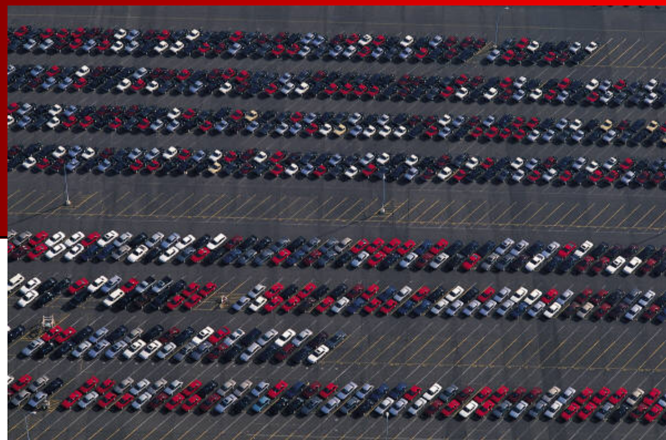
A case of globalise or die?

The impact of increasing multinational ownership and control in South Africa's automotive sector on jobs and job creation



NUMSA SECTOR JOBS SUMMIT PROJECT
AUTOMOTIVE SECTOR

A case of globalise or die?

The impact of increasing multinational ownership and control in South Africa's automotive sector on jobs and job creation

DRAFT REPORT
16 July 2002

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Gary Phillips
16 July 2002

LIST OF INTERVIEWS CONDUCTED

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9 May 2002

INTRODUCTION

The future of the South African automotive sector is increasingly being tied to the extent of global integration by local manufacturers of vehicles and components. The future of the sector primarily being crafted by the government's Motor Industry Development Programme (MIDP), now in its seventh year. The MIDP seeks to improve the economies of scale of local manufacturers through encouraging specialisation and allowing these more specialised producers to import more and cheaper products they are no longer making. This would then further strengthen the drive towards greater volumes. Finally, the greater volumes result in cheaper producer prices and a more competitive automotive sector, better placed to sustain and even grow jobs.

Perhaps the biggest impact of the MIDP, however, lies outside of its objectives (which are detailed in Table 1), that of the increasing ownership and control of the automotive sector by global capital. The original plan of the MIDP was that South African automotive and component manufacturers would integrate into the global economy through importing parts or goods that were considered low volume or not produced in the country, and also through exporting products or components from South Africa. However, the most significant form of integration has instead been sale of ownership by South African manufacturers to multinational companies, or at least the setting up of joint ventures.

At present, the Department of Trade and Industry (DTI) considers this form of global integration to be critical to the success of the MIDP, although the extent to which it has occurred was not expected. In an interview, the DTI's MIDP co-ordinator explained that South African companies "need a (foreign) strategic partner – without one they're as good as dead"[1]. This thinking has been extended to what is required for successful exporting (a key objective of the MIDP). According to Trade and Investment South Africa (TISA) of the DTI:

> The trend is that companies should be majority foreign-owned if they want to export; for us it is almost a prerequisite. We prefer companies to sell ownership than to undertake licence or royalty agreements as these restrict export opportunities. It makes sense to sell ownership. [2]

The selling of ownership has also been tied to improved competitiveness and chances for survival by the automotive industry. Recent news that the Toyota Motor Corporation would buy out Wesco's 40% ownership of Toyota SA was met with relief by the outgoing South African owners:

> … other South African original equipment manufacturers, being wholly owned subsidiaries of their overseas parents companies and in some cases not being exposed to the rand-to-yen exchange rate, have a significant competitive advantage over Toyota SA in terms of access to substantial export markets [3]

The logic of this approach is tied to recent developments in the global automotive sector, particularly in how global automotive manufacturing giants have responded to the sustained oversupply of vehicles in the massive consumer markets of North America, Europe and South East Asia.

This fact requires this report to begin with an examination of these global developments. Thereafter it will more closely examine the nature of ownership

Table 1 : Objectives of the Motor Industry Development Programme [4]

The MIDP aims to develop an internationally competitive and growing automotive industry, able to:

- Provide high quality, affordable vehicles and components to domestic and international markets;
- Provide sustainable employment through increased production;
- Make a greater contribution to the economic growth of the country, by increasing production and achieving an improved sectoral trade balance;

These national objectives would be achieved by:

- Encouraging a phased integration into the global automotive industry;
- Increasing the volume and scale of production, by the expansion of exports and gradual rationalisation of models produced domestically;
- Encouraging the modernisation and upgrading of the automotive industry, in order to promote higher productivity and facilitate the global integration process;

The major policy instruments to achieve these objectives have been:

- A gradual reduction in tariff protection, in order to expose the industry to greater international competition;
- The encouragement of higher volumes and a greater degree of specialisation, by allowing export firms to earn rebates of automotive import duties;
- The introduction of a range of incentives which are designed to upgrade the capacity of the industry in all its spheres

changes in the assembly, components and new tyre manufacturing and motor retail sub-sectors. The report will then look to examining what the implications of this growing multinational control are for the South African automotive sector, job creation and the labour movement. Finally, it will consider an appropriate response for organised labour.

FACTORS SHAPING THE GLOBAL AUTOMOTIVE SECTOR [5]

The development, shape and nature of the global automobile manufacturing and supply industry appears to be influenced by three meta-factors:

- The rise of Japan and increasingly Korea and decline in the USA as the dominating global automobile force,
- The interplay between the size of the automobile market and the nature of national government regulations on the manufacture and supply of automobiles, and
- The 'maturing' and growth stagnation of North America and Europe as global consumer markets for automobiles and more recently, the growth of East Asia as a significant, fast growing global consumer market for automobiles.

The rise of Japan

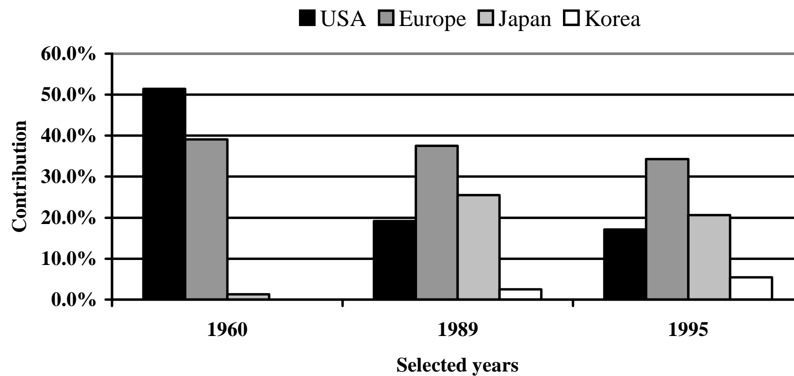
Automobile production in the world today is again experiencing shifts and structural change. For most of the twentieth century, US and (to a smaller extent) European automobile manufacturers dominated global production. The oil crisis of 1973 put strains on US production and saw a shift in demand towards European vehicles, more suited to the post-oil crisis world of fuel efficiency. The 1980s saw the rapid growth of Japanese automobile manufacturing and the resulting global dominance of companies such as Toyota and Nissan.

The focus of the 'Japanese era' was the focus of producing for North American and Western European markets. This resulted in many global shifts in the character of automobile production – massive foreign direct investment by Japan in the USA, new technologies, new labour processes and skills, new supply chain relationships and the like. Many of the techniques and concepts introduced by Japanese manufacturing philosophy (sometimes referred to as 'Toyotism') have become commonplace in most automobile manufacturers throughout the world.

East Asia as a global consumer market, and the rise of Korea

While Japan still dominates global automotive production, its position has been unsettled somewhat by the growth of Korean automobile manufacturing and the rise of Korea and its neighbours as a significant (and protected) consumer market. The rise of East Asia as a global consumer market has also caught the attention of other global industries: consumer electronics, petrochemicals and clothing to name a few. Japanese, US and Western European automobile manufacturers – together accounting for 90% of global output for most of the 1990s – have focused most of their operations on traditional consumer markets. New Korean automobile manufacturers such as Hyundai and Daewoo have focused primarily on the East Asian markets.

Figure 1: Contribution of selected regions to global output 1960 to 1995 [6]



The size market and nature of government regulation

The production methods used in the supply of automobiles in various countries is determined principally by two factors and the interplay between these: the strength of the country's automobile consumer market, and the nature of government regulation in the sector.

The global consumer markets of North America and Europe have seen the introduction of full-scale manufacture of industries and a representation of the entire automobile manufacture value chain in their industries. Those countries that have restricted direct investment access by foreign producers or favoured domestic producers in state support, such as Germany and France, have seen the development of this full-scale manufacture in domestic hands. Countries such as America and Britain – which have been neutral towards foreign and domestic producers – have seen increasing levels of ownership and manufacturing activity in the hands of Japanese-owned companies.

Where countries have smaller automobile consumer markets they also tend to lack domestic manufacturing capacity. Global producers tend to supply these markets through either completely built-up (CBU) imports delivered through distribution networks or semi or completely knocked-down (SKD or CKD) assembly plants. Defensive government regulations of these countries – particularly developing countries – have often attempted to increase the level and technological complexity of automobile investments through local content requirements (as high as 80%) or heavily restricting CBU imports to foster the development of local assembly and component markets.

Smaller automobile markets also see increased co-operation between global companies through sharing production facilities and alliances in reaching different segments of market demand.

The maturing of demand in traditional global consumer markets

The latest global shift in consumer markets (and therefore demand) away from traditional global areas, has given rise to two types of automobile production regimes in the global markets. Dicken describes these as:

- **New demand:** introduction of new products, usually in markets experiencing rapid growth, and
- **Replacement demand:** when a market is 'mature' or 'saturated' and experiencing slow growth, producers will introduce small or cosmetic changes or 'tweaks' to existing products to cause existing owners of products to buy the new models

The US and European markets is thought to consist of as much as 85% of replacement demand. East Asian markets consist much more of new demand. As these consumer markets 'mature', they will also increasingly consist of replacement demand.

Prior to the emergence of East Asia as a global consumer market, most automobile markets were dominated by replacement demand. Significant gains were experienced under these conditions by the Japanese only with their 'lean production' methods: reduced production costs, technological change and work re-organisation. European and US manufacturers found the introduction of these Japanese Management Techniques (JMTs) as their strongest response or 'best practice' to the competitive pressures introduced by the Japanese into the slow growing, mature automobile markets.

THE IMPACT OF GLOBAL OVERSUPPLY ON AUTOMOTIVE PRODUCTION STRATEGIES

The prevalence of replacement demand in most consumer markets has caused a substantial shift in production strategy by automotive manufacturers. The most painful aspect of oversupply is the under-utilisation of capacity. This results in investments made by companies not being used (and therefore not bringing the companies the required returns on their investments). It is estimated that between 25% and 50% of global production capacity is under-utilised.[7]

Under-utilisation of capacity has brought about a greater focus on productivity, technology and cost reduction. The adoption of Japanese production principles in the automotive sector is directly related to the growth in under-utilised capacity.

Justin Barnes[8], in his review of global shifts in automotive production, notes that the under-utilisation of capacity is causing automotive manufacturers to create vehicle models which have a much shorter shelf-life (previously models would receive sustained demand for eight years or more, but now they expect for models to last only two to four years). In order to achieve this, the companies have had to significantly improve their ability to develop new models and then to get these models on the production floor and manufactured at volume.

Barnes notes that through making an increasing number of models off the same platforms (that is, the basic building blocks off which a vehicle is assembled – for example, Volkswagen's Jetta and Golf models are all assembled off the same

platform) and through shifting an increasing amount of design and technology-development pressures to their major suppliers, automotive manufacturers have been able to reduce costs and produce new models in a faster period of time.

The automotive manufacturers have been able to buy ‘readymade’ groups of components or ‘modules’ rather than spend the time and money developing those themselves. This has led to what is known as ‘modular’ assembly. The suppliers of these sub-assemblies would then source smaller components from other suppliers. The outcome is that the manufacturers work with fewer suppliers, who work with other suppliers, who work with others – the ‘tiering’ of the supply chain.

In his seminal text, Peter Dicken[9] highlights a number of other important effects of the focus on replacement demand have been:

- Consolidation and concentration of global ownership,
- Globalisation of supply and regionalisation of demand,
- Diffusion of component manufacture to low cost sites around the globe,
- Integration of body assembly, paint trimming and final assembly operations,
- Greater segmentation and fracturing of markets,
- Various types of competitive strategy – principally the ‘world car’ strategy, luxury car manufacturing and ‘glocalisation’, and
- High levels of vertical integration with an increasing presence of automobile manufacturers in retail.

Consolidation and concentration of global ownership

In 1920, there were more than 150 automobile manufacturers in France, 40 in Britain and more than 30 in Italy, while the USA had 80 manufacturers. Today, a mere handful of automobile manufacturers supply to global markets. The slow down in growth in demand in traditional consumer markets and the increasingly high levels of under-utilised capacity has meant an increasing concentration of ownership and control of automobile manufacturing in the world.

A similar pattern can be expected for East Asia as replacement demand begins to dominate the market. The now many automobile companies such as Daewoo, Hyundai, Subaru, Kia, Samsung, Ssanyong and others are under increasing pressure to merge or sell their operations and consolidate ownership.

In 1994, fifteen global automobile corporations captured 80-90% of the manufacturing market. There has been further concentration since then but interestingly this has not all been through mergers and acquisitions. The last major merger was of that between Daimler Benz and Chrysler. More recent efforts at consolidation, according to the International Metalworkers’ Federation (IMF), have been through strategic alliances rather than mega-mergers of the kind that produced DaimlerChrysler. Table 2 details the alliances as they stood at July 2000.

Renault’s acquisition of Samsung Motors during 2000, is the first move by traditional automobile giants to directly access the fast growing East Asian markets (of which Korea is the second fastest growing). General Motors’ attempt to buy Daewoo will be

Table 2: Global automotive alliances at July 2000 [10]			
Alliance	**Share of world production**	**Major regional focus**	**Ownership of partners**
GM-Fiat	23.9%	North & South America	Isuzu (49%), Fiat (20%), Fuji (20%) Suzuki (10%)
Ford-Mazda	15.7%	North America & EU countries	Volvo Cars (100%), Mazda (33%), Land Rover (100%)
DaimlerChrysler-Mitsubishi-Hyundai	13.6%	North America & EU countries	Mitsubishi Cars (34%); (Daimler Chrysler has no shares in Hyundai) Hyundai owns Kia (51%) and Asia (16%)
Toyota	9.7%	Japan & Asia Pacific	Daihatsu (51%), Hino (34%)
Renault-Nissan	9.5%	Japan & EU countries	Nissan (37%), Samsung (70%)
VW-Scania	9.4%	EU countries, Eastern Europe & South America	Scania (19%)
Honda	4.6%	Japan	
Peugeot-Citroën	4.4%	EU countries	
BMW	1.6%	EU countries	
Daewoo Alliance	1.5%	Asia Pacific & Eastern Europe	Ssangyong (52%), (Daewoo itself is about to be bought by GM)

the second significant move to this area. In July 2000, Daewoo held a sizeable market share in the Asia Pacific region of 11.5%.

Globalisation of supply and regionalisation of demand

The concentration of ownership and dominance of replacement demand has meant that many of the same models (or at least platforms) and brands are supplied worldwide. The spread of European and Japanese models were also facilitated through the 1973 oil crisis.

The ‘generalisation’ of demand through the increased need for small and fuel-efficient vehicles has meant increasingly less country-specific differences in demand in automobile industries. This has allowed the automobile corporations to supply globally making slight or small changes to models in various countries through local capacities in SKD or CKD plants. This has further allowed them to achieve global economies of scale in a mature market.

The generalisation of demand has also allowed the automobile corporations to survive increasing fragmentation and segmentation of their markets as product changes required have either been merely cosmetic or have been restricted to luxury vehicles which are more short-run or ‘craft’ oriented in production method than cheaper models.

Greater segmentation and fracturing of markets

As has been the case with many industries in the traditional global consumer markets of North America and Europe, demand for automobile products has become increasingly fragmented and consumers have begun to assert personal or small group tastes and product needs.

This has particularly been the case in the luxury car market where the price of vehicles has given consumers greater say over the vehicles that they buy.

Automobile manufacturers have also found that they can achieve greater sales by packaging models as meeting particular market segment needs: vehicles for agricultural, young professional, family, young executive, student, older executive, and other uses. As has been mentioned earlier, the generalisation of demand towards familiar global models has allowed for many of these changes and segmentation responses to be merely cosmetic and often mere marketing tricks (the best example of this is the many versions of Volkswagen's Citi Golf).

What segmentation and fracturing under the dominance of replacement demand has meant is a proliferation of models and in some cases a real shortening of production runs (thereby increasing the unit cost of vehicles).

Diffusion of components manufacture to low cost sites

The maturing of global automobile demand and the increased competitive pressure from rising Japanese, and more recently Korean, producers have caused downward price pressures on component suppliers. It has also meant that automotive manufacturers have searched globally for cheaper suppliers of components. This has led to the development of automobile component industries and a massive increase in the trade of automotive components. It has further also led to the emergence of transnational component suppliers who have established their own global networks of design, marketing, production and sub-contracting.

While JMTs which operated off 'just-in-time' principles caused a tightening of relationships between suppliers and manufacturers, the actual locational distance between various activities in the automobile production chain was more heavily dependent upon transport costs.

Integration of body assembly, paint trimming and final assembly

The cost and competitive pressures facing automobile manufacturers locked in markets dominated by replacement demand has also led to the integration of body assembly and painting into final assembly operations. This is mainly because of the prohibitive transport costs associated with delivering sufficient quantities of assembled vehicle bodies to final assembly plants.

Where often it is the automobile manufacturer who takes over these activities as a part of final assembly, there have been occasions where body component suppliers will undertake these activities at the final assembly plant. Similarly, there have been occasions where paint shops, although located at the final assembly plant, have been owned and run by automotive coatings suppliers.

Global sourcing strategies

According to Dicken[11], three types of competitive strategy have been identified as dominating the approaches of automobile manufacturers to secure growth of markets in the face of replacement demand and competition from Japanese and Korean manufacturers.

The first of these is the development of the 'world car'. Essentially, this is where different plants, countries and /or suppliers around the globe each contribute to the manufacturing of a car. The Ford Motor Company, the world's most transnational automobile manufacturer, has applied this strategy in a significant way.

A second strategy has been to shift towards luxury cars. This has helped the manufacturers move into lower volume, higher margin markets giving them better returns. The re-introduction of the Volkswagen Beetle as a luxury car is a prime example of this.

Finally, some manufacturers – particularly Japanese manufacturers – have adopted the strategy of 'glocalisation'. This involves the setting up of manufacturing of CKD/SKD assembly plants in many localities around the world.

Underpinning all these strategies has been the carving up of the production cycle globally. This international division of labour has meant that certain parts of the world are responsible for either a certain aspect of the manufacturer's global operation or to supply certain models for the entire group.

High levels of vertical integration

The global slow down through the dominance of replacement demand has also meant that automobile manufacturers have been consolidating ownership and control along the value chain. The need to closely control retail and marketing has meant that automobile manufacturers have either bought part ownership in motor dealerships, franchised dealerships or have forced dealerships to supply only their brands.

The trend of late is for the automobile manufacturers to exercise control and ownership more directly in retail. This has meant there is a tremendous amount of vertical integration in the automobile sector and little space for smaller delinked business in the motor retail sector.

CHANGES TO OWNERSHIP STRUCTURE IN SOUTH AFRICA'S AUTOMOTIVE SECTOR

South Africa's automotive sector is one of the country's major employers and represents one of the country's largest investments. Including the motor retail industry, the automotive sector is estimated to directly employ about 255 400 people. Its existence further sustains a number of jobs in its major supplying industries of steel and metal, plastics, rubber, textiles and glass.

In addition, a further 21 000 people are employed in component manufacturing firms non-exclusive to the automotive sector and an estimated 70 000 people are employed in the country's 5 500 service stations.

Since 1996, the automotive sector has attracted investments in excess of one billion rands per year. The introduction of the MIDP's Productive Asset Allowance (PAA) – an investment incentive introduced to encourage platform reduction and plant upgrading[*] – in July 2000, is expected to raise investment levels for 2001 to close to three billion rands.

The automotive sector is a producer-driven sector. That is, investment and marketing trends are determined mainly by the behaviour of the automotive manufacturers. In South Africa, there are eight automotive manufacturers. They are referred to as 'assemblers' (and will be by this report) because their main work is the assembly of semi-knocked down (SKD) kits and completely-knocked down (CKD) kits imported from their parent companies around the world. However, they have also taken on significant levels of manufacturing including the production of engines, body parts, tooling and components, so they are more than mere assemblers.

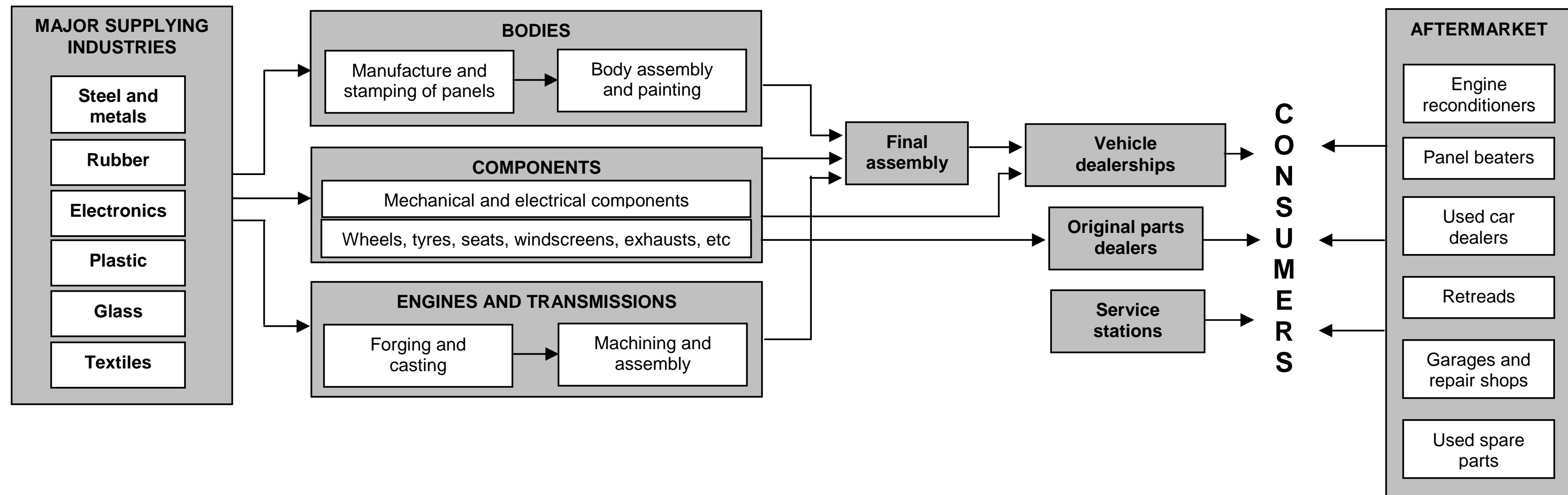
The assmblers employ close to 33 000 employees, about 20 000 of which are hourly paid workers. In 1991, there were 31 000 hourly paid employees. Because of their significance and the fact that the assemblers account for 60% of the automotive sector's total output[12], it is worth briefly profiling each of the assemblers (this will also be undertaken in more detail later in the report).

BMW (South Africa) (Pty) Ltd

BMW SA is a luxury car producer. Its plant is based in Rosslyn in Gauteng and the company as a whole (including its marketing divisions) employs approximately 3500 people. BMW SA is a wholly owned subsidiary of the German company BMW AG. The BMW brand was first introduced to South Africa by a German immigrant who opened motor vehicle distribution company called Club Garage. He imported BMW motorcycles in 1932 and introduced BMW motor vehicles in 1958. Later in 1959, Praeton Assemblies in Rosslyn began assembling BMW in 1959 and later still in the

[*] Investments covered by the PAA include advanced production equipment, paint plants using environmentally acceptable materials required by destination countries, assembly lines, logistical material-handling systems (fully integrated and compatible with external suppliers' plants) and machinery and tooling required for the localised production of suitable components.

Figure 2 : Structure of South Africa's automotive sector [13]



	NEW TYRE	COMPONENTS	AUTO ASSEMBLY	MOTOR RETAIL
Number of local companies	1 listed company 3 private companies	150 - 300 companies, 14 major players, major SA owned companies listed	7 passenger & LCV 5 heavy vehicles	14 900, 7 are listed, 6000 are "one-man businesses"
Dominant form of ownership	Multinational	Domestic, increasingly multinational	Multinational	Domestic
Number of employees (2001)	8 700	39 000 in firms exclusive to auto, 60 000 in total	32 700	175 000 (including components and tyre)
Employment trend (including last five years)	Downward	Recently downward, projected upward	Stable, possibly upward	Stable, possibly downward

1960s BMW models were assembled in the newly opened Automakers (eventually to focus on Nissan brands). In 1968, the franchise for South African assembly was given to Pretoria businessmen who established BMW SA (Pty) Ltd in Rosslyn. Four years later, the German brandholder BMW AG bought a controlling share in BMW SA and in 1974 established full control of the South African operation.

Into the 1990s, the company was the flagship of global integration, undertaking aggressive export efforts[*] and massive investments to ensure export quality before many of the other assemblers. Current investments will take the company's capacity from 49 000 vehicles per year to 60 000 per year as well introduce extensions to the body-manufacturing section and add a new preparation plant to the hi-tech paint shop. Should the plant be able to operate at capacity (dependent upon export orders), they expect to create 100 new jobs during 2002.[14]

Assisted by the MIDP, BMW SA has also become a global exporter of leather car seats through its component subsidiary, SA Trim (Pty) Ltd. BMW is not involved in the production or importation of commercial vehicles.

The BMW plant used to assemble Land Rover brands until BMW AG sold Land Rover Group Ltd to Ford Motor Company in June 2000. This meant that Ford (at the time present in South Africa as Samcor), acquired the ownership of Land Rover South Africa (Pty) Ltd. BMW SA continued to assemble Land Rover brands for a further 18 months after the sale while Ford's Silverton plant prepared assembly lines to take on the production.

The company also owns other motor retail subsidiaries which assist with its distribution of imported vehicles and motorcycles. Until recently, BMW SA directly owned its major dealership, Auto Bavaria (Pty) Ltd, but this was sold to an empowerment group last year. Other subsidiaries still owned by BMW SA include BMW Automobile Distributors (Pty) Ltd, BMW Financial Services (Pty) Ltd and BMW Waterfront (Pty) Ltd.

The company exercises control in the retail sector through its dealership network. There are 55 exclusive BMW dealerships in the country (with almost half of these in Gauteng). Eight of these dealerships are owned by Barloworld Motors (Pty) Ltd, a directly owned subsidiary of the conglomerate Barloworld Ltd, and two are owned by Unitrans Motors (Pty) Ltd. BMW SA's products are also distributed through the multi-franchise dealership of McCarthy Forsdicks, the country's largest BMW dealership operation. Imperial Holdings also have a stake in BMW's retail through their Bloemfontein-based Sovereign Motors dealership.

DaimlerChrysler of SA (Pty) Ltd

DaimlerChrylser (DCSA) are based in East London. The company was set up in the first half of the twentieth century by a group of investors including Volkskas, the Ernst Göhmer Foundation (from Switzerland) and Mercedes-Benz, with Volkskas being the majority shareholder. Initially, the company produced a wide range of brands under licence, until in 1967, when Mercedes-Benz became the majority

[*] **Engineering News** (15 March 2002) reports that the value of the company's exports increased from R6.5 billion in 2000, to R50 billion in 2002.

shareholder through buying out Volkskas, the company focused on producing Mercedes-Benz brands.

After the merger of Daimler-Benz and Chrysler a few years ago, the company changed its name from Mercedes-Benz of SA to DaimlerChrysler of SA. Early in 2000, DaimlerChrysler AG (DCAG) bought the remaining ownership from the Ernst Göhmer Foundation to make DCSA a wholly owned subsidiary of DCAG.

The global merger saw the return of Chrysler, which previously had directly owned two production plants in South Africa. The American company' closure and liquidation of its South African operations in 1976 was more for business reasons than political reasons.

DCSA now employs 4800, 80% of which are based in the East London plant. Investment by DCAG from 1997 to the tune of R1.5 billion introduced important changes to the plan to make it export focused. The effort, according to the company, created 2 000 jobs (700 of them in companies supplying DCSA).

The company dropped production of all platforms except for the Mercedes C-Class and the Mitsubishi Colt Bakkie 1 tonner. Approximately 80% of the 50 000 vehicles produced at the plant are exported (to Japan, Australia, New Zealand, United Kingdom and Belgium). In return, the company imports about 20 000 vehicles including Mercedes A and S classes and other DCAG brands like Chrysler and Misubishi.

The company has outsourced its commercial vehicle production operation to a black empowerment grouping called iKhwezi Trucktech. The new operation is owned by Ikhwezi Investment Holdings (30%), Sisonke (20%), and four high profile East London businessmen (Willie Gauss, Geoff Shone, Jonathan Goldberg and Peter Bosch), who together own the remaining 50% of shares.[15]

DCSA will retain the role of marketing the brands assembled by iKhwezi and the company will exclusively supply DCSA. This initiative arose because it became too expensive for DCSA to import CBU brands but also there was not enough scope to continue investing in a CKD operation[*]. With the operation now outsourced, DCSA can still access cheaper SKD commercial vehicles. DaimlerChrysler is the market leader in medium and heavy commercial vehicles.
The company markets Freightliner brands, Western Star brands (a Canadian company now owned by MAN Trucks) and MercedesBenz brands (including the popular Sprinter).

DCSA also owns the Atlantis-based engine plant, Adepart (Pty) Ltd as well as a financial services arm called DaimlerChrysler Services (Pty) Ltd. It further has a 75% stake in the company debis Fleet Management (Pty) Ltd (the other 25% is held by Kagiso Ventures Ltd).

[*] Interestingly, in contrast to passenger vehicles, commercial vehicles are defined by trade rules as productive assets and so are given lower import tariffs. This acts as a further disincentive for South African companies to undertake assembly of these operations themselves. The DTI notes that more commercial vehicles are being imported than before.

DCSA recently rocked the motor retail sector with news that it was withdrawing from franchised motor dealerships who sold their brands and instead open directly owned dealerships. It indicated that it would continue to franchise to dealerships in rural and small town areas where running their own dealerships was not viable. More on this will be covered later in the report.

Delta Motor Corporation (Pty) Ltd

Delta is South Africa's only domestically owned automotive assembler. Started by General Motors of the USA in 1926, the company became South African owned when GM disinvested in 1986. GM's disinvestment was on the basis of a management buy-out and contained a provision that GM could exercise at a later date to buy the ownership of the company back. Thus far, GM has bought back 49% of the company. It is expected that they will buy the remaining 51% sometime this year (the plan was put on hold after the horror events of 11 September 2001 in the USA).

The company has two assembly plants, one in Port Elizabeth and on close by in Struandale, on the way to Uitenhage. The Struandale plant has been focusing on producing the Isuzu platform, but may shift towards Opel Corsa bakkies in the near future. The Port Elizabeth plant focuses on producing the Opel Corsa platform, with a new model (the Corsa 1.6i Rogue) being introduced in April this year. The company employed about 3795 people in 2001, of which approximately 2500 are hourly paid production staff.

Delta has been planning for some time to integrate into the GM family, with the most significant move in this regard coming with the relocation of Delta's senior executive for exports to GM's Detroit-based Worldwide Purchasing Organisation.

Most of Delta's assembled vehicles are sold in South Africa, with little being exported. Those exports which do happen, and with integration into the "GM world" they expect this to increase, are mainly to Southern Africa (soon to spread to Latin America, Africa and the Middle East, what GM calls the LAAM countries). Most export activity takes place through Delta's components manufacturing subsidiaries, Precision Exhaust Systems (Pty) Ltd and Sten Precision (Pty) Ltd, which both export whole catalytic converters and sub-components thereof and other exhaust parts. Delta has also invested in a joint venture with global leather seat manufacturer, Lear Corporation, called Lear SA which produces automotive seats for Delta and other companies (including BMW SA).[16] The company also imports some Opel models and various GM brands such as Suzuki, Chevrolet and Cadillac through its Johannesburg sales office.

The company participates in the commercial vehicle market segment through its Isuzu sales. The expected focus on LAAM countries will mean that they will continue to produce commercial vehicles.

Being mainly a domestically focused company, protection of local market share is critical to Delta. Their commitment to the domestic market was evidenced through the recent announcement by the Delta Motor Corporation Dealer Network to spend R50 million in upgrading their dealerships with new technology and better facilities.

The ownership of all dealers is not known. The biggest dealership body appears to be Williams Hunt, owned by Unitrans (they have 11 dealerships). Barloworld has eight Delta dealerships, while the Westvaal Group have five, McCarthy have three and the Peter James Group have two.

Ford Motor Company of Southern Africa (Pty) Ltd (and Land Rover (Pty) Ltd)

Ford brands were imported to South Africa from 1911, and locally assembled in a Port Elizabeth plant from 1924. The assembly plant later moved to Pretoria, leaving the Port Elizabeth plant to focus on engine manufacturing (now a major export operation).

In 1985, Ford disinvested from apartheid South Africa, selling the South African company to Anglo American Corporation, who merged it with its other automotive interests to form Ford Motor Company of Southern Africa (Pty) Ltd, under the holding company, South African Motor Corporation (Pty) Ltd, or Samcor. In November 1994, Ford re-acquired a 45% stake in Ford Motor Company of Southern Africa (FMCSA). During 2000, Ford Motor Co. bought the remaining shares (then 45%) from Anglo American Plc and renamed Samcor.

By 1994, Samcor was assembling Ford, Mazda and Mitsubishi brands. Samcor became integrated into the global supply networks of the Ford Motor Co. in 1995 when the Port Elizabeth engine plant was given the contract to supply all 1.4-litre/high torque engines for the company; a total of 200 000 engines were required over 30 months in the first contract. The engine contracts have been extended to 1.6-litre and 1.3-litre Rocam engines. The company also produces close to 2 million catalytic converters, 150 000 alloy wheels and 20 000 leather seat covers per year.

FMCSA now also produces Volvo cars, after the acquisition of the passenger brands by Ford Motor Co. from the Swedish company. Volvo stopped selling in South Africa during the apartheid era and returned in 1994, where they were assembled in Botswana and marketed through the Wheels of Africa group. Upon the collapse of Wheels of Africa in 2000, the responsibility for selling Volvo's was shifted to FMCSA. About half the Volvo brands sold in South Africa are produced by FMCSA, the rest are imported.

Other brands produced include Mazda, Land Rover and Jaguar. Ford is reducing its platforms from nine to seven to focus on higher volumes. Together with Nissan SA, the Financial Mail reports that Ford is one of the assembly plants "often named" as a candidate for closure.[17] However, there are no moves to this effect and Ford Motor Co. continues to invest in the plant.

Ford does not directly own any retail interests and its attempts to vertically integrate into retail in the USA ended as a dismal failure where the company sold off all its retail interests to independent dealers. In South Africa, Ford has 150 dealerships (which include specialist Land Rover and Jaguar dealerships) and 10 dealerships in neighbouring countries, mainly Botswana and Namibia.

The large multi-franchise groups such as Barloworld and Supergroup all have Ford dealerships. Imperial, however, does not. Combined Motor Holdings sell vehicles through the dedicated Ford dealer franchise in the Kempster Auto group, which has

six dealerships. McCarthy has little interest in the Ford brands, and only sells Land Rover in a dedicated dealership.

Nissan South Africa (Pty) Ltd (and Fiat Auto SA (Pty) Ltd)

Nissan SA was previously known as Automakers (Pty) Ltd and was majority owned by Sanlam Ltd (37%). It produced Nissan, Nissan Diesel and Fiat products under licence to the global companies, and was also responsible for the importation of Alfa Romeo brands.

Automakers acted as holding company to Nissan South Africa (Pty) Ltd, the company's automotive manufacturing arm, one of many Automaker subsidiaries. Sanlam owned Automakers through its industrial investment subsidiary, Sankorp, and the listing in 1995 was an attempt to reduce its shareholding in Automakers. On listing, two Japanese companies bought 12.9% of the shares: Mitsui, a Japanese conglomerate, and Nissan Diesel, a global commercial vehicle producer 40% owned by Nissan Motor Company. The rest were owned by an employees trust and various institutions. At the time of the listing Nissan Motor Company had requested that shares be set aside in Automakers for their eventual purchase but this was not approved because of the problems Nissan was experiencing globally. It was agreed that when Nissan Motor Company was in a position to buy shares, it would take over Sankorp's ownership.

The listing proved to be very unsuccessful, badly timed with the introduction of the MIDP and increased competition in the sector, and the company made losses. Sankorp decided to buy back the shares (only fifteen months after listing), delist and quickly approach Nissan Motor Company to buy the company. In 1997, much to the relief of the South African owners, the Japanese-owned Nissan Motor Company bought a 50% stake in Automakers. During 2000, it went further to buy Sanlam's stake and later to secure 98.7% of ownership of Automakers. It then changed the company's name to Nissan SA. The company employs over 3 000 people in South Africa. It continues to assemble Fiat brands including the Uno, Palio, Palio Weekend and Sienna (the current contract extends to 2006) although Fiat have established a separate marketing company, Fiat Auto SA (Pty) Ltd.

Nissan Motor Company's particular interest in Automakers was their close proximity to African markets. By 2002, the company was considering extending its investments in South Africa but continual global uncertainties have made this a difficult decision. A vice-president was recently quoted as saying the following regarding the South African operations:

> "Nissan has been in SA for more than 30 years. It's very stable and as long as it remains economical to do so, we will remain. Mid-term, I have no plan to stop production in SA. But if you ask me if we will be there in 50 years, who can say? You can't continue investment unconditionally. You have to be competitive." [18]

While the future of the South African plant may be linked to being able to export beyond Africa, currently Nissan Motor Company's global strategy precludes this.

Fiat Auto SA has taken over responsibility for the distribution and marketing of Alfa Romeo products, as these are also of the Fiat stable. Although mainly a marketing company, Fiat Auto SA benefits from the MIDP through exporting catalytic

converters produced at its Wadeville subsidiary, Magnetti Marelli. The subsidiary also has a leather division based in Uitenhage which produces leather kits for Alfa Romeo in Italy.[19]

Nissan enjoys a strong market share in commercial vehicles since it began producing Nissan Diesel products in 1969. It continues to manufacture Nissan Diesel brands. Renault commercial vehicles, however, are imported CBU and the company offers sales-services-parts-and-financing support to Renault commercial customers. Renault passenger models are also imported by Imperial Cars Imports (Pty) Ltd, a subsdiary of motor retailer, Imperial Holdings.

Nissan brands can be found in 131 dealerships (one in Lesotho, one in Botswana) including those of Unitrans (Oranje Nissan), Super Group, McCarthy, Barloword and Combined Motor Holdings. McCarthy is the biggest Nissan multi-franchise operation, selling 15% of all Nissan brands in the country. Fiat have 94 dealerships, some of which are shared with Nissan.

Toyota South Africa (Pty) Ltd

Industrialist Dr Albert Wessels was the founder of Toyota in South Africa. After a chance meeting with Toyota, he began to import Toyopet Stout bakkies in 1961. Toyota products were at the time also being assembled, together with other vehicles such as Volvo and Buick, in a Durban-based plant (Motor Assemblies) jointly owned by Forsdicks, Atkinsons-Oates and McCarthy Rodway (later McCarthy Ltd). In 1963, Motor Assemblies was sold to Wessels. By the mid-1960s, they were assembling the Toyota Corona and selling it locally. The business remained a family-owned one and was the only Toyota franchise in the world at the time.

As the company expanded, Wessels listed Motor Assemblies in 1963. The Wessels family retained control of the company through Wesco Investments Ltd[*], which owned 50% of the company. The Toyota Motor Corporation (TMC) first invested directly into Toyota SA in October 1996 when it purchased a 27.8% share in the company.

Because of increased reliance on TMC for technology, product and export markets, Toyota SA felt it important to strengthen their relationship with the Japanese company.[20] In July 2001, the relationship was indeed strengthened when TMC and Wesco bought out the rest of the minority shareholders to give the two companies a 35.7% and 64.3% shareholding, respectively. The move led to the delisting of Toyota SA. In June 2002, TMC announced that it would buy out most of Wesco's remaining share, leaving current chairman, Bert Wessels, with a small but "significant" shareholding[21]. The operating company for Toyota SA has been changed to Toyota SA Motors (Pty) Ltd and included divisional heads for product development and procurement, assembly and manufacturing (body press, paint shop and engine plant), marketing and sales, production control, vehicle assembly and component manufacturing.

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[*] Wesco Investments is also a listed company, owned 59.3% by the Wessels family. Wesco also has a direct stake in the major South African automotive component supplier, Metair Investments Ltd, of 12.8% as well as an indirect stake of 27.3% through its directly owned subsidiary Jati Investments, giving it a 40.8% controlling shareholding in Metair. Metair companies have been suppliers of Toyota.

By this stage, Toyota SA Ltd had built itself into a family of companies, including AMSA Parts and Accessories (Pty) Ltd, Toyota South African Manufacturing Ltd, Toyota South Africa Motors (Pty) Ltd, TSA Management Company Ltd, Panopart Ltd, Prospecton Hire (Pty) Ltd, Rowen Properties (SA) (Pty) Ltd, Tory Investments (Pty) Ltd and TSA Procurement Ltd. The company is involved in tool and die manufacturing, engine manufacturing, body pressing, components manufacturing (including catalytic converters) and vehicle assembly.

The company has until now focused on producing 8 models, including three models of trucks and the Hiace, Hilux, Condor, Conquest and Corolla brands. Then, Rav, Land Cruiser, Prado and MR2 brands are imported CBU from Australia. Current plant capacity allows the company to produce a total of 80 000 to 85 000 vehicles per year.

The most dramatic impact of the increased integration into TSM has been the shift towards export focus (Toyota SA is expected to soon be wholly owned by TSM). The company has been awarded an export contract to send 20 000 Corolla brands to Australia. In May 2002, the company announced investment to the value of R3.5 billion which included the introduction of a second shift in preparation for the export order, employing 330 new employees. The exports to Australia and the possibility of a further export of a sports utility vehicle to Europe will cause the company to reduce its production platforms to these two models and dramatically increase its volumes (hence the need for a second shift).

Other investments include a new press shop and hi-tech slush moulding technology to produce dashboards. These investments will assist the company in its strategy to increase local content in vehicles and components; less dependence upon imported componentry will save the company up to R300 million per year.[22] A major motivating factor for TMC was South Africa's emergence as a "low cost manufacturing base" for automotive production (because of low cost utilities, water, electricity, land, building costs and general infrastructure).[23]

The company will possibly introduce capacity expansions to take to a total potential capacity of 150 000 vehicles per year and in the future possibly over 200 000 vehicles per year. This will not be an easy shift to make as Toyota sit with very popular models such as the Conquest and the Hiace (which are used by most mini-bus taxi drivers). The problem with these models is not only their low volume nature (relative to export potential) but also the high maintenance costs associated with the tooling required in press shops to continue to produce the models.

Toyota is one of the biggest selling brands in South Africa and it is not surprising that the multi-dealership franchises all stock Toyota vehicles. It boasts a massive 245 accredited dealerships. Imperial sells Toyotas through its nine Imperial Motors dealerships. Barloworld has at least seven dealerships and McCarthy has at least 24 Toyota dealerships. Unitrans sells Toyotas through its Oranje Toyota and Monument Toyota subsidiaries. Others such as Super Group and Combined Motor Holdings also have strong Toyota dealership operations. Toyota itself does not have any ownership in retail although it is not clear how Toyota is linked to the Toyota Automark used car dealership network.

Volkswagen of SA (Pty) Ltd

The VWSA plant first started in the 1946 as the South African Motor Assemblies and Distribution (SAMAD), which assembled a mixture of models, including Chrysler. The first VW model, the Beetle, was assembled at the plant in 1951 and then increasingly the company started to focus on VW brands. By the 1956, the German company Volkswagen AG (VWAG) invested in the plant and in 1974 the company became a fully owned subsidiary of VWAG (it was renamed VWSA in 1966). The Germans did not disinvest during the apartheid years, making VWSA one of the longest standing multinational automotive investments in South Africa.

Currently, the company produces 75 000 vehicles per year off three platforms – the Jetta-Golf platform (A class), the Polo platform (A0 class, currently producing the Classic and Playa brands) and the Citi Golf platform. The company exports 30 000 A-class vehicles to Germany each year, selling 15 000 of them on the South African market. A further 1 000 vehicles go to Africa each year. Despite the age of the Citi Golf platform and the maintenance costs on the aging tooling required in the press shop, the fact that the company still sells about 12 000 of these per year has caused them to continue production. The rest of the vehicles, including Audi and Kombi[*] brands, are CBU imports giving annual sales of 55 000 vehicles per year. Through this the company enjoys a market share of 22-23% of the passenger vehicle market segment. The company does not compete in the commercial vehicle market segments.

Having not experienced changes in ownership like other South African assemblers has not meant that VWSA has remained untouched by global shifts. For the company, the MIDP has become critical to its future and they claim that, for them, "everything is driven by the MIDP".[24] For one thing, the MIDP has assisted VWSA in doubling the value of its component exports from R900m to R1.7bn in two years from 2000. The company exports catalytic converters, alloy wheels, rubber-metal components, driveshafts and engines.[25] Some of these are produced by the company itself, others are sourced from component manufacturers and then exported through VWSA.

VWSA first started exporting in 1992 when it sent 12 500 left-hand drive Jettas to China. Since then, exports have become central to production. In interviews, senior VWSA management claimed that export was essential for the South African operation; otherwise VW should rather become a CBU-import operation. "VWAG takes exports from us because they need to protect their investment; through this we become forex neutral, we achieve an import-export balance"[26]. Being able to import further VW brands through MIDP import rebate credits ensures that the local plant gives VWAG a strong presence in the South African market. Of the 5 200 employees at the assembly factory, senior management estimate that 50% of them rely on exports for their employment.[27]

The company will continue to focus on platform reduction and the dropping of low volume models. Already, the company has decided to drop imports of the VW Kombi because they are struggling to secure parts, as the volumes sold are too low for the German VW plants to justify production of the parts. In addition, continuing to supply

[*] South Africa continues to be the only country which still displays demand for the Kombi. However, because of the relatively low volumes sold (VWSA were selling about 200 per month), VWAG plants were in Europe were unable to continue to viably supply critical components, such as gearboxes. The platform has since been completely discontinued.

the aftermarket for the Citi Golf is a growing pressure on the company as continuing to invest in tool setting for old, low volume models is expensive.

In addition to factory employment, the company employs a further 1 400 people in sales, marketing and administration around the country in their Roodepoort parts depot, Port Elizabeth warehousing facility, Midrand sales office, Uitenhage marketing office and in home-based sales staff in Durban and Cape Town.

Given VWSA's strong position in the market, the multi-franchise dealerships stock their brands. VW has 152 dealerships. Imperial sells VW brands through their Lindsay Sayker subsidary, which focuses exclusively on VW and Audi models. Unitrans, Supergroup and McCarthy all stock VW vehicles. Combined Motor Holdings do not sell VW brands.

Internationalisation of ownership and exports

Seven assemblers remain in South Africa out of a figure previously as high as 16 (in 1974). Interestingly, as displayed in Figure 3 below, the German-owned assemblers all buy-and-large completed their acquisition of local operations by the mid-1970s[*]. All the German-owned operations were first domestically owned, assembling brands under licence.

Ford and General Motors were directly US owned from the start, this ownership only being disrupted by the sanctions period. But this situation has quickly been reversed. The Japanese brandholders, Nissan and Toyota, resisted direct ownership of their South African operations until after the dismantling of apartheid and the re-integration of the country into the global political community. Up to that stage, the South African operations were Nissan and Toyota's only franchise operations in the world. All other operations were directly owned.[**]

Those assemblers that have integrated ownership into global companies earlier have been the forerunners in exporting. This is clearly shown in Figure 4. Those companies least integrated – namely, Delta and Nissan – are considered to have the most vulnerable futures. The DTI also notes in its most recent review of the automotive sector that "successful vehicle exporters are currently determining industry profitability levels" – during the year 2000, assemblers of light vehicles recorded the highest profitability levels for at least five years.[28]

[*] The Ernst Göhmer Foundation only held a minority ownership of less than 3% in MercedesBenz SA, so when MercedesBenz AG bought out Volkskas' share, it practically owned the entire operation. It was only when DCAG took over the operation that it considered buying the final share.
[**] While economic considerations dominate investment by these global corporations, the political importance of South Africa to the home countries of these corporations should not be understated. South Africa's priority political position during the 1990s was also a factor in attracting investment from these companies.

Figure 3: Summary of ownership histories of SA automotive assemblers

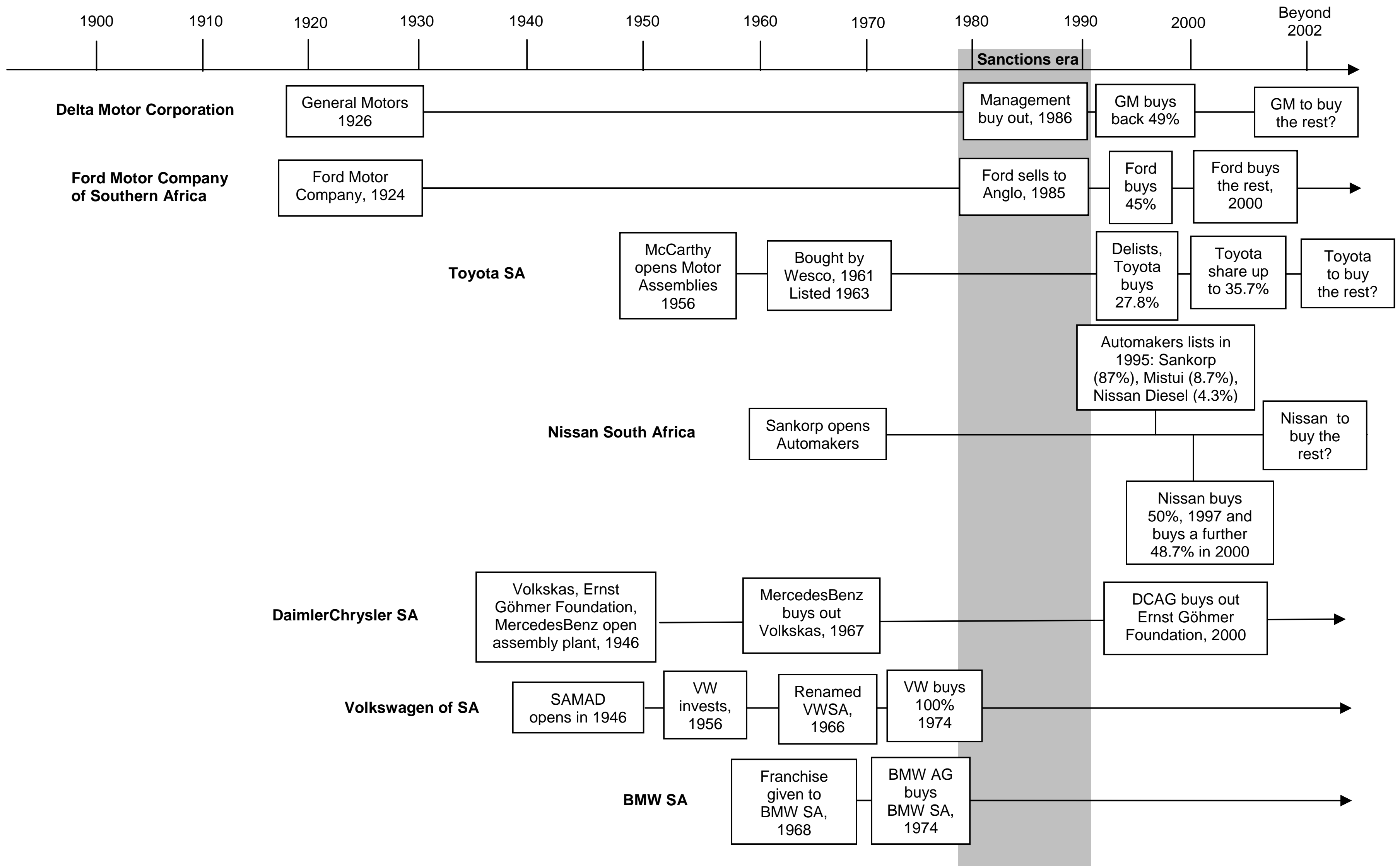
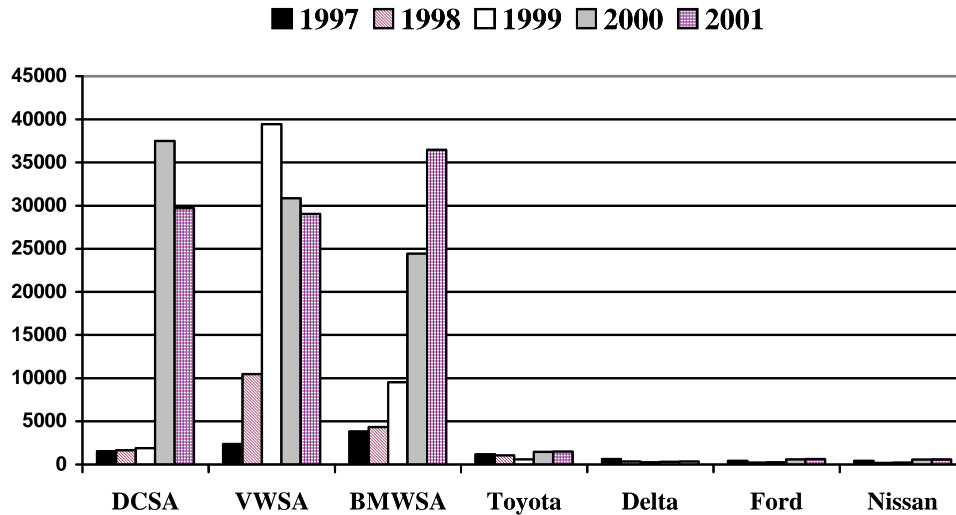


Figure 4: Passenger vehicle export performance of the seven major assemblers [29]



It should be noted that export performance is also linked to company strategy. Some of the assemblers have been performing better in terms of exports in the light commercial vehicle (LCV) segment (for 2001, Delta exported 1850 LCVs, Nissan exported 4474 LCVs and Ford exported 1161 LCVs). Also, because of the provisions of the MIDP, some of the assemblers have focused more on component exports (such as Ford and Delta) than CBU exports. The recent review of the MIDP will dramatically reduce the export credits companies receive.

Commercial vehicle assembly specialists

Most of the assemblers mentioned above are withdrawing from domestically assembling and manufacturing medium and heavy commercial vehicles because of the reduced profitability of these operations. Lower import tariffs on medium and heavy commercial vehicles have also influenced their decisions to largely withdraw from assembly in this market segment and rather import commercial vehicles CBU.

However, there are a number of companies in the automotive sector dedicated to medium and heavy commercial vehicle assembly. Increasingly, these companies are integrating into the global economy through exports (and sale of ownership). Interestingly, two of the companies (Bell Equipment and AMC) represent homegrown technology and domestically developed brands.

Bell Equipment Ltd produces earth moving vehicles and heavy materials handling which are generally considered to be “capital equipment”, falling largely outside the scope of this report. An earlier report generated for the NUMSA sector jobs summit preparations for the engineering sector by FAFO contains further detailed analysis on the company.[30]

The company was started in 1959 by the Bell family in northern KwaZulu-Natal to service farming equipment and heavy vehicles. The company has grown to include a

Table 3: Bell Equipment Ltd's subsidiaries around the world

Southern Africa
I A Bell & Co (Pty) Limited (dormant)
Bell Air Charter (Pty) Limited (dormant)
Bellmet Properties (Pty) Limited (dormant)
Bell Equipment Co S.A.(Pty) Limited
I A B Properties (Pty) Limited (dormant)
Bellmeak Brokers (Pty) Limited
I A Bell Equipment Co Namibia (Pty) Limited
Bell Equipment Co Swaziland (Pty) Limited
Oakington Investments (Pty) Limited (dormant)
Bell Equipment Finance Company (Pty) Limited

United States of America
Bell Equipment North America Inc

South America
Bell Properties Chile S.A.

Asia
Bell Equipment (SEA) Pte Limited

Other Africa
Bell Equipment (Zambia) Limited
Bell Equipment East Africa Limited (dormant)
Bell PTA (Pvt) Limited
Bell Equipment (Malawi) Limited (dormant)
Bell Equipment Mozambique Limited
Bell Equipment Switzerland S.A.
Bell Equipment (Deutschland) GmbH

Europe
Bellinter Holdings SA
Bell Handling Systems (CI) Limited
Bell France SARL
Bell Equipment UK Limited
Heathfield Haulamatic Limited (dormant)
BEQ Switzerland BV

Australasia
Bell Equipment (NZ) Limited
Bell Equipment Australia (Pty) Limited

All are operating companies, except for Bellinter Holdings SA

large network of customer service centres and independent dealerships. By 1995, the company had listed on the JSE. The Bell family continued to exercise control over the company at this stage with four members of the family being directors and three of them major shareholders (together owning 51.6% of the company).

The formation of a strategic alliance with John Deere Construction Equipment from the USA saw family ownership reduced to 34.8% and the sale of 32% to John Deere. All except for one member of the Bell family have now withdrawn from directorship of the company. The strategic alliance has secured John Deere exclusive rights to selling Bell Equipment products in North and South America and has given Bell access to export markets.

The company is considered an ideal success story of the DTI's export orientation strategy and recently received this mention from the Minister of Trade and Industry during his 2002 budget speech:

> Bell Equipment is an enterprise that has grown from being a small engineering and equipment repair service into a globally competitive equipment designer, manufacturer, and preferred supplier of capital equipment across the world. Bell Equipment has exploited the benefits of participating in the DTI's programs.[31]

Busaf Gauteng is a Dorbyl Transport Products (Pty) Ltd operation, which focuses on manufacturing and assembly of buses (the main focus is chassis manufacturing while imported Cummins electronic engines are fitted). Dorbyl Transport products also has licence to produce the ERF Hawk after it acquired ERF SA (Pty) Ltd in 1997 through a strategic alliance with ERF Ltd in the UK (Erf SA was first jointly owned with Canada's Western Star, which was then also the global owner of the British company ERF Holdings Ltd, and then completely acquired in 1998). The company also manufactures truck trailers through Busaf Bauer, which supplies the freight transport industry.

Since the direct investment of the global company ERF (now owned by Germany's MAN Trucks) through ERF Trucks South Africa (Pty) Ltd, Dorbyl's ERF operation has focused on the aftermarket, including vehicle accident repairs, truck repairs and rebuilding of parts, reconditioning of components and engines, full maintenance leasing and servicing arrangements and parts supply.

A recent Chinese joint venture with an unknown South African parnter has led to the establishment of FAW Vehicle Manufacturers SA (Pty) Ltd. The Chinese parent company, First Automotive Works Corporation, is the second largest producer of medium commercial vehicles (trucks) in the world. The company, which has a factory in Spartan, Gauteng, is focusing on supplying Sub-Saharan Africa, including supplying governments (they recently secured a substantial order with the Zimbabwean government).

According to the company's South African website, FAW trucks are "very popular in north Africa" and go by the brand name, Jiefang. FAW has another assembly plant in Tanzania.

The company is also involved in supplying parts and has also at one stage bought 27 000 CKD Volkswagen models from VWSA and sent them for final assembly to China. They have also bought 70 000 South African designed and manufactured manifolds for inclusion in Chinese assembled VW brands.

The Afinta Motor Corporation (Pty) Ltd (or AMC) is a black-owned commercial vehicles manufacturing and assembly company. Based in Isando, Gauteng and Matsapha, Swaziland, the company produces South Africa's only home-grown and domestically designed commercial vehicle. The company is involved in the importation, local assembly and manufacture, marketing and distribution, financing, insuring and servicing of its commercial vehicle range. Production focuses on chassis manufacturing and the company imports Cummins engines.
AMC focus much of their business on government contracts (they are shortlisted for the government's taxi recapitalisation programme) and also in providing vehicles for owner-drivers, under the guise of "black empowerment investments". As well as benefiting from outsourcing through vehicle sales, the company also makes extensive use of outsourcing in its production strategy. The entire production process in AMC is sub-contracted, with the contractors responsible for employment and performance and final quality control procedures.

The reasons for this approach to production, according to the company's website is:

- "To reduce exposure to possible labour disruption. In this regard it is the sole responsibility of the sub-contractor to ensure that any labour unrest does not effect production.
- Each sub-contractor is remunerated according to production. As a result, an incentive is provided for both the contractor to enhance his financial status and for the company to improve productivity."

AMC has received investment support from two American companies. New Africa Advisers (NAA) is a subsidiary of the largest African-American owned investment company in the USA, the Sloan Financial Group. NAA administers the New Africa Opportunities Fund (NAOF), which has been set up the US government's Overseas Private Investment Company (OPIC) to invest in emerging markets. NAA initially

invested R25 million in the company and thereafter in 1998 invested $5 million from the NAOF making it a “major shareholder” in AMC.

Chancellor Corporation, a public US company involved in vehicle leasing and distribution, acquired 15% shareholding in AMC through an equity swap to the value of R35 million. Through this deal, Chancellor secured sole rights to market and distribute AMC commercial vehicles outside of Africa and the UK.

Scania South Africa (Pty) Ltd assemble trucks and buses in a plant in Elandsfontein, Gauteng, and another plant in Polokwane, Limpopo. The South African company is a direct subsidiary of the Swedish company, Scania. VWAG has a 19% stake in the Swedish company. Finally, the Delfos Motor Assembly (Pty) Ltd assembles DMA trucks.

There are also a number of sales-service-parts-and-finance companies which import their products CBU. ERF Trucks SA, mentioned above, arrived in South Africa in July 2000 after the licenced distributer, CTC, liquidated. The company is ultimately owned by MAN Trucks. However, MAN products are locally assembled and distributed through MAN Truck and Bus (Pty) Ltd and not through ERF Trucks SA.

Iveco South Africa (Pty) Ltd, a part of the Fiat Group, import their brands CBU and then put on the finishing touches to the vehicles to ensure that they are suitable for local conditions. Mack Trucks South Africa (Pty) Ltd is a subsdiary of the American commercial vehicle manufacturer, Mack Trucks. Mack was recently bought by Renault VI. In January 2001. Renault VI was bought by AB Volvo. Renault trucks and Volvo trucks are distributed into Southern Africa through the company’s fully-owned dealer subsidiary, Auto Seuco. AB Volvo sells its commercial vehicles in KwaZulu-Natal through Combined Motor Holdings’ dealerships.

Barloworld Equipment (Pty) Ltd imports and distributes Caterpillar and Perkins earth moving vehicles. Peterbuilt, a brand of the Australian company, Paccar Inc, are brought into the country through Toyota. Finally, Tata, one of India’s largest conglomerates accounting for 65% of the Indian heavy commercial vehicle market, imports Tata brands to South Africa.

Component supply

Each assembler can have up to 2 500 suppliers. There is some debate as to how many component suppliers are located in South Africa. The National Association of Automotive Component and Allied Manufacturers (NAACAM), estimates that there are about 180 suppliers, of which about 150 are members. Barnes, however, suggests that the figure is closer to 300 suppliers.[32] Regardless, Barnes notes that NAACAM members contribute to 80% of the sector’s output making them representative of the sector. He also notes that most companies employ between 200 and 500 employees and are situated in Gauteng. Those companies directly supplying the assemblers are obviously located close to those assemblers but those supplying both the retail sector (both original equipment supply and aftermarket supply) and assemblers (this is the majority of the companies) tend to be located closer to major consumer market regions.

Table 4 : Components manufacturing subsidiaries of the major assemblers

BMW SA	SA Trim (Pty) Ltd	Leather seats
DaimlerChrysler SA	Adepart (Pty) Ltd	Engines and other components
Delta Motor Corp	Precision Exhaust Systems (Pty) Ltd	Exhaust parts, catalytic converters
	Sten Precision (Pty) Ltd	Exhaust parts, catalytic converters
	Lear SA (joint venture with Delphi)	Automotive seats
Fiat SA	Magnetti Marelli (Pty) Ltd (Wadeville)	Catalytic converters
	Magnetti Marelli (Pty) Ltd (Uitenhage)	Leather kits (four seats)
Ford Motor Co of Southern Africa	Port Elizabeth plant	Engines; catalytic converters; body shop tooling; engine components; clutch components; brake components; vehicle security systems; steel and alloy roadwheels; bearings; radiators; sheet metal; safety glass; shock absorbers
Nissan SA	?	?
Toyota SA	Components plants (3)	Catalytic converters, exhaust parts
	Engine plant	Engines, manifolds
VWSA	Uitenhage plant	Engines

Because of the provisions of the MIDP, the major assemblers have also invested in components manufacturing, and in fact, much of the exporting of components either happens through their component subsidiaries or are facilitated by them. Table 4 reveals the component manufacturing interests that each of the major assemblers have. Within NAACAM membership, a handful of large companies dominate output. The large companies are mostly listed on the Johannesburg Stock Exchange[*]. The larger companies tend to be partly or wholly foreign-owned while smaller companies are still South African owned. The trend, however, is towards foreign ownership. As discussed above, this is driven both by the emergence of global supply deals between assemblers and suppliers as well as technology and the shift towards export orientation in the sector. For NAACAM, this is a suitable logic: "The globalisation of the motor industry means that a local manufacturer must have international contacts. For those companies that are part of multinational groups, it is a lot easier than for the locally owned companies to become part of the international sourcing club."[33]

Barnes' research revealed that purchasing personnel in the assemblers are increasingly favouring suppliers who are fully owned subsidiaries of multinational components manufacturers. This is a distinctly different position by the assemblers from 1993, when they were happier with South African owned firms using local technologies. He captures the shifts in his thesis graphically (see figure 5).

Technology owners also prefer direct equity in South African manufacturers of components rather than licencing rights to manufacturing to them. As noted in the

[*] Barnes notes that four major conglomerates control about 75% of shares in JSE-listed component suppliers.

beginning of the report, the DTI also prefers this, because of the restrictive nature of licence agreements when it comes to exports.

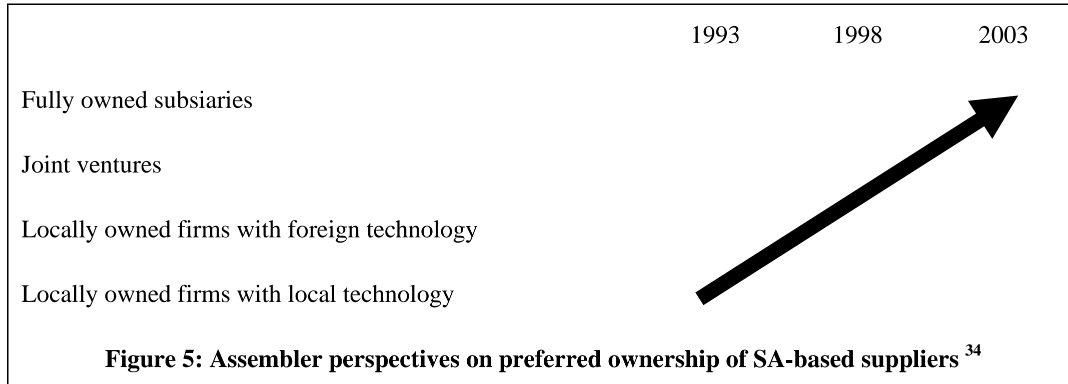


Figure 5: Assembler perspectives on preferred ownership of SA-based suppliers [34]

This trend has established itself very quickly. In 1998, Barnes interviewed six of the assemblers to discover that, of their five major suppliers, 58% were South African owned, 37% were multinational subsidiaries and 5% were South African/foreign joint ventures. By 2000, the proportion of South African owned suppliers had dropped right down to 40% and multinational ownership had increased to 50% (joint ventures were the remaining 10%)[35].

Those assemblers most integrated into their global parents' production strategies will be more likely to force their suppliers to buy into the global sourcing arrangements their parent companies have entered into with multinational component manufacturers. This forcing takes place through either causing their global lead suppliers to acquire South African operations or to set up greenfield investments in South Africa.

It follows then that, as the German-owned assemblers are the most integrated into their parent companies global strategies, that most foreign direct investment in the components sector has significantly been from German companies. Germany is one of the largest investors in productive assets in South Africa's economy and the majority of its investment is in the automotive sector[36].

Most of the major components manufacturers have now invested in South Africa. Some of these investments have come as a result of global mergers which affect South African ownership, but most of them are as a result of acquisition or greenfield investment by the global companies. Of the top ten components manufacturers in 1997[37], seven of these have now invested directly in South Africa (Delphi Auto Systems, Visteon Auto Systems, Robert Bosch, Lear Corporation, Johnson Controls, TRW and Dana Corporation[*]). The two biggest types of investments attracted are leather seat production and catalytic converter production.

Many of the new investors are taking advantage of MIDP export assistance and exporting their product through the assemblers. However, they are also attracted there through the global integration of the assemblers.

[*] Dana Corporation has invested in an aftermarket operation.

Table 4: Recent German multinational investment in the South African components sector [38]

Behr AG	Acquired T&N Holdings' heat transfer division	They manufacture heat transfer products (evaporators, condensers, radiators)
Era	Purchased equity in Beier	Automotive textiles
Aunde	Greenfield investment	Automotive leather
Aunde	Purchased equity in CTAP	Automotive textiles
Lemförder	Acquired Auto Industrial's Rosslyn plant	Axles
August Laepple	Greenfield investment	Body panels
Zeune-Stärke [*]	Greenfield investment	Catalytic converters
Leonish	Greenfield investment	Harnesses
Degussa	Joint venture with the IDC	Catalytic converters
Kolbenschmidt	Acquired Kolbenco from AMIC	Pistons
Daun CIE AG	Acquired Feltex from CG Smith	Foam mouldings and heat shields
Fehrer	Invested in Feltex foam mouldings div.	Foam mouldings

The sector, however, still has significant South African owned capital in it. Dorbyl Ltd and Metair Ltd are the two largest automotive components operations. Murray and Roberts retains substantial automotive interest and in June 2002 announced the building of an aluminium foundry in Port Elizabeth to supply Ford with cylinder heads.

The third largest automotive component manufacturer, the British-owned T&N Holdings Ltd, was bought out by Federal Mogul (Federal Mogul then sold the heat transfer division to the German company, Behr). Federal Mogul is the strongest placed foreign owned company in the sector at present.

Major South African owned component manufacturers

Dorbyl Automotive Technologies (DAT) is South Africa's largest automotive components company and is a division of the industrial and trading giant, Dorbyl Ltd. Dorbyl is owned 41.4% by Remgro Ltd (previously Rembrandt SA Ltd), which is controlled by the Rembrandt Trust (representing Rembrandt and Hertzog family interests).

As a dedicated automotive components arm, DAT represents the Dorbyl group's highest contributing division (39.2% of the group's turnover for 2001, of this actual manufacturing represents about 27%). The group has begun to shed some of its lower volume manufacturing operations (including selling Smiths Wheels (Pty) Ltd and closing Automotive Jacks and Plastics (Pty) Ltd) and is focusing on growing its exports. The group hopes to eventually get 50% of its sales from exports. A major part

of exports are currently going to second tier suppliers in the USA. A large proportion of DAT's componentry goes to first tier suppliers for sub-assembly.

[*] Zeune-Stärke, which supplied BMW globally, invested to supply the BMW SA plant. However, a recent shift by BMW to a rival exhaust supplier (J. Eberspächer KG) has seriously undermined and threatened the investment. This shift was determined by BMW AG.

Table 5: Component manufacturing by Dorbyl Automotive Technologies [39]

Dorbyl Automotive Products (Pty) Ltd
Seat assemblies (including recliners) , seat slides, fully trimmed bus seats, chassis assemblies, step bumpers for light commercial vehicles, stablizer bars, tube processing and manipulation, and press components.

Automotive Steering Wheels (Pty) Ltd (joint venture with Tsuang Hine Steering Wheels, Taiwan)
Polyurethane and leather wrapped steering wheels and horn components

Car Part Industries (Pty) Ltd (manufactured under licence to TRW Ehrenreich)
Tie rods, ball joints, strut bars (tension rods), wheel wrenches, small forgings

Automotive Systems (this is the divisional name, actual subsidiary name not confirmed)
Public transport (bus) seating, seat frames assembly, seat slides, height adjusters, recliner mechanisms, window regulators, press and profile hinges, door check straps, locking mechanisms, pullmaflex pads

Guestro Wheels (Pty) Ltd (including GuestroOTR Engineering (Pty) Ltd, a joint venture with OTR Wheel Engineering Inc, USA)
Steel roadwheels for passenger, light commercial vehicles, trailers, medium and heavy commercial vehicles, agricultural forklift, mining, off-road applications, earthmoving, agricultural applications, first tier supplier of wheel and tyre assemblies to OEM's

Guestro Forge (actual subsidiary name not confirmed)
Axle and drive shafts, wheel spindles and wheel hubs, brake camshafts, propshaft components, constant velocity joint components, tube flanges, gear blanks, tow hooks, balance weights, steering knuckles.

Guestro Indutries (Pty) Ltd
Light and heavy commercial propshafts, manual rack and pinion steering gear assemblies, machined forged wheel hubs, crash/impact member assemblies

Trupart (actual subsidiary name not confirmed)
Trupart range of braking components, heavy and medium commercial vehicle brake drums, passenger car brake drums, H.C.V. flywheel assemblies, cast brake shoes to heavy commercial vehicle wheel hubs

Koolmaster Manufacturing (Pty) Ltd
Condensers and evaporators for auto air conditioners, condensers and evaporators for room air conditioners, fuel tanks, refrigeration condensers, wheel and tyre assemblies, rear axle assemblies

Dorbyl Precision Tools (Pty) Ltd
Door hinges assemblies, intake manifolds, steering knuckles, demountable tow balls, suspension components

Salcast (Pty) Ltd
Brake drums (commercial and passenger) , brake discs, crankshafts, flywheels, clutch discs and housing for commercial and passenger vehicles, diff housing, insulator products to the power generation industry and cast iron pipe fittings to the irrigation and fire protection industries

Univel Transmissions (Pty) Ltd (joint venture with GKN Automotive, UK)
Constant velocity joints, drive shaft assemblies, wheel flanges

DAT has accessed international technology through a number of partnerships with key global components manufacturers. Some of this technology has been secured through licence agreements but others have been through joint ventures and alliances. Joint ventures have been established with Johnson Controls (USA), GKN Automotive (UK), OTR Wheel Engineering Inc (USA), Tsuang Hine Corporation (Taiwan) and Ujima Investment Holding (RSA). Other alliances have been established with Clayton Valve Company (USA), General Motors (USA) and Bell Equipment/John Deere (USA).

Metair Investments Ltd comprises of a group of automotive components manufacturing operations. The group's main focus is supplying components to South African automotive assemblers (40.7% of turnover comes from this) but they also produce for the aftermarket (26%) and for export (20.1%). A small proportion of their manufacturing goes to non-automotive customers. Table 6 contains details of Metair's subsidiaries and componentry range. In 2001, Metair merged Supreme Spring Holdings (Pty) Ltd and First National Battery (Pty) Ltd into a single company called Metindustrial Ltd.

Metair is majority owned by Jati Investments (Pty) Ltd (27.3%) and Wesco Investments Ltd (12.8%). As Jati Investments is a wholly-owned subsidiary of Wesco, Metair is essentially controlled Wesco. Toyota SA, also partly owned by Wesco, is a major customer of Metair's subsidiary companies.

Metair have two joint ventures with global components manufacturers. The most recent is with VW global supplier, Valeo Thermique Moteur from France. The joint venture is an engine cooling plant doing front-end modules (headlights and cooling/aireconditioning modules) for VWSA Golf/Jetta platform exports. This joint

venture was entered into in 1999. Valeo is one of the top ten global automotive components manufacturers.

The other, less positive, joint venture is with Tenneco Automotive from the USA. The South African plant, Tenneco Automotive Holdings SA (Pty) Ltd, has been experiencing profitability problems and Metair has reduced its shareholding from 49% to 25.1%.

These joint ventures and licence agreements (the Hella brand is owned by the German global company, Hella KG Hueck & Co) have given Metair access to critical technology because of the global supply agreements the technology holders have with the assemblers. Given Metair's primary focus on supplying the assemblers, this will become increasingly important for them.

Murray & Roberts Holdings Ltd is one of South Africa's largest conglomerates. Most of its operations are focused on civil engineering and construction but it also has specialist manufacturing operations, including operations focused on the automotive sector. In addition, Murray & Roberts have substantial transport, logistics and motor retail interests through their subsidiary, Unitrans Ltd.

Murray & Roberts have been involved in casting for the automotive sector through their Autocast (Pty) Ltd subsidiary. The company recently announced that it would be investing in a R130 million foundry to supply cylinder head castings to the Ford engine plant. Murray and Roberts views this investment as a signal of its "intent to position itself as a preferred supplier to the global automotive industry and a partner to the South African Government".[40]

Tiger Wheels Ltd have developed much of their business outside of South Africa. The company focuses on the manufacturing, wholesaling and retailing of wheels, and the retailing of tyres. They have one aluminium wheel manufacturing operation in Babalegi, north of Pretoria called TSW Manufacturing (Pty) Ltd while the other two manufacturing operations (joint ventures) are based in Germany and Poland. Tiger

Table 6: Metair Investment Ltd's subsidiaries and investments

Smiths Manufacturing (Pty) Ltd
Radiators, air-conditioners, condensors, hoses and pipes, drier bottles, heaters, blower motors, cooling fans and plastic injection mouldings

Metindustrial Ltd (Supreme Spring Systems division)
Coil springs, leaf springs, stabilisers, torsoin bars

Metindustrial Ltd (First National Battery division)
Automotive and non-automotive batteries and plastic injection mouldings

Hella SA (Pty) Ltd (operating under licence to Hella)
Headlights, lamps, horns, wheel trims and plastic injection mouldings

Hesto Harnesses (Pty) Ltd
Wiring harnesses

Tenneco Automotive Holdings SA (Pty) Ltd (joint venture with Tenneco Automotive, USA)
Shock absorbers, struts and track control arms

Valeo Systems South Africa (Pty) Ltd (joint venture with Valeo Thermique Moteur, France)
Front-end modules for VWV Golf/Jetta platform (incorporating cooling/airconditioning and headlights)

Wheels Ltd is controlled by Eddy Keizen (the chief executive chair) and other directors, who together hold 30% of shares in the company. Employees of the company own 3.3% of shares.

New tyre manufacturers

Four tyre manufacturers operate in South Africa. These are Dunlop Africa Ltd, Continental Tyres SA (Pty) Ltd, Bridgestone Firestone Maxiprest Ltd and Goodyear SA (Pty) Ltd. Together they employ about 8 000 people. Jointly, the manufacturers occupy about 85% of the market, although they also account for a large amount of the imports.[41]

All the manufacturers started as South African owned operations which have now become integrated into global operations. The exception is Dunlop Africa Ltd which continues to be independent of the global Dunlop family, producing under licence.

Continental Tyres South Africa (Pty) Ltd emerged in 1947 as the General Tyre and Rubber Company (Pty) Ltd – known as Gentyre, a joint venture of the Williams Hunt Ltd (then a subsidiary of W&A International) and the US-based General Tires International. W&A International was owned by another investment conglomerate, FSI.

Gentyre remained a subsidiary of Williams Hunt until 1987 when financial troubles caused FSI to sell W&A International to Trencor Ltd, and the Williams Hunt was restructured in Hunt Ltd. Eventually, Hunts Ltd was restructured out of ownership of Gentyre (Williams Hunt was later sold to Unitrans Motors (Pty) Ltd). W&A International went through some names changes, being called Forward Corporation Ltd (in 1995) and then later Waco International (in 1998).

In 1998, Continental AG invested directly into Gentyre, buying 60% of the company's assets. By this stage, Continental AG had acquired General Tires

International making the South African investment a logical step. A new company, Continental SA (Pty) Ltd was formed and Gentyre's assets were transferred. Waco International continued to hold the other 40% of the company. Continental has since invested R200 million in South Africa. According to Continental SA management, the main driver for the direct investment was "firm persuasion" from German assemblers[42]

In September 2000, Waco International was sold by Trencor Ltd to the Ethos Private Equity consortium. Waco directors and managers were among the members of the consortium, so the change in ownership was a part management buyout.

Continental SA continues to manufacture Continental and General Tyres under licence to Continental AG. At full capacity, they can produce 3.5 million units per annum (as they continue to produce a very wide range of tyres from passenger to earth moving tyres, capacity can differ). Approximately 35% of their product goes to export. Given its location, the company will focus increasingly on supplying Sub-Saharan Africa.

Goodyear SA (Pty) Ltd is South Africa's largest new tyre manufacturer. Initially an investment of the US-based Goodyear Tyre and Rubber Company, the company was bought by Anglovaal Industries Ltd's Consol subsidiary when the US company disinvested in 1989. At the time, Basil Hersov from Anglovaal was on the board of Goodyear Tyre and Rubber SA (Pty) Ltd.

Under Consol Ltd, the company was known as Tycon (Pty) Ltd. By the end of 1996, Anglovaal Industries and Goodyear Tyre and Rubber Company had secured a deal to see the company return to South Africa through purchasing 60% of the Contred group, the Consol subsidiary which included Tycon and retread companies Tredcor and Polar Retreading Products.

Bridgestone Firestone (Pty) Ltd is the oldest existing tyre manufacturer in South Africa. The company started as a direct subsidiary of the US company, Firestone Tyre and Rubber Company, in 1900. The company imported Firestone brand tyres until 1936 when it opened its Port Elizabeth plant. The company's Brits factory (now South Africa's most hi-tech tyre manufacturing operation). Firestone disinvested during the sanction period in the 1980s and sold Firestone South Africa to Federale Volksbelegings. Murray & Roberts Ltd bought the company in 1994.

The acquisition of Firestone Tyre and Rubber Company by Bridgestone Japan in 1988, paved the way for Japanese investment into Firestone SA. In 1997, the Japanese bought 90% of the company renaming it Bridgestone Firestone (Pty) Ltd.

Bridgestone Firestone represents the single largest Japanese investment in the South African economy. In the last five years, the parent company has invested R700 million in the South African plants and aim to make it one of their key suppliers in their global markets. The group has undertaken significant investments in the Southern Africa region, acquiring retail assets in Mozambique, Zambia, Zimbabwe and Namibia.

Dunlop Africa Ltd started in the 1930s. Initially Dunlop was set up as Dunlop SA, a directly owned subsidiary of Dunlop Holdings Plc (UK). Dunlop was majority owned

by British Tyre and Rubber (BTR) Plc. This changed in 1998 when Ethos Private Equity* (which also bought Waco International) helped Dunlop SA management to buy BTR's 56% stake in Dunlop Holdings Plc, making the multinational a South African controlled operation[43]. By the end of 2001, Dunlop Africa delisted from the JSE, through the management buying out minority shareholders.

The reasons for the delisting were given by the company as:

- the low rating the market attaches to "second-line" stocks such as theirs,
- the poor tradeability of their stock.
- it will be easier to raise the substantial funds needed for planned capital expenditure as an unlisted company
- the listing puts the company at a disadvantage to global competitors.[44]

Motor retail

The motor retail sector is by far the largest employer in the automotive sector. Statistics on the sector are presented mainly by the dominant employer organisation, the Retail Motor Industry organisation (RMI) and the sector is defined in terms of the bargaining council. As such, sector statistics include components manufacturing and new tyre manufacturing as motor retail activities.

There are about 18 000 businesses involved in motor retail, employing about 175 000 people (127 000, excluding components and tyre manufacturers). Approximately 40% of these are members of the RMI but they tend to be the larger companies, together employing over 60% of the sector's employees. [45]

The sector is made up mainly of small businesses and "mama and papa" shops – about 97% employ 50 people or less (39% employ less than 5 people and 66% employ ten people or less), while only 71 companies employ more than 150 people. Five companies employ more than 500 people. [46]

Motor retail activities are wide-ranging and, by 2000, included an estimated:

- 5 500 garages and service stations (most of which include workshops as well)
- 3 300 specialist vehicle repairers
- 1 400 franchised new car dealerships
- 850 used vehicle outlets
- 450 specialist new tyre dealers and retreaders
- 500 engine reconditioners
- 80 vehicle body builders (panel beaters)
- 650 parts dealers, and
- 280 agricultural vehicle and equipment suppliers [47]

* Ethos is a private equity fund that partners investors securing "medium size investments". It is led by FirstCorp Capital Investors and includes Frankin Investments, Ellerine Bros and the Frangos Trust. It is often involved in financing management buy-outs.

Turnover in the sector is dominated by massive corporations who are involved in a number of retail activities including franchise dealerships, sales of original parts and acccessories, vehicle servicing, electronic retailing, vehicle hire, full-maintenance leasing, vehicle auctioneering, vehicle financing, vehicle insurance and underwriting, and importation and distribution of vehicles and original parts. Some of these corporations are further diversified beyond the motor retail sector. Table 7 lists these major corporations.

The biggest of these operations, by far, is Imperial Holdings Ltd. Barloworld Ltd is of equal size in terms of turnover, but has much more of its activities focused outside of motor retail. Ownership (and RMI membership, incidentally) is predominantly South African owned. Very little significant multinational investment has been directed towards the motor retail sector.

The larger corporations tend to centre their activities around passenger car dealerships, mainly because of the extensive amount of investment required to set up and profitably operate a dealership. The dealerships, together with service stations, represent the two largest employers of people in the motor retail sector. Service station ownership has historically been governed by the Service Station Rationalisation Plan (commonly known as the 'Ratplan').

The Ratplan restricted vertical integration in service station ownership where the oil companies could only directly own 25% of the service stations that carried their brands of petrol and diesel. The Ratplan has now been withdrawn, it continues to some extent in the form of a "gentleman's agreement". The trend, however, is most definitely towards increasing vertical integration in service stations.[48]

An earlier report by TURP for CEPPWAWU carries more information on the workings of the Ratplan and implications of vertical integration.[49]

Participation in the motor retail sector is driven by original equipment producers in the sector (mainly the assemblers and major component manufacturers supplying consumers directly). The aftermarket, reconditioners and used parts operations tend to be more independent of the producers, but also account for a significantly smaller part of the industry. Component manufacturers have a great interest in original equipment supply as the profits tend to be greater than those allowed by the assemblers.

Producers get involved in the retail sector, principally in two ways. The first is through independent, accredited dealerships which sell their products and secondly through direct ownership. Direct ownership is more prevalent among component manufacturers but recently DCSA embarked on a strategy of direct ownership of its principal dealerships.

Accredited dealerships

Each brand owner will release a limited number of dealership franchises to independent dealers. Although independent, these dealers are generally organised into an Accredited Dealer Council of sorts, which meets regularly with the brand owner. The dealers have to abide by a number of rules and regulations particularly around quality of customer service, brand representation and dealer's relationship to competing brands.

Table 7 : Major motor retail corporations

Name	Ownership	Income 2001	Motor retail activities	Other activities
Barloworld Ltd	Old Mutual	R 21 969 m	Caterpillar dealer, lift truck dealer, car dealer	Cement and lime producer, automotive coatings, decorate coatings, tube and pipe manufacturer, international brand management
Imperial Holdings Ltd	Old Mutual	R 21 874 m	Car rental, car dealerships, vehicle leasing, logistics, fleet management, outsourcing, forklifts, financial services, vehicle insurance, trucking, CBU importing of vehicles	Life assurance, tourism, aviation
McCarthy Ltd	Directors / T. Cotterel	R 9 482 m	Car rental, car dealerships, vehicle leasing, logistics, fleet management, outsourcing, forklifts, financial services, vehicle insurance, importing of components, full maintenance leasing	Yamaha products including lawn mowers, boats, musical instruments, etc
Unitrans Ltd	Murray & Roberts	R 5 243 m	Dealerships, express delivery, fleet management, financing, insurance, car rental	Freight services, warehousing, distribution, e-commerce
Super Group Ltd	Directors / institutions	R 4 505 m	Logistics, distribution, transport, rental, dealerships, automotive parts, financial services	Crane hire, machine tools
Combined Motor Holdings Ltd	Directors	R 2 051 m	Dealerships, financial services, full maintenance leasing, vehicle insurance, manufacture of exhausts, car rental	
Trencor Ltd	Mobile Industries Ltd	R 1 780 m	Financing, leasing-out, logistics, manufacture of trailers	Manufacture, leasing and managing of marine containers
Tiger Wheels Ltd	Directors	R 1 631 m	Aluminium wheel manufacture, and wheel and tyre retail	
Avis Southern Africa Ltd	Old Mutual	R 1 238 m	Car rental, leasing, used car sales, accident management, insurance	
Bridgestone Firestone Maxiprest Ltd	Bridgestone Firestone Japan	R 1 019 m	Tyre manufacture, retail, leasing and retreading	
Midas Ltd	Dorbyl, until management buy out on 26 June 2002	R 915 m	Sale of original parts and accessories, franchising	
Hudaco Industries Ltd	Old Mutual	R 908 m	Importing and distribution of automotive parts	Bearings, power transmission, fluid power and control, security products

Putco Ltd	Directors	R 767 m	Bus services, bus hire, bus repair and reconditioning	
Value Group Ltd	Directors	R 326 m	Fleet management, vehicle rental, financing	Freight and logistics
Vaalauto Ltd	Vaaltrucar Ltd	R 225 m	Dealers of Ford, Mazda, Kia and Renault	Property management, financial services
Autoquip Group Ltd	Sabvest Ltd (and Bridgestone-Firestone, 26%)	R 152 m	Wholesale and retail of automotive accessories, replacement parts, race gear, wheels and tyres	

Dealers will offer different services depending on the nature and size of investment but typically the trend is towards larger dealers which offer new vehicle sales, general repair and maintenance of vehicles (including vehicle servicing), pre-delivery inspection of vehicles, specialised repair work and the sale of original and sometimes used parts.

Dealerships are currently experiencing severe competitive pressures. These pressures are driven by the oversupply of vehicles (but also by the development of longer lasting parts requiring less aftermarket support). This is a global phenomenon which has led to some drastic outcomes elsewhere in the world (for example, General Motors closed down 1200 underperforming dealers in the USA in 1996; this represented 25% of all GM accredited dealers[50]).

South Africa's own experience of oversupply has been through the dramatic increase in models available for sale in the country. Brand owners are, as a result, placing increased pressure on the dealerships to perform well and sell vehicles. Dealers have been subject to both cost reduction pressures and high-tech investment pressures. Assemblers have been quick to unilaterally end franchise agreements in underperforming dealerships (despite being multi-million rand investments, assemblers can still end franchise agreements with only 90 days notice[51]). Dealerships are also confronted with an over-investment crisis and a general trend towards the rationalising of the numbers of dealerships.

Dealerships are also exposed to technology pressures, which are affecting their ability to perform. Better and more reliable cars and parts require less repair and maintenance. At the same time, however, vehicle repair is becoming a more sophisticated and complex affair requiring dealership employees to operate with higher competencies and dealerships to invest more in training and expensive tools and machinery. Also, more readily available information technologies have led to much shorter processes for buying cars and have given customers greater control over the sale of vehicles. In cases, this information technology has allowed customers to bypass dealers altogether.[52]

With increased profitability pressures and the threat of unilateral cessation of franchise agreements, as a protective mechanism, the 'multi-franchise dealership' has emerged. These are larger companies with greater access to capital and who spread their investment risk over a number of franchises (see Table 8).

Table 8 : Major multi-franchise dealers

Multi-franchise dealer	Ownership	Passenger and light vehicle franchises held
Unitrans Motors	Unitrans	Alfa Romeo, Audi, BMW, Colt, Fiat, Isuzu, Lexus, Mercedes-Benz, Mini, Nissan, Opel, Toyota, Suzuki, VW
Super Group	Directors/institutions	Alfa Romeo, Audi, Chrysler, Colt, Delta brands, Fiat, Ford, Jeep, Land Rover, Mazda, Mercedes-Benz, Mitsubishi, Nissan, Nissan Diesel, Toyota, VW and Volvo
McCarthy Motor Holdings	McCarthy Holdings	Alfa Romeo, Audi, BMW, Colt, Chrysler, Fiat, Isuzu, Jeep, Land Rover, Lexus, Mercedes-Benz, Nissan, Opel, Peugot, Suzuki, Toyota, VW, Volvo
Combined Motor Holdings	Directors	Alfa Romeo, Fiat, Ford, Honda, Isuzu, Jaguar, Lexus, Mazda, Mitsubishi, Nissan, Opel, Toyota, Volvo
Imperial Holdings	Old Mutual	Audi and VW (Lindsay Sayker), Toyota (Imperial Motors), BMW (Sovereign Motors), Renault (Imperial Motors Imports), Kia (Associated Motor Holdings)
Barloworld Motors	Barloworld	Alfa Romeo, Audi, BMW, Colt, Chrysler, Fiat, Ford, Honda, Isuzu, Land Rover, Mazda, Mercedes, Nissan, Opel, Subaru, Suzuki, Toyota, VW, Volvo

Original parts and new tyre manufacturers also make use of dealerships to sell their goods, but there are fewer multi-franchise dealerships operative and some parts are sold as general goods in retailers such as Midas. Other franchise models also exist where the independent dealer has to take on a franchise name and entire look – for example, First National Battery's 'Battery Centre' franchise.

Direct ownership of retail operations by producers

The independent, accredited dealership approach, particularly since the emergence of multi-franchise dealerships, has at times rested uneasily with producers in two senses:

First, control over the branding and presentation of the product, some producers feel that multi-franchise dealers exercise too much influence and control over branding and presentation – a situation for them akin to the "tail wagging the dog" (according to one producer).

The branding debate will be a toughly fought one as it is not only the vehicle brand that ensures a sale but also the after sales support offered by the dealers. McCarthy (which hold dealerships for 11 different automotive groups and account for 12% of all new vehicle sales and 13% of all used vehicle sales[53]) claims that since renaming all their dealerships to contain the word "McCarthy" in their name, they have experienced a "significant uptake in new customers". The company's chief executive relates that:

> The name changes are also tangible evidence of the size of McCarthy Motor Holdings. In the past, when there were dozens of different dealership names [such as Dan Perkins, Cartoria, Olympic] motors did not necessarily realise that those dealerships were a part of the McCarthy group. Now this is obvious and they have peace of mind associated with dealing with a large company. [54]

Second, access to profits, which often tend to be higher on the retail side than on the producer side as benefits from manufacturing efficiency improvements are increasingly being realised at a slower rate. Bosal Africa, a leading South African exhausts producer, find that getting closer to cost savings at retail level through the supply chain is an important source of profits:

> I think that manufacturers and distributors will have to harmonise their roles in the future and work together to supply the customer base they share. The transportation and overhead structures which are replicated at the moment need to be commonised, allowing savings which can be shared among all… Bosal's strategy (aftermarket) is to vertically integrate its businesses as much as possible. The company is currently engaged in discussions with parties that it feels willl be mutually beneficial to work together with in order to continually provide service, price and value for money to customers.[55]

Therefore direct ownership of retail operations by producers remains a considered option and is prevalent to an extent among the larger component manufacturers. New tyre manufacturers, for example, all tend to own their own retread operations and have also invested in repair and original-parts sales shops. Bridgestone is the most vertically integrated new tyre manufacturer owning Pentamax, Maxiprest, Autoquip, Kwality Tyres, Quality Tyres (Namibia), Speedy as well as the South African franchise for Supaquik[*]. For Bridgestone, vertical integration is an important choice: "Producers can't be at the whim of those who buy from them (meaning independent retailers). We need more control. Sales must be investor driven"[56].

At this stage, the only assembler to vertically integrate into retail has been DCSA[**]. During 2001, DCSA acquired 75% of Sandown Motors, which operates 9 DCSA dealerships, accounting for 12-22% of sales of the various DCSA brands[57]. The move has caused great consternation among independent dealers (95% of which are members of RMI), which fears that the DCSA move may encourage other assemblers to embark on similar moves. RMI's main concerns lies around potential anti-competitive behaviour that may result as well as an increase in the power of the assemblers over independent dealers. Their arguments against such moves centre on:

- The fact that such vertical integration has not worked elsewhere in the world;
- The move is not in the interests of consumers because potentially service levels will decrease;
- The small dealer will be adversely affected
- Job loss will result (McCarthy estimates that 800 jobs will be affected by DCSA's withdrawal from the multi-franchise[58])
- Prices can be artificially raised and anti-competitive behaviour (at present the European Commission is currently tabling legislation to break strong links between manufacturers and retailers for fear of anti-competitive behaviour[59])
- Such an arrangement can be onerous on remaining independent dealers as it will strengthen the position of assemblers over the dealers. [60]

The Competition Commission has thus far not opposed such vertical integration (the RMI contends this is because of weaknesses in existing competition legislation.[61] In

[*] Globally, Bridgestone is vertically integrated owning steel companies and rubber plantations, as well as retail operations.
[**] Typically, the assemblers own financial services subsidiaries or have dedicated financial services divisions. These are generally not considered to be evidence of vertical integration.

assessing the DCSA/Sandown Motors merger, the Competition Tribunal stated that it would make its judgement based on the impact of the "vertical merger" (that is, a manufacturing-retail merger) on "horizontal competition" (that is, competition between retailers).

The impact on horizontal competition would be seen in two ways: the impact on "intra-brand competition" (that is, the impact on competition between different dealers selling the same brand of vehicle) and the impact on "inter-brand competition" (that is, the impact on competition between different dealers selling competing brands; for example, those dealers selling Mercedes-Benz versus those dealers selling BMW).

In short, the Competition Tribunal ruled that if intra-brand competition is reduced but inter-brand competition is unaffected, then the merger would not significantly impact on horizontal competition. With regards the DCSA/Sandown Motors merger, the Tribunal ruled that although the merger may give Sandown Motors an edge over other DCSA accredited dealers, competition between DCSA brands and competing brands would not be affected by the merger and therefore approved the merger without conditions. The full ruling of the Tribunal is available on the Tribunal's website.[62]

IMPACT ON WORKERS, WORK AND JOB CREATION

The impact of globalisation of ownership on workers, their experience of work and on trends in job creation has been widespread, and both positive and negative. These are summarised in Table 9.

Globalisation of ownership has most negatively affected South African workers and job creation where local companies have prepared themselves for sale. During the mid-to-late-1990s, most companies but especially the component manufacturers experienced downsizing and job-destroying productivity improvement programmes. These efforts were often tied to preparations for sale of ownership to foreign companies. In some cases, the downsizing continued after the sale, this time prompted by internal group benchmarking exercises. Subsequent to this restructuring, however, some companies have experienced volume expansions through export contracts or through assemblers placing orders for export; much of these opportunities have been MIDP-driven.

Two case studies of this type of restructuring are useful illustrators of what has been experienced.

Case Study 1: Coastal supplier receives massive investment

In 1995, the company was visited by the foreign investor who was investigating the possibilities of buying the company. Up to that point, the company had produced the foreign investor's brands under licence to the foreign investor. The foreign investor decided that the company's Gauteng-based plant was well thought of but considered that the coastal factory (the focus of this case study) was only worthy of closure because of its old plant, old technology, old products and poor productivity.

Management at the factory developed a strategy to improve conditions and so make it more attractive to the foreign investor as an investment worth keeping open. The plan

Table 9 : Differing impacts of globalisation of ownership on South Africa's automotive sector

Positive impacts	Negative impacts
Platform reduction and volume expansion have created jobs	Almost all automotive companies have experienced outsourcing *
Export orientation, where it has raised volumes sufficiently, has sustained and created jobs	Automation has reduced the ratio of numbers of workers to rands invested (that is, production has become less labour intensive)
Higher quality requirements have forced higher skills (minimum skill required now ABET 4 or matric level for ISO accreditation)	Downsizing resulting in loss of permanent jobs (particularly in components and new tyre but also in assembly)
Higher technology requirements have forced higher skill requirements	Widespread introduction of Japanese management techniques have increased productivity and demands on workers
Global sourcing has attracted significant foreign direct investment in components, creating jobs	Global, intra-group benchmarking has rapidly increased targets
Massive investments by the assemblers and the shift to increased local content has had positive spin-offs for suppliers	Increased work pressure and greater intolerance for worker or union dissent or instability in production

included the retrenchment of 200 of the factory's 1470 workers. NUMSA rejected the plan and embarked on a five-and-a-half week strike. The company pressed ahead with the restructuring which also included extensive outsourcing (delivery, raw materials warehousing, finished goods warehousing, cleaning, security, the paint shop, the machine shop and a sub-component manufacturing plant were all outsourced).

The foreign investor proceeded to buy the company in 1998, without closing the coastal factory. Instead they embarked on massive investments in new technology and productivity improvements while continuing to reduce staffing through natural attribution and medical boarding. The new owners claimed that employee levels were too high according to their benchmarks. The new owners also forced retrenchments in further outsourcing exercises in 1999 (affecting 290 jobs) and 2000 (affecting 40 jobs).

By 2001, the company had reduced its staffing levels to 871., while retaining output levels at 1995 levels. They had also proceeded to invest over R600 million in new technology and introduced new products and considered the coastal factory to have a future.

By benchmark standards, the coastal plant is still vulnerable and needs to increase its productivity by 37.5% by the end of the year to avoid being closed by the parent company. Next year the company will introduce a 7-day week (from the existing 5-day week) and introduce an additional shift, and increase its capacity by 40%. They hope to employ a further 25 people by the end of the year in preparation for this.

The new parent company has given the plant a strong future, according to management at the plant: "We have a strong parent company and the technology and manufacturing expertise is fantastic, so we are not worried about the future".

* Sometimes this has been linked to job-creating foreign direct investments – for example, when VWSA outsourced part of its operations to Johnson Controls, a US-owned company.

Case Study 2: From the 'sinking ship' to the 'concentration camp'

In 1994, the company attempted to make itself more attractive to the foreign investor, whose products they were then producing under licence. The shop stewards recalled how, in motivating the sale and necessary restructuring to the workforce, the management had shown them a picture of a sinking ship. The foreign investor's interest had been picked up through assemblers they supplied urging them to undertake direct investment in South Africa to supply their operations there.

The South African owners embarked on outsourcing exercises (including outsourcing the factory hospital, canteen, cleaning and security) on two occasions in 1994 and 1996, leading to 340 workers accepting voluntary severance packages. The company also began to introduce Japanese management techniques and a seven-day shift pattern (which did lead to the creation of some jobs). NUMSA battled with these changes and only accepted them after intervention from COSATU who, according to the shop stewards, "explained and outlined the strategic choices facing workers".

After the sale of the company to the foreign investor in 1998, the new owners continued with redeployment and merging of job functions. A pool of "surplus labour" was created and used to cover for absenteeism. This labour pool was gradually reduced through natural attrition. In 1991, the company had employed 3000 people but this was reduced to 1900 by 2001.

The company received stringent quality audits from the assemblers it supplied as well as other component manufacturing clients. They proceeded to change the production layout and introduced new technology making the factory "unrecognisable" from five years previously. Contracted consultants introduced further just-in-time production techniques and the company saw a doubling of output (without a related increase in employment).

Workers working under greater pressure would be assisted in peak periods by contract workers. The company also embarked on a disciplinary programme to reduce idle time and took a tough stance on disputes over targets – locking workers out on two separate occasions. The shop stewards reflected that "workers expected better pay and conditions under the multinational and that the broederbond *and* baaskap *would change, but we are confronted with many new challenges – workers are feeling the pressure – we are in a concentration camp".*

Further outsourcing exercises are expected by the shop stewards, as is "rapid technological change". The company is benchmarked against a Mexican plant within the group which produces double the output with the same number of workers.

Two to three years after the major restructuring and sale of ownership phases, some of the companies are now entering into new phases of specialisation, volume expansion, export orientation and, in some cases, job creation. Amongst the assemblers, the export focus has created 1000 jobs at DCSA through higher volumes[63] and Toyota has created 330 new jobs[64] through the introduction of a new shift in preparation for exports. BMW SA expects to create 100 new jobs if its additional capacity created this year is filled with export orders.[65] Finally, VWSA estimate that without export orders, they would only employ half the 5200 employees they currently do.[66]

Two imperatives drive job creation: the incentives and provisions of the MIDP and global sourcing imperatives of the assemblers. As the assemblers continue these trends (four of them are still to significantly integrate into their parent companies), it is reasonable to expect this trend to strengthen, as Delta management suggest: "With full integration it is a logical move to export, depending on GM strategy. If the mix is right, it could create employment opportunities"[67].

In addition to workplaces characterised by methods of 'lean production' or 'world class manufacturing' described above, the impact of globalised ownership has four other important features that need consideration and response by organised labour. These are discussed below.

Tight group control of South African operations

Almost without fail, multinational owners appoint group representatives to the positions of CEO, chief financial officer, senior manufacturing management and quality control management.. This means that the group pumps strategic, manufacturing and financial skill and capacity into local operations.

It also means that the group exercises tight controls and shifts decision-making away from company level, making it difficult for organised labour to intervene in strategic decision-making. Interestingly, labour relations are left to local management.

There are, of course, positive aspects to this in that South African industry receives skill and technology transfers and indications are that South African managers are experiencing significant learning which can assist in capacity building in our industry. The problem is that it is more difficult to establish workplace democracy around strategic issues as imperatives are established globally.

Extensive use of benchmarking to determine company futures

Each multinational company benchmarks each of its operations around the world. It uses these benchmarks to determine the future of, and level of investment, for each plant.At VWSA, for example, VWAG measures production issues such as productivity, work-in-progress, and so on, as well as labour conditions, benefits and excess capacity. All information is directly captured on a VWAG mainframe and none of the VW plants around the world would ever have their own management information systems anymore.[68]

Benchmarking is a primary means for companies' determining the future of their satellite factories, the allocation of production between companies and the level of future investment in the factories. Targets for companies are set through benchmarking. Management interviewed indicated that benchmarked performance within the group is a greater source of performance pressure than factories domestic market performance. Toyota SA, for example, explained that "group pressure is greater than pressure from our competitors. Toyota Australia is our greatest competitor".[69] Manufacturers indicated that should they increase domestic market share but perform worse in terms of benchmarks, that they would be viewed negatively by the parent company.

Bonuses can also be affected by poor benchmarking results as workers at DCSA have discovered:

> Auditors came from Germany to assess quality; they were a part of the International Quality Team, workers were not involved in the audit. They determined that quality was below standards and therefore we got lower production bonuses. We don't know on what basis they measured quality or against whom we were benchmarked. This is a big problem.[70]

Workers have no input in benchmarking yet it is a major determinant of the fortunes of their companies.

Tougher industrial relations stances

All manufacturers interviewed indicated that export orientation required greater commitment from unions and the workforce to "stability" and predictability in production. They called for a "maturing" of labour relations and for an avoidance of strikes or production stoppages. The companies have embarked on expensive campaigns to strengthen unitarist thinking among the workforce. Toyota, for example, in preparing for their export drive brought in South African footballing great Marks Maponyane to speak about the importance of everyone playing as one team, on the same side.

The shop stewards are noticing a shift in industrial relations approach towards one which is more intolerant of union expressions of power:

> There is a change or reversal taking place. The company is much more rules based and more strict on the shop stewards. They are moving away from being participative. At the same time as there is this growing hostility, there is also greater pressure on workers to perform. These two factors make it very difficult for workers and the union. [71]

A similar sentiment is expressed by shop stewards in many of the companies most recently taken over by multinationals. The shop stewards tie the shift in attitude to greater export orientation. Shop stewards at Toyota state that:

> The company is discipline orientated, not relationship orientated. We expect that the hard line will grow as the company begins to export. There is pressure for there to be no strikes or stoppages. Shop stewards are quickly called to resolve any issues to prevent stoppages. But both parties need to change.[72]

Management at Bridgestone Firestone spoke about a "switch" that only the union could turn on; a switch that could see an increase in productivity by 10-15%[73]. Managements in the automotive sector that are embarking on exporting and integration into global parent companies will increasingly expect organised labour to participate in making South African companies a success and to turn that switch on.

Greater work pressure

Workers are being exposed to greater work pressures through the higher quality focus (no room for errors) and the push for higher volumes. Also, as many companies have received export orders on a test basis there is great pressure to perform well to secure future export orders. Multinationals have all undertaken massive investments in South African operations and make it plain that they require returns on their investments.

The introduction of new best operating practices such as teamwork and just-in-time production has meant that workers are exposed to a stronger productivity management and productivity improvement programme.

CONCLUSION: FUTURE JOB CREATION POSSIBILITIES

The South African automotive sector has undergone massive restructuring since the beginning of the 1990s. Much of this restructuring has been characterised by loss of jobs and during the late 1990s parts of the automotive sector were even referred to as "sunset industries" in the media. However, recent sentiment has changed on the future of the sector and job creation possibilities in the sector. The government and industry are both positive in their review of the impact of the MIDP and optimistic of the future of the industry.

To understand this shift in sentiment, it is important to realise that the conditions of restructuring in the automotive sector have begun to change in part. The restructuring during the 1990s (which can for the sake of naming it be called the "first phase") was characterised by rationalising productivity improvements without any related increase in output (in fact, in most cases market demand was in decline from many companies as they experienced greater competition from imports). The result was that productivity improvements and restructuring were job destroying.

Some of the companies now, however, on being integrated into global parent companies have begun to experience a "second phase" of restructuring. This restructuring has been linked to export orders and rapid volume expansion. Although productivity improvements and automation have accompanied this restructuring, where volume expansions outweigh productivity improvements and capital intensification, then jobs have actually been created. The new positive sentiment, referred to above, is upon the experience of those companies which have experienced the second phase of restructuring – that of global integration.

(The above does not mean automatic acceptance of global integration by this report – one just needs to recall the words of the shop stewards who went from a 'sinking ship' (phase one) to a 'concentration camp' (phase two) to realise that the experience of work under globalised production presents challenges and problems for workers, but this is another issue to job creation).

This conclusion will reflect on future job creation and retention possibilities in the various automotive sub-sectors and what instruments may be necessary to create a strong job creating future.

Automotive assembly

There is limited job creation possibilities in this sub-sector and the continual threat of job losses should one or more of the domestic assemblers close their operations. While there has been job creation in those assemblers now exporting (after having gone through "second phase" restructuring their contribution to the creation of new jobs is probably over as it is unlikely that their volumes will significantly expand beyond what has occurred over the past few years.

Of course, if larger export orders are secured and these necessitate volume expansion investments, then more jobs may be created, but this is not likely. Importantly, however, is that the current jobs will be sustained under export orders. Companies which are still to shift to export orders and experience a massive increase in volumes

(one thinks particularly of Toyota), then further jobs will be created. Critical, however, is that the companies experience rapid volume expansions which necessitate new investments in capacity – otherwise, job creation is not likely.

Components supply

Again, the issue of volume expansion is important. Growth in the sector has been secured through the MIDP but it has also been distorted by weaknesses in the incentives which saw a disproportionate level of investment in catalytic converters, which create few jobs. The adjustments have been made and the MIDP will be more focused on supporting labour intensive investments.

As the remaining 'non-integated' assemblers continue to integrate, they will begin to pull multinational suppliers to invest in the country which can lead to further job creation. Multinational investors to this country have required export orders in order to reach volumes that would sufficiently justify their investment. The MIDP has made this possible.

Critical, therefore, is that the development of the components sector is fundamentally reliant on the continuation of the MIDP. This has become a concern to some in government who believe that the MIDP was intended to create a competitive components sector and not one that was reliant on government support to survive. Any shifts in the MIDP should not undermine the components manufacturing base.

New tyre manufacturing

The trend in job creation in new tyre manufacturing does not look wildly positive. Manufacturers maintain that most job creating gains will be made from pushing back imports. Interviews suggested that 10% of the market could be gained from pushing back imports.

At the same time, the biggest importers are the domestic manufacturers themselves. Fortunately, tyres don't "travel" well and it is of greater benefit to domestic companies to rather produce tyres locally than to continue to import them (unless they are high value, low volume, niche products). But there is another side in that the fact that tyres don't travel well restricts domestic companies to exporting to Sub-Saharan Africa in the main; these are market which, of course, have a much reduced buying power and volume requirement.

In addition, the domestic companies continue to produce a wide variety of products, thereby further limiting volume expansions and specialisation – production features which have been of immense value to other component suppliers and assemblers.

The best possibilities for job creation probably lie in the new tyre manufacturers securing orders from the assemblers to provide tyres for their export orders, which would lead to higher than normal volumes. This is happening to an extent.

Motor retail

This sector is the largest employer and has the lowest barriers to entry for new providers of retail services. However, the sector is considered to be over-invested and

oversupplied which will lead to medium term rationalisation as it becomes more difficult to sustain profitability under these conditions.

The service stations part of the sector are also under threat of deregulation which will see the introduction of self-service and increased vertical integration of the oil companies into retail.

Vertical integration threatens the sector as a whole. This has been discussed already in this report. Oil companies have also seen the benefits of moving into motor repair, an example of this being Shell's 'The Garage' vehicle servicing and aftermarket repair franchise. Franchising should be a useful means of creating jobs but under these conditions are unlikely to create jobs.

Competition legislation needs to be further strengthened to prevent vertical integration in the sector. Current rulings by the Competition Tribunal have found no problem with vertical integration itself and those opposing it (the RMI) claim that current legislation prevents a strong challenge to vertical integration. This despite the fact that DaimlerChrysler's restructuring of its dealership system will affect 800 jobs in McCarthy.

A case of globalise or die?

The story of the South African automotive sector contains compelling evidence that the MIDP's focus on specialisation, volume expansion and export orientation has been successful in sustaining employment and, more recently, in creating employment. The belief is strongly that without export orders or without sale of ownership to multinational companies – in short, without globalising – South African companies will die.

However, at the same time, South Africa's companies are exposed to new vulnerabilities – those of the global market. At present, South Africa has not experienced these potential threats. Even though global production cut back during 2001/2002, South Africa's share of global production increased which bodes well for the future of the industry and the potential for increased export production. However, South Africa's automotive industry now lies at the whim of absent and anonymous global decision-makers.

In many ways the site of engagement, particularly around critical strategic issues, has shifted from a national level as control and decision-making has been shifted to multinational parent companies. The most important role assigned to organise labour under these new conditions is to ensure production stability. There is, of course, engagement at global level between labour and the multinationals but this takes place with South African labour as one of many labour voices – labour voices which are not always united but are exposed to national interests.

In short, a major impact of increasing multinational ownership and control of South Africa's automotive sector is that South Africa's workers and their unions are under greater pressure and tighter disciplinary regimes while at the same time have less ability to influence developments in their companies.

It is difficult to propose industrial strategy instruments to address this. At the level of creating jobs, the MIDP's provisions for specialisation and export orientation are resulting in sufficiently large enough volume expansions that – even though companies are increasing in capital intensity – increasingly the result is job creation. Further, foreign direct investment strategies of the assemblers and their global suppliers are such that they enhancing South Africa's manufacturing capacity and increasing shifting the country's activities from mere assembly to manufacture. Certainly, changes to the MIDP as they are introduced, should not undermine the components manufacturing sector but serve to further strengthen it. NUMSA needs to continue to press for a strong MIDP that does not phase down support to local industry and exporting too quickly but continues to incentivise foreign direct investment and exporting.

However, industrial strategy will not address the issue of growing power and control of multinationals over the future of the South African automotive industry and the related loss of power that organised labour in companies have experienced. NUMSA needs to be able to deal with:

- The shift in decision-making away from South Africa towards multinational parent companies,
- The use of benchmarking and "global realities" to evaluate everything from productivity performance to workers' wages,
- The tougher industrial relations approach and growing intolerance for expressions of worker power, and
- Greater work pressures on workers and reduced room for error or underperformance

Central to NUMSA's response needs to be its own decision to 'go global'. NUMSA needs to engage globally with parent companies on these issues to influence the development of their South African employers. This will increasingly become critical to sustaining of worker influence and power.

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