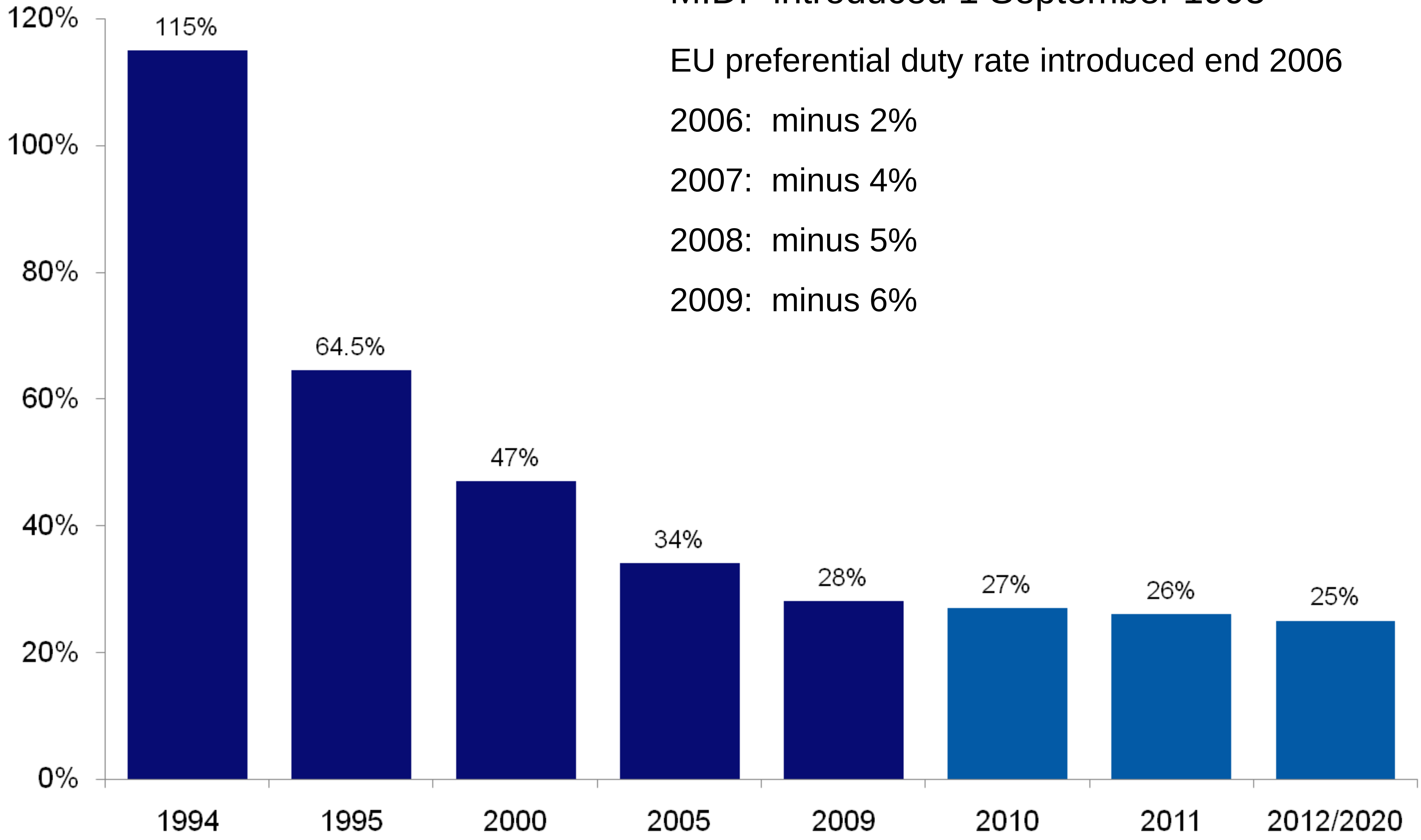
EU preferential duty rate introduced end 2006

2006: minus 2%

2007: minus 4%

2008: minus 5%

2009: minus 6%

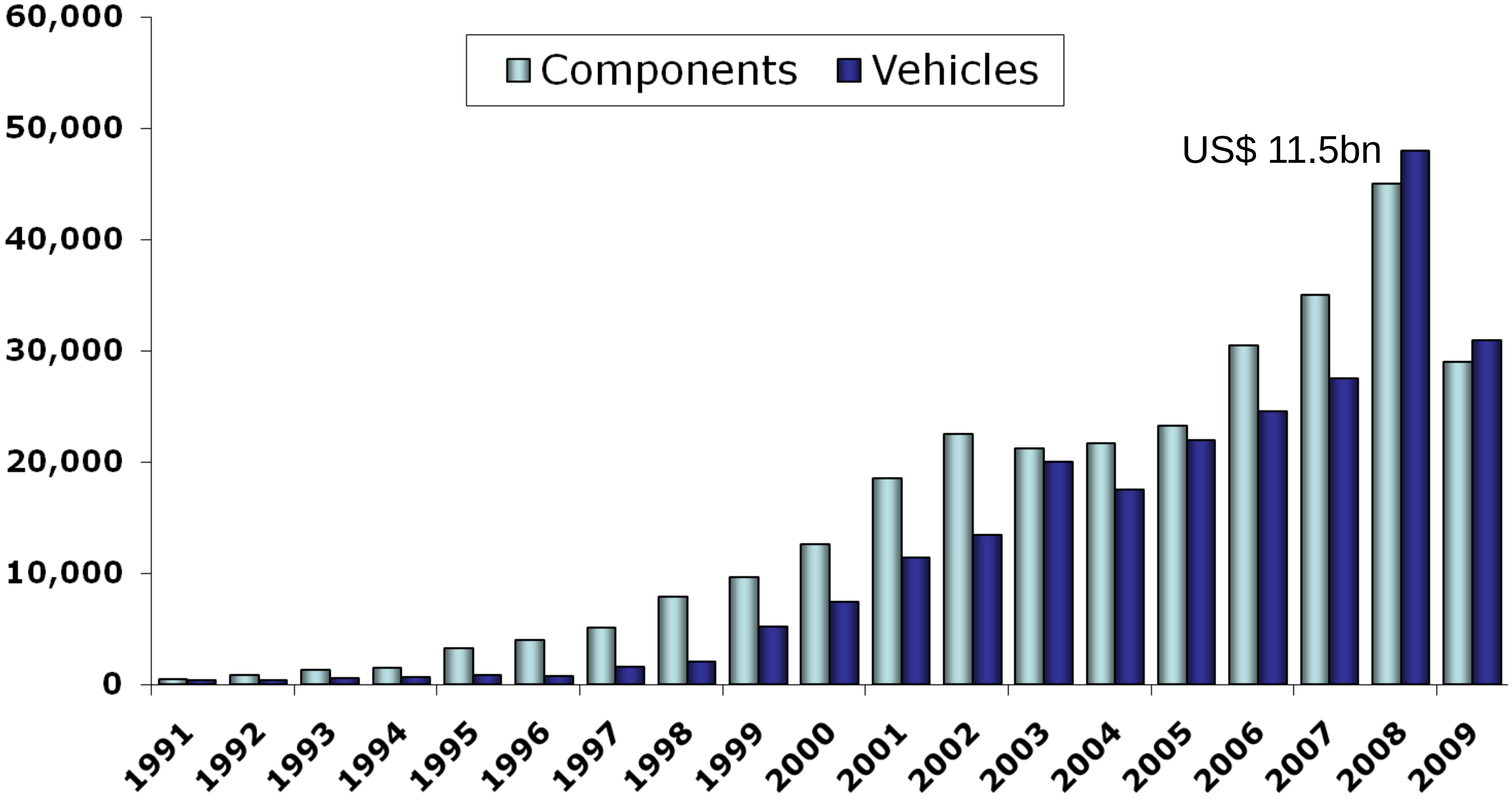


Industry Performance Since 2000
SA vehicle production vs. global production

	2000	2006	2008	2009	% change 2009/2008
Global Vehicle Production	58,40 million	69,33 million	70.52 million	60.99 million	- 13.5%
SA Vehicle Production	0,357 million	0,588 million	0,563 Million	0,374 Million	- 33.6%
SA Share of Global Production	0,61%	0,85%	0,80%	0,61%	- 23.8%

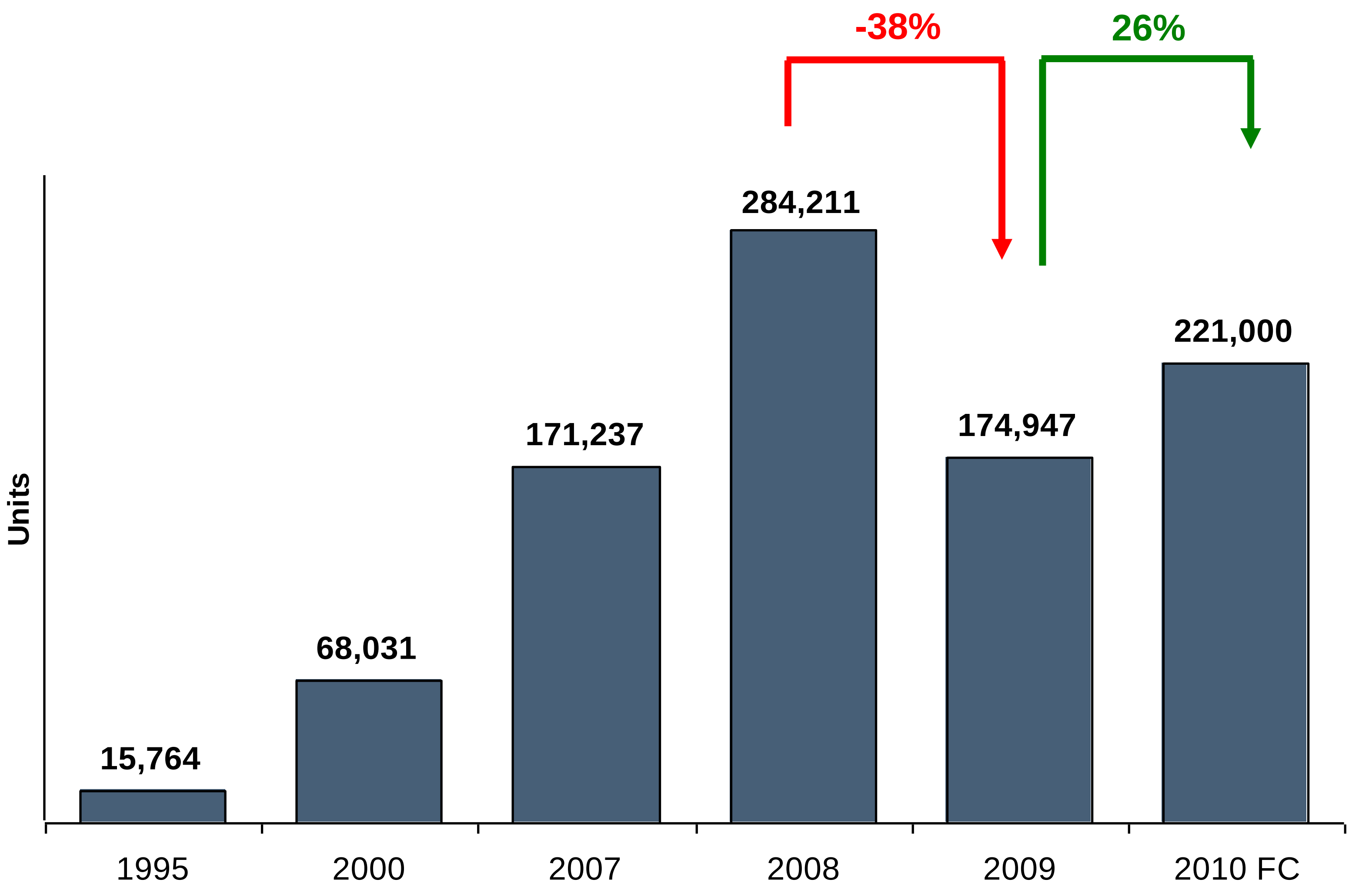
Industry Performance Since 1991

Export Trends (R millions)



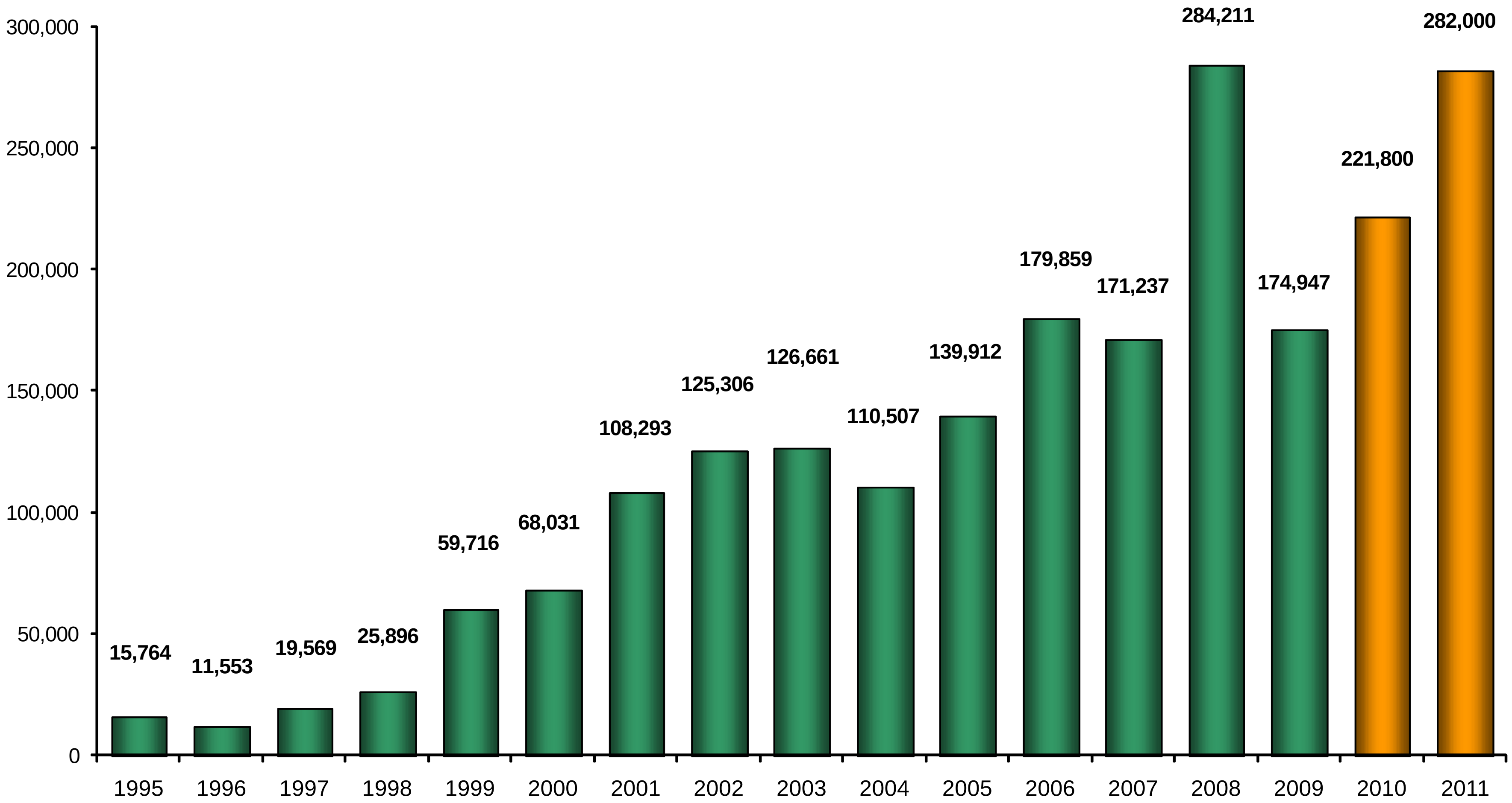
SA Automotive Industry

Development of FBU export volume - units



SA Motor vehicle Export Trends (units)

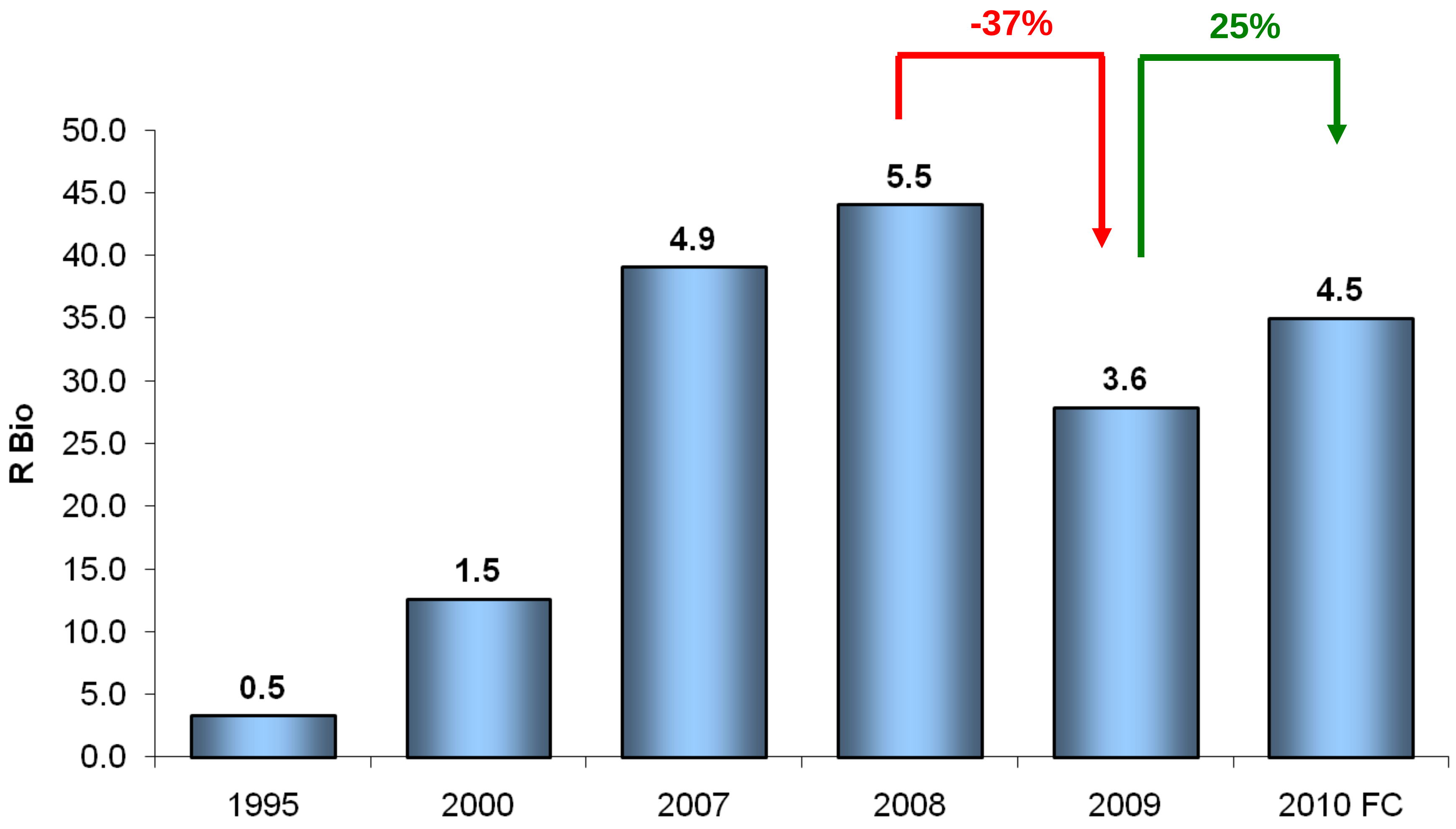
What do we expect in 2010/2011



Source: NAAMSA

SA Automotive Industry

Development of Component Exports – US$ Bils



Component Exports ($ Mils)

Component	1995	2000	2008	2009
Catalytic Converters	60	490	3100	1700
Seats, Stitched Leather	130	210	410	320
Engines and Parts	18	50	380	300
Tyres	30	70	210	190
Silencers/Exhausts	10	40	250	170
Transmission shafts/cranks	8	13	100	70
Automotive tooling	25	36	110	65
Automotive glass	5	15	40	100
Total Components	500	1500	5500	3600

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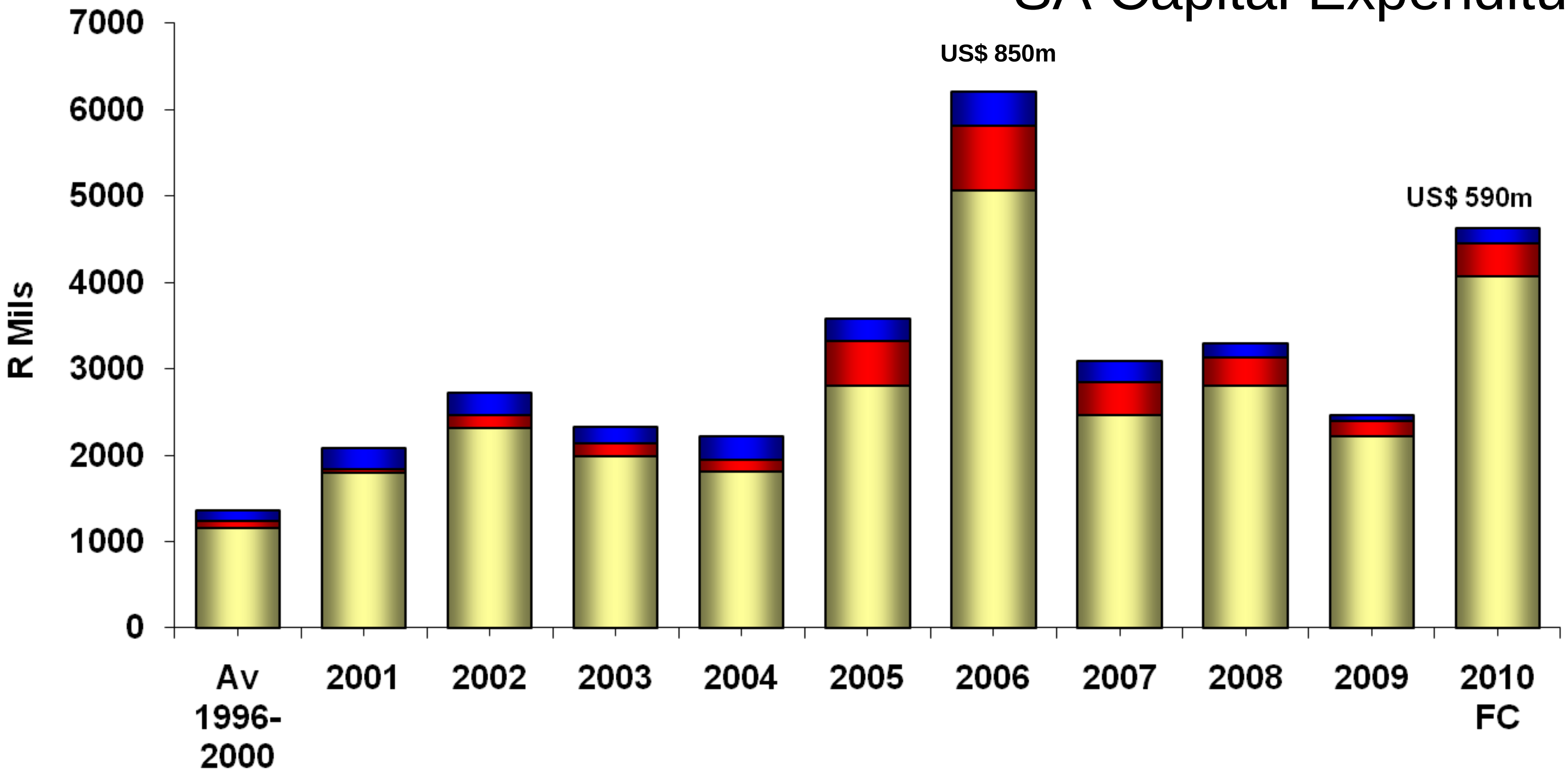
How Important are the Auto Sector Exports to SA?

YEAR	1995	2000	2008
Total SA Exports (R bn)	102,1	210,4	655,8
Total Automotive Exports (R bn)	4,2	23,4	96,1
Total Gold Exports (R bn)	21,5	27,8	48,5
Automotive Exports as % of Total SA Exports	4,1%	11,1%	14,7%
Ratio of Automotive: Gold Exports	0,2:1	0,8:1	2,0:1

New Vehicle Manufacturing Industry

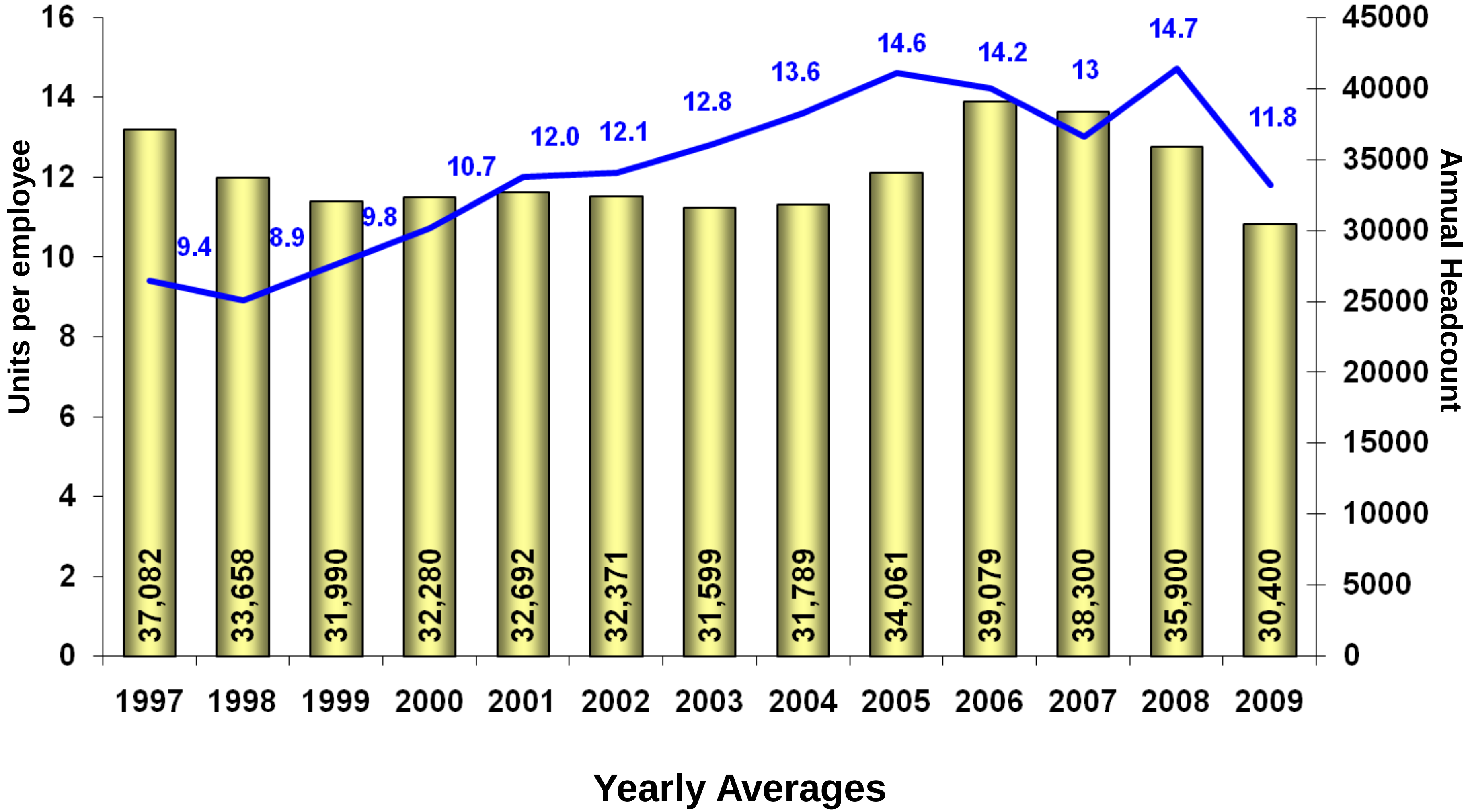
SA Capital Expenditure



	Av 1996 -2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 FC
Prod. Facilities	1155	1800	2311	1989	1816	2805	5058	2459	2808	2216	4068
Land and Building	81	33	152	142	130	512	758	382	329	179	381
OEM Support Structure	129	245	262	194	274	259	399	254	153	74	176
Total	**1366**	**2078**	**2726**	**2325**	**2220**	**3576**	**6215**	**3095**	**3290**	**2469**	**4625**

Source: NAAMSA

SA OEMs – Employment



Source: NAAMSA

Snapshot of the Component Sector

- Over 150 Tier 1 suppliers and 300 Tier 2/3
- Employment peaked at 83,000 in 2008
- Turnover was over $10 billion
- Current levels are 20% below the peak, but gradually recovering.

Motor Industry Development Programme (MIDP): Objectives

Introduced 1995 - Key Objectives:

- To improve SA automotive industry’s international competitiveness
- To improve vehicle affordability in the domestic market
- To encourage growth in vehicle and component manufacturing, particularly through exports
- To stabilise employment levels in the industry
- To create a better industry foreign exchange balance

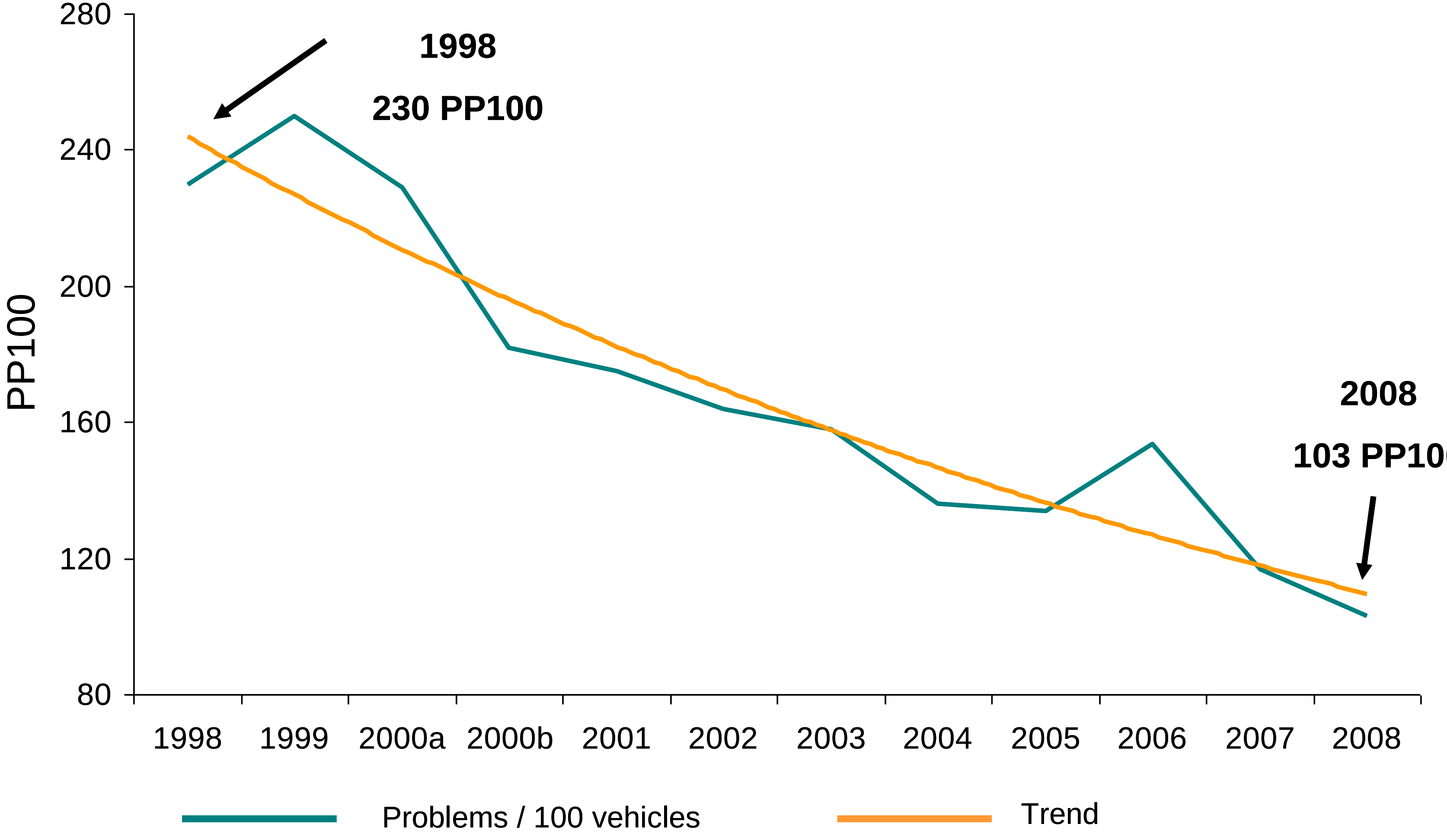
Industry Performance:1995-2009

International competitiveness

- Significant improvement in quality and productivity. Progressive economies of scale with local platforms down from 42 to 17
- Increase in number of vehicles produced per employee from less than 10 vehicles per annum to around 15 vehicles by 2006.
- Significant rationalization and economies of scale production has reduced complexity for domestic component suppliers and enhanced efficiencies
- Huge improvements in quality resulting from stricter controls necessary for sophisticated export markets

Industry Performance Since 1998

Passenger Car Product Quality

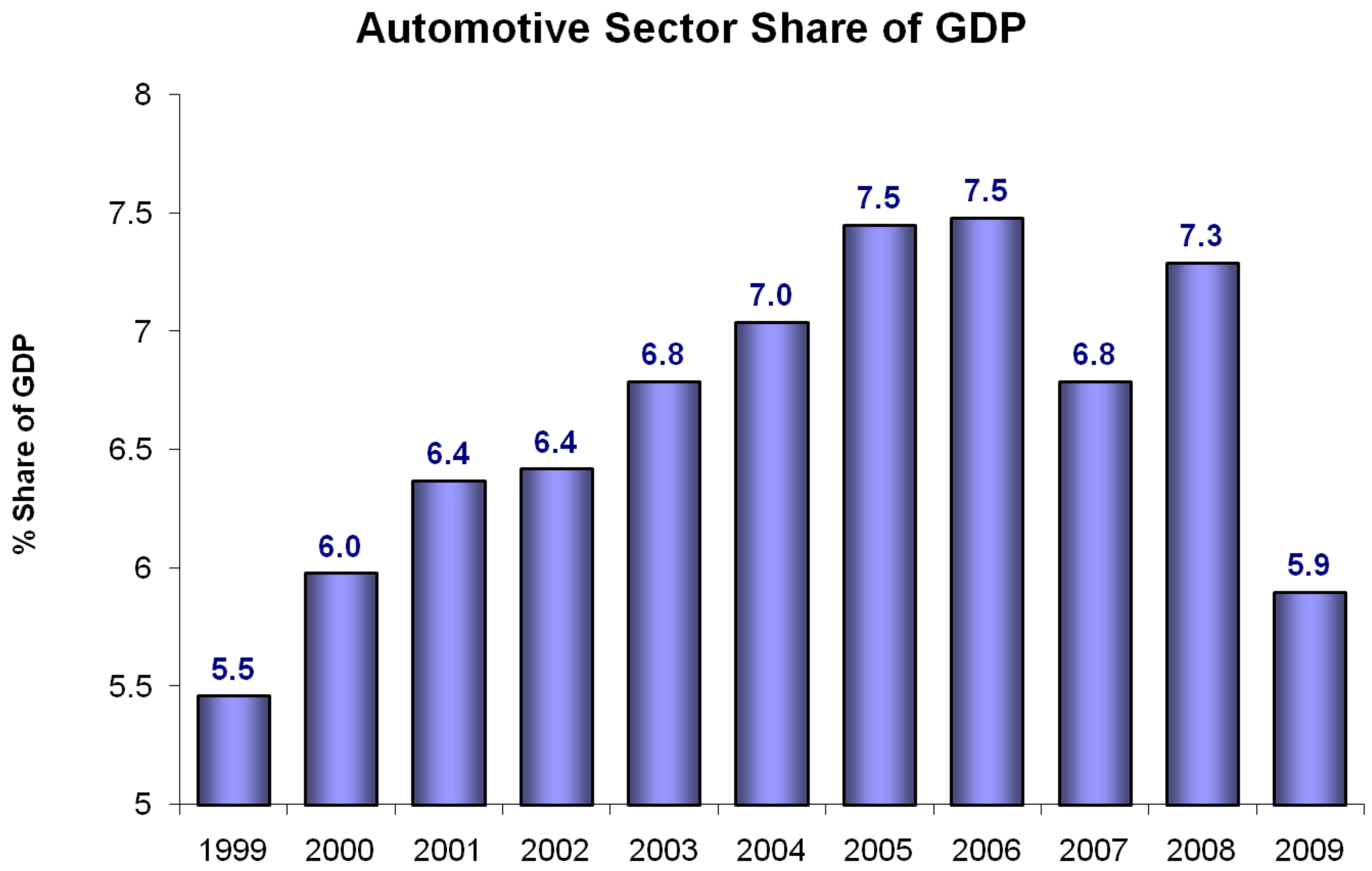


Source:Synovate

Industry Performance:1995-2009
Other key performance benchmarks

- Affordability – New vehicle prices below inflation for 11 out of 15 years. Above inflation increases in 2009 (13,8%). For 2010, projection is between 5% and 6%.
- Exceptional growth in industry exports through end 2008 and significant growth in domestic market through 2007
- Massive drop in local sales from mid 2006 to end 2009.
- Through 2008, relatively stable aggregate industry employment. Since 4th quarter, 2008 employment losses accelerated but have remained stable since mid 2009.
- Trade deficit has narrowed substantially during 2008. Slight increase experienced in 2009.

How important is the Auto Sector in SA?



World Automotive Industry

Manufacturing by Country - 2009

Rank	Country	Passenger	Commercials	Total	%
1	China	10,383,831	3,407,163	13,790,994	22.5%
2	Japan	6,862,161	1,072,355	7,934,516	12.9%
3	USA	2,249,061	3,462,762	5,711,823	9.3%
4	Germany	4,964,523	245,334	5,209,857	8.5%
5	South Korea	3,158,417	354,509	3,512,926	5.7%
6	Brazil	2,576,628	605,989	3,182,617	5.2%
7	India	2,166,238	466,456	2,632,694	4.3%
8	Spain	1,812,688	357,390	2,170,078	3.5%
9	France	1,821,734	228,028	2,049,762	3.3%
10	Mexico	939,469	617,821	1,557,290	2.5%
Subtotal		**36,934,750**	**10,817,807**	**47,752,557**	77.8%
26	**South Africa**	**224,000**	**156,000**	**380,000**	**0.6%**
	Other	10,410,802	2,872,956	13,283,758	21.6%
Total		**47,569,552**	**13,846,763**	**61,416,315**	100%

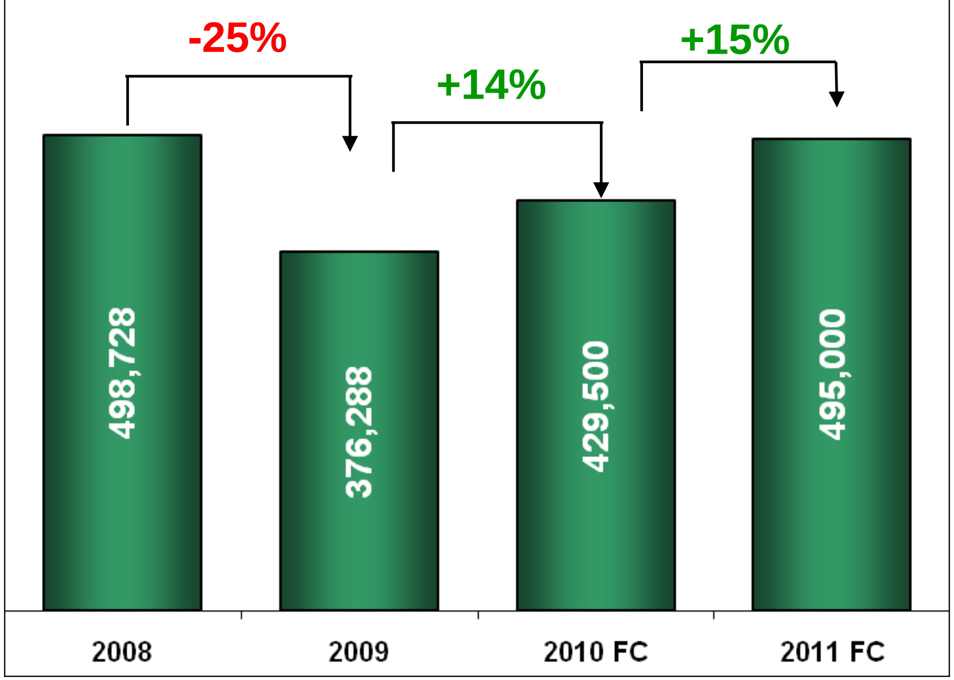
!

Source: OICA

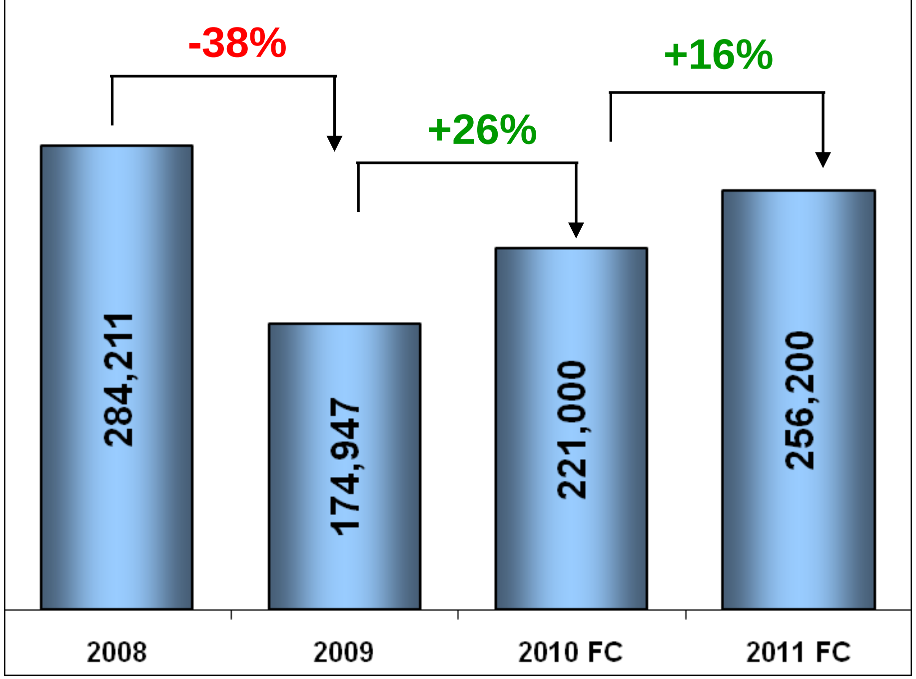
SA Automotive Industry

What are the Prospects for 2010 and 2011?

Passenger & LCV Market



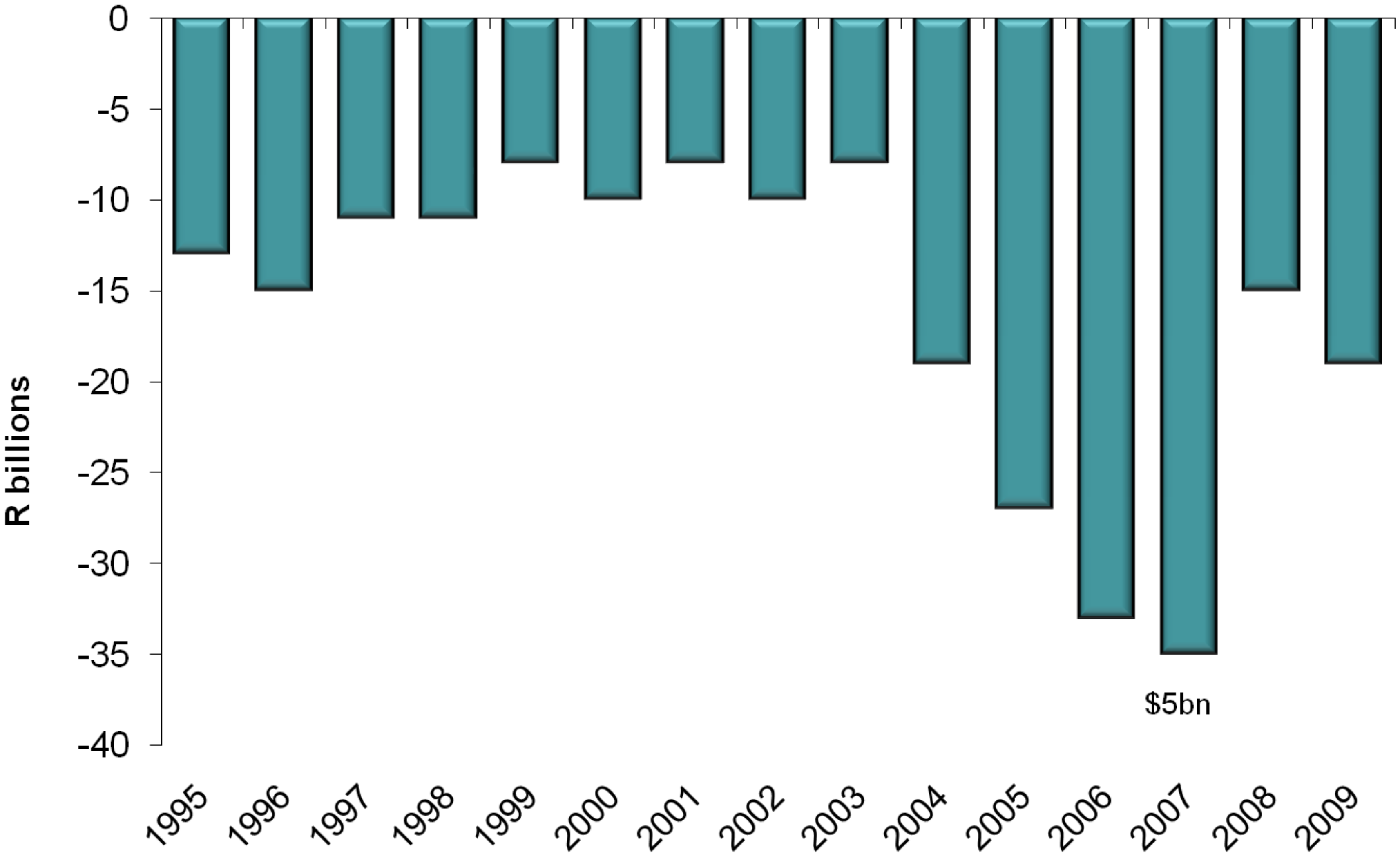
FBU Exports



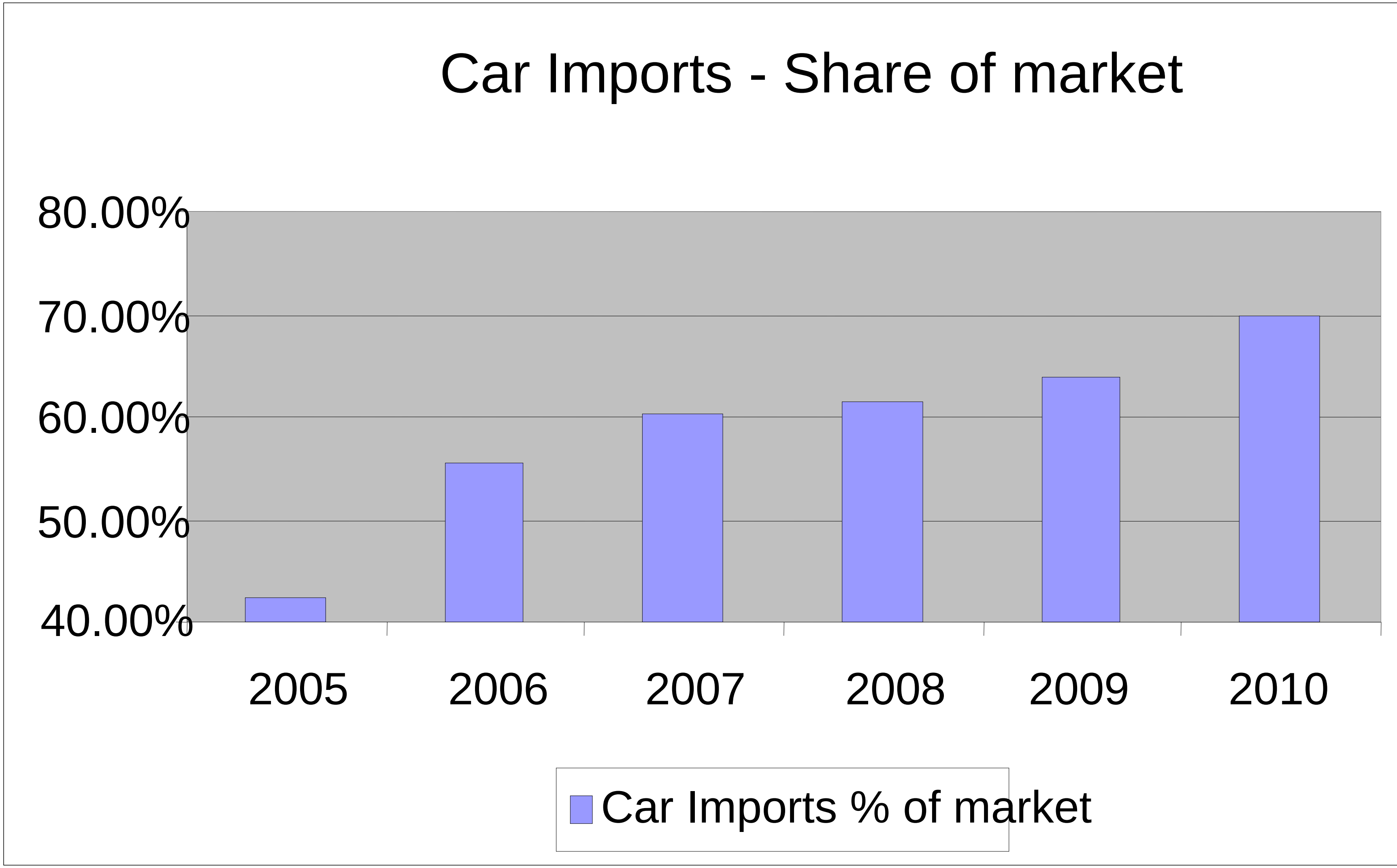
Challenges for the South African Automotive Industry

Source: NAAMSA

Negative Impact on Trade balance



Source: NAAMSA

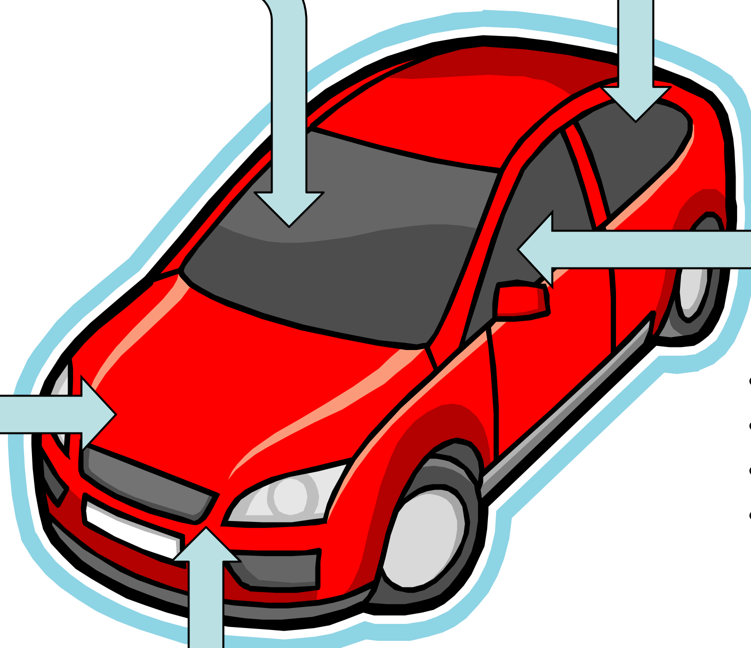


Source : NAACAM

Current Typical Local Content levels in SA Automotive Industry far too low

XX%: % of total component cost

YY%: true local content as % of total component cost



Electrical / Electronic

19% → **5%**

- Harnesses
- Starter motors
- Alternators
- Wiper systems
- HVAC

Exterior

10% → **3%**

- Glass
- Paint
- Bumpers
- Mirrors

Interior

23% → **7%**

- Cockpit
- Seats
- Door panels
- Carpets

Body

15% → **6%**

- Bonnets
- Bootlids
- Sideframes
- Doors

Chassis and Drive-train

33% → **14%**

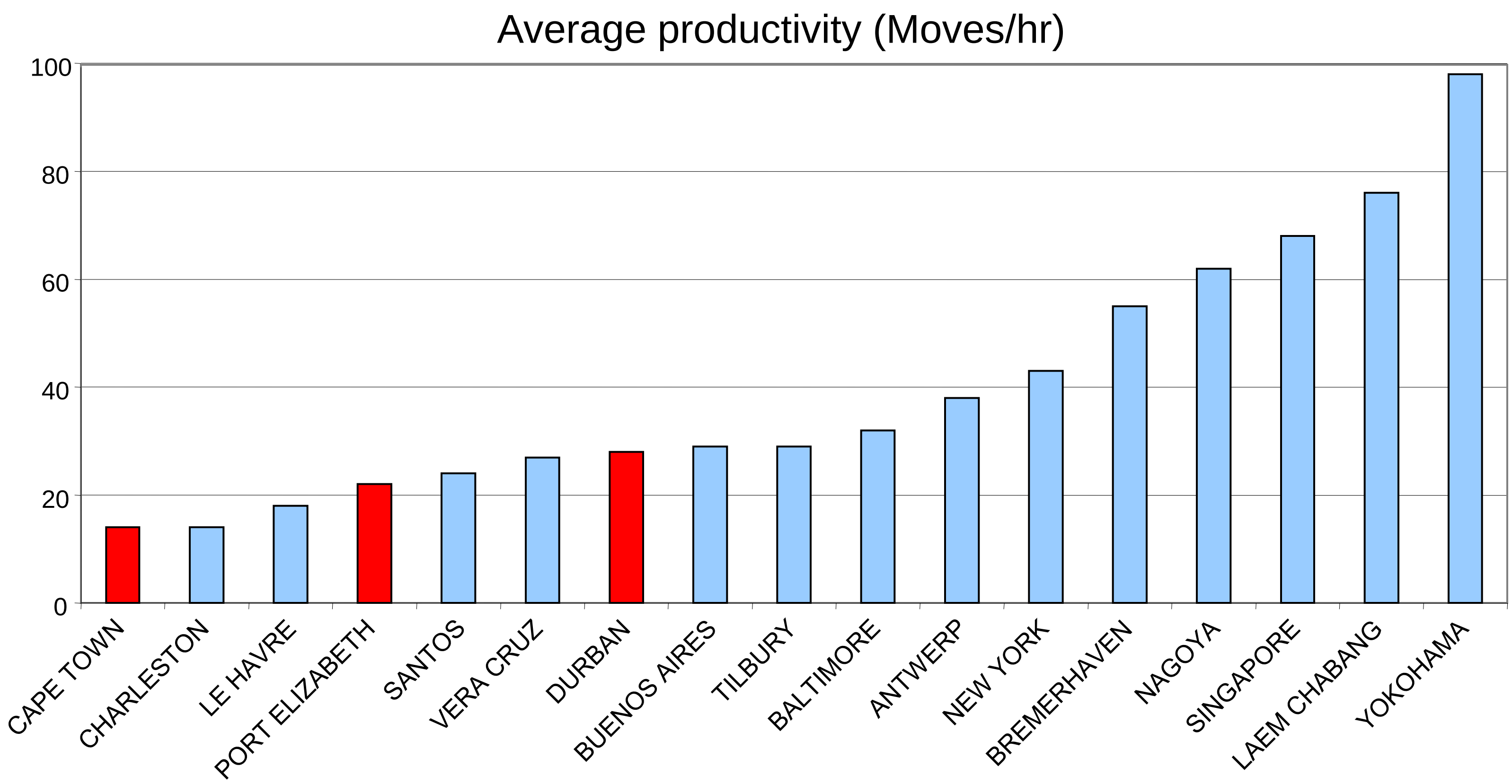
- Axles
- Differentials
- Drive shafts
- Brakes

Local Content Competitiveness

Supplier cost index in 2010 vs. Western Europe at 100

NB: Consensus of OEMs

Benchmarking of Port Productivity



- **SA’s ports are far behind global standards**
- **Low productivity exacerbates OEM cost penalties**

Source : AIDC Port Benchmarking Study

Global Fuel Standards

Selected Countries

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
USA	TII B8	TII B5 (LEV)						TII B4		TII B2	
EU - HDV	Euro IV				Euro V				Euro VI		
EU - LDV	Euro IV					Euro V				Euro VI	
S Korea	Euro III	Euro IV				Euro V					
Brazil	Euro III			Euro IV			Euro V				
Argentina	Euro III			Euro IV				Euro V			
Beijing	Euro II	Euro III			Euro IV			Euro V			
China	Euro II		Euro III			Euro IV			Euro V		
Mumbai	Euro III					Euro IV		Euro V			
India	Euro II					Euro III		Euro IV			
Thailand	Euro II					Euro III		Euro IV			
RSA	Euro II									?	

<u>Key features</u>

- SA fuel quality far behind even developing countries
- SA refineries require significant investment to comply with future specs
- Global markets will change over time to new standards

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What are the "Silver Bullets" for the SA Auto Manufacturing Industry?

- Average produced volumes per platform p.a. need to increase to >50 000 p.a. (Ideally 75 000 to 100 000 units p.a.)
- Local Content levels need to increase from <40% to >70%.
- Supplier Competitiveness has to improve to Index 100 to W. Europe as a minimum within next 2/3 years.
- A major "Industrialisation Strategy" is required in the supplier industry. The supply chain needs to increase manufacturing depth (2nd and 3rd Tier suppliers).
- Productivity to improve dramatically from <20 cars to >30 cars per employee per annum.
- Massive investment needed in Training and Skills development at all levels
  - Operator
  - Specialist / Engineer
  - Leadership

Background and Objectives of the 2013 Automotive Production and Development Program (APDP)

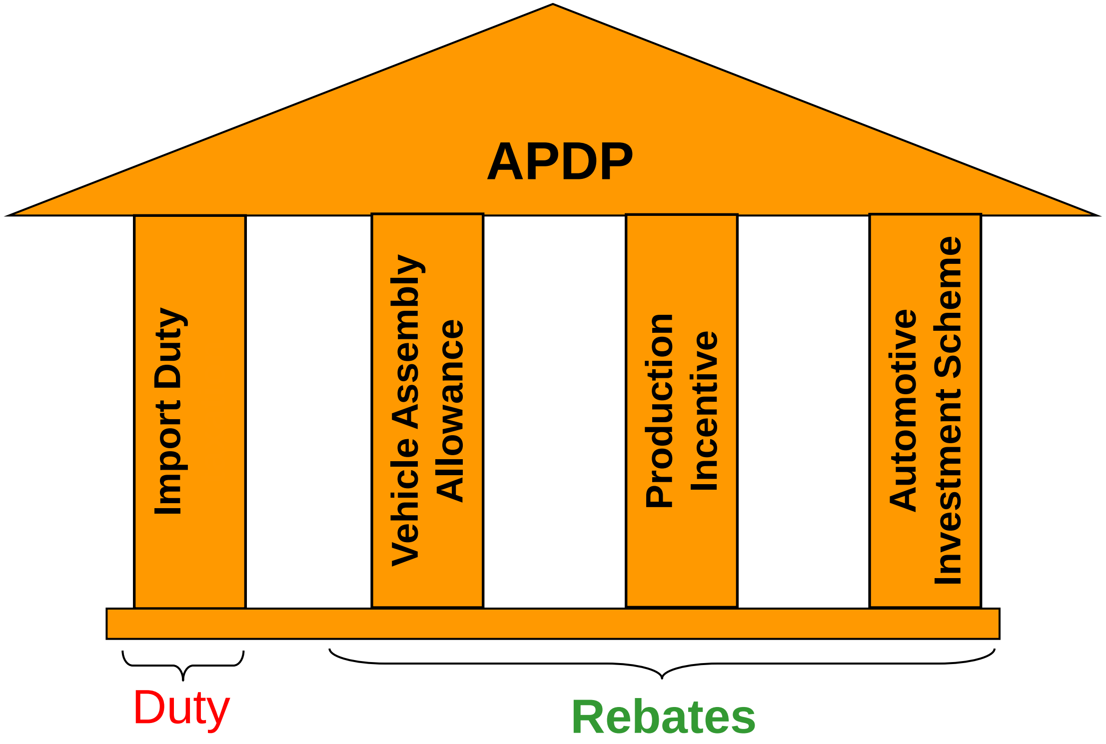
- Production increase to 1.2 million vehicles per annum by 2020 with associated deepening of the components industry.
- Provide appropriate levels of support for these ambitious targets.
- Achieve better balance between domestic and export sales to supply growing domestic demand.
- Ensure consistency with WTO rules.

Background and Objectives of the APDP

Background of the APDP

The APDP consists out of 4 pillars that will drive the programme:

- Import Duty .
- Vehicle Assembly Allowance (VAA).
- Production Incentive (PI).
- Automotive Investment Scheme (AIS).

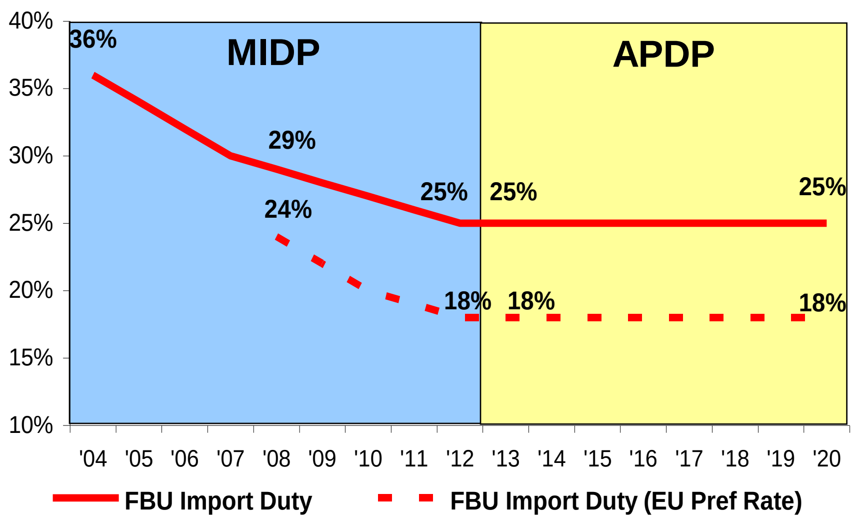


Background and Objectives of the APDP
Import Duty

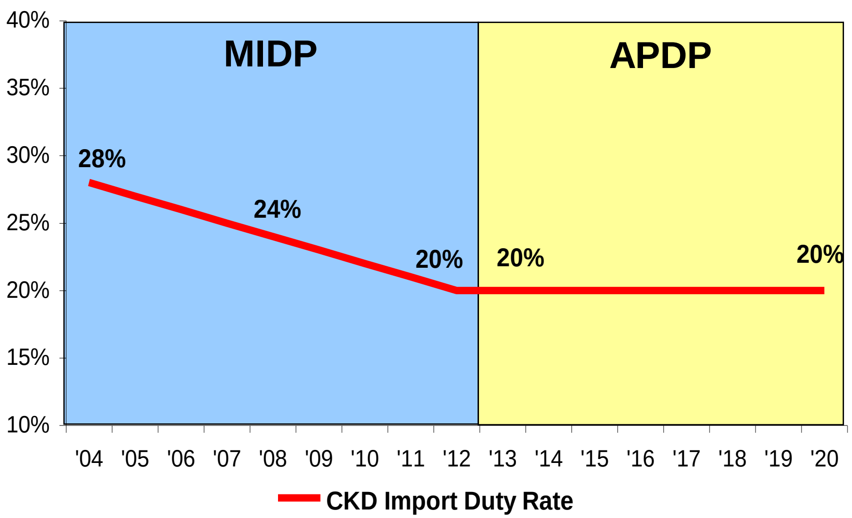
The New APDP will have stable, moderate import tariffs from 2013:

- 25% for Completely Built Up Vehicles (CBUs).
- 18% for CBU's out of Europe via the EU preferential rate.
- 20% for CKD components used by vehicle assemblers.

FBU Import Duty Rate



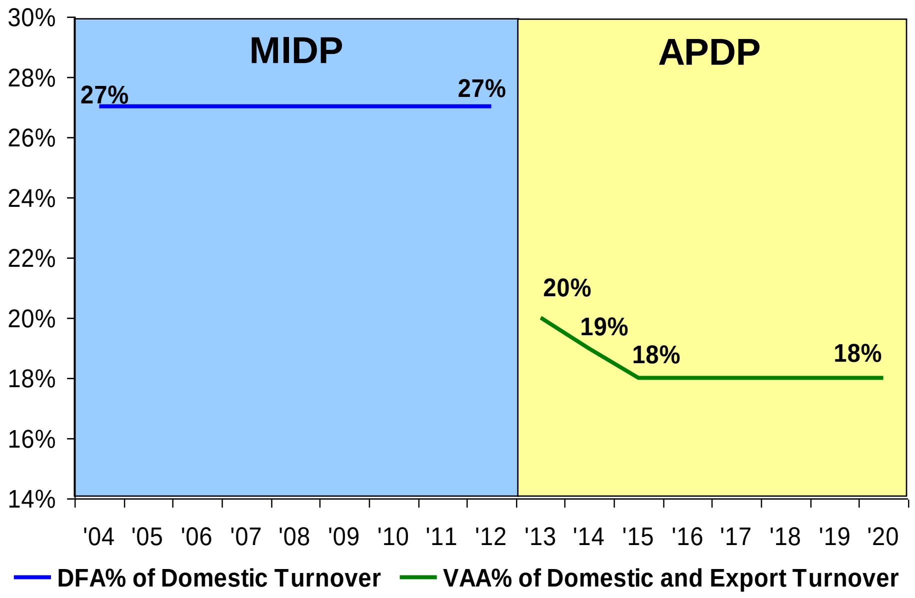
CKD Import Duty Rate



Background and Objectives of the APDP
Vehicle Assembly Allowance (VAA)

The Vehicle Assembly Allowance (VAA) will allow vehicle manufacturers with a plant volume of at least 50,000 units per annum to import a percentage of their components duty free.

- 20% reducing to 18% over 3 years.
- Introduction in 2013.

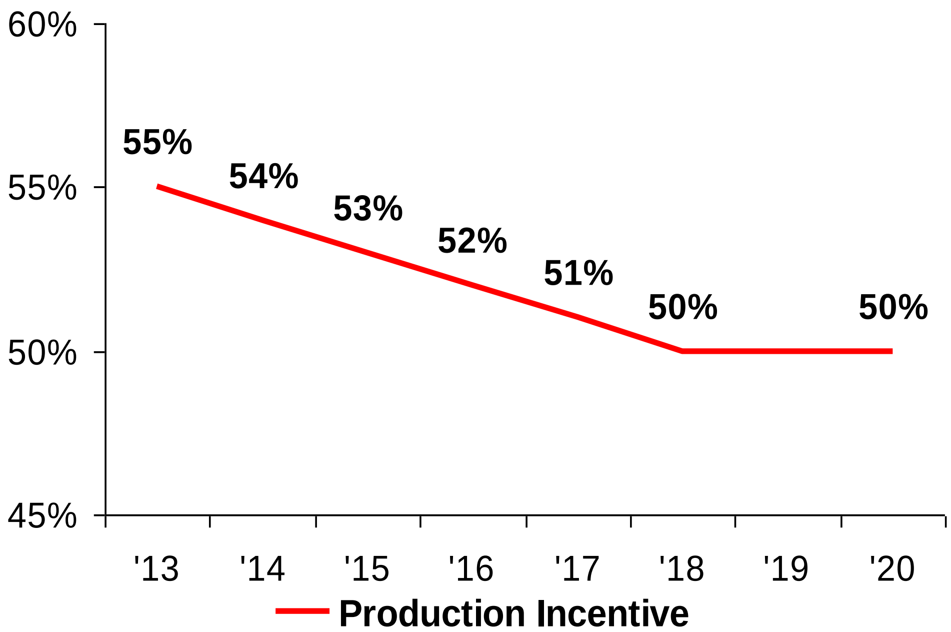


Background and Objectives of the APDP
Production Incentive (PI)

The Production Incentive will be in the form of a duty credit aimed at raising production value-added:

- 55% of the duty, reducing to 50% over 5 years.
- Value-added = Sales minus Imported Components and materials.
- Additional 5% for vulnerable sub-sectors.

= Net benefit of 11% of Value-added , reducing to 10%



The Automotive Investment Scheme will be in the form of a **Direct Cash Grant** to support investments:

- 20% of a projects value paid over 3 years.
- 5% - 10% additional support providing certain requirements are fulfilled, including additional local production, tooling support, R and D.
- Introduction of the AIS was 1st July 2009. (Retroactive Legislation)

Thank you!

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