



MINISTRY OF FINANCE  
REPUBLIC OF SOUTH AFRICA

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## SPEECH BY DEPUTY MINISTER OF FINANCE

REMARKS BY THE DEPUTY MINISTER OF FINANCE, DR DAVID MASONDO, AT  
THE NATIONAL ASSOCIATION OF AUTOMOTIVE COMPONENT AND ALLIED  
MANUFACTURERS (NAACAM) ANNUAL AUTO SHOW 2023  
SUN BET ARENA, TIMES SQUARE, MENLYN, PRETORIA

DATE: 31 AUGUST 2023

### GROWING THE SOUTH AFRICAN AUTOMOTIVE COMPONENT MANUFACTURING SECTOR: A STATE PERSPECTIVE

Good afternoon to President, Mr Ugo Frigerio;

Executive Director of NAACAM Mr Renai Moothilal

The entire leadership, management, and membership of NACAAM

Executive Mayor of Tshwane, Councillor Cilliers Brink;

My colleagues in government.

Programme director, Mr Dion Chang.

Ladies and Gentlemen

Good Afternoon

### INTRODUCTION

It is a great pleasure to be here today to discuss a topic of utmost importance - building electrical vehicle capability in South Africa. Specifically, I would like to share a few thoughts about *Growing the SA Automotive Component Manufacturing Sector: A State Perspective*.

I have organised my talk around two issues. First, I will highlight the economic significance of the automotive sector, particularly component manufacturing. So that you appreciate that we appreciate



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the significance of the industry so that when we have tough conversations with you, it is not out of lack of appreciation of your importance in the economy.

Secondly, I will talk about how the government is currently thinking about providing more support to the industry, particularly components manufacturing in the context of New Energy Vehicles. The Finance Minister will in October this year, give details on the fiscal support to the industry.

### **Economic significance of the automotive sector, particularly component manufacturing**

The component sector as part of the wider automotive sector is a mainstay of SA's industrial economy. The auto sector in SA contributed 4.9 per cent to GDP in 2023. Component-related investment alone in 2023 was R4.5bn. And I am told you made an investment pledge this morning of R5.2 billion.

Total automotive vehicle and component exports from South Africa in 2022 were R227,3 billion.

Localisation levels in SA have been weak for several years and are currently around 38%. Competitor economies such as Thailand, Turkey, and Mexico have around 60% or higher localization levels.

The ambition to reach 60% localisation rates by 2035, under SA Automotive Masterplan 2035, is crucial to realising the economic benefits the government expects out of the support it gives the automotive sector.

### **De-industrialisation**

Achieving the 60% localisation is important to turn the tide against de-industrialisation we have seen in South Africa in the last two decades. From a high of around 22 per cent of GDP in the late 1980s to the early 1990s, manufacturing now contributes around 12 per cent of GDP. During this period of de-industrialisation however, the automotive industry has been a consistent area of growth and innovation. Thanks to the well-designed package of incentives and a supportive policy environment. The APDP, and MIDP before it, has been the main form of supporting automotive companies to compensate for the industry's substantial cost disadvantages.

The current challenges such as global overcapacity; and domestically such challenges such as electricity supply and transport logistics; are impacting negatively on the components value chain.



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### Operation Vulindlela

The truth is also that without reliable electricity and a fully functional logistics sector that enables producers to get their products to market on time and within budget, the impact of any incentive package will be limited.

This is why, through initiatives like *Operation Vulindlela*, we have prioritised a thorough revitalisation of our network industries.

The liberalisation of the energy sector, which ushered in an energy market in which Eskom is not the only energy supplier, has set conditions for private sector investment. Taking over Eskom's debt will ease pressure on the company's balance sheet and allow it to invest in transmission and distribution infrastructure. It will also allow Eskom to conduct the maintenance required to improve the availability of electricity.

Of particular interest to the auto sector will also be the reforms we have so far achieved in the freight logistics and port sector.

Recently, we saw the final selection of an international terminal operator to partner with Transnet at the Durban container terminal. This will boost our export performance. Our port performance over the last decade has been dismal and has strangled our ability to take full advantage of the post-COVID-19 global recovery.

### Future support in the context of energy transition and New Electric Vehicles

The support for the growth of the *SA Automotive Component Manufacturing Sector* takes place in the context of systemic transformations driven by (a) decarbonisation and (b) artificial intelligence, taking place in society.

As we look towards the future, embracing electric vehicles is not just a choice. It is imperative for the sustainability of our planet and the prosperity of our nation.

We are faced with systemic transformations caused by decarbonisation and artificial intelligence. The automotive sector will be, and is, deeply affected by these systemic changes. In addition to the economic impact, there will be, and there is already, environmental, labour, and social issues.



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The technical change in the labour process driven by artificial intelligence requires fewer blue-collar workers. Around 67% of SA component exports will be lost in the transition from ICE vehicles to EVs. This simply means that the transition will entail a fundamental restructuring of the labour market. New employment opportunities will have to be created for those who will inevitably lose out.

Reinvestment and support towards reskilling and upskilling of the workforce to ensure the right skills are available for the design, engineering, and manufacturing of electric vehicles and related components and systems.

Like every transition, the emergence of New Energy Vehicles, brings with it massive potential disruptions. And with that disruption a host of risks and even more opportunities to channel the disruption into new industries, skills, and jobs.

The transition to electric vehicles also brings up questions about South Africa's broader industrial path, in particular our struggle since the democratic transition to achieve the structural transformation of the economy that will open the door to faster, inclusive, and sustainable growth.

It is against this background of these systemic shifts occasioned by decarbonization and artificial intelligence, and the local context of premature deindustrialization and weak overall economic activity, **that we must ask and answer the question**, which is: **how should the government support the growth of the automotive component sector**. These questions include:

- How can we drive deeper integration into Global Supply Chains?
- How can we continue to advance the local manufacturing processes by adopting new technologies and investing in research and development that will allow us to stay competitive, while nurturing a skilled workforce?
- How should we design fiscal interventions, including tax benefits, and various programs to promote local manufacturing and exports?

### Fiscal Support

**Let me turn to the fiscal support for the industry.**

In discussions amongst ourselves in government as well as regular engagement with you as the industry, we are discussing proposals for fiscal measures to support companies to produce electric



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vehicles. As I said in October 2023, the Minister will announce the nature of the fiscal support to the industry.

However, whatever the proposals on a new set of incentives to spur the production of NEVs, we should bear in mind that this comes at a time when the fiscus is particularly stretched, making it difficult to put resources towards every priority.

The measures to support the growth of New Energy Vehicles should aim (a) to complement the extensive policy support the government has already provided in previous decades, through preferential market partnerships such as AGOA; the EU- SA Economic Partnership Agreement; and the Automotive Production and Development Programme (APDP).

We would like to see targeted investment into specific components for New Energy Vehicles-components, especially in the battery and other high-value power electronics systems.

South Africa and the African regional base can effectively serve as the hub for New Energy vehicles grade materials and components beneficiation. However, this requires OEMs to commit to the necessary investments across the supply chain.

### Women

I hope you during your deliberations in the morning discussed how to increase the participation of women. I would like to encourage to support the partnership between WECONA (Women Economic Assembly) a government initiative steered by the Presidency and the sector.

The auto-master plan lacks a gender lens, it was agreed that the sector uses the AITF to ring-fence 30% of funds received from 7 OEMs towards women-owned businesses. I am advised that, to date, **the Automotive Industry Transformation Fund** has spent 60% of its funds towards businesses with women ownership. The sector has also committed to targets focused on women in terms of new businesses, leadership, and jobs.

### Conclusion

- The SA automotive industry is a valued part of SA's domestic economy, but there are increasing questions on whether its full value is being unlocked. The only way to justify the government's



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fiscal support to the sector is through greater localisation and more component production opportunities.

- The transition to New Energy Vehicles cannot only be about vehicle assembly. Assembly should be supported but if there are no demonstrated localisation gains.
- Research and development should also be at the forefront of our efforts. By investing in battery technology and EV components, we can potentially lead in innovation and contribute to the global transition to sustainable transportation.
- Additionally, let's not forget the importance of public transportation electrification. Transitioning buses and taxis to electric power can significantly reduce emissions and promote the adoption of EV technology. These are critical steps toward a cleaner, more sustainable South Africa.
- Policy alone is not enough. We need a comprehensive infrastructure network. The development of a widespread charging infrastructure is paramount.
- Public charging stations in urban centers and along major highways will alleviate range anxiety and foster confidence in electric vehicles. Partnering with private enterprises to establish these stations is a necessity.
- Transformation is non-negotiable, and innovative institutions such as AITF, with its model of guaranteed procurement opportunities for lower-tier black-owned manufacturers, need to be expanded and used as a targeted industrial policy measure. The inclusion and approval of the multinational component suppliers into the AITF will open the opportunity to further deepen localisation targets.

I wish you well in your deliberations. We are looking forward to the outcomes of your deliberations.

**Thank you.**