



Trade and Investment KwaZulu-Natal

KwaZulu-Natal Business Summit

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ICC

Durban.

“Status of South African Automotive Industry and its growth potential”.

Irvin Jim
NUMSA General Secretary

*Kwazulu natal Honorable MEC of Finance and Economic Development
Dr Zweli Mkhize,
The CEO, Trade and Investment, KwaZulu-Natal,
Leadership of business community,
Representatives of the labour movement lead by COSATU,
Representatives of tertiary institutions;
Organizers of this very important summit and all various social partners,
Ladies and gentlemen,
Comrades.*

It is an honor for me on behalf of the National Union of Metalworkers – NUMSA - to come and share our experiences here with all of you, on the status of the automotive industry and its potential for growth.

NUMSA confirms that in our view this Summit constitutes a strategic initiative not only for KZN but for the entire country in terms of opening up spaces for dialogue with all interested parties in the industry. I hope that we will also use this opportunity to explore solutions to some of the serious challenges confronting the auto industry.

We think that this summit takes place at a critical moment in our country when all progressive social partners must come to terms with, and face the hard reality that South Africa has many complex challenges that continue to define the character of our economy and society. The current global financial crisis has simply further added fuel to our many challenges. We are going through a period of serious levels of unemployment, deepening inequalities and poverty.

The automotive industry is important to our economy and social wellbeing as a country because of its backwards and forward linkages to many other sectors, but also because it is a sector from which our country can drive industrialization and manufacturing which are so critical for the development of our country.

Those who research and write about the automotive industry tell us that the industry is the leading manufacturing sector in the South African economy. It involves the manufacture, distribution, servicing and maintenance of motor vehicles and plays a vital role in South Africa's economy by contributing extensively to the country's GDP.

We know that the South African automotive industry is capable of exporting passenger cars and commercial vehicles to at least 80 countries around the world. South Africa enjoys significant advantages compared with many other exporting countries. It boasts the flexibility to produce relatively short runs, abundance of raw materials and low energy costs, among others, combined with the expertise, advanced technology and established business relationships with parent companies

which ensures that the local industry adds value to the global sourcing strategies of multinational automotive corporations.

Currently, the industry also has a comparative advantage with respect to labour costs.

Apart from the inherited racial realities which continue to define the demographics of this industry in terms of distribution of skills, ownership and management profiles of companies, and the general composition of the labour force, the automotive industry is also dominated by multinationals.

We at NUMSA would like to locate the challenges confronting our economy in general and the automotive industry in particular within the macro economic framework the government adopted in the mid 90s called Growth, Employment and Redistribution (GEAR).

What are some of the elements of GEAR which we feel have impacted and continue to impact negatively on the automotive industry and many other industries in South Africa: I list a few of our concerns, below:

1. We have been calling for reviewal of the liberalisation of trade. For us this particularly applies to the importation of cars with absolutely no local content which results in no job creation, in our country.
2. This liberalization of trade in the tyre sector allowed dumping that is currently taking place and it is destroying jobs.
3. NUMSA has been extremely concerned about the narrow pursuit of only two economic pillars: attracting foreign direct investment and stimulating exports at the expense of deepening and growing the local market and stimulating local demand by increasing employment and improving wages.
4. In the process, we at NUMSA fear that we have ignored the importance to diversify the economy, we have failed to transform the economy into one that services the entire South African population, and not just a few blacks and the same old white population, we are not moving fast enough to ensure equity, and we have not taken, consciously, progressive measures to protect jobs.
5. We have neglected the importance of crafting our own industrial strategy and policy to help us construct a truly democratic post 1994 South African economy.
6. We have seen how the MIDP support that was given to the auto industry without the auto industry having to give guarantees for job security simply largely benefited foreign capital. Companies simply went ahead with their

new management techniques of continuous improvements that have destroyed many jobs.

- 7. The ideological pursuit of inflation targeting, which has been accompanied all the time by continuously rising interest rates has been bad news for the sector.**
- 8. NUMSA recently participated in the International Metal Federation (IMF) Executive Committee Meeting in Geneva where the bad news confronting Ford Motor Company, Chrysler and General Motors in the United States was discussed. We are aware that the ongoing global financial crisis will also impact negatively both on exports and local demand for cars.**
- 9. The IMF unanimously called for the US government to save the auto industry as liquidation of these companies would have a huge negative impact on different parts of the globe, including South Africa.**

What are some of the possible responses to these challenges?

- 1. The current review result of the MIDP where “The prevailing duty rate in South Africa is maintained at 25% for CBU and 20% for CKD until 2012 with a further 5% preference given to products imported from the European Union. As it is proposed that tariff rates for CBU and CKD continue to decline by one per cent point until 2019”.**
- 2. NUMSA disagrees with this proposal vehemently because we regard it to be irresponsible and suicidal. We are of the view that we have previously taken irresponsible decisions because of such ill informed advice that has led to job losses in our industries.**
- 3. We demand that government increases the duty rate on imported vehicles to 80% as is the case in Thailand.**
- 4. In addition DTI must impose a limit on the number of fully imported vehicles and tyres which are flooding the South African market.**
- 5. Benefits that are derived from credits may be used to import cars but such imports must fall under the 80% duty stipulation.**
- 6. NUMSA has been very critical of how OEMS themselves have been abusing in our view credit certificates both generated from their export volume per company, seeded certificates who might be exporting leather seats, or direct from catalytic converters NUMSA is of the view that this process undermines volumes and undermines manufacturing as in our view some companies strategies despite being beneficiaries of the MIDP they use us as a dumping ground for their crisis of over production global.**
- 7. NUMSA’s view is that the continuation of the production development program (APDP) to as a support from government must be conditional that companies would retain current platforms, retaining existing jobs and create new jobs, this has been arrived at as a result of our experience in**

- various plants is that our members have been losing jobs, casualised, and retrenched.
8. Based on these concrete experiences, we support government view to measure companies based on volume produced per platform, without reducing the number of platforms.

Local Content

1. We would be calling on DTI to ensure that the current APDP must include a condition that auto employers should be subject to local content requirements which force them to use inputs from first-tier suppliers based in South Africa.
2. There must be a review of imported cars that add no local content, including cars imported by OEMs with companies in SA. It appears that companies are dealing with their global problem of overproduction by using SA as a dumping ground and as a gateway to the continent. Companies that do not have local plants must be penalized via extra duties for imports.
3. 70% of all components and inputs to cars produced under the MIDP should be locally produced.
4. DTI must put together a formula to audit local content and avoid the current practice where employers just dumped finished component and just package them to a car and call that local content without real building the value chain in terms of local content on components.
5. The revised APDP must prohibit relocation of component supply to companies in surrounding countries by companies benefiting from the MIDP. They should instead build the component sector and create jobs in the country. DTI should audit the value chain to identify such cases.

NUMSA's position on the ongoing global financial crisis as it affects the auto sector

We think that it is as a result of danger we have consistently raised of financial liberalization for instance in our country removal of all exchange control in our view is problematic.

1. This crisis is as a result of policies that fuelled unbridled financial speculation and short term profits rather than stressing productive investment in the real economy
2. It has thrown some lights on the outrageous inequalities in income between capital and labour that have increased significantly in the recent years.
3. However this crisis should not be used as an excuse to shut down plants and weaken labour market regulation even more.
4. On the contrary, the collapse of sub –mortgage market and financial systems provides an opportunity to put an end to decades of all –out deregulation in the financial, economic and social sphere, finance has to be put at the service

- of social justice, economic stability, and sustainable development and must not be allowed to rule over the economy.
5. There is now an urgent need to strengthen regulation and supervision of banks, rethink the rules and governance of international finance and institutions, and implement a comprehensive and coordinated recovery program that is able to steer the world economy onto the path of equitable and sustainable development and with full employment as the main policy goal.

South Africa has to learn lessons from countries that have succeeded in these industries, many of them have used tariffs to protect their industries. Our proposition is that we need to be firm in defense of this industry and our government has to swim against the tide in defense of our national interest if we are to drive an industrial agenda that serves the interest of all South Africans.

We at NUMSA further believe that time has come for us to consider increasing the share of the value chain of the auto sector by encouraging research and development of a uniquely South African and African car. In the long term, this is perhaps where our greatest potential for expansion lies!

IRVIN JIM
General Secretary
NUMSA
26th November 2008.