



DEPARTMENT OF ECONOMIC DEVELOPMENT
GAUTENG PROVINCIAL GOVERNMENT, SOUTH AFRICA

**AUTOMOTIVE SECTOR CODE OF CONDUCT
COMPETITION COMMISSION SUBMISSION
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1. Executive Summary

The Sector Code of Conduct for the automotive industry as set out by the Competition Commission is at best a scratch on the surface when considering the enormity of the transformation challenges facing the sector. Like most productive sectors the Automotive sector continues to be plagued by slow and stagnant transformation underlined by rigid ownership patterns, skewed productive capacity and undisrupted monopolies. In its current format the Code of Conduct does little to address broader transformation goals throughout the entire automotive value chain, most telling is its total disregard for the urgent need to transform the production stages of the value chain especially in vehicle assembly, component manufacturing and related tooling activities, instead focus is limited to the retail/service stages of the value chain.

The Automotive sector has been a primary beneficiary of government support through the various industrial financing and incentive schemes. The large scale of fiscal support given has not resulted in the expected, reciprocal sectoral development objectives, component manufacturers continue to be underskilled; OEM supply chain processes continue to marginalise previously disadvantaged new entrants; After-sales services give little recognition to the large and growing informal traders and suppliers who make up the greater composition of township based enterprises; closely linked to this is the relatively low risk appetite of both OEMs and prominent after-sales service providers to upgrade and formalise PDI-owned suppliers; Lack of integration of black owned SMMEs in the insurance and other related after-sales services.

The sector has successfully colluded with the financial institutions in the form of Insurance and financial products that have precluded entry for emerging black enterprises. The allocation of cars for after-market maintenance and service is left at the discretion of the insurance companies. Moreover, the criteria for accreditation and certification have left all black participants at the periphery of the sector. Insurance companies and dealerships should quality emerging participants in categories thereby allowing them to “learn by doing” or learning on the job. The established players in the sector have used “loss of warranty “as an excuse for not allocating jobs to emerging black automotive entrepreneurs participating in the after-market activities. Part of the concessions should include a waiver for automatic loss of warranty without proper verification that quality was compromised in the process.

Insurance companies should accredit a certain percentage to black emerging automotive participants and allow car owners to choose fairly based on price and quality.

The unreasonable insistence on original parts for repairs has perpetuated price hikes. Car owners should be given the opportunity to choose between generic and original parts without the risk of losing warranty. Generic replacement parts should be given equal recognition if industry standards are met. The car purchase agreements are seemingly similar across all dealerships and have recently introduced balloon payment in order to quality clients. This practice has further plunged customers into longer debt terms. This practice should be investigated to test any possibility of collusion among dealerships and financial institutions.

Certain car models puts clauses that only specific tyre brands especially established manufacturers should be fitted on their cars (especially BMW, Mercedes Benz, Volvo and Audi). The argument is based on quality and safety but in the process inadvertently channelling clients to their products. This practise should also be further investigated to test if there are any collusive practices. Moreover, the qualifying standards and criteria should ideally be made known to all manufactures in order to promote price and quality competition.

Furthermore, the automotive sector-in lieu of its continued vast government support, has not delivered tangible socio-economic outcomes. Vehicle prices continue to be relatively high compared to other middle-income economies, putting a strain on household incomes, this coupled with a relatively under-developed public transport system and rampant consumption of automotives results in drainage of household incomes and stifling of household consumption and savings. In terms of industrial development, levels of local content in the production stage continue to be stubbornly low rendering few opportunities for local manufacturers, this is exacerbated by the seemingly cast-in-stone global procurement patterns of OEMs; barriers to entry continue to plague the industry-ranging from high cost of production capital, continued industry and technical skills especially amongst black manufacturers and traders, lack of access to markets and ability to reach economies of scale, high degree of informalisation of black participants throughout the entire value chain especially with regards to certification and accreditation .

The abovementioned calls on OEMs and dominant market players in the after-sales industry to embrace new and radical approaches to transformation. Key to this is by undertaking more risk to develop capabilities of black owned SMMEs to allow marginalised sections of society to become component manufacturers and suppliers in the sector. The situation calls for joint

Research and Development initiatives with the OEMs, large component manufacturers and other sector stakeholders in order to reposition the sector to manufacture products to suit their future production and skills needs, this would represent a breakthrough in positioning small manufacturers to take advantage of future product needs. Transformation of the relevant sector interest bodies is integral in ensuring holistic transformation of the sector, entrenched narrow interests will serve only to keep the industry untransformed.

The economic targets espoused in the Automotive Master Plan 2035 of, increasing black participation of in the component manufacturing Tiers (2,3) to 25%; increasing dealership networks and authorized repair facilities; growing local automotive production to 1% of global output; Increasing local content to 60%; and doubling employment will remain an unreachable and ambitious goal without the radical transformation of the entire automotive value chain. This target is not consistent with the radical economic transformation policy objectives.

To date government efforts in the development and growth of the automotive sector cannot be understated, Through the Department of Trade and Industry (dti), there are a number of production incentive mechanisms that are geared towards supporting the Automotive industry, the sector in particular has received perhaps the largest incentive support through the MIDP (and its heir, APDP). The impact of these is hailed by industry players as perhaps the single most important contributing factor in the growth of the sector. This coupled with new, bold initiatives such as Automotive Supply Chain Competitiveness Initiative (ASCCI), a multi-stakeholder initiative aimed at improving the global competitiveness of the South African automotive industry through the facilitation, coordination and overseeing of supplier competitiveness improvement activities. The Gauteng Provincial Government has also established the the Automotive Industry Development Centre (AIDC) , an organisation which specialises in Skills Development and Training, Enterprise Development, Incubation Programmes, Management of Incentive Programmes, and offers state-of-the-art manufacturing support facilities. The organisation has expedited growth within the automotive sector by partnering with key stakeholders such as industry leaders, government, and non-government agencies, among others.

2. Introduction

Structural transformation of the South African economy has been a key goal of the South African government, in recent times this has taken greater prominence in the face of growing inequality,

unemployment and increasing poverty levels. Government policy, therefore, has highlighted the importance of inclusive growth of the economy through real empowerment of previously disenfranchised sections of society premised on, amongst other things, the greater ownership of the means of production in the real economy. This is evidenced by the governments policy imperatives which emphasis the accelerated transformation of the productive sectors of the economy to foster inclusive growth. The Automotive sector in South Africa has been one of the key drivers of the Manufacturing sector, its importance is underlined by the unparalleled level of government support it has received in the post-apartheid era, evidenced by the large fiscal contributions made by the government in support of the sector through various incentives schemes.

The sector has, however, remained relatively untransformed at all stages of the value chain. This is exacerbated by barriers to entry restricting new entrants into the industry these include, low skill levels; lack of access to production capital; entrenched global production line networks; economies of scale requirements. The recent drafting of the Sector Code of Conduct by the Competition Commission attempts to inculcate transformative practices in the after-sales market of the automotive industry, it calls on industry stakeholders and prominent role players to make a number of concessions to ensure broader and inclusive participation in the sub-sector. Although welcomed, the Code of Conduct in its current format falls short of addressing the broader transformation issues faced by the industry especially at the levels of black participation in the automotive component manufacturing industry and more importantly, the ownership patterns of large Original Equipment Manufacturers (OEMs).

3. State of the Automotive Sector in SA

South Africa's automotive industry is part of global engine for the manufacturing and export of vehicles and components. South Africa has developed a major automotive industry with local vehicle manufacturing plants for Volkswagen, BMW, Nissan, General Motors, Ford, Mercedes-Benz and Toyota (Van der Merwe & Visser 2008).. The industry is distinguished from other industrial sectors by the role of government policies steering its development. The motor industry development programme (MIDP), which was introduced in 1995, has played a very significant role in promoting competitiveness and export expansion.

3.1 Gauteng Province Economic Output

Gauteng is South Africa's economic powerhouse, the province produces around a third of the national GDP, generates the highest per capita income, and accounts for 40% of South Africa's manufacturing output, construction activity and financial services. Gauteng houses three OEMs and the highest number of the country's automotive component suppliers (Automotive Export Manual, 2016:14). With regard to exports, the automotive export value as a share of the country's total exports to the global economy increased from 11.7% in 2014 to 14.6% in 2015, contributing approximately R267 billion to export earnings during the aforementioned period. Despite this immense contribution, the country's global vehicle market share is 0.68%. The automotive industry remains a key driver of the country's manufacturing sector, it contributes 7.5% to the country's GDP in 2015. With regard to the country's manufacturing output, the broader automotive industry which incorporates vehicle and component manufacturing was the largest contributor to manufacturing, contributing 30.2% in 2014 and increasing to a 33.5% share of manufacturing output (Automotive Export Manual, 2016).

For most countries that participate within the automotive value chain, the automotive productive sector remains a critical segment because of the industries' cross cutting linkages across several industries and services, as well as its contribution towards various economic development initiatives similarly to most economies, the automotive industry in South Africa plays a crucial role in growth and development of the economy..

The industry's contribution to Gross Domestic Production is estimated at 7.5% with 113,000 people directly employed in the vehicle assembly and components supply industry. Importantly 82, 000 of this total employment figure are directly employed in the auto component industry

4. Policy Evolution in the automotive sector.

Industrial financing is recognized as being crucial financial instrument for implementing industrial policy. Financing was to focus on supporting the production of substantively new goods and services, new forms of production, as well as expansive growth of existing non-traditional tradable activities through relieving some fundamental constraints. Through the Department of Trade and Industry (dti) in South Africa, there are a number of production incentive mechanisms that are geared towards supporting the Automotive industry, the sector in particular has received perhaps the largest incentive support through the MIDP and now, APDP.

The MIDP was implemented in the context of the country's political and economic liberalisation, and the major structural shift in government policy and the trade regime. South Africa became

much more globally integrated. The MIDP provided an effective platform for communication and co-operation for all of the relevant stakeholders to interact on automotive issues. The key objectives of the MIDP were to improve the industry's international competitiveness as well as the affordability of vehicles in the domestic market, encourage growth in vehicle and component manufacturing particularly through increased exports and to stabilise employment levels in the industry and to create better foreign exchange for the industry (NACAAM, 2011)

The MIDP reduced tariffs and provided strong support for improving exports. The result was rapid export expansion, although the sector remained vulnerable due to global prices. Although consumers had greater choice, increased import penetration of vehicles and consequently the imported components has contributed to a growing trade deficit. Although progress was made in rationalising the industry, it still operated below minimum efficient scale. During this period, growing investment and higher levels of foreign ownership modernised the sector and integrated it to global production networks (Barnes and Black, 2013).

While the MIDP has had a positive impact on the development of the industry in terms of exports, due to its easy access to import credits this has resulted in increasing levels of imports. The termination of the MIDP in 2012 was shaped by government and broader stakeholder concerns. The first related to the MIDP's potential challenge at the World Trade Organisation (WTO), with at least two national governments raising questions as to the status of the MIDP in respect of South Africa's compliance with the WTO Agreement on Subsidies and Countervailing Measures. It was broadly accepted by all stakeholders that the MIDP was a potentially actionable subsidy, and that formal action against the MIDP was likely within the WTO unless its termination was announced and a more compliant policy framework created. Second, the distortions of the MIDP, which were principally created through the materials-inclusive calculation of export-based benefits, were of major concern to government, NUMSA and NAACAM. Low local content levels in exported vehicles were largely attributed to the ease of earning import credits through the export of 'peripheral' components such as catalytic converters. Correcting these types of unintended MIDP consequences was a major objective of the review process (Barnes and Black, 2013: 31).

The Automotive Production Development Programme (APDP) has replaced the MIDP. Under the APDP, the South African automotive industry entered an era of volume-driven production support. The APDP focuses on value addition, which pursues beneficiation of the country's raw materials to the final stages, to ensure maximum benefit to the South African economy. One of the objectives the APDP seeks to achieve is to increase vehicle production to 1.2 million volumes by

2020 furthermore the APDP aims to improve SA automotive industry's international competitiveness, to improve vehicle affordability in the domestic market, to encourage growth in vehicle and component manufacturing, particularly through exports, to stabilise employment levels in the industry and to create a better industry foreign exchange balance

During the 2014/15 review of the APDP, the findings suggest that the 2020 target of producing 1.2million vehicles per year is unlikely to be achieved due to various reasons such as the global economy still recovering from the financial crisis that has had an impact on demand. Furthermore, it will be difficult to achieve significant expansion and deepening of local supplier base under such economic conditions (dti, 2015).According to the Minister of Trade and Industry, Rob Davies, with the development of the post-APDP automotive master plan, the dti will "seek to promote meaningful transformation of the industry through the inclusion of previously excluded groups along the entire automotive value chain. The current situation is characterized by extremely low participation of Black entrepreneurs in the automotive industry. This is prevalent through all parts of the sector's value chain including distribution, retail and after-sales/service. The levels of support afforded to the industry in SA need to be reflected through an appropriately transformed sector both in downstream and upstream linkages.

The automotive industry objectives and vision by the year 2035 is to ensure that the industry becomes a globally competitive and transformed industry that actively contributes to the sustainable development of South Africa's productive economy, creating prosperity for industry stakeholders and broader society.

To attain this vision the automotive master plan has identified 6 strategic objectives and their associated impacts, namely to grow SA vehicle production to 1% of global output; Increase local content in SA assembled vehicles to 60%; double employment in the auto value chain; Improve industry competitive levels to that of leading international competitors; transformation of the South African automotive value chain and deepen value addition within SA auto value chains.

With regards to the objective of transforming the automotive value chain, the intended aim by 2035 is to ensure that 25% Black-owned involvement at Tier 2 and Tier 3 component manufacturer levels, as well as in dealership networks and authorised repair facilities; amplify skills development of Black South Africans as well as enhance employment equity at senior management, artisan and professional employment levels across automotive value chain.

The automotive master plan proposal is inconsistent with radical economic transformation which seeks to increase participation of Black people in the value chain to 51% across economic sector.

5. South African Bureau of Standards (SABS)

For South Africa to achieve its industrial development plans the mandate of SABS should be reviewed to reflect the innovative policy ambitions of South Africa. Currently the SABS mandate is focusing from being administrative responsibility and the historical research and innovative mandate has been removed. As such South Africa's has had a industrial capacity gap and commercialisation gap.

6. Progressive Automotive Sector Advocacy Groups

A number of interest groups and stakeholder representative forums are found in the automotive sector representing a myriad of interests of various role players including public-private partnership in a form of Automotive Supply Chain Industry initiative (ASCCI). For the purposes of this submission we will focus on the after sales market advocacy group which is the Retail Motor Industry group. The rationale with that approach is that both advocacy organization interface with both the productive linkages of the sector and consumer facing.

6.1. Automotive Supply Chain Competitiveness Initiative (ASCCI)

To improve the global competitiveness of the South African automotive industry, and in recognition of the fact that the local automotive industry faces major upgrading challenges, compounded by a dearth of available skills, the dti and major industry stakeholders established the Automotive Supply Chain Competitiveness Initiative (ASCCI) in 2014. Established as a private-public partnership, its mandate is to increase supplier competitiveness and local content, with the overall objective of enhancing industry growth, creating employment, and facilitating industry transformation. It does so through two defined sets of responsibilities:

- **Facilitate, coordinate and oversee supplier competitiveness improvement activities:** This element aims to provide support to, and the monitoring of, regional industry development programmes, as well as to initiate, support and fund localisation projects.
- **Set the strategic direction for specific, practically-oriented competitiveness improvement projects:** ASCCI aims to drive a national competitiveness improvement

strategy, and to engage with local and provincial authorities on the development of local automotive sectors and clusters.

To deliver on these two responsibilities, ASCCI defines three strategic focus areas, namely Supplier Capability, Localisation and Strategic Insights, as indicated in **Figure 1**.

Figure 1: ASCCI core strategic focus areas, objectives and project content

| | |
|--|---|
| <p style="text-align: center;">Supplier capability</p> <p>Objective: Achieve comparable levels of supplier productivity to leading cost countries (as measured in Rand of MVA per Rand of employee cost)</p> | <p>Projects focus on:</p> <ul style="list-style-type: none"> • Base operating standards • WCM best practice implementation • Shop floor skills • Scarce skills |
| <p style="text-align: center;">Localisation</p> <p>Objective: Increase levels of localisation as value of vehicle sales ex-factory less all imported content (base condition: avg. 41% local content)</p> | <p>Projects focus on:</p> <ul style="list-style-type: none"> • Raw materials pricing and beneficiation • Tier 1 localisation • Tier 2 localisation • Investment in updated process technology |
| <p style="text-align: center;">Strategic insights</p> <p>Objective: Increased local content and generation of employment creation opportunities</p> | <p>Projects focus on:</p> <ul style="list-style-type: none"> • Blockages and enablers to competitive local supply • SA market regulatory review • Africa market regulatory review • Facilitation of buyer-supplier linking |

In accordance with the above project outline, ASCCI has achieved notable successes in delivering World Class Manufacturing interventions at a number of Tier 1 automotive suppliers, with a second phase targeting Tier 2 and Tier 3 suppliers currently in the process of being rolled out. Importantly, this second phase will apply greater focus to black-owned suppliers, in line with the Initiative’s cross-cutting Transformation agenda. From a localisation perspective, ASCCI has developed business plans for the implementation of four component/sub-component value chains for focused localisation development (seats and seat frames; drive shafts; prop and side shafts; heat exchange units), while at the same time identifying cross-cutting recommendations in respect of tooling, technology and testing projects to release general blockages to localisation. Strategic insights have yielded results in respect of a tested platform for consolidating supply chain events that has assisted in developing buyer-supplier linkages within the local industry.

6.2. Retail Motor Industry

With a membership of 7 500, the RMI provides a very effective collective voice that gives members considerable clout in negotiating better trading conditions. As the lead voice in the motor industry, the RMI is a member-driven organisation that constantly seeks solutions to concerns raised by members in the day-to-day running of their businesses. Members' needs are serviced through six regional offices, manned by 83 professional staff. In addition, the RMI is the major employer representative of the Motor Industry Bargaining Council, playing a significant role in labour negotiations as well as the industry's social benefit schemes, dispute resolution processes and exemption procedures.

Issues of transformation remains key concern, and many other lobby groups, come to the fore. The RMI is not representative of all players in this sub-sectors, is largely driven by dominant stakeholders and has not transformed its composition of members. In light of this many informal traders (uncertified and unaccredited) are not represented and tend to fall through the cracks. We are also cognizant of the challenges that are confronted by the sector in relation to imported goods.

7. Key Considerations

7.1.Competiveness of sector and the role of the Financial Sector

Many PDI owned SMMEs in the sector continue to struggle to compete effectively with established firms due to in some cases, lack of access to effective funding measures that will ensure the growth of their business:

- Ease of doing business. High transactional costs i.e.-rating agencies downgrades-high cost of debt, collateral etc.
- Type of access to Finance-most private finance institutions provide inadequate and unsuitable financial instruments (loan tenure and cost of capital). Lack of productive finance tailored towards emerging SMMEs. Access to suitable funding is an enabler in the sector and will assist in breaking down barriers to entry.
- Access to Industrial financing for SMME in the sector remains a barrier.

7.2.Globalisation and global sourcing policy

It is well documented that globalisation has had an impact on the production processes in the Automotive sectors, the emergence of global value chains has had a profound effect on the global

sourcing processes of OEMs. The profound impact of this is that most locally based suppliers are locked out of potential supply chain opportunities due to long standing international supplier agreements. This has a detrimental effect on, for instance, the local content composition of automotive. OEMs have a propensity to use this as an excuse to prevent them from opening their supplier and procurement processes to local suppliers.

7.3. Sector-wide Skills Development

Automotive is a skills intensive sector due to dynamic nature of the technology employed in the manufacturing of vehicles. Low skills concentration and technological gaps continue to plague new and small entrants throughout the entire value chain in South Africa. Tailor-made skills and training programmes, including incubation programmes of OEMs and other training institutions, continue to under-skill participants due to narrow training methods and it removes the innovative possibility. Industry wide training, inclusive of research and development, in collaboration with industry specific training bodies and the wider TVET network, should work together to ensure that sector-wide skills needs are met. One of the approaches is to establish incubation centres that develop black-owned Tier 1, Tier 2 and Tier 3 suppliers for sector. This will not only equip the businesses with the skills required over a certain number of years, but also create an opportunity for market linkages with global OEM and will drive innovation.

R&D capabilities are an important input into the overall innovative system. It allows engineers and researchers to develop new knowledge, techniques, and technologies. This can drive productivity of existing firms, or lead to the establishment of new firms

7.4. Certification and Accreditation: Ensuring quality and standards

One of the biggest barriers to entry for small and emerging firms is related to ensuring they meet quality and standards demanded by OEMs. The emphasis put on quality and standards automatically exclude small enterprises from taking advantage of domestic opportunities. Small enterprises should be equipped with manufacturing and technical abilities to ensure compliance to quality and standards. Part of the problem is that most black owned, township based enterprises are disadvantaged due to their high degree of informalisation, this includes the lack of certification and accreditation. The onus should be on relevant industry bodies together with OEMs to recognise the expertise of these enterprises and find innovative ways to formalise their operations. The process of formalization of township enterprises must be developmental in approach and its benefits should exceed the costs of such undertaking.

This issue is also of concern when considering the Insurance industries, Insurance houses should be more pro-active in empowering black owned business and break from the established supplier agreements they currently have with established autobody works

7.5. SMME Development

Supplier Development processes of SMMEs should not only be limited to technological upgrading and training but also include:

(1) Assisting SMMEs to set up technical after-sales service centres, which could be consolidated into a hub. This would require OEMs training and accrediting SMMEs to identify and repair components on vehicles. This opportunity is particularly raises an issue of manufacturer warranty as it should not be an inhibitor to service cars and could be attractive for the market of vehicles outside of manufacturer warranty.

(2) Assist SMMEs to establish accredited panelbeating hubs.

The opportunity for current imports to establish local manufacturing sites should be investigated further to determine what value proposition South Africa can offer the OEMs

7.5. Government Support vs Reciprocal Industry support

In light of the ever growing fiscal support by government and its various entities, the reciprocal impact of this financing, in light of government priorities should be investigated. An example of this is the pricing concerns relative to the cost of cars in South Africa. Much is to be said about the relationship between OEMs, Dealerships and Financial Institutions. There seems to be no causal effect between, government financing and the relative cost of care. Reduced cost of production has not related to reduced cost of consumption (in terms of vehicle purchases) for households. Costs are seemingly transferred to households thus has an impact on the cost of living of consumers.

In the component manufacturing space, prominent stakeholder must develop an appetite for risk in developing and funding township enterprises. Investment opportunities should be identified for both the long term and short-term in townships because townships have become debt-driven consumption based communities instead of productive centres.

8. Gauteng Provincial Government Initiatives on Automotive Industry.

8.1. Reflections from Automotive Industry Development Centre (AIDC).

The aim of this submission is to support expanded opportunities for small and historically disadvantaged independent automotive aftermarket service providers by evaluating applicable items in the above Draft Code of Conduct, drawing upon the AIDC's experience in developing such service providers. The AIDC limits its comments to items that is within this field of experience. It cannot comment on other aspects that fall outside this ambit. Absence of comment should therefore not be taken as tacit support for or tacit opposition to such content.

The Automotive Industry Development Centre (AIDC) is an agency of the Gauteng Provincial Government that is charged with supporting the automotive manufacturing industry in Gauteng through dedicated facilities and through enterprise development, skills development and training. Facilities include the Rosslyn Automotive Supplier Park, incubation centres for automotive suppliers at the Ford and Nissan manufacturing plants in Tshwane and the Gauteng Automotive Learning Centre in Rosslyn.

8.1.1. Township Hubs

The AIDC's mandate has been extended into the township automotive industries that are primarily comprised of informal automotive repair and service ventures. A signature example of these initiatives is the Winterveld Enterprise Hub, established in 2014. Here the AIDC has employed qualified master artisans who have been providing mentoring to township small enterprises in the Winterveld community. The mentoring includes access to the Hub auto body repair facility and skills transfer on correct use of the equipment. It also includes training on and access to an online business process facility that includes quotation and invoicing facilities. The AIDC is currently establishing a second Enterprise Hub in Chamdor.

8.1.2. Mentoring of service providers

In addition, for the past 8 years, the AIDC has been conducting mentoring and training programmes for motor vehicle repair, maintenance and service providers in Gauteng townships. This was in support of the Gauteng Government's development goal for revitalised and modernised township economies reflecting radical transformation and re-industrialisation of Gauteng's economy. More than 100 service providers have been assisted in this programme.

8.1.3. Experience gained

Based on its work outlined above, the AIDC has found that there are several major factors that create hurdles for access by service providers who are from the group of historically disadvantaged individuals designated to benefit from the Code of Conduct.

8.1.4 Business processes

Significant gaps in business processes and financial skills were found. This related to costing of work, compiling quotations with appropriate standard conditions of contract, invoicing and financial record keeping. Concerns about incurring tax liability had to be allayed, as in most cases the level of income did not exceed the minimum level for income tax liability.

The AIDC, in association with experts from a university in Gauteng, conducted gap analysis and provided customised training. This was supplemented with sample documentation and software to support the minimum required business processes.

8.1.5. Premises, security and financing

In many instances premises of work did not meet minimum requirements for protection of people and vehicles, cleanliness, quality and safety of work. Vehicles could not be stored securely when not being worked on. Vehicle storage is often required when broken down vehicles are left at repairers while vehicle owners obtain the money required to pay for the initial costs of parts for repair. Service providers mostly did not have collateral to obtain working capital credit.

Service providers lacked insurance to cover liability against theft from vehicles in storage or in process or against damage to vehicles by others. They also did not have the financial capacity to provide meaningful warranties for their work. Through the Township Enterprise Hubs, the AIDC is providing initial support towards alleviating the problem of adequate premises. The AIDC has also been pursuing alternatives for working capital finance such as quicker payment by insurers and more favourable financing terms and conditions from a financial institution.

8.1.6. Vehicle fleet work

The AIDC tried to facilitate motor vehicle repair, maintenance and service work for government and government agency and other vehicle fleets for small enterprise service providers using the Winterveld Enterprise Hub. While support was readily obtained, lack of service providers' skills levels, capacity to service the required volumes and for larger minibus type vehicles proved to be challenges. Occasional political unrest in the area also caused closing of the Hub that impacted negatively on their ability to deliver at the turnaround times required. The AIDC has had to work with all stakeholders on an ongoing basis to resolve these challenges as they occur.

8.1.7. Insurance company work

The AIDC also tried to facilitate motor vehicle repair work for new entrants owned by historically disadvantaged individuals operating from the Rosslyn industrial area. The entities comply with all the requirements regarding accredited tradespersons and facilities. While insurance company listing was obtained, it transpired that the lists already contained too many service providers of historically disadvantaged individuals in the area to produce sustainable volumes of work to be directed to them.

8.1.8. AIDC commitment

The AIDC commits to the advancement of the applicable objectives of Competition Act no. 89 of 1998, as amended, that are listed in the preamble to the Draft Code of Conduct:

1.3.1 To promote the efficiency, adaptability and development of the economy;

1.3.2 To provide consumers with competitive prices and product choices;

1.3.3 To promote employment and advance the social and economic welfare of South Africans;

1.3.4 To expand opportunities for South African participation in world markets and recognise the role of foreign competition in the Republic;

1.3.5 To ensure that small and medium-sized enterprises have an equitable opportunity to participate in the economy; and

1.3.6 To promote a greater spread of ownership, in particular to increase the ownership stakes of historically disadvantaged individuals."

8.1.9. Support for objectives

Furthermore, the AIDC supports in principle the competitiveness enhancement objectives of the Draft Code of Conduct as it relates to the AIDC's scope of work, in particular:

"2.2.4. For increased choice of service providers for consumers for the service, maintenance and repairs of their vehicles;"

8.1.10. Signatories

"1.2: The signatories to this Code are Original Equipment Manufacturers ("OEMs") and other participants in the automotive industry including dealers, repair and maintenance service

providers, distributors of spare parts, and insurers of motor vehicles. Various government departments and regulators, who are additional signatories, are in support of this Code."

Government vehicle fleet and other vehicle fleet service maintenance and repair procurement structures should be considered as important potential additional signatories of this Code. However, the demands regarding their volume of work and contractual obligations regarding turnaround times should be accounted for.

Motivation: Government and other vehicle fleets have been found to be eager to support independent service providers with majority ownership stakes by historically disadvantaged individuals. Fleet owners recognise the potential to improve their B-BBEE ratings. However, lack of service providers' capacity and other challenges were encountered (see 1.2.4 above). Challenges facing independent service providers should be identified and dealt with via transformation initiatives (see comment on "12.2" below.)

8.1.11. Repair work definition

3.14: "Repair work" refers to all work to the vehicle's body (such as panel beating and spray painting) and all mechanical repairs to a motor vehicle's mechanical parts"

It is not clear why "Repair work", apart from "all work to the vehicle's body", is limited to "all mechanical repairs to a motor vehicle's mechanical parts", and does not refer to other technical descriptors such as "electrical", etc. It is recommended that "mechanical" be replaced by "other".

Motivation: Too narrow a definition might preclude award of and reporting on work not explicitly mentioned in it.

8.1.12. Independent aftermarket service enablers

The proposals in the following paragraphs of the Draft Code refer:

"5: MAINTENANCE, SERVICE AND REPAIR WORK

6: ACCESS TO TECHNICAL MAINTENANCE INFORMATION

7: PARTS AND ACCESSORIES

8: AVAILING OF SPECIAL EQUIPMENT AND TOOLS TO DEALERS AND INDEPENDENT REPAIRERS

The AIDC supports these proposals in principle as appropriate for promoting the objectives of the Draft Code as they pertain to automotive aftermarket service providers. However, from the AIDC's experience the capacity related deficiencies in technical skills, business processes and premises, security, insurance and financing indicated in paragraph 2.4 above have to be addressed beforehand for the majority of the *historically disadvantaged (1.3.6)* category of service providers for them to start benefiting significantly from these terms of the Code of Conduct. Contributions made to address the capacity related deficiencies should qualify in terms of the proposed transformation performance reporting:

"12.2: The Commission shall prescribe the elements which signatories must report on, which shall include the transformation initiatives effected pursuant to this Code."

It would appear prudent to monitor empowerment transformation performance required in terms of this clause in alignment with empowerment monitoring in terms of the provisions of the Broad-Based BEE Act No. 53 of 2003 and the B-BBEE Amended Codes of Good Practice, to avoid undue duplication of work and of administrative burden on government and industry.

9. Off-setting Imports, an enabler for developing domestic industrial capacity

The APDP, currently, includes a Duty-Free Allowance for OEMs to import components to the value of 27% of selling price of the final product. It would be prudent to conduct an audit, by 2019, of our current industrial and productive abilities, this audit would focus on local component suppliers abilities against the products that are currently imported by OEMs. The audit would determine whether local components are of quality and can compete with imported components. Furthermore, the audit would determine who the local suppliers are and what components they can supply in accordance to OEM needs, in cases where the capabilities are limited, these can be developed through targeted measures such as ASSCI. Ultimately, the industry would be in a position to do away with the need to export, boosting local manufacturing capabilities and improving local content thresholds in component manufacturing.

10. Conclusion

We trust that this submission will serve as starting for a more comprehensive approach in the Automotive Industry. Addressing the structural problems in sector will demonstrate genuine commitment by the sector champions. The public-private partnership that is driven by ASSCI is one of the best practice in term of partnership and there are lessons that should be learnt.

However, the micro-sectorial analysis that is being proposed above should be dovetailed with this partnership approach so that progress is measurable.