STUDY TO EXPLORE THE RETENTION AND CREATION OF EMPLOYMENT IN THE SOUTH AFRICAN AUTOMOBILE SECTOR

FINAL REPORT

Submitted by MPL Consulting

In conjunction with

Bentley West Strategic Consulting

18 July 2005

EXECUTIVE SUMMARY

During 2004 the Fund for Research into Industrial Development, Growth and Equity (FRIDGE) commissioned a study which had as objective to research and quantify the South African automobile sector with regard to employment, to facilitate the formulation of recommendations that would assist in informing deliberations on the creation and retention of quality employment within the automobile industries.

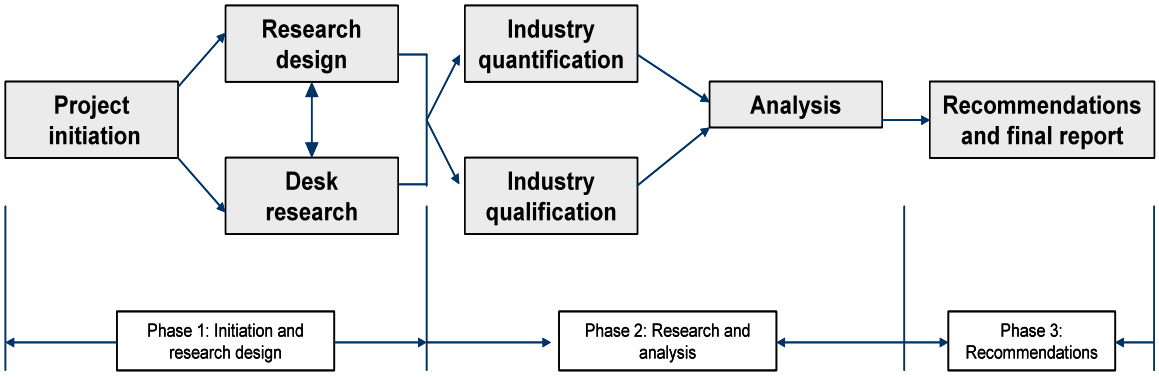
Please note: At the request of the FRIDGE Counterpart Group who managed the study, the study concluded with interpretation of the research findings, i.e considerations for future development of the industry. No explicit recommendations were therefore formulated.

Research scope and methodology

The scope of the study covered the automobile industry sectors and sub-sectors benefiting from the MIDP, i.e. component manufacturing that forms part of assembly of the final product and Original Equipment Manufacturers (OEM's). The scope of research excluded suppliers of equipment and materials used in the production process, with the exception of tools suppliers, and also excluded suppliers of commodity type raw materials.

The study was a census amongst all manufacturing entities identified, i.e. all companies identified were contacted and asked for information. The population size was 480 companies. Needless to say that not all companies contacted were willing to participate, and not all companies wanted or could answer all the questions posed. On the key question of the study, namely the number of employees in 2004, a very high response rate was obtained (376 of 480 companies) but on other questions such as employment for 1995, which was difficult for companies to answer, the response rate was much lower with only 89 companies able or willing to answer this question. However, overall the response rates were sufficient to enable meaningful analysis.

The following diagram summarises the methodology utilised:



Industry quantification

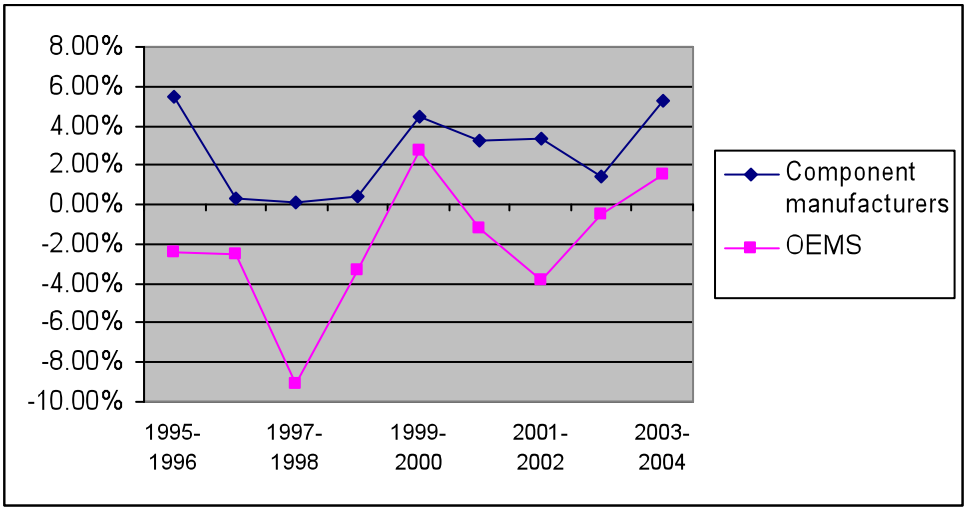
The following table summarises the status of the South African automotive industry in 2004, as researched by this study. Due to the high number of companies surveyed, these results are reported with 95% confidence and a 5% precision level. In other words it can be reported with 95% confidence that there are between 105 509 and 116 616 employees in this industry.

	Total	Component manufacturers	OEM's
Number of companies	480	465	15
Number of employees	111,063	76,911	34,152
Turnover	R 142 959,9 million	R 48 990,0 million	R 93 969, 9 million

Employment trends

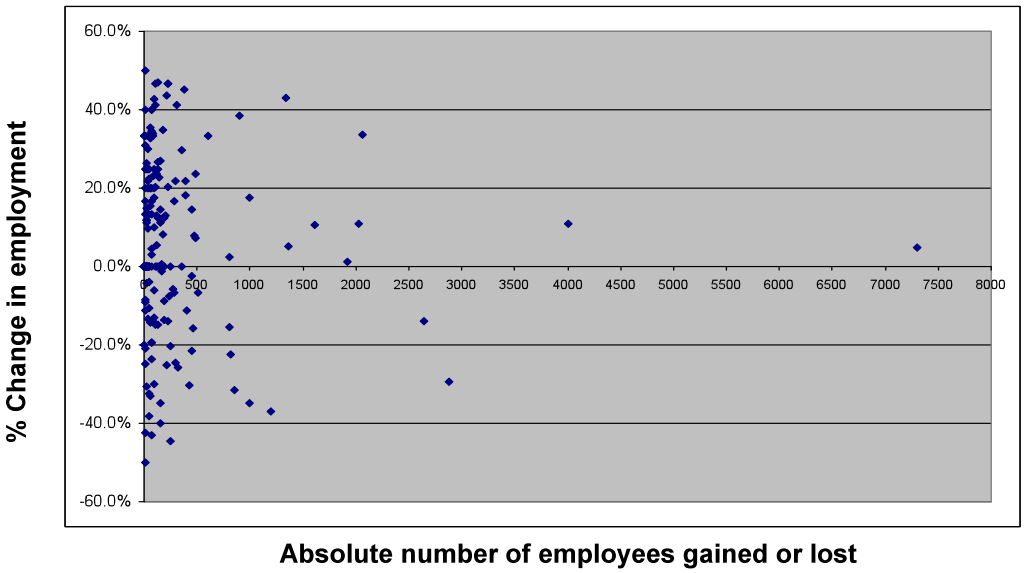
This study found that the automotive industry as a whole has been successful in creating employment over the last decade, albeit marginal. Employment in the automotive industry increased from 102 164 people in 1995 to 111 063 in 2004. While there has been increased employment by component manufacturers over the last decade, OEM employment declined, especially between 1995 and 1998.

Employment trends, 1998-2004



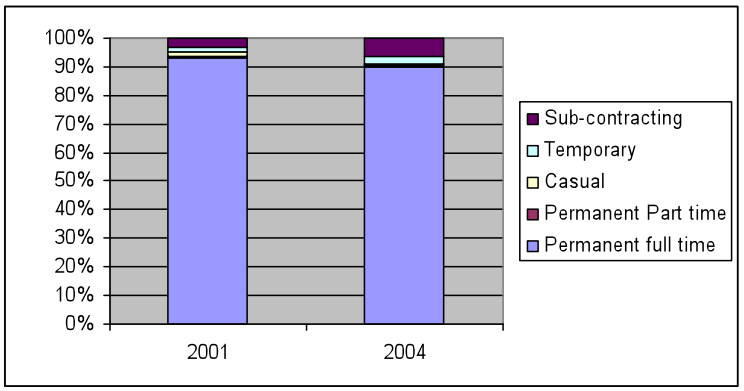
This study also found employment gains were not driven by a handful of companies. Although the next figure shows that many companies did shed jobs, which is of obvious concern, there were more companies that reported job gains (compared to companies that reported job losses) over the period 2001 to 2004.

Relative and absolute change in employment (2001-2004)



Although this study found a significant increase in the levels of non-permanent employment, this was heavily influenced by a small number of companies (4) which employed large numbers of people on a non-permanent basis. Even though the utilisation of non-permanent employment is inherent to the industry due to varied demand conditions, it was found that - with a few notable exceptions, very few companies have an explicit strategy to employ people on a non-permanent basis.

Change in employment structure (2001-2004)



Considerations for the future development of the industry, with emphasis on the drivers and inhibitors of employment retention and creation

Supply-side considerations

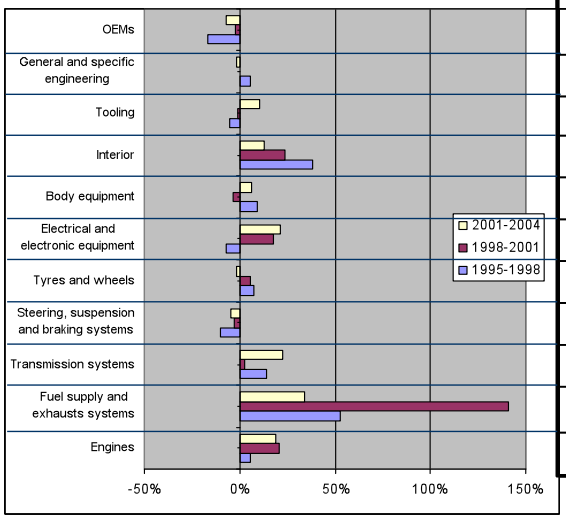
- Raw material prices, e.g. aluminium, polymers and stainless steel were consistently raised as a major negative factor. Current studies and negotiations to address this issue (whether perceived or real) should continue.
- The cost of electricity and certain infrastructure (land, buildings) are seen to be a positive contributing factor to manufacturing competitiveness.
- A number of companies also indicated that the minimum wage level at the bottom end could be too high, and is preventing employment creation at lowest occupational categories. This required further investigation.
- Availability of skills was consistently raised as an impeding factor to employment creation. More specifically, there is a shortage of artisans and basic engineering skills in the industry. It was also indicated that skilled workers for the tool making industry are virtually non-existent.
- The industry in general has embraced BEE but expressed concern over the ability of multinationals to comply with rules of ownership and shareholding.
- The rail transport system in South Africa came under consistent criticism from all stakeholders during this study. Although the improvements in port operations are recognised, opinion is that there is still room for improvement.

Sectoral and structural considerations

Not all sectors have been equally successful (or unsuccessful) in creating employment, neither do they contribute equally to overall employment. Job losses in the tyres and wheels sector over the last three years and sustained job losses during the last decade in the steering, suspension and braking systems sectors are of specific concern. Although a number of indicative factors for decline of these sectors were identified, thorough investigation of these sectors should be conducted with a view of developing turnaround strategies.

The export success of the fuel supply and exhausts systems sectors, as well as the interior (especially leather seats) sectors is well known and has consistently achieved employment growth. Surprisingly the tooling industry has achieved employment growth over the last three years, as has the electrical and electronic sector over the last six years.

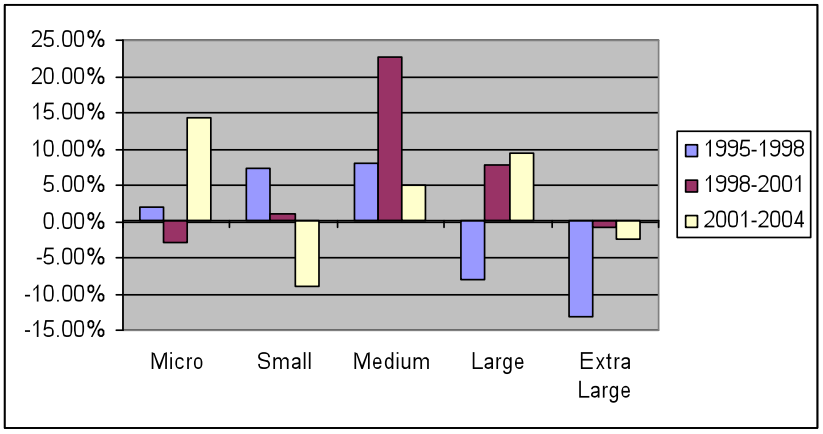
Sectoral trends in employment, relative contribution to employment and employment intensity



Employee contribution	Turnover contribution	Comments
27.72%	68.13%	BMW, Nissan etc have sold operations in last 3 years
5.28%	1.67%	Sluggish
1.32%	0.22%	In turnaround underway?
10.19%	5.10%	Star performer
7.38%	2.33%	Is turnaround underway?
9.03%	2.77%	Showing potential
12.00%	8.77%	Of concern
4.22%	1.01%	Of concern
2.97%	1.58%	Showing potential
5.38%	6.39%	High growth, but not that labour intensive
3.94%	0.98%	Showing potential

Across industry sectors the importance of growth and efficiency were consistently raised as the most important factors of employment creation. Labour cost was cited as an inhibitor to employment growth by manufacturers of engines, manufacturers of tyres and wheels and manufacturers of tooling components. Availability of skills also featured prominently for manufacturers of body equipment, manufacturers of interior components and manufacturers of tooling components. Import penetration due to strong currency is a contributing factor for manufacturers of starting systems, ignition systems, electrical and electronic equipment, manufacturers of tyres and wheels, manufacturers of interior components, and engineering

Change in employment per company size



The large employment reductions by extra large and large companies during mid 1990's are reflective of the SA industry at large as internationalisation occurred. The reductions in employment by small companies in recent years are of concern and it appears that there could be barriers to moving from a small company to a medium company. This requires urgent attention. Medium and large companies, who are considerably more labour intensive than

extra large companies (OEM's) and marginally less than micro-and small companies are therefore primary drivers of employment

Operational (manufacturing) considerations

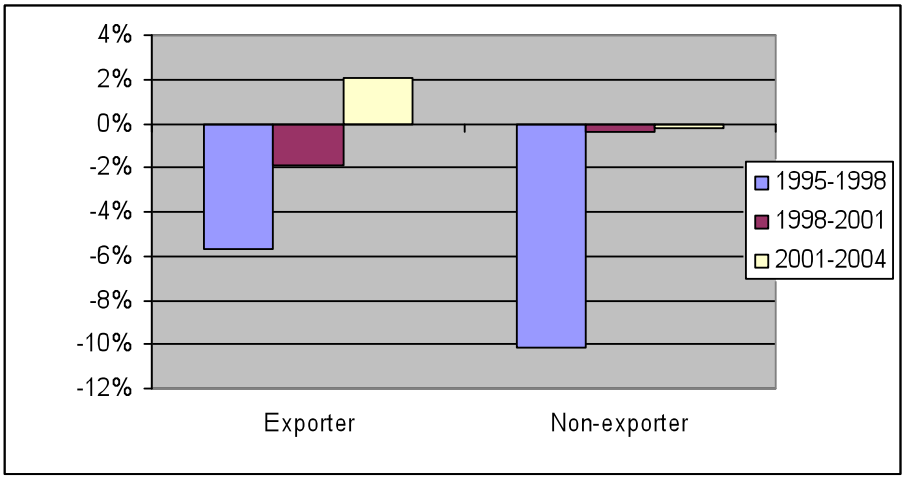
The continued development of a globally competitive OEM and supplier industry is considered essential for sustained employment growth. Although this study found that a large section of the component manufacturing industry has made tremendous strides towards becoming globally competitive, it must be considered that this quest is never-ending. A number of issues are of specific importance and should be considered by policy makers, the industry, organised labour and other stakeholders:

- There should be a continued focus to develop the component manufacturing industry beyond the supply of SA based OEM's and SA based aftermarket to form part of a globally competitive supplier industry. Many component manufacturers that have reported job losses struggled with some fundamental issues such as price competitiveness, capacity and labour costs. Competitive input cost is a significant contributing factor to manufacturing competitiveness. This study identified positive and negative contributors (see earlier).
- Although export success has been achieved, it has been limited to relatively few products (catalytic converters, leather seats, etc).
- The automotive industry is a high-technology industry which increasingly requires highly skilled employees. The OEM's in specific are expecting modest but stable employment growth provided that the labour market continually adjusts to the move to higher skills levels.
- OEM's are continuing the trend of placing more and more research, development and design responsibility with component manufacturers. Reality is that smaller component manufacturers simply do not have the resources to establish the competencies and technology required to meet OEM requirements for product development and design. Unless they form strong linkages with multinational in this regard (technology agreements probably being the minimum requirement), they will come under pressure.

Demand side considerations

This study found that employment losses for non-exporters are greater than that of exporters. The ability to export products (directly and indirectly) has a large influence in a company's ability to grow and create employment. A concern found in other studies and re-iterated in this study is that export growth is still highly concentrated in only a few products.

Changes in employment per exporters and non-exporters



An interesting finding, which requires further investigation, was that exporters feel considerably stronger than non-exporters that government schemes need to be changed. Both exporters and non-exporters rate import penetration as a key contributing factor to employment decline, and not surprisingly, exporters more so.

Although general opinion dictates that the domestic market is too small to sustain a domestic manufacturing industry, it is never the less an important market and the following should be considered:

- Import growth has increased at the same pace as export growth (Figure 57),mainly due to the inherent offset effect of the MIDP
- The strengthening of the Rand has accelerated import penetration over the last 12 months
- During the qualitative interviews a number of companies in various sectors indicated that import penetration is having a serious negative effect on their market-share and could result in employment losses

Operating environment

It would not be unreasonable to attribute much of the success South Africa had in securing multinational OEM and first tier manufacturing to the MIDP, and it can be questioned whether OEM's and large first tier manufacturers would invest in SA if left purely to market forces. A number of issues around the MIDP need to be considered

- **Policy stability:** A clear message from industry is that policy stability is required for continued investment, i.e. long term certainty of MIDP and its mechanisms.
- **Alternative strategies:** In recent years the MIDP has come under fire for potentially not being compliant to the WTO Agreement. The question being raised by role-players is what

is “plan B” should South Africa be forced to abandon the MIDP. At minimum a clear response strategy should be formulated in conjunction with the key role-players.

- **Monitoring of the MIDP on upstream manufacturing:** This study identified a few instances where the MIDP might be creating artificially competitive “upstream” industries (e.g. leather). This should be monitored and adjustments should be made to the programme where necessary
- **CBU imports**: It is recognised that an inherent mechanism of the MIDP is to stimulate export through import credits, but many industry players are of the opinion that the level of CBU imports are reaching levels that are detrimental to domestic manufacturing, including the aftermarket. This situation should be monitored and adjustments made to the MIDP as necessary.

Although the industry in general, is optimistic that marginal employment increase will continue over the next 3 years. The effect of macro-economic factors should however not be underestimated. Although the stronger Rand has been cited as a contributing factor to employment losses, more sophisticated companies does not see this as such a strong contributor.

Conclusions

This study has found that although the automotive industry has created employment over the last decade, the growth was marginal and inconsistent across industry sectors. Of specific concern are job losses that have occurred in small companies over the last three years. The positive impact of the MIDP regarding industry development is re-iterated by this study, although some areas for improvement were identified. On the supply side the perceived negative impact of parity pricing practices by suppliers of raw material such a as steel, aluminium and polymers requires attention, and much can still be done to improve the national rail and port operations. Many companies that have shed jobs still battle with fundamental issues such as price competitiveness, quality and capacity management. Companies that have gained jobs cited the availability of skills, labour cost, and import penetration due to the weaker Rand, new product development and increased capacity/investment as barriers to further growth and employment creation.

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1 Introduction

1.1 Background

The South African automotive sector is the third largest contributor to national GDP after mining and financial sectors. The industry is composed of large assemblers, a range of automotive component manufacturers, as well as the motor trade, i.e. retailers and aftermarket wholesalers.

The South African automobile and transport sector is a world-class sector and forms a key element of downstream activities of the primary industries in the South African economy. These sectors are regarded as significant players in the South African manufacturing sector. Many analysts concur that the automobile sector is among those sectors within the manufacturing sector that has undoubtedly witnessed a massive increase in exports. While the increase in exports must be welcomed, it must be acknowledged that the exports of Complete Build Unit (CBU) have grown rapidly, but owing to a large and rising imported component, the positive effects of CBU exports on the balance of payments have been offset to a significant extent by the Complete Knock Down (CKD) imports required to produce these exports. In the long run, this is not good for the growth of the sector. The Motor Industry Development Programme (MIDP) has also caused a substantial increase of CBU imports. It is estimated that the net effect of these factors is that faster export growth contributes little or marginal to an improvement in the balance of trade.

A strong perception among certain stakeholders exists that whilst there has been some modicum of success in terms of “export growth” in the motor sector, unfortunately this export growth has not yielded significant job creation and in some instances, it has resulted in job losses.

The automobile industry’s strategic importance to the South African economy must be seen as coming not only from beneficiation and fabrication, but also from the underlying potential the sector possesses in terms of creating employment on a respectable scale. While all stakeholders in the industry agree that employment retention and creation is a challenge facing the sector, there exists disagreement among the stakeholders concerning the employment trends in the sector.

Different statistics present different figures concerning employment trends in the sector, which is creating problems among stakeholders in terms of proving credible measurement of the economic performance of the sector as well as its social contribution to the entire economy.

If jobs are found to have been lost or created a number of factors would require examination in terms of their influence in this regard and some of these factors are highlighted below:

- Technological innovation
- Workplace restructuring (including outsourcing, increasing use of labour brokers, subcontracting, casual work, etc.)
- Input costs of raw material, as well as high transport costs
- MIDP programme, which encouraged rationalisation of product as well as trade and tariff liberalisation
- Lack of increase in local market demand
- Global over-capacity and supply in the motor sectors

Recently, employers, government and trade unions in the MIDC agreed to undertake further research and investigations into the employment trends as well as unearthing the major causes of job losses and reasons for the lack of employment growth where it is found to be the case. In those sectors and companies where employment growth has been experienced, the reasons for this growth must be established with a view to replicating these successes elsewhere. The outcome that should take the form of short-term, medium and long-term recommendations would assist in informing the deliberations on employment creation in the automobile industries.

1.2 Objectives

The fundamental objective of this study was to research and quantify the South African automobile sector with regard to employment, to facilitate the formulation of recommendations that would assist in informing deliberations on the creation and retention of quality employment within the automobile industries.

In order to achieve the above-mentioned objective the following sub-objectives had to be attained:

- Define and quantify the automobile industries sector with regard to employment and key economic parameters.
- Assess the historical and current situation with regards to industry job losses/gains, in the automobile manufacturing industry.

- Interpret movement in industry job losses/gains and formulate conclusions and recommendations to inform future industry development.

Please note: The outcome of this study is not intended to be a strategy for the medium to long term development of the South African automotive industry, but rather a set of findings and recommendations to be used in deliberations around future policy and industry development strategy.

1.3 Scope

1.3.1 Defining the automotive industry

One of the major obstacles of this project is to clearly define the "automobile industry" in such a way that it captures employment patterns in all companies benefiting from the MIDP as well as provide nuances and the broader picture confronting the sector. The automobile sector is located or defined on two different levels – A & B. This is done for the purpose of clarifying the industry scientifically as well as for research purposes. What is referred to as level A involves the manufacturing component of the automobile sector, which largely benefits from the MIDP and is concerned with the following sub-sectors and products:

- First, second and third tier component suppliers
- Tyre manufacturers
- Rubber producers who supply into the automotive sector
- Plastic manufacturing industries who supply into the automotive sector
- Passenger and light commercial vehicle manufacturers
- Manufacturers and assemblers of medium and heavy commercial vehicles, busses and other transport equipment which falls under the MIDP

Level B concerns the companies or establishments that are outside the manufacturing sectors and these entail the following:

- Automobile retail industries
- Support sectors (including petrol service stations and service outlet, parts and aftermarket wholesalers and retailers, vehicle and parts transporters)

It is noted that level B activities and employment will be there irrespective of the degree of local information of level A. The level B activities are specifically excluded from the field research (primary research) scope of this project.

A clear picture of the scope and size of the automobile industries is necessary in order to evaluate current policies as well as inform future policy approaches, whose object is to ensure growth of the industry and the creation of quality employment.

1.3.2 Industry Classification

Using the Standard Industrial Classification for economic activities the sector is captured by the following SIC codes:

- Major group 381 covers manufacture of motor vehicles
- Major group 383 covers manufacture of parts and accessories for motor vehicles and their engines
- Sub group 38399c covers motor vehicle lighting equipment
- Sub group 38302 covers activities of specialised automotive engineering workshops working primarily for the motor trade (except rebuilding of motor vehicle engines)
- Sub group 38403b covers pumps and compressors for motor vehicles
- Sub group 38403d covers the motor vehicle engines
- Sub group 31213 covers the manufacture automotive textile goods (including safety belts, seat covers)

1.3.3 Research scope

The primary scope of the study covered the automobile industry sectors and sub-sectors benefiting from the MIDP, i.e. purely component manufacturing that forms part of assembly of the final product. These are predominantly sectors that manufacture and supply to the Original Equipment Manufacturers (OEM's), and include component suppliers, tire manufacturers,

plastic manufacturers, etc. These are referred to as “Level A” sectors, and were targeted through both primary (direct) and secondary (indirect) research. In terms of product categories and activity along the value chain, the scope of the research was defined as follows:

Product categories:

All manufacturing concerns that produce products (individually or assembled) that becomes part of a motor vehicle, as well as the assembly of motor vehicles, trucks were included. For the purpose of this study the following categories were considered:

- Manufacturers / suppliers of engines
- Manufacturers / suppliers of fuel supply and exhaust systems
- Manufacturers / suppliers of transmission systems
- Manufacturers / suppliers of steering, suspension and braking systems
- Manufacturers / suppliers of tyres and wheels
- Manufacturers / suppliers of electrical and electronic automotive components
- Manufacturers / suppliers of body parts and equipment
- Manufacturers / suppliers of interior automotive components

In addition to the above, manufacturers and suppliers of tooling equipment for automotive application were also included in the study.

Excluded were the following:

- Suppliers of equipment and materials used in the production process, with the exception of tools suppliers
- Suppliers of commodity type raw materials e.g. suppliers of leather rolls in bulk are excluded but leather that is cut in the form of a seat is included.

Value chain activities:

In terms of upstream activities in the manufacturing value chain, the rule applied was that once a piece of material has been processed to such a degree that it can not be utilised for any purpose other than manufacture or assembly of motor vehicles or motor vehicle components, it considered to be an “automotive component” and included in the scope of this research.

Downstream manufacturing activities such as remanufacturing were excluded from the scope of the study. The following diagram summarises activities included and excluded. Although upstream manufacturing activities were excluded, it is important to note that the increasing and decreasing of employment does affect these activities but not the downstream manufacturing activities.

Figure 1: Scope of the research

Excluded (upstream)	Included	Excluded (downstream)
• Production of steel • Production of aluminium • Production of leather hides	• Cutting and pressing of steel of steel into panels etc • Aluminium castings • Tanning and cutting of leather	• Remanufacturing of engines and parts • Repair and service of parts • Processing of scrapped parts

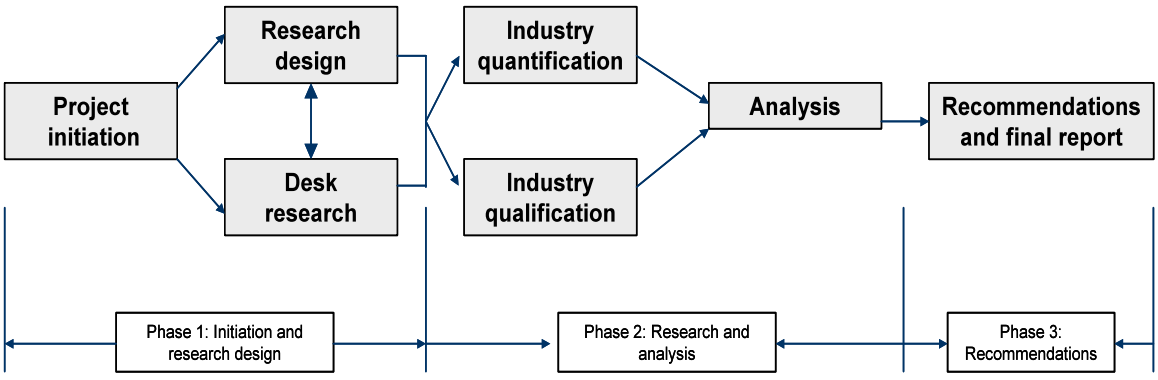
Therefore, related industries, typically service industries such as retailing and vehicle service operations, which are referred to as “Level B” sectors were covered only by secondary (desk) research.

The scope of the research conducted for this study is detailed in Figure 1.

1.4 Methodology

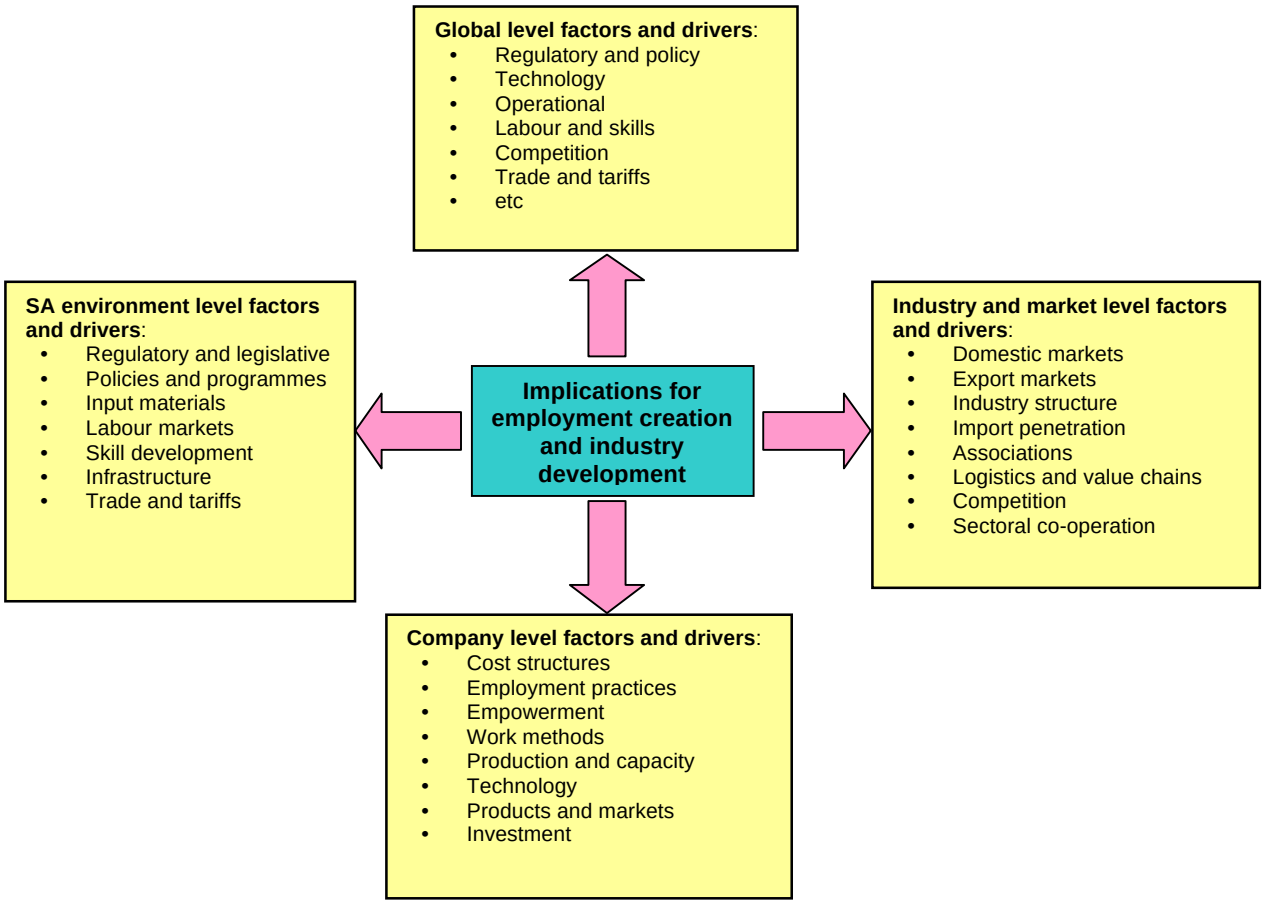
The methodology for this study (Figure 2) incorporated an extensive research phase (qualitative and quantitative), followed by analysis of key issues, the synthesis thereof into meaningful conclusions, and finally the development of a set of recommendations to as input into future policy and strategy development.

Figure 2: Methodology



In terms of structuring the research and analysis into a coherent framework, the following figure (Figure 3) summarises how issues were researched at four relevant levels.

Figure 3: Analysis framework



1.5 Reliability and validity of results of the primary research

This study was a census amongst all manufacturing entities identified, i.e. all companies identified were contacted and asked for information. The population size was 480 companies. Needless to say that not all companies contacted were willing to participate, and not all companies wanted or could answer all the questions posed. A total of 304 participated in the survey. On the key questions of the study, namely the number of employees in 2004, a very high response rate was obtained (376 of 480 companies) on other questions such as employment for 1995, which was difficult for companies to answer; the response rate was much lower, with only 89 companies able or willing to answer this question. However, overall the response rates were sufficient to enable meaningful analysis. **Throughout the report it is explicitly stated what the levels of precision of any analysis is, based on the response rate of the relevant questions.**

1.6 Structure of this report

The structure of this report follows the logic applied in the methodology in order to achieve the objectives of the study which are as follows:

- The next chapter (Section 2) is a high level overview of the international and South African automotive industry, and provides the context of the study
- Section 3 is the industry segmentation and quantification, based on the primary research of this study
- Section 4 explores key industry trends, with specific emphasis on employment trends and the correlation between changes in employment and changes in other industry factors
- Sections 5 and 6 identify key drivers and inhibitors to employment creation and retention.
- Section 7 summarises the qualitative research
- The last section concludes the key findings of the research and interpretation of the research

1.7 Caveats

It has to be recognised that there are always some caveats to a study of this nature.

- Although a census was conducted to quantify the automotive industry (i.e. all identifiable companies were contacted), and the ideal would have been that the quantification is based on information obtained from all companies in the industry, in reality this is hardly ever possible (i.e. there are always companies who will not provide data). The implication to this is that a degree of extrapolation is necessary to quantify the industry. Section 3 deals with this and shows how sound statistical techniques were used to conclude reliable industry quantities.
- Companies that closed down during the period (1995-2004) are extremely difficult to identify in a study of this nature, and by implication not included in the survey unless they were specifically pointed out by other participants to the study. The implications of this are as follows:
    - There might have been more companies in existence in previous years than reported for 2004.
    - In terms of absolute numbers of companies that have reduced employees, the numbers can be slightly understated for any given reporting year

- Similarly, it must be recognised that there could be some companies that exist but could not be identified as part of this study. Great care was taken to develop what now constitutes the most comprehensive database of companies for this industry. The consultant made use of and consolidated every existing database including:
    - AIEC
    - NAACAM
    - the dti
    - MIBCO
    - NAAMSA
- In terms of the last two points, it is important to recognise that both these factors do not have any material effect on the numbers reported. This is due to a number of reasons.
    - Any medium or large companies that either closed down or whose existence was not reflected before, would have been identified and reported on. It is therefore only small and micro companies who would fall into this category.
    - The activities performed by companies that closed down are normally absorbed by other companies (there are exceptions but they are normally negligible) and reflects in their data
    - The process of extrapolation and triangulation inherently allows for a absolute numbers to be concluded with a variance within a confidence interval

2 Overview of the automotive industry

2.1 Overview of the international automotive Industry

The automotive manufacturing industry is defined as the manufacture of motor vehicles and components for motor vehicles. The manufacture of motor vehicles includes the manufacture of motor vehicles for the transport of persons and goods, tractors and semi-trailers, and engines for all of these. The vehicle components sector includes the manufacture of parts and accessories for motor vehicles and their engines (including electrical equipment) and the manufacture of vehicle bodies and trailers (UK Standard Industrial Classification of Economic Activities 1992).

Globally the automotive sector accounts for 15% of the global GDP, with total vehicle production in 2003 amounting to approximately 60 million units. With about 8.8 million direct jobs, most of them skilled, it is also one of the largest employment sectors. The value of the sector in 2003 was $645 billion and is predicted in 2015 to represent $903 billion of the global economy.

The industry is technologically advanced, both in terms of manufacturing processes and in its products. It is characterised by economies of scale and low unit costs, despite the increasing complexity of the fundamental product. Manufacturers are seeking to differentiate their products through technology and branding.

2.1.1 Global automotive industry structure

2.1.1.1 The supply-side

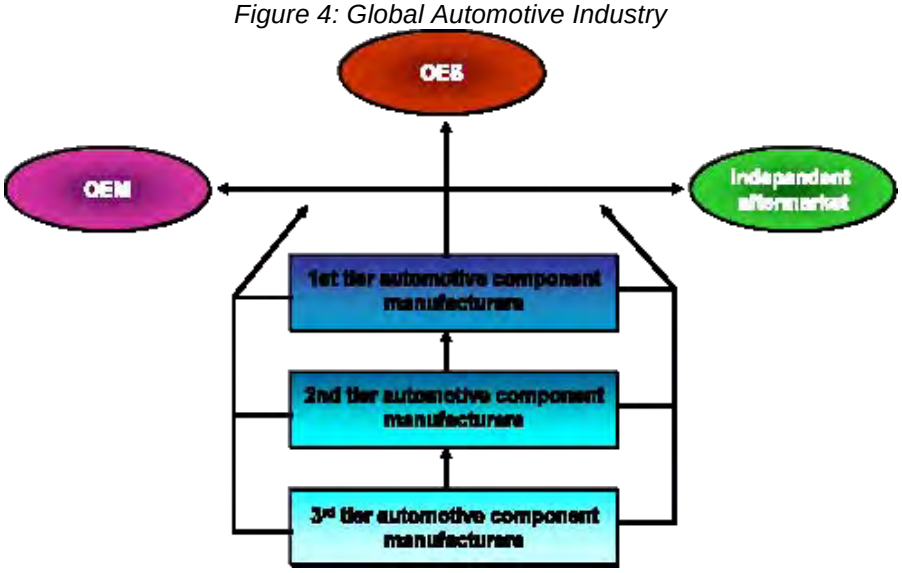
The global automotive industry supply-side consists of four broad segments as illustrated in *Figure 4*.

- Original Equipment Manufactures (OEM's), comprising of passenger, commercial vehicle and bus manufacturing, as well as sales primarily through dealerships .
- Original Equipment Suppliers (OES's), who manufacture automotive parts and accessories directly to the OEMs. OES's require global coverage and need to provide "black box" solutions (solutions created by suppliers using their own technology to meet performance and interface requirements set by assemblers)
- The independent aftermarket, which are responsible for the manufacture and sale of automotive replacement parts and accessories through independent retailers and repair

shops directly to the consumer, rather than the OEMs themselves. The aftermarket also remanufacture, distribute, retail and install motor vehicle parts and products, other than the original parts and accessories

- First, second and third tier component manufacturers who supply manufactured parts and accessories to OEM's, OES's and the independent aftermarket. The distinction between different tiers of component suppliers in indicative to the manufacturer's role in the value chain. 1st Tier Suppliers (also known as sub-assemblers) are responsible for manufacturing components that are supplied to the assemblers and aftermarket. In instances they design certain assemblies and assemble modules, for example they may assemble entire dashboards from different components. They require design and innovation capabilities, but compared with the OES's their global reach may be limited (UNIDO, 2003). 2nd and 3rd tier suppliers provide parts for 1st Tier suppliers and also assemblers depending on the product**.** **T**herefore the 3rd Tier suppliers supply mostly basic products in, and only rudimentary engineering skills are normally required.

Figure 4: Global Automotive Industry



Source: UNIDO 2003

Globally, automotive manufacturing is spread across 6 regions namely NAFTA, Western Europe, Japan, Asia-Pacific, Eastern Europe, and South America.

Table 1 on the following page shows the World Vehicle Production across these regions for 1997 until 2003.

Table 1: World Vehicle Production by Region (Thousands of Units)

	1997	1998	1999	2000	2001	2002	2003
NAFTA	16 045	16 034	17 617	17 660	15 817	16 715	16 212
W Europe	16 040	16 680	16 426	17 167	17 270	16 965	16 960
Japan	10 976	10 050	9 895	10 145	9 776	10 257	10 286
Asia-Pacific	7 143	5 398	6 950	7 873	7 937	9 355	11 012
E Europe	2 314	2 377	2 592	2 699	2 636	2 571	2 662
S America	2 656	2 051	1 662	2 042	2 062	1 962	2 007
Other	697	619	602	751	676	631	955
World Total	**55 871**	**53 209**	**55 745**	**58 334**	**56 173**	**58 457**	**60 095**
% GROWTH		**-4.76%**	**4.77%**	**4.64%**	**-3.70%**	**4.07%**	**2.80%**

Source: IMF Auto Report 2004

From the above it can be seen after 1998, when the global recession bottomed-out, there has been an overall increase in production of about 2%, compounded per annum. This is despite the slump in production of 3.7% during 2001, with strong positive growth of 4% in the 2002 and 2.8% in 2003, driven primarily by growth in demand within China.

2.1.1.2 The demand-side

There has been an increase in the overall demand of automobiles since 1998. The period 2003 saw an increase in demand for passenger cars grow by 1% to 47.3 million from the previous year, with an excess of 6% increase in sales of commercial vehicles.

Although there was a decline in the North America and the Western European markets during 2003, Asia has continued to grow where sales were boosted by over 2%. In contrast to the NAFTA region the markets in Central and Eastern Europe proved to be an important driving force behind the automotive industry during where a 7% growth was recorded. The Chinese market on the other hand has not reached its saturation point as yet and had grown by a high percentage of 35%, which contributed to boosting the Asian overall industry by 11%. (VDA, 2004)

2.1.2 Major role-players and producers

2.1.2.1 International Organisation of Automotive Vehicle Manufacturers,

A key organisation within the global automotive sector is the International Organization of Motor Vehicle Manufacturers (ORGANISATION INTERNATIONALE DES CONSTRUCTEURS D'AUTOMOBILES - OICA) which was founded in Paris in 1919.The organisation's membership comprises 42 national trade associations around the world, including all major automobile manufacturing countries, thereby covering virtually the entire motor vehicle industry globally.

The overall objectives of the OICA are as follows:

- To defend the interests of the vehicle manufacturers, assemblers and importers grouped within their respective national federations;
- The development and future of the automobile industry;
- Collecting and circulating useful information among member associations;
- Establishing policies and positions on issues of mutual interest to the members;
- Representing the automobile industry at the international level, in particular with intergovernmental and international bodies;
- Disseminating and promoting industry policies and positions among international bodies as well as the general public.

2.1.2.2 Global OEM's

Table 2 below shows that the top 10 manufacturers account for more than 73% of total production, representing approximately 41 million units per year.

Table 2: World motor vehicle production by manufacturer, 2002

Group	Total	Passenger Cars	LCVs	Brands
GM	8 291 984	4 900 561	3 391 423	Bedford, Buick, Cadillac, Chevrolet, GMC, Holden, Hummer, Isuzu, Oldsmobile, Opel, Pontiac, Saab, Saturn, Subaru, Suzuki, Vauxhall
Ford	6 676 309	3 606 715	3 069 594	Aston Martin, Ford, Jaguar, Land Rover, Lincoln, Volvo, Mazda, Mercury
Toyota	5 952 713	5 555 111	397 602	Lexus, Daihatsu, Toyota
Volkswagen	4 993 838	4 829 456	164 382	Audi, Bentley, Bugatti, Lamborghini, Rolls Royce (to 2003), Seat, Skoda, Volkswagen
Daimler Chrysler	4 209 103	1 998 946	2 210 157	Chrysler, Dodge, Jeep, Maybach, MCC, Mercedes
PSA Peugeot-Citroën	3 262 146	2 894 030	368 116	Citroën, Peugeot
Honda	2 988 427	2 930 688	57 739	Acura, Honda
Nissan	2 557 532	2 164 621	392 911	Infiniti, Nissan
Hyundai-Kia	2 293 314	2 185 002	108 312	Hyundai, Kia
Renault	2 328 508	2 049 809	278 699	Alpine, Renault, Dacia

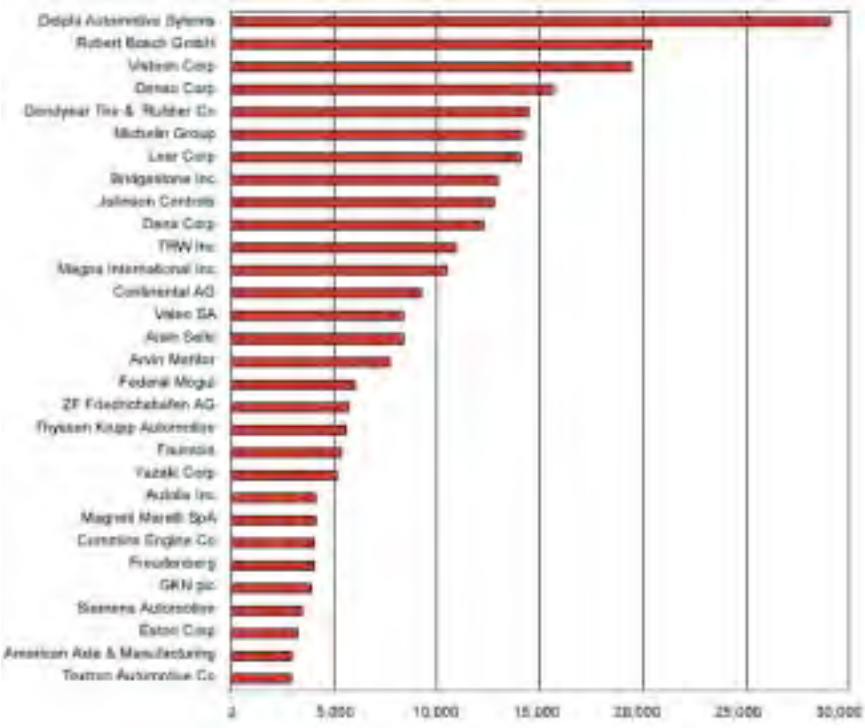
Source: OICA 2004

A key trend over the last decade has been the consolidation of the industry through mergers, acquisitions and alliances as companies strive for economies of scale within a low-growth, low-margin market and with excess capacity in the supply-side. This trend is expected to continue and it would not be unrealistic to predict the existence of five or six dominant producers within the foreseeable future.

2.1.2.3 Component Suppliers

The global component industry is characterised by a limited number of large global suppliers (typically OES's and 1st tier suppliers) as well as a large number of smaller companies supplying on a national or regional basis. Table 3 shows the top 30 component suppliers in terms of revenue.

Table 3: Top Thirty Component Suppliers, Sales, 2002



Source: Automotive World 2003

Consolidation among the vehicle manufacturers is most likely to be mirrored in the 1st component supply sector, where the emergence of a limited number of dominant players can be expected.

This trend is however not only driven by factors such as economies of scale, but also by the strategy of OEM's to procure from less companies, on a global scale, and to shift more-and-more responsibility for design, engineering and production of components as well as assemblies to such manufacturers.

2.1.3 Investment intensity

During the first six months of 2003, total worldwide investments by major automotive assemblers equalled $11.122 billion, up from $8.641 billion one year prior and representing an increase of 28.7% from the first six months of 2002. Reacting to the strong truck market, the strong North American market, a growing Western Europe market, and to an Asia-Pacific market expected to grow significantly over the next five years, the automotive assemblers have continued to add new assembly capacity around the world.

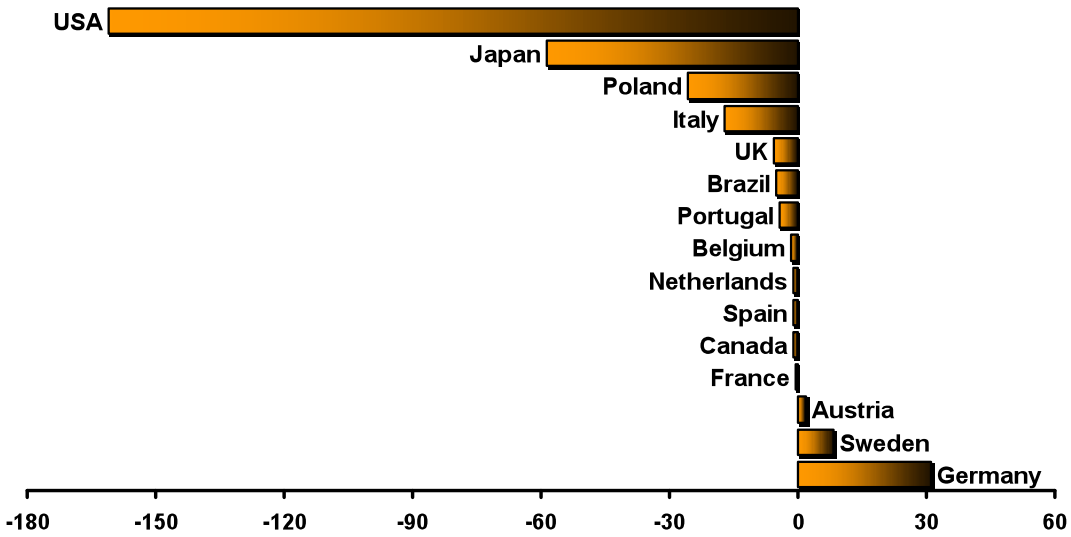
Investment announcements from the big 3 declined from $2.467 billion in the first half of 2002 to $2.206 billion for the first six months of 2003. Investment announcements from the Japanese assemblers increased from $1.875 billion to $4.011 billion. Announcements from the South Korean assemblers declined from $2.354 billion to $0.762 billion, while announcements from other assemblers increased from $1.945 billion to $4.143 billion during this same period. (APMA Bulletin, 2003)

2.1.4 Employment

Stagnant demand and low profit margins experienced over the last decade have resulted in restructuring at company level, which resulted in significant decline in employment in the global auto industry.

Data for the top 15 automotive manufacturing countries shows a decline of almost a quarter-million jobs from 1999 to 2002, representing a loss of more than 5% of total employment as shown in Figure 5.

Figure 5: Employment trends top 15 countries 1999-2002 ('000 of jobs)



Source: VDA, 2002

The USA accounted for two-thirds of the employment reduction over the period with a decline of about 160 000. Japan saw a decline of around 60 000. The USA and Japan together accounted for 90 percent of the reduction for the given period. A few countries like Germany (31 000), Sweden (8 000) and Austria (2 000), however saw an increase.

2.1.5 Key trends in the regulation of the global automotive industry

Two major developments over the last decade driven by the WTO Agreement on Trade and Tariffs are:

- The reduction of tariffs and the emergence of technical and non technical barriers to trade.
- The potential disappearance of the trade block exemptions system will be of specific importance.

While the past saw little legislation aimed at the regulation of subsidies and incentives, there are expectations that subsidies and incentives could be regulated in the future. The reason for this tightening legislation is to counteract distortion in competition resulting from governmental aid.

2.2 Overview of the South African Automotive Industry

The growth of domestic production of motor vehicles has historically depended on the growth of the domestic motor vehicle market, and hence on the growth of the South African economy as a whole. The deceleration of growth of the assembly industry since the late 1970s and early 1980s has been due to the deterioration in the growth performance of the South African economy as a whole.

In 1995 the Motor Industry Development Programme (MIDP) was initialised, which was a government initiative introduced to stimulate export development in the automotive sector. Due to incentives of this programme the period 1998-2001 saw a domestic production of motor vehicles which became de-linked from the growth of the domestic market, despite much slower growth of the domestic market, production grew at rates comparable to those achieved in the 1950s and 1960s.

According to the National Association of Automobile Manufacturers of SA (NAAMSA), the sector's contribution to the GDP in 2003 amounted to 6.4% up from the 5.7% in 2002 and 5.4% in 1999.

In 2003, SA vehicle production was about 421 338 units, this number comprised about 0.7% of the global market share of the 60 million vehicles produced, South Africa ranked 18th by size in the world. South Africa produced 83% of Africa's vehicle production in 2003, but in global terms this is still relatively small.

It is primarily a manufacturing and assembly industry, with most of the research, development and design, to some extent testing, being done abroad (AIDC, 2002). Seven of the leading OEM's have manufacturing plants in South Africa namely BMW, General Motors (former Delta Motor Corporation), Daimler Chrysler, Nissan, Ford, Toyota and Volkswagen. They are supported by a large number of 1st and 2nd tier component suppliers.

2.2.1 Structure of the South African automotive industry

2.2.1.1 The Supply Side

The supply-side in South Africa mirrors the international structure, namely a limited number of OEM's who are supplied by component manufacturers, and who also provide for the aftermarket.

Table 4 below is indicative of the size of the South African industry in terms of the number of companies.

Table 4: South African Automotive supply side market segmentation

Components	Auto Assembly	Motor Retail	New Tyre
• Approximately 500 companies • 14 major players	• 8 passenger and Light Commercial Vehicles • 8 Heavy Vehicles	• 14 900 • 7 listed • 6000 are "one-man businesses"	• 1 listed company • 3 private companies

There are in excess of 450 automotive component manufacturers in South Africa. Production is concentrated, with only 14 firms providing over 50% of total output.

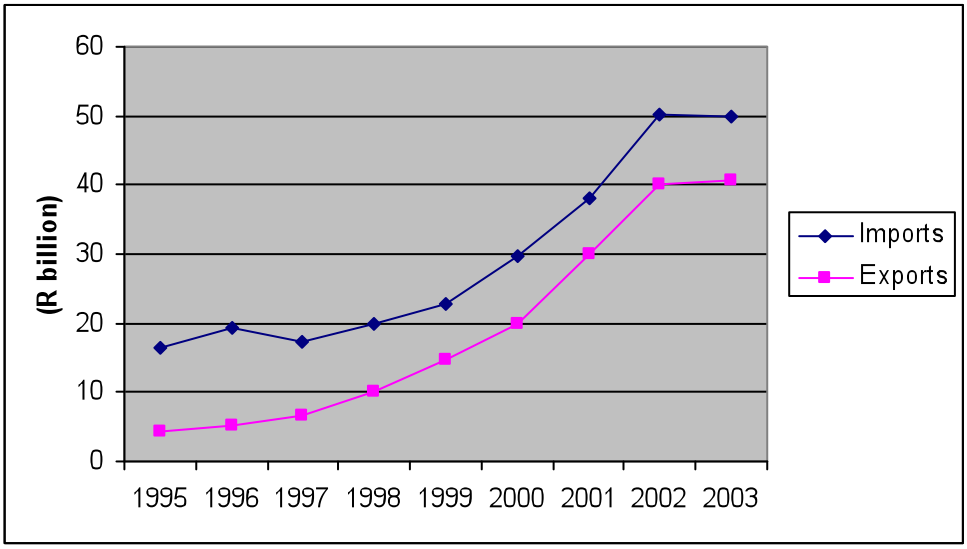
Pressure on prices, and the increased trend for suppliers to operate globally, has led to several mergers between component and original equipment manufacturers. These initiatives have produced the intended results, and cars as well as components are now being exported from South Africa into the global network.

2.2.1.2 The Demand Side

According to NAAMSA (2004), South Africa's automotive industry has managed to contribute a large portion of gross domestic product (currently more than 6%) to the economy, with exports that have showed a marked improvement of 33.3% (the dti, 2003). Key exports include stitched leather car seat covers, catalytic converters, tyres, silencers/exhaust pipes, engine and engine parts, and road wheels and parts. Export growth rates have been high

(over 40% per annum over the past 10 years). As a result of the structure of the MIDP, and as Figure 6 shows, much of these exports were offset by increases in imports.

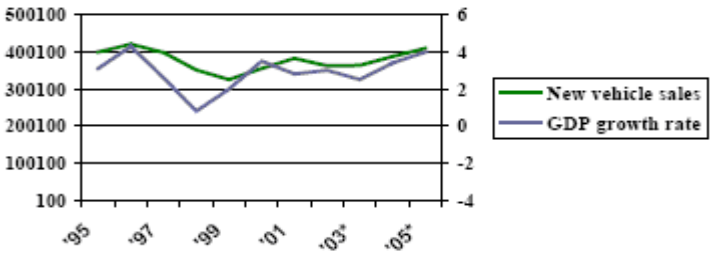
Figure 6: Trade Balance of the Automotive Industry



Domestic demand

The figure below shows the South African new vehicle sales in relation to the GDP growth rate.

Figure 7: New Vehicle sales (units) and GDP growth rate (%)



Source: NAAMSA (projected figures)

Historically, domestic vehicle sales have correlated closely with the movement of the GDP growth rate in South Africa. With the anticipated higher economic growth rates of 4%, this trend is set to continue.

Domestic medium and heavy vehicle sales grew by 22% from 2003 to 2004. This growth is larger than the 15% growth experienced by passenger car sales over the same period. Medium and heavy vehicles are considered fixed investments and capital inputs to the economy; therefore sales growth in this sector illustrates South Africa's increasing investment in productive equipment. This trend could indicate that South African companies remained largely resilient to global uncertainties in the years 2003/2004.

In order to be globally competitive, a country's automotive industry needs to achieve certain volumes. The South African local demand does not meet these requirements and so to achieve economies of scale and be globally competitive, South Africa needs to export. In the long term,

Exports

Table 5 shows the significant growth achieved since the inception of the MIDP.

Table 5: Domestic Performance Review

Year	SA new vehicle sales (units)	Component exports (R billion)	Vehicle exports (units)	Vehicle imports (units)	Trade balance (R billion)
1999	325 775	9 674	59 716	59 426	(8.0)
2000	354 632	12 640	68 301	65 299	(9.7)
2001	382 529	18 586	108 293	86 673	(8.0)
2002	363 184	22 883	125 306	84 049	(10.1)
2003	382 600	21 269	126 661	87 926	(9.1)
2004	481 520	Not available	120 900	123 659	Not available
2007 (projected)	588 300	30 000	250 000	183 800	(5.0)

Sources: NAAMSA, the dti, 2003

Germany is the largest destination for South African component exports, with other major markets including Britain, the US, Belgium, Spain and Zimbabwe. Europe as a whole accounts for about 71% of South Africa's automotive component exports.

2.2.2 The regulatory environment

Assistance to the automotive industry in South Africa began in the 1920s. The initial phase, lasting until 1961, was one of classical import substitution, favouring simple assembly for the domestic market. Very high protective tariffs on imported vehicles fostered the development of an industry of small plants which were producing a wide variety of models in small volumes at high cost.

Between 1961 and 1995, six distinct new phases of government support for industry could be identified as shown in Table 6. They featured continued domestic market protection and a variety of incentives and requirements for increased local content. Table 6: Regulatory phases in South Africa

Phase of local content Programme	No. of assemblers	No of models	Vehicle Sales
Phase 1 (1961)	8	24	119 000
Phase 2 (1970)	16	43	298 000
Phase 3 & 4 (1976)	13	39	300 000
Phase 5 (1980)	7	20	309 000
Phase 6 (1989)	8	43	300 000

Source: Black, 1994

Local content requirements were structured in such a way that duties paid for non-compliance provided effective high tariffs on imported components. This protected environment led to an increase in the number of different vehicle models being produced. The resulting low volumes per model were a significant cost increasing factor.

A sixth phase, introduced in 1989, signalled a major policy shift through the promotion of automotive exports. The principal changes included a provision permitting exports to be counted towards local content requirements and a moderate reduction in local content requirements, measured by value instead of mass.

The Motor Industry Development Programme (MIDP)

The MIDP, introduced in September 1995, was the next phase in the process. The MIDP is based on the Australian Car Plan from the early 1990's. The end product was the result of extensive research, consultation and negotiation between government, the various business sectors within the automotive industry (vehicle manufacturers, component suppliers, and retailers) and the trade unions.

The objective of the programme was to provide high-quality, affordable vehicles and components to the domestic and international markets, provide sustainable employment through increased production; and make a greater contribution to the economic growth of the country.

The major policy instruments to achieve these objectives have been:

- A gradual and continuous reduction in tariff protection so as to expose the industry to the global industry.
- The encouragement of higher volumes and a greater degree of specialisation by allowing exporting firms to earn rebates of automotive import duties.
- The introduction of a range of incentives designed to upgrade the capacity of the industry.

2.2.3 Major role-players and producers

2.2.3.1 Automotive Industry Organisations

There are various organisations within the South African automotive industry that play an important role in the growth and development of this sector, with the following being the most prominent:

- MIDC (Motor Industry Development Council). The MIDC was established in 1996 as a forum to recommend automotive policy and to encourage better communication and co-operation among all role players in the industry. It provides the platform for government, labour and business to interact and discuss automotive-related issues
- NAACAM (National Association of Automotive Components and Allied Manufacturers), who represents the component manufacturers, and has in excess of 200 corporate members
- NAAMSA (National Association of Automotive Manufacturers in South Africa), who represent the vehicle assemblers and several importers
- NUMSA (National Union of Metalworkers in South Africa), the main motor industry union
- RMI (Retail Motor Industry Organisation) who represents the retail industry
- AIEC (Automotive Industry Export Council), the link between export promotion in the private sector and the dti/TISA
- AIDC (Automotive Industry development Centre). The AIDC was established in 2000 to assist in increasing the global competitiveness of the South African automotive industry to world-class levels. It's services include supplier development, logistical services, design, engineering and testing services, human resource development, SMME development, government programmes in support of the MIDP, and support to the Gauteng Automotive Cluster collaborative initiative

2.2.3.2 The Competition Commission

The Competition Commission is a statutory body constituted in terms of the Competition Act, No 89 of 1998 by the Government of South Africa empowered to investigate, control and evaluate restrictive business practices, abuse of dominant positions and mergers in order to achieve equity and efficiency in the South African economy. In May 2004, an industry-wide investigation into the new motor vehicle prices and sales practices was launched. This followed a public outcry regarding new-car prices remaining high despite the appreciation of the Rand. The investigation related to alleged prohibited restrictive business practices by manufacturers, importers, distributors and/or dealers of new motor vehicles in South Africa.

2.2.3.3 Primary producers

The major car and light commercial vehicle (LCV) assemblers in South Africa include BMW South Africa; Daimler Chrysler; General Motors (Former Delta Motor Corporation); Toyota; Ford Motor Company; Nissan and Volkswagen. In addition, Fiat is assembled by Nissan. Several of these also serve as suppliers of typically right-hand drive (RHD) and sometimes left-hand drive (LHD) platforms, subsystems and components for export.

The medium & heavy commercial assemblers include: Iveco South Africa, MAN Truck & Bus S.A.; Scania South Africa (Pty) Ltd; Erf South Africa; Nissan; and Tyco Truck as well as many of the light vehicle assemblers.

2.2.4 Investment intensity

Investment intensity has significant influence on overall rapid export growth. The fact that the automotive industry in South Africa is the third largest sector contributing to GDP has been accommodated by significant investments in best practice assets and technology.

Table 7 on the following page provides projected figures as provided by NAAMSA with regards to the investment intensity and expenditure by local vehicle manufacturers. A comparison is done from the year 1998 until 2005.

Table 7: Investment expenditure by vehicle manufacturers (R million)

	1998	1999	2000	2001	2002	2003	2004	2005*
Product, local content and export investments	735	1 170	1 109	1 072	1 424	1 775	1 816	5 096
Plant, machinery and production facilities	409	144	202	728	888	837		
Land and Buildings	60	82	110	33	152	101	130	201
OEM support infrastructure (including research and development/engineering/technical)	139	115	141	245	262	350	274	624
Total	**1 343**	**1 511**	**1 562**	**2 078**	**2 726**	**3 123**	**2 220**	**5 920**

Source: NAAMSA (* projected figures)

Investment in the medium and heavy commercial vehicle sector (according to the annual TISA survey of medium and heavy commercial vehicles) amounted to R27.1 million in 2002, similar to the R30 million in 2001. Assembly operations are fairly limited and one or two big players dominate movements in this segment. Activity, however, was in line with the growth of sales in this segment, which was proportionately better than that of light vehicles.

2.2.5 Employment trends

There is a considerable amount of controversy around the issue of employment levels and trends in the South African automotive component and vehicle manufacturing industry. Some reports suggest that industry employment levels have continued to decline, other reports indicate stable employment and yet others suggest that employment levels have actually increased in the automotive components sector in recent years.

The following summarises the various diverging views from the various sources:

1. According to reports by the dti (2003) total employment trends in the vehicle manufacturing industry have increased from 73 800 jobs in 1994 to 82 100 jobs in the boom year of 1996 followed by a decline to 71 000 jobs in 1999. With the moderate market growth currently being experienced, employment is again increasing.

2. According to a report by Trevor Bell (2003) there is evidence that employment in the seven OEMs which existed in 1995 has increased slightly from 37 354 in 1990 to 38 048 in 1995, but fell to 31 037 in 2001. That is, employment in these OEMs fell by 18.43% between 1995 and 2001, at an average annual rate of 3.3%, compared to a 2.1% a year decline in manufacturing employment as a whole (according to a Standard Industrial Classification database).

3. The Fund for Research into Industrial Development Growth and Equity (FRIDGE) commissioned a study, that amongst others, looked at the employment trends from 1999 to 2002 in the local metals and engineering sector, this included a sampling of the automotive component sector. This study showed that the compounded employment growth rate of permanent workers in the component sector from 1999 to 2002 was a modest 4% per annum.

4. NAACAM and the Automotive Industry Export Council (AIEC) conducted a study and this showed that the compound annual employment growth rate in the Automotive Components Industry in South Africa, from 1999 through 2002, was almost 4% per annum and furthermore that the headcount of permanent employees in the automotive components sector increased from 67 199 in 1999 to 74 043 in 2002.

As can be observed from the various debates and contradictory figures mentioned above, there is a basic problem in estimating employment. Some of the reasoning behind this could be that numerous firms are not primarily producers of automotive products and/or are not members of organisations like NAACAM, but they do supply to the motor industry. Another factor relates to definitions used as to what constitutes the automotive industry

A key objective of this study was therefore to provide more clarity around employment numbers and trends in employment.

3 Industry quantification and segmentation

A key objective of this study was to quantify the industry, based on primary research into the industry. This section of the report explains how the industry was quantified in terms of three headline numbers namely, number of companies, total number of employees and total turnover.

- The first step of this process was to understand not only what the sample of companies for which data could be obtained represent, but also to understand what the companies that did not participate represent in terms of products, size, etc.
- The second step was to extrapolate the survey data in order to quantify the complete industry.
- Triangulation with other sources was used to test the accuracy of results
- In order to understand the structure and dynamics of the industry, these headline (and sample) numbers are then disaggregated into various segments descriptive of the industry.

3.1 Industry quantification

3.1.1 Survey results and segmentation

To enable quantification with a high accuracy level, an industry census was conducted. A summary of the results of the census is provided in Table 8.

Table 8: Survey participation and results

Item description	**Result**
Total population identified (# companies)	480
Total number of companies that participated	304
Companies for which *only* 2004 information were obtained	72
Breakdown of un-surveyed companies: • Correct respondent but not available (despite several call backs) • Refused to participate • Incorrect contact information • No response by cut-off time (despite several call backs) Total un-surveyed companies	 26 46 23 81 176
Companies for which only 2004 information were obtained from alternative sources	72
Total number of companies for which 2004 data was obtained	376
Number of OEMs and manufacturers of busses and trucks, that participated	6
Number of OEMs and manufacturers of busses and trucks for which *only* 2004 data was obtained from alternative sources	9
Total number of OEMs and manufacturers of busses and trucks for which 2004 data was obtained	15
Number of companies for which 2004 employment figures were obtained	376
Employee headcount of 376 companies surveyed (2004)	103 296
Number of companies for which 2004 turnover figures were obtained	177
Turnover of 177 companies obtained	R 120.109 billion
Total estimated industry turnover	R 142.96 billion

* Please note that refusals include the respondents who did not explicitly refuse but never returned the survey or granted telephonic interviews even though multiple calls were made.

* Please note that the total population of 480 includes 15 OEMs and manufacturers of busses and trucks.

The companies surveyed were placed into five segments which reflects the size of companies based on number of employees

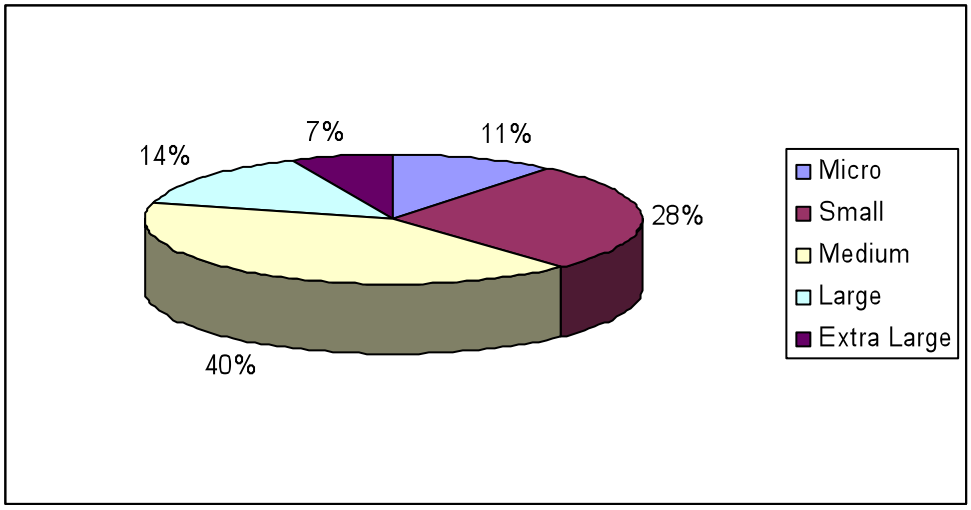
- Micro companies are considered to have up to 10 employees
- Small companies are considered to have more than 10 but fewer than 51 employees

- Medium companies are considered to have more than 50 but fewer than 251 employees
- Large companies are considered to have between 251 and 1000 employees
- Extra large companies are considered to have in excess of 1000 employees

Analysis of the data for this industry revealed that there is a large variance between employment figures for large companies, thus it was considered prudent to differentiate between large and “extra large” companies.

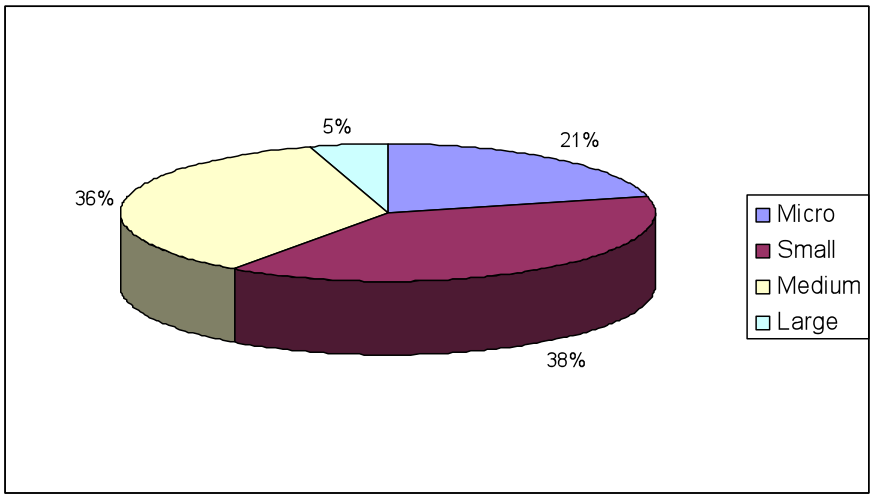
Using the above categorisation, the survey covered the following spread of companies by number of companies:

Figure 8: Distribution of surveyed companies by company size group



Based on secondary research and discussions with industry experts the following summarises the distribution, according to the above size categories of the 176 companies that did not participate in the survey. This distribution will be considered in extrapolating the number of employees based on the average number of employees within each size segment.

Figure 9: Distribution of non-surveyed companies by company size group



3.1.2 Extrapolation of survey results

Determining the number of employees

An elementary method of extrapolating the survey results in order to determine the industry size would be to purely multiply the average number of employees per company with the inverse of the percentage of companies surveyed. This result will however be misleading in that it ignores a most important consideration, namely that some companies are more labour intensive than others, and that there are not an even distribution of micro, small, medium, large and extra large companies.

Table 9 summarises the average number of employees for the different size categories, and the total calculated employees for companies that did not participate in the survey.

Table 9: Employee quantification for total population

Type of Company	Number of companies for which 2004 employment figures were obtained	Average employees per category surveyed	Total employees surveyed	Number of companies not surveyed	Assumed average # of employees per category not surveyed	Total calculated employees of non surveyed companies
Micro	**31**	**6.3**	**196**	**22**	**6.3**	**139**
Small	**94**	**27.6**	**2598**	**40**	**27.6**	**1 106**
Medium	**163**	**117.1**	**19091**	**37**	**117.1**	**4 334**
Large	**68**	**436.7**	**29698**	**5**	**436.7**	**2 183**
Extra large	**20**	**2585.9**	**51718**	**0**	**2585.9**	**0**
Total	**376**		**103301**	**104**		**7762**
Total employment for the industry				**111 063**		

Since the number of companies surveyed was in excess of 222, statistically the results are reported with a confidence level of 95% and precision of 5% around the mean value of 111,063 as shown in Table 9. It can therefore be concluded with 95% confidence that there is between 105 509 and 116 616 employees in this industry.

Table 10: Employee quantification for total population excluding OEMs and manufacturers of busses and trucks

Type of Company	Number of companies for which 2004 employment figures were obtained – Excluding 15 OEM's	Average employees per category surveyed	Total employees surveyed	Number of companies not surveyed	Assumed average # of employees per category not surveyed	Total calculated employees of non surveyed companies
Micro	**31**	**6**	**196**	**22**	**6**	**139**
Small	**93**	**28**	**2 578**	**40**	**28**	**1 109**
Medium	**161**	**117**	**18 909**	**37**	**117**	**4 346**
Large	**65**	**440**	**28 573**	**5**	**440**	**2 198**
Extra large	**11**	**1 715**	**18 864**	**0**	**1715**	**0**
Total	**361**		**69 120**	**104**		**7 791**
Total employment for the component industry				**76 911**		

If OEM's and the manufacturers of busses and trucks are excluded, the size of the component industry is estimated to be between 73,065 and 80,757 employees, with a confidence level of 95% (as shown in Table 10).

Comparative verification of industry employment estimate

A number of secondary sources were investigated and compared with the results of this study. The dti reports employment to be 112 700 for 2004. This is very close to the results of this survey's estimate of 111 556.

Determining the total sector output (turnover)

The same process was followed in determining the value of sector output. Note however that the sample of companies that reported turnover figures is much smaller (only 177 companies) than those for which employment numbers where obtained (376 companies). Values are still reported at a confidence level of 95% but a lower precision level of around 8% for the turnover value of R142.96 billion (as shown in Table 11).

Table 11: Turnover quantification for total population

Type of Company	Number of companies for which 2004 turnover figures were obtained	Average turnover per category surveyed (R'000,000)	Total turnover surveyed (R'000,000)	Number of companies whereby turnover was not provided including those not surveyed at all	Assumed average turnover per category not surveyed (R'000,000)	Total calculated turnover of non surveyed companies (R'000,000)
Micro	12	R 4.5	R 53.8	41	R 4.5	R 183.6
Small	29	R 10.1	R 292.5	105	R 10.1	R 1 059.1
Medium	69	R 93.1	R 6 425.8	131	R 93.1	R 12 199.7
Large	47	R 361.9	R 17 007.5	26	R 361.9	R 9 408.4
Extra large	20	R 4 816.5	R 96 329.5	0	R 4 790.5	R 0.0
Total	177		R 120 109.1	303		R 22 850.8
Total industry turnover				R 142 960		

Total industry turnover are therefore estimated with 95% confidence to be between R 135.812 billion and R 150.108 billion

Please note that the above does not represent the value of manufacturing value-add since it includes imported vehicles/parts sold by OEM's and locally manufactured parts sourced by OEM's in South Africa which are double counted.

If all motor vehicle, truck and bus manufacturers are excluded, the survey and extrapolated results in Table 12 represent the turnover of the South African components industry. The total industry turnover figure will still contain a degree of double count due to component imports. In order to effectively triangulate sales turnover findings, it is necessary to make use of secondary data sources.

Given the fact that exact comparable data is unavailable and the double counting occurs between component manufacturers and OEMs, calculation of domestic manufacturing value-add is required to complete the triangulation of the turnover results.

Table 12: Turnover quantification for total population excluding OEMs and manufacturers of busses and trucks

Type of Company	Number of companies for which 2004 turnover figures were obtained	Average turnover per category surveyed (R'000,000)	Total turnover surveyed (R'000,000)	Number of companies whereby turnover was not provided including those not surveyed at all	Assumed average turnover per category not surveyed (R'000,000)	Total calculated turnover of non surveyed companies (R'000,000)
Micro	12	R 4.5	R 53.8	41	R 4.5	R 183.6
Small	28	R 8.98	R 251.5	105	R 8.98	R 943.2
Medium	67	R 70.2	R 4 700.8	131	R 70.2	R 9 191.1
Large	44	R 291.7	R 12 836.5	26	R 291.7	R 7 585.2
Extra large	11	R 1 204.0	R 13 244.3	0	R 1 204.0	R 0.0
Total	162		R 31 086.9	303		R 17 903.1
Total component industry turnover				R 48 990.0		

Comparative verification of industry turnover estimate

It is necessary to verify the surveyed turnover by using other secondary data sources. Due to the nature and sensitivity of turnover information the aggregate values are often unavailable or incomplete and therefore seldom published. It is therefore more sensible to apply manufacturing value add as an indirect method to verify the accuracy of the surveyed turnover. In order to triangulate the industry turnover figure of this survey, the total value-add of domestic manufacturing needs to be calculated from alternative sources and compared to the value-add of domestic manufacturing as calculated from this survey's results. The total value-add of domestic manufacturing can be derived from secondary sources to be in the region of R 77.4 billion as shown in Table 13.

Table 13: Total value-added of domestic manufacturing as calculated from vehicle sales and exports

	Value	**Source**
Domestic new vehicle sales	R 73.1 billion	NAAMSA
Less imported vehicles sales	R 12.3 billion	NAAMSA
Total	R60.8 billion	
Add CBU exports	R 21 billion	the dti
Add component exports	R 21.7 billion	the dti
Less imported components (excluding aftermarket)	R 26.1 billion	the dti
Total value-add of domestic manufacturing	R 77.4 billion	

Applying the research results of this study, the total value-add of domestic manufacturing is estimated at R 76.6 billion as shown in Table 14. This was done by deducting the component double count as well as CBU and component imports from the total industry turnover. This compares very favourably with the results shown in Table 13 and the difference between the two calculations is less than 1% which is well inside the 8% variance reported for the research results of this study's industry turnover estimate.

Table 14: Verification of surveyed turnover

	Value	**Sources**
Survey total turnover	R 142.96 billion	Primary research
Less component double count	R 14.0 billion	the dti
Total	R 128.96 billion	
Less CBU imports	R 12.3 billion	NAAMSA
Total	R 116.7 billion	
Less component imports (including aftermarket)	R 40.0 billion	the dti
Total value-add of domestic manufacturing	R 76.7 billion	

It can therefore be concluded with confidence that the total manufacturing value-add of the industry is around R 76 billion and that the findings of this research confirms the industry turnover to be in the region of R142 billion.

Table 15 provides a summary of the results of this study as far as the industry quantification of the 2004 year is concerned. However the reader must consider the confidence levels reported in this section of the report when interpreting Table 15.

Table 15: Summary of surveyed results for the 2004 year

	Total	**Component manufacturers**	**OEM's**
Number of companies	480	465	15
Number of employees	111,063	76,911	34,152
Turnover	R 142 959,9 million	R 48 990,0 million	R 93 969, 9 million

3.2 Results by industry segment

In order to understand the dynamics of the industry, a number of segments were defined and analysed in terms of relative contribution to the overall industry. These segments will be further analysed in the next chapter to identify where employment growth/decline have occurred, and whether there are any correlation between certain factors relevant to the segments and changes in employment.

3.2.1 Size

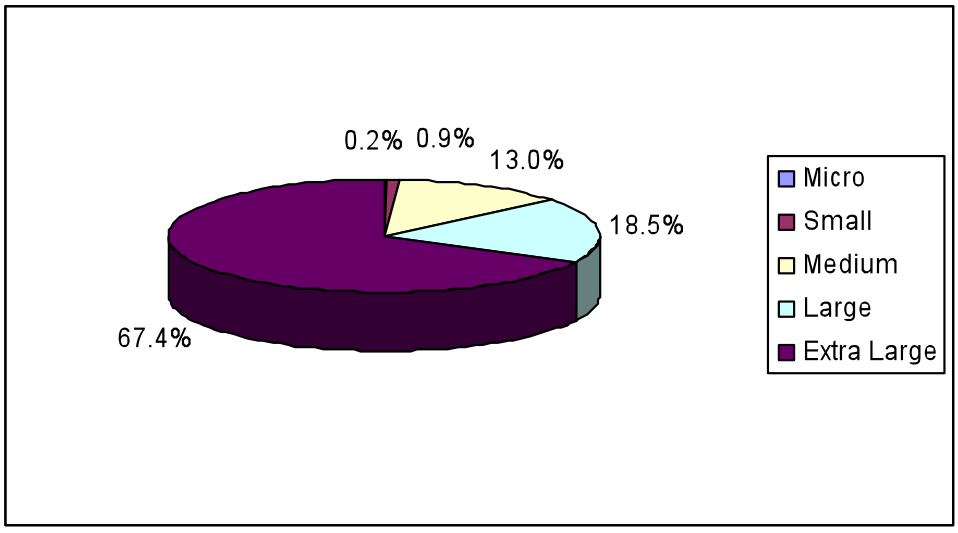
Since there is no standard industry definition for micro-, small, medium and large companies for this industry, categories were defined on a number of criteria, including government guidelines, the consultants' observations on the type of operations in the industry, and discussions with industry experts. Since a highly representative sample of number of employees was obtained for this study for the 2004 year, number of employees was used as parameter indicative of company size.

- Micro companies are considered to have up to 10 employees
- Small companies are considered to have more than 10 but fewer than 51 employees
- Medium companies are considered to have more than 50 but fewer than 251 employees
- Large companies are considered to have between 251 and 1000 employees
- Extra large companies are considered to have in excess of 1000 employees

A summary of the distribution according company size is provided in paragraph 3.1.1.

The following figure shows a comparison of relative company size to contribution to industry turnover.

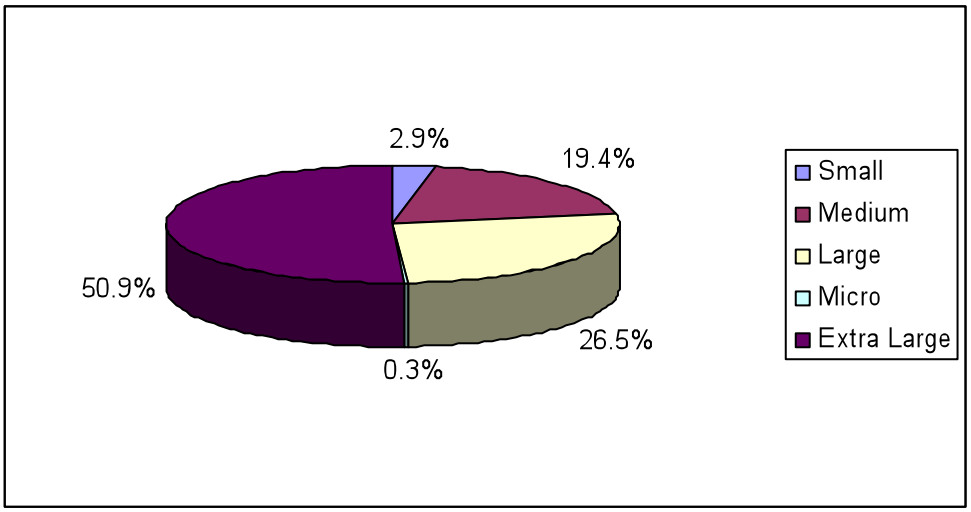
Figure 10: Contribution of size categories to surveyed turnover (%)



It is noteworthy that 7% of the surveyed companies (extra large companies) account for almost 70% of the surveyed turnover. These companies include some of the OEM's and large

component manufacturers. However these extra large companies contribute only 50% of the surveyed employment as shown in Figure 11.

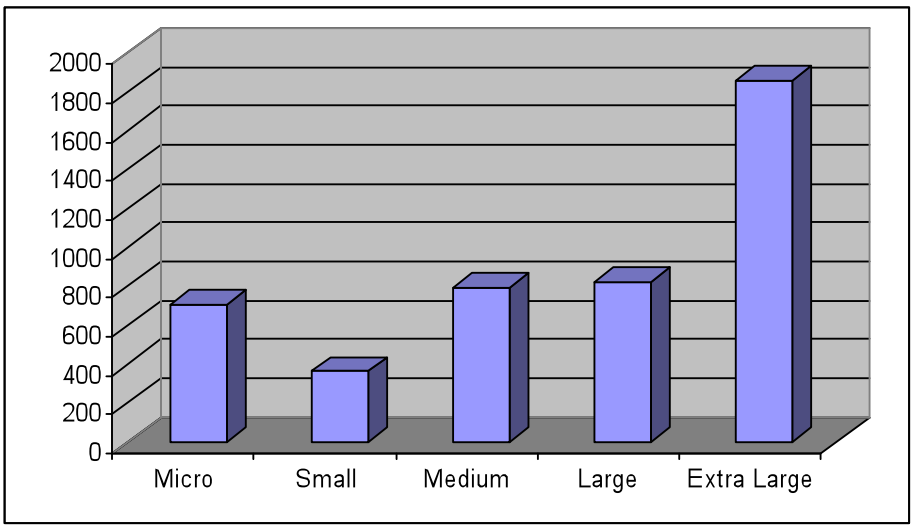
Figure 11: Surveyed employment distribution by company size (%)



3.2.2 Employment intensity

For the purpose of this study employment intensity is defined as the average turnover generate per employee. The Figure 12 shows the average employment intensity for different sized companies. It highlights the fact that although large and extra large companies employ significant numbers of employees, small and medium companies are inherently more labour intensive. It also shows that extra large companies have a significant economy of scale and labour efficiency advantage over all the other categories.

Figure 12: Employment intensity by company size (R'000/employee)



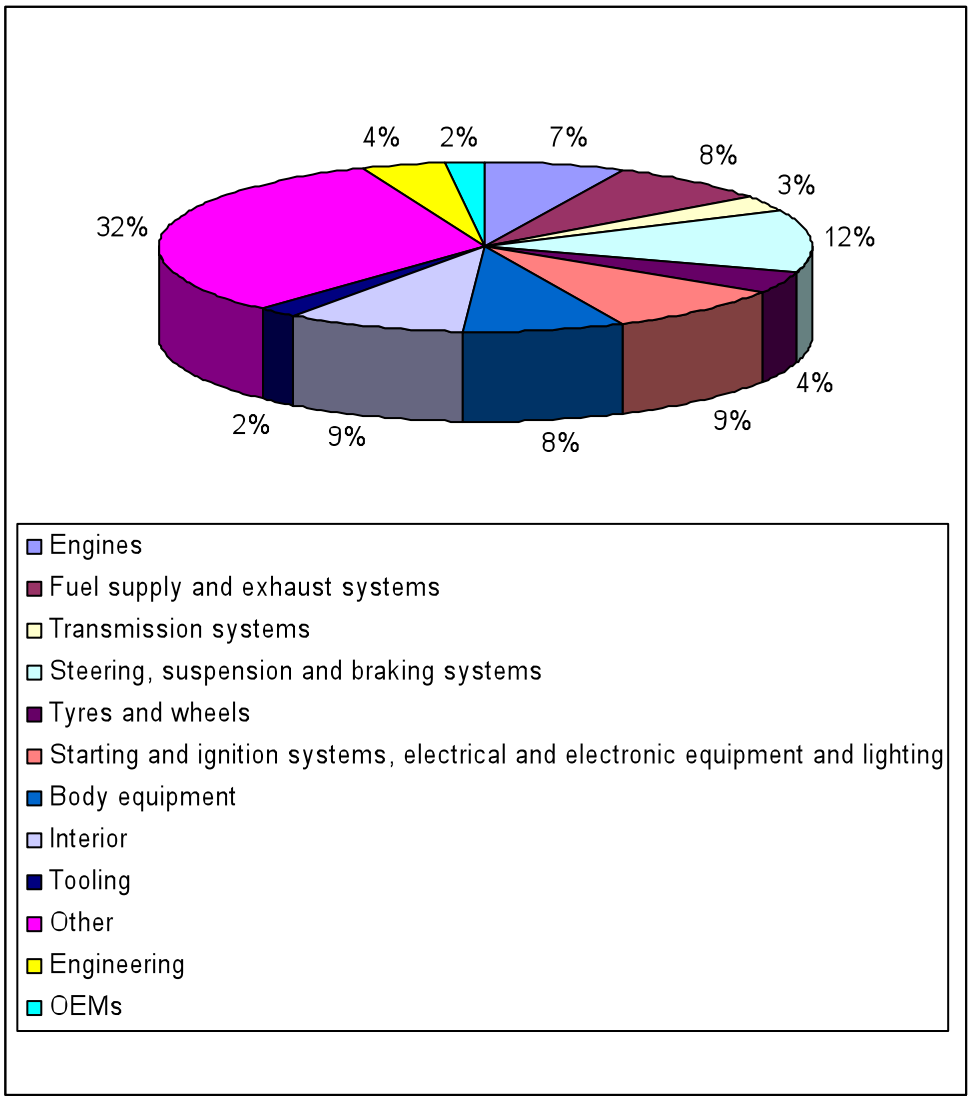
3.2.3 Product segments

For purposes of this survey 37 product categories were identified. These were consolidated into 11 segments that represent various sub-assemblies of motor vehicles, as follows:

- Electrical and electronics
- Engines
- Fuel supply and exhaust systems (incl. Fuel tank, catalysts)
- Transmission systems
- Steering, suspension and braking systems
- Tyres and wheels
- Body equipment (incl. Glass)
- Interior (incl. Heating/air conditioning)
- Tooling
- General and specific engineering
- Other

The survey of 276 companies who reported product categories resulted in the distribution shown in Figure 13. It is important to note that this distribution reflects the number of companies per product category and not the size of the category. For example 7% of the companies surveyed were manufactures / suppliers of engine components.

Figure 13: Companies surveyed per product category (% by number of companies)



* Other includes roll tops/sides for LCVs, air brake components, ball joints, kingpins, drag links, u-joints, tie rod ends, badging, roll bars, side steps, H.C.V cylinder heads, flexible couplings, rivets, cold headed parts, connecting rods, flywheels, adaptor plates, water sealing systems, linear bearings, needle roller bearings, special ball bearings, turbo crossover pipes, expansion bottles, spark plugs, receiver tanks, hinge assemblies, u-bolts, c-pillars, plastic sill-plates, jigs, fixtures, abrasives, under body bracketry, condensor components, extrusions, breather plugs, threadlockers, hose clamps, foam filled parts, energy absorbing foam, vacuum-formed mudguard liners, grilles, battery covers, metal reinforced PU-parts and fans.

* Organisations reporting business activity as “other” often produce automotive components in multiple categories.

Table 16 indicates the distribution of surveyed employment and turnover for each of the product categories:

Table 16: Product categories' contribution to turnover and employment

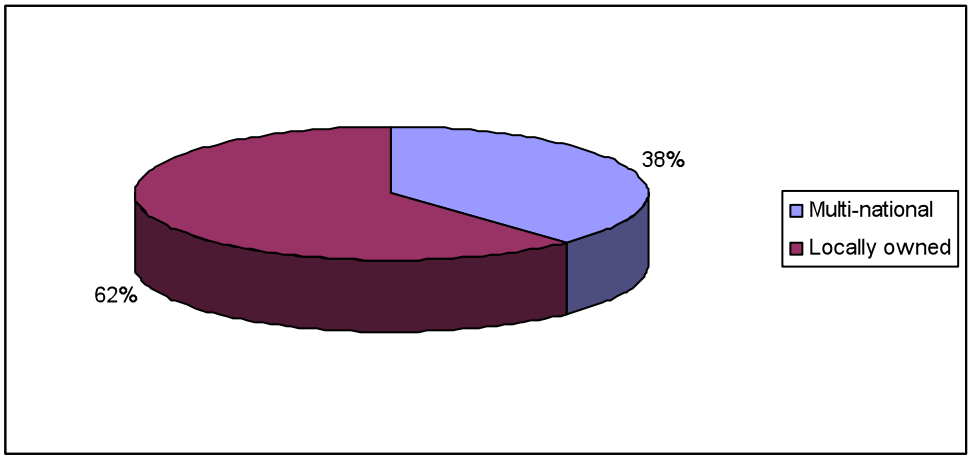
	Company distribution	Employment distribution	Turnover distribution
Engines	6.57%	3.94%	0.98%
Fuel supply and exhausts systems	8.39%	5.38%	6.39%
Transmission systems	3.28%	2.97%	1.58%
Steering, suspension and braking systems	11.31%	4.22%	1.01%
Tyres and wheels	4.38%	12.00%	8.77%
Electrical and electronic equipment	9.12%	9.03%	2.77%
Body equipment	8.39%	7.38%	2.33%
Interior	9.12%	10.19%	5.10%
Tooling	2.19%	1.32%	0.22%
Other	31.02%	10.56%	1.04%
General and specific engineering	4.38%	5.28%	1.67%
OEMS	1.82%	27.72%	68.13%

Categories OEMs, tyres and wheels and fuel supply & exhaust systems take first, second and third position in terms of sales turnover. The strong position of the fuel supply & exhaust systems category is the result of South Africa's strength in catalytic converters. These sectors are however not the only major providers of employment opportunities. They contribute 28%, 12% and 5% respectively. Thus, although fuel supply & exhaust systems contribute the third most to industry turnover, it is only ranked seventh in terms of employment. The establishment of the leather industry in the automotive interior market is evident in the number of people employed in the "interior" category. This product category provides 10% of employment opportunities in the automotive industry.

3.2.4 Ownership (South African versus multinational)

The following graph illustrates the relative importance of multi-national companies to this sector:

Figure 14: Companies surveyed per ownership group (% by number of companies)



It is noteworthy that although 62% of the companies surveyed are locally owned, they generate less than 10% of the total industry turnover. At the same time, locally owned companies provides less than a third of employment opportunities. See Table 17.

Table 17: Distribution of companies, employment and turnover per ownership category

	Company distribution	Employment distribution	Turnover distribution
All respondents			
Multi-national	38.51%	71.84%	92.64%
Locally owned	61.49%	28.16%	7.36%
OEMs			
Multi-national	100.00%	100.00%	100.00%
Locally owned	0.00%	0.00%	0.00%
CMs			
Multi-national	36.87%	57.65%	76.19%
Locally owned	63.13%	42.35%	23.81%

Note: Turnover per employee for multi-national companies (OEMs and CMs) amount to R1 867 029 while locally owned companies generate R352 958 per employee.

3.2.5 BEE ownership

The following graph depicts the levels of BEE ownership within the industry:

Figure 15: Distribution of companies in various BEE categories (%)

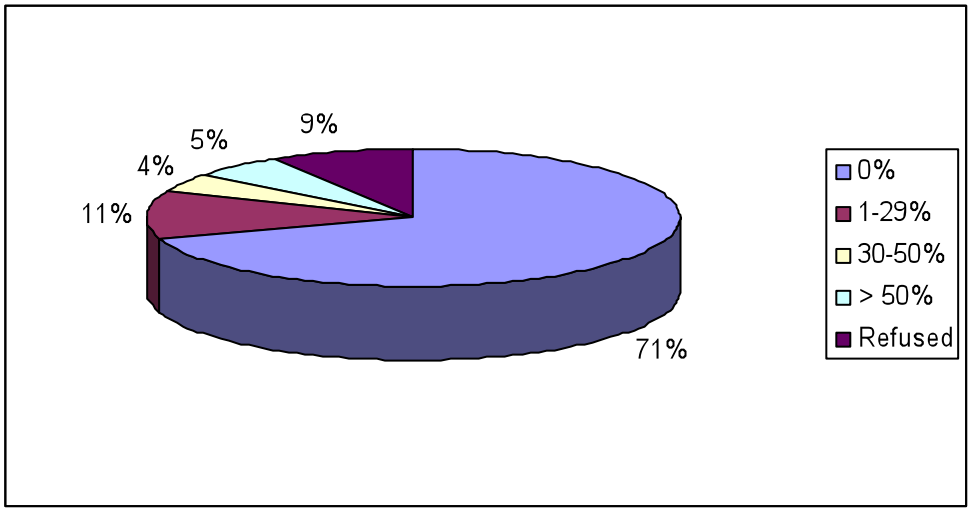


Table 18: Distribution of companies, employment, turnover and exporters per BEE category

BEE Status	Company distribution	Employment distribution	Turnover distribution	% Exporters per BEE category	Turnover per employee (R)
All respondents					
0%	76.79%	88.09%	94.59%	51.20%	1 545 189
1-29%	12.50%	6.81%	3.59%	66.70%	757 987
30-50%	4.76%	4.21%	1.71%	50.00%	584 400
> 50%	5.95%	0.89%	0.11%	30.00%	182 054

Table 18b: Distribution of companies, employment and turnover for OEMs and CMs per BEE category

BEE Status	Company distribution	Employment distribution	Turnover distribution
OEMs			
0%	100.00%	100.00%	100.00%
1-29%	0.00%	0.00%	0.00%
30-50%	0.00%	0.00%	0.00%
> 50%	0.00%	0.00%	0.00%
CMs			
0%	76.07%	81.57%	81.22%
1-29%	12.88%	10.54%	12.46%
30-50%	4.91%	6.51%	5.93%
> 50%	6.13%	1.38%	0.39%

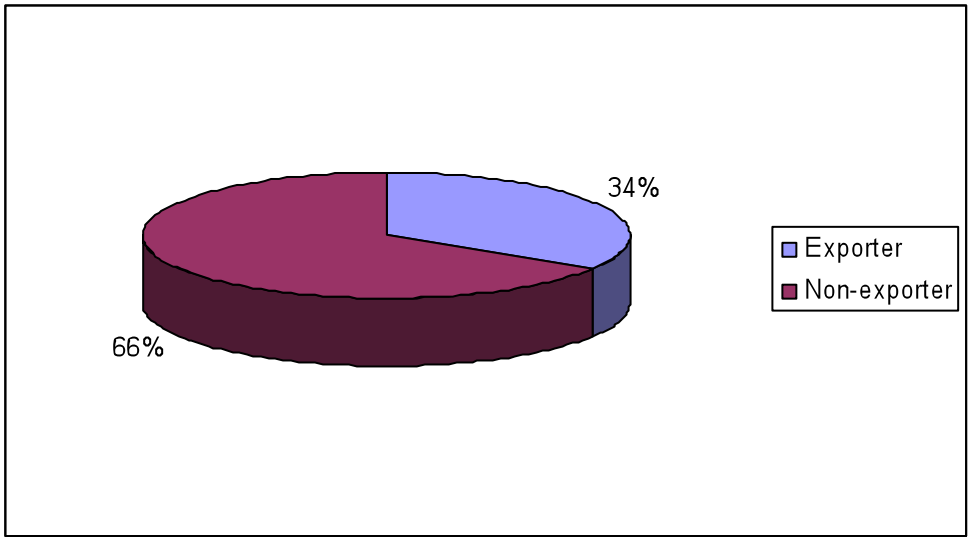
A relatively low base of Black owned companies is operating in the automotive industry, earning only a fraction of sales turnover.

Similarly, only about 12% of the automotive workforce is employed by Black economic empowered or Black owned companies (see Table 18).

3.2.6 Markets (South African versus export)

The following graph shows that only 34% of companies are exporting products. However, a significant proportion of locally manufactured products are exported indirectly through OEM's.

Figure 16: Distribution of companies by export category (%)



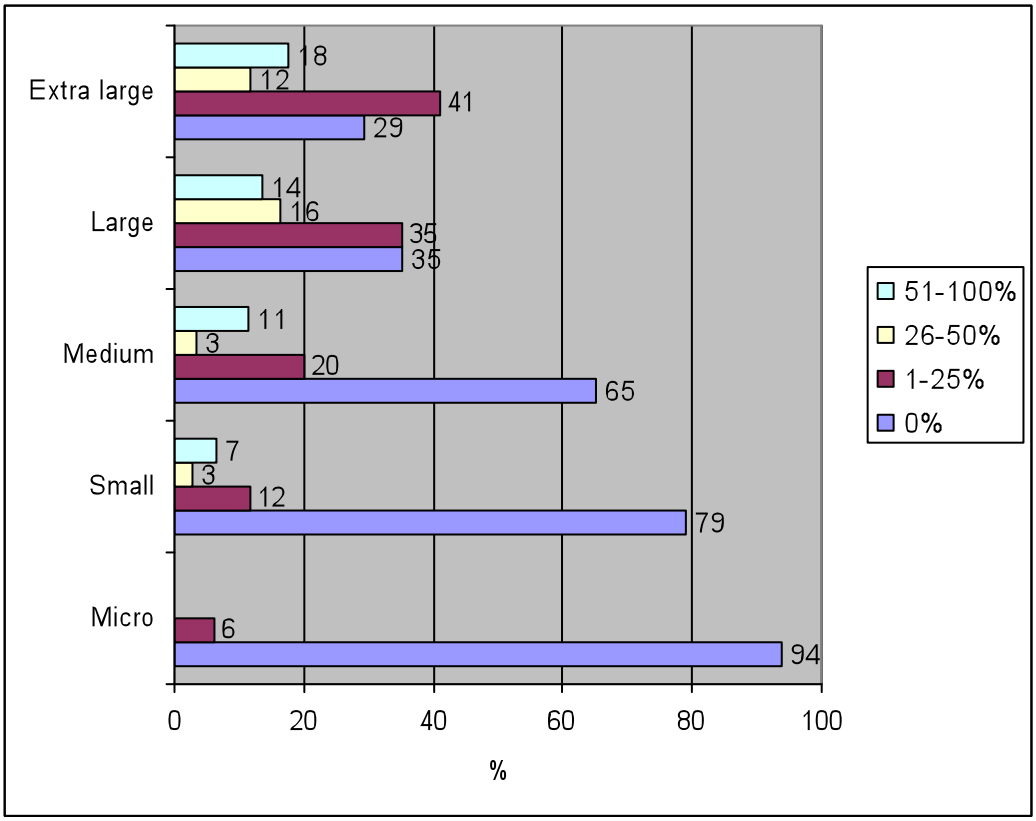
About one third of the companies surveyed are exporters of automotive products and they generate over 40% of the industry turnover (see Table 19), thus it seems evident that the export market in this industry is more lucrative than the domestic market. However, the higher turnover contribution of the exporting companies is likely due to greater efficiencies in these companies.

Table 19: Distribution of companies, employment and turnover by export category (%)

	Company distribution	Employment distribution	Turnover distribution
All respondents			
Exporters	33.70%	43.17%	41.01%
Non exporters	66.30%	56.83%	58.99%
OEMs			
Exporters	20.00%	40.30%	33.56%
Non exporters	80.00%	59.70%	66.44%
CMs			
Exporters	25.86%	44.34%	62.25%
Non exporters	74.14%	55.66%	37.75%

No companies were identified who purely export. The distribution of export as a percentage of turnover is shown in Figure 17. As expected, the extra large and large companies are responsible for the bulk of the exports. The key markets of the smaller producers are often the large exporting companies. It is significant to note that 94% of the micro companies and 79% of the small companies does not export at all.

Figure 17: Distribution of exports by size of company (%)



4 Employment trends in the South African Automotive industry

The purpose of this section is to investigate the recent changes in employment (1995 – 2004) for the industry as a whole, and to identify specific segments where employment levels have grown or declined in recent years.

4.1 Overall employment trends

4.1.1 Growth trends in overall levels of employment

The presence of the OEMs in the analysis could place limitations on the analysis and dilute the results reported by the rest of the industry due to the proportion of employees directly employed by the OEMs. Excluding the OEMs from the data reveals an entirely different pattern for component manufacturers.

A limited number of companies were able to report employment figures as far back as 1995. Note that only about a third of respondents reported these figures, resulting in a lower level of confidence.

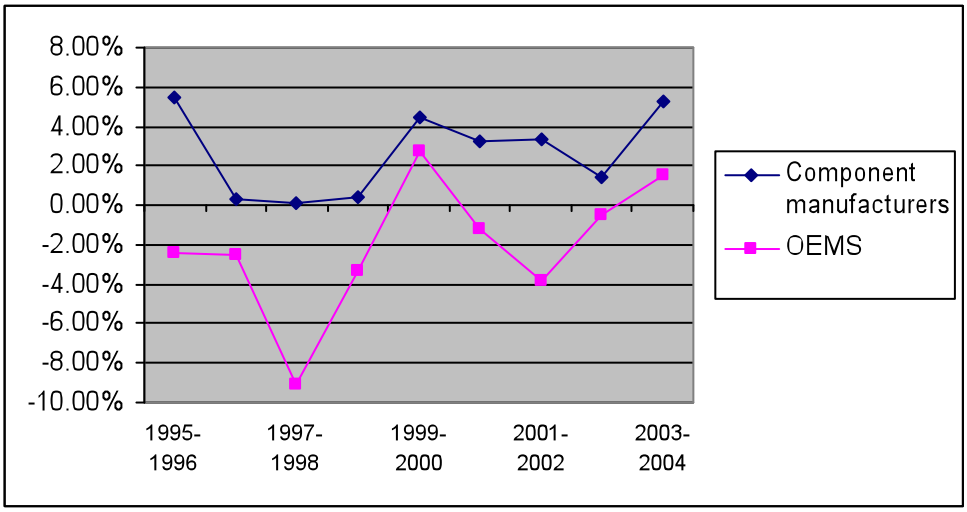
The employment growth pattern of those companies who were able to report data for the period 1995 to 2004 is depicted below in Table 20.

Table 20: Changes in levels of employment from 1995 – 2004

	Including OEM's	Excluding OEM's
1995-1996	2.28%	5.5%
1996-1997	-0.78%	0.3%
1997-1998	-3.38%	0.1%
1998-1999	-0.92%	0.4%
1999-2000	3.89%	4.5%
2000-2001	1.69%	3.2%
2001-2002	0.92%	3.3%
2002-2003	0.81%	1.4%
2003-2004	4.11%	5.3%

Figure 18 demonstrates a negative growth trend experienced by OEM's for the whole period, except during 1999/2000 and 2003/2004 when positive growth was reported. Component manufacturers reported positive (or neutral) growth over the whole period. The total industry experienced sustained employment growth, although marginal, from 2000 onwards

Figure 18: Changes in employment levels between 1995 and 2004



It must be considered that the employment levels for some of the years surveyed could only be obtained from as few as 33 of the respondents. This is due to the fact that many of the respondents do not have data for as far back as 1995 (almost a decade ago). Thus the variance for the employment numbers between 1998 and 2000 is around 10% at a 95% confidence level and the variance for employment numbers before1998 is greater than 10% at the required 95% confidence level.

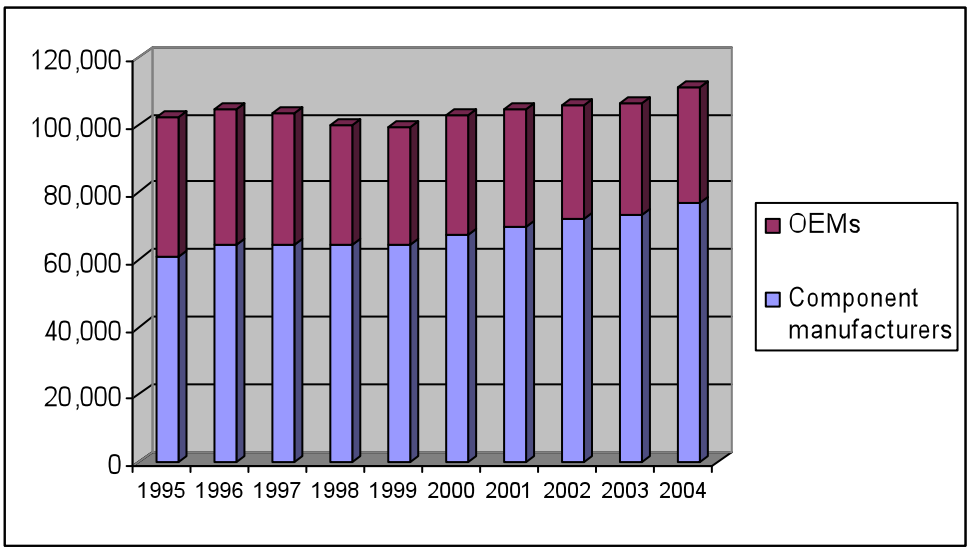
Even though the above table shows statistical data of a relatively flat trend, it is NAACAM and NUMSA's experience that in the years following the implementation of the MIDP (1995-1998), many companies, mostly component manufacturers, closed down, having a negative effect on employment.

Detail regarding the extrapolated employment levels between 1995 and 2004 are provided in Table 21.

Table 21: Extrapolated employment levels between 1995 and 2004

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Component manufacturers	60,800	64,144	64,337	64,401	64,659	67,568	69,730	72,031	73,040	76,911
OEMs	41,364	40,346	39,341	35,774	34,593	35,543	35,128	33,789	33,637	34,152
Total	102,164	104,490	103,678	100,174	99,252	103,111	104,858	105,821	106,677	111,063
Annual growth	-	2.28%	-0.78%	-3.38%	-0.92%	3.89%	1.69%	0.92%	0.81%	4.11%

Figure 19: Extrapolated employment levels between 1995 and 2004



In general, it is evident that for the full period under consideration, OEM's have shown a decrease in employment levels while component manufactures have shown an increase in employment levels. However the decrease in jobs by OEM's was less than the increase in jobs by component manufactures, resulting in a net increase in jobs of approximately 8% for the period 1995 to 2004, which is a compound annual growth rate of just below 1 percent per annum.

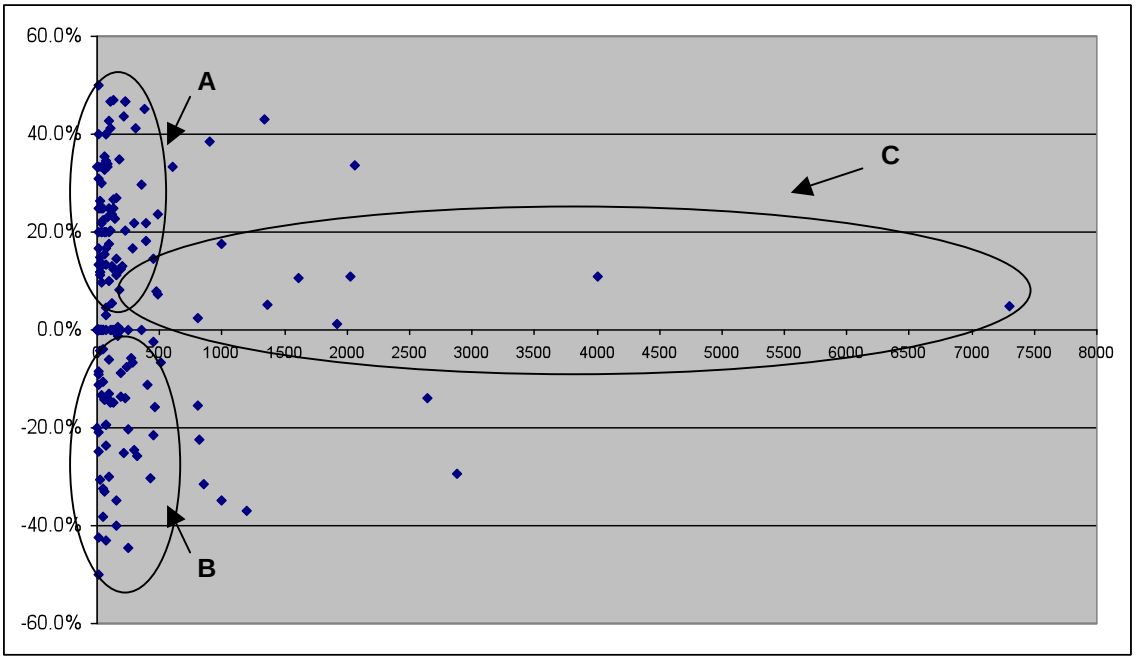
4.1.2 Employment growth within each of the segments researched

The purpose of this section of the report is to gain insight into the specific segments causing employment growth and or decline.

4.1.2.1 Employment growth by company size

Figure 20 illustrates the employment growth percentage (2001 to 2004) on the vertical axis and the current company size distribution in terms of employment on the horizontal axis. Note that company size is indicated by number of employees.

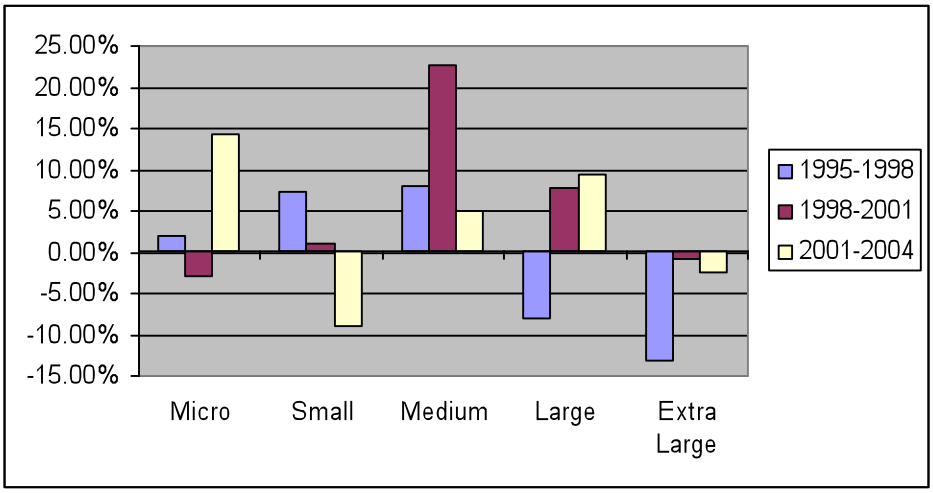
Figure 20: Employment growth percentage per company size, 2001-2004



By comparing areas A and C in Figure 20, a tendency of higher growth rates for smaller companies becomes apparent. Then comparing areas A and B, a high level of employment instability is evident in small and micro companies, indicated by the growth variation on the positive and negative side. However, more SMME's demonstrated positive growth rates to reach the current employment levels.

Figure 21 indicates the employment growth trends for all 5 company size groups over 3 selected periods. The purpose of this section is to identify specific segments that are increasing of decreasing employment levels.

Figure 21: Comparison of employment growth percentages per company size group



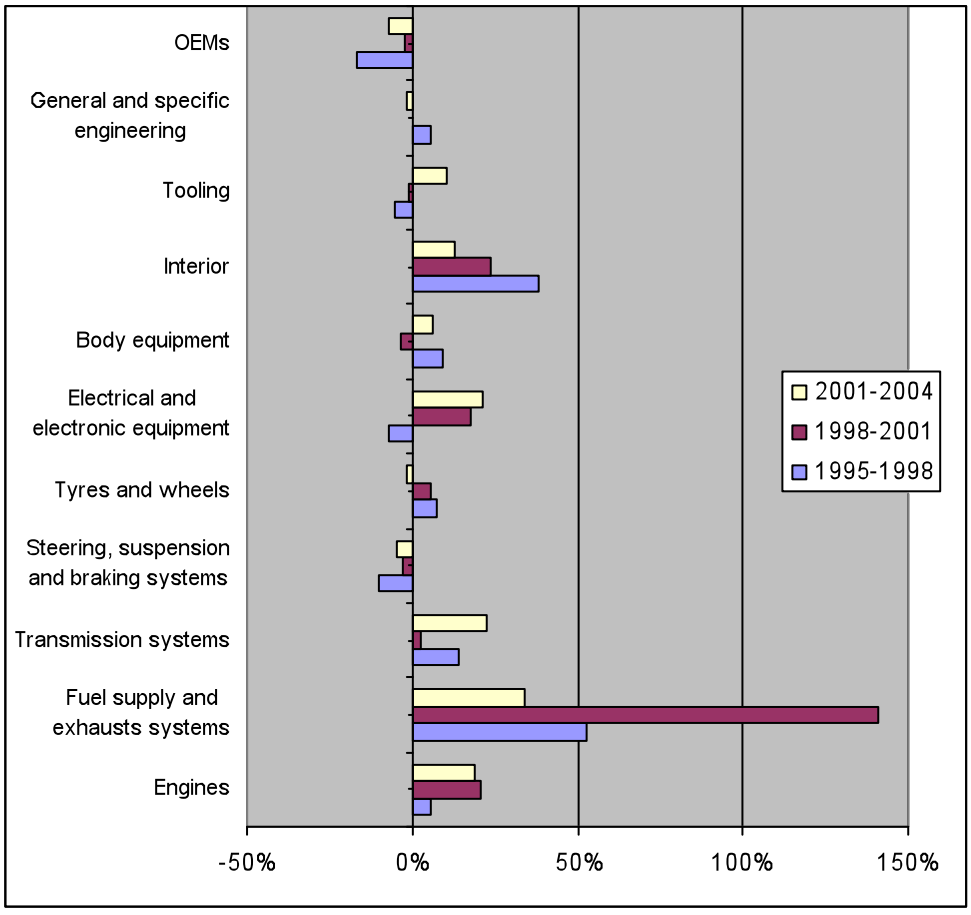
The category “extra large” comprises mostly OEMs. The most obvious finding is that employment levels in OEM’s have been on the decrease for the entire period that was considered. However most of this decrease happened before 1998 with employment levels being relatively stable since then.

Other company size categories are demonstrating growth, with the exception of small companies, which has been on the decline in terms of employment since 2001.

4.1.2.2 *Employment growth by product category*

Figure 22 indicates the employment growth trends for all companies within each product category group over the 3 main periods.

Figure 22: Comparison of employment growth percentages per company size group

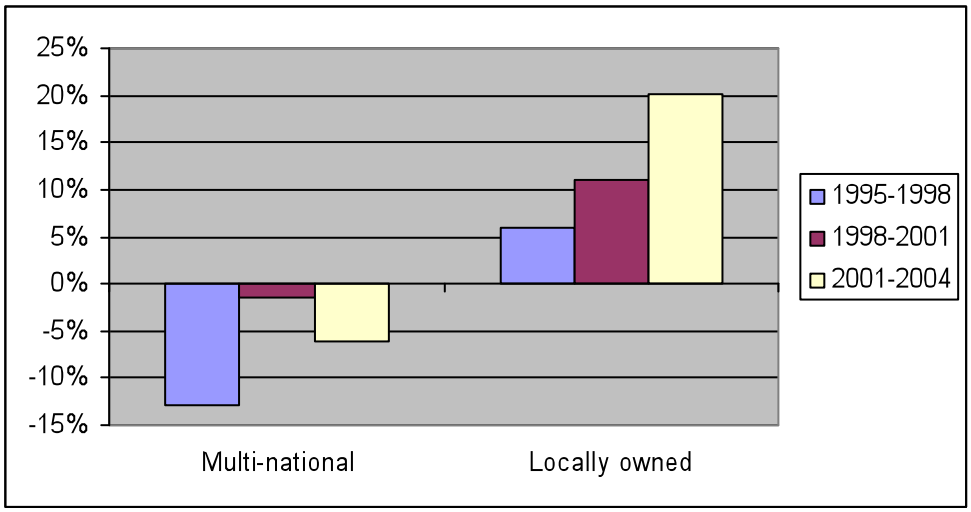


Strong growth is evident for the exhaust systems, engines and interior categories. However, this growth trend has reversed recently for the interior (leather) category, which would indicate that employment opportunities could be under threat in this category.

4.1.2.3 *Employment growth by local vs. multinational companies*

Figure 23 indicates the employment growth trends for all companies within the two ownership category group over the 3 selected periods.

Figure 23: Comparison of employment growth percentages between local and multinational companies



Clearly all employment growth can be contributed to locally owned companies with employment levels in multi-national companies decreasing during all periods. This is likely due to high efficiency drives and international competitiveness in multi-national companies.

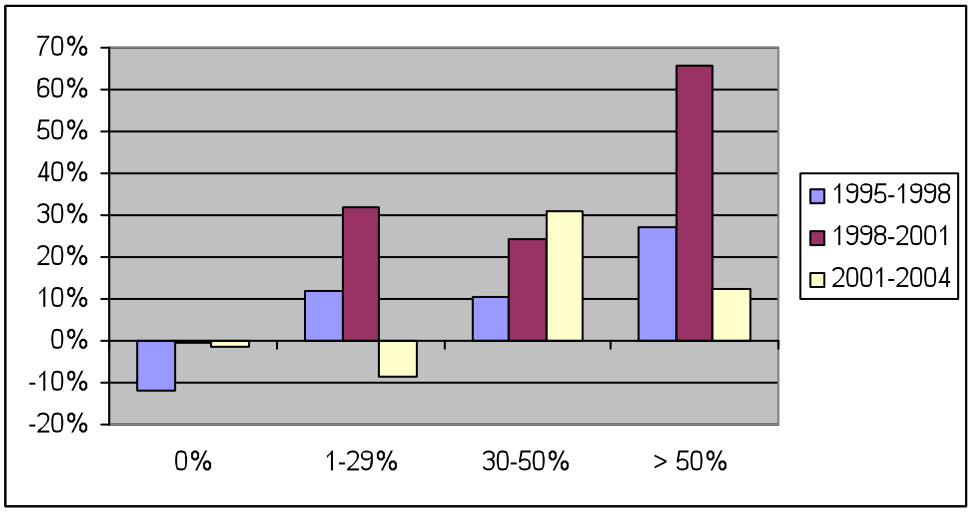
During the period 2001-2004 locally owned companies have shown significant growth in employment opportunities.

4.1.2.4 *Employment growth by Black Economic Empowered (BEE) companies*

Figure 24 indicates the employment growth trends for all companies within each BEE category group over the 3 selected periods.

BEE companies are very successful with regard to job creation in the automotive sector. All empowered companies have shown significant growth in employment levels between 2001 and 2004, whilst the group of companies without black empowerment has displayed steady decline in employment levels.

Figure 24: Comparison of employment growth percentages between BEE and non BEE companies



4.1.2.5 Employment growth comparisons between exporting and non exporting companies

The following figures indicate the employment growth trends for all exporting and non-exporting companies over the 3 main periods.

Figure 25: Comparison of employment growth percentages between exporters and non-exporters (OEMs only)

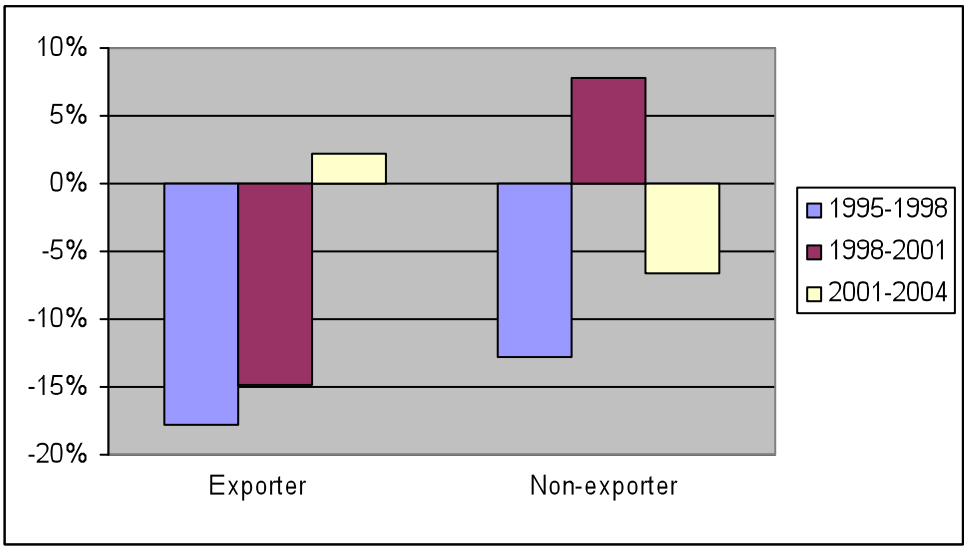
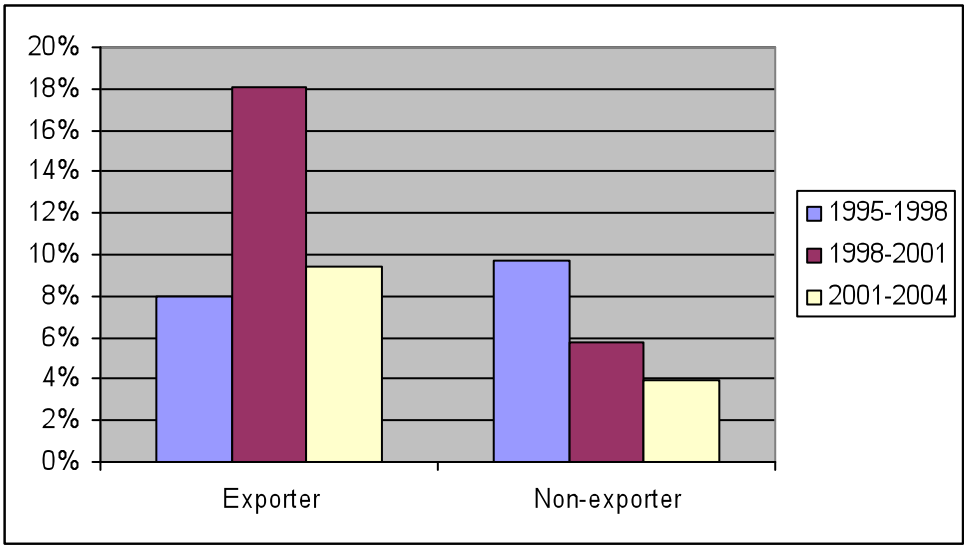


Figure 26: Comparison of employment growth percentages between exporters and non-exporters (CMs only)



The companies that are more export oriented are more inclined to increase employment levels while the non exporting group are continuing to shed employment opportunities. However there is not a clear trend since exporters only showed increased employment levels over the last four years.

4.1.2.6 Employment growth comparisons between geographic areas

The following figure indicates the employment growth trends for all companies within each geographic area over the 3 selected periods.

Figure 27: Comparison of employment growth percentages for OEMs between geographical areas

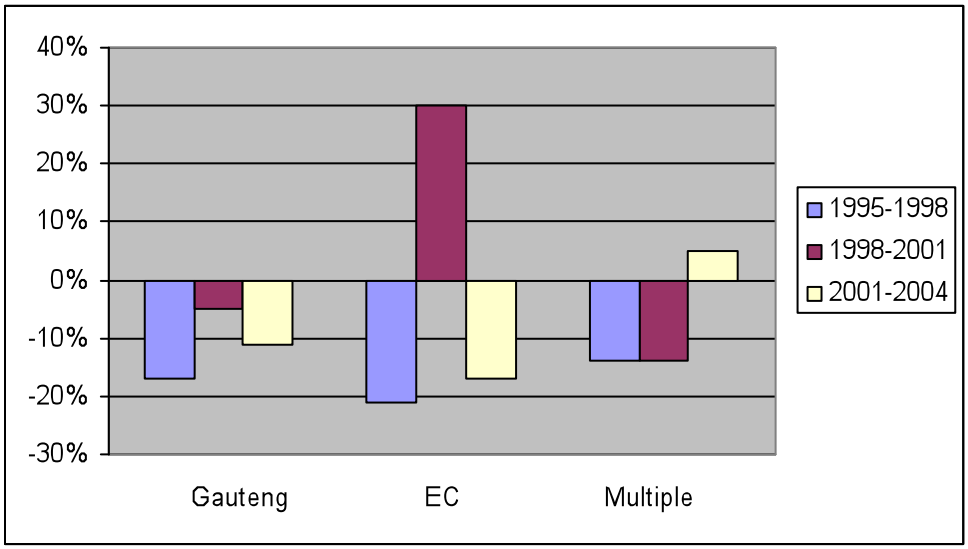
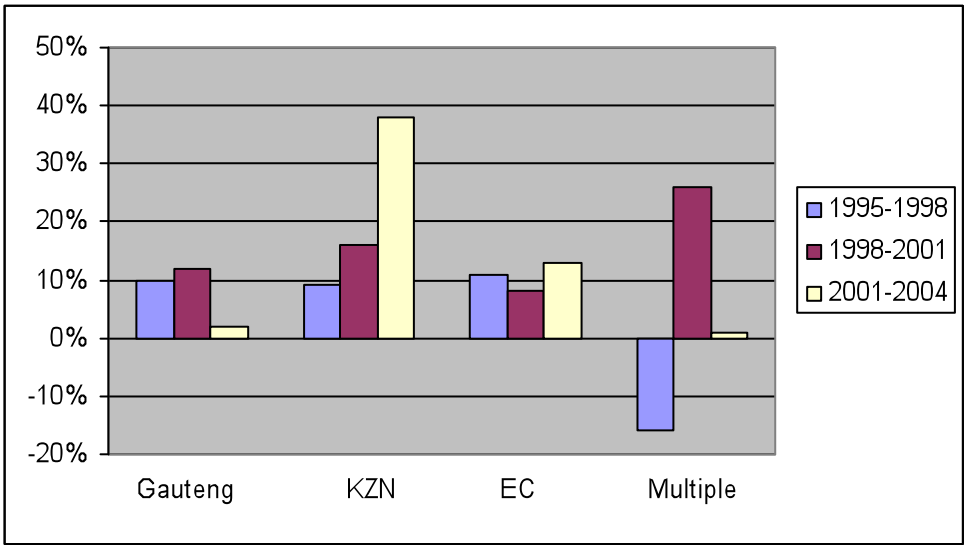


Figure 28: Comparison of employment growth percentages for CMs between geographical areas

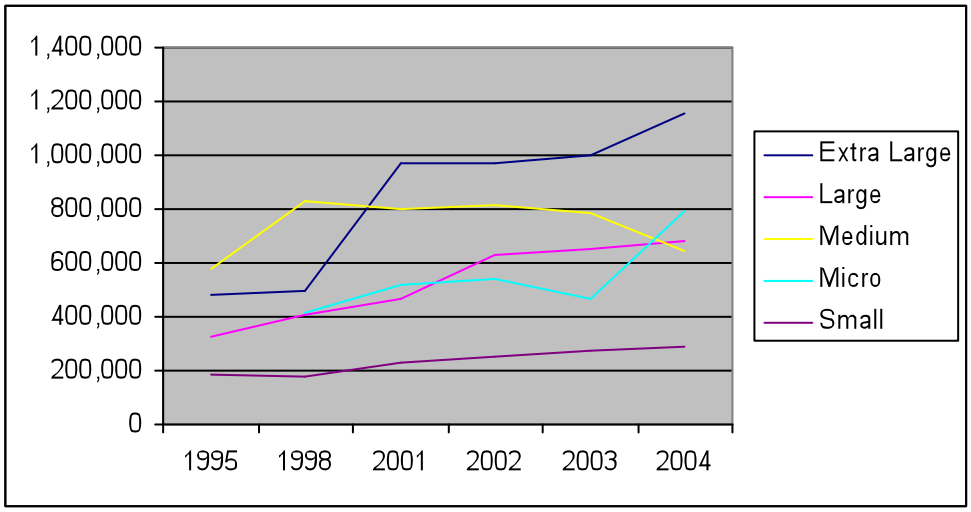


The OEMs surveyed provided no indication of employment growth in KwaZulu Natal. However, KwaZulu Natal has shown increasing success in creating employment opportunities in the automotive component sector. Decrease in the levels of employment characterise Gauteng area, although at a slower pace compared to the middle and late 1990s. Companies operating across regions (Multiple) have shown most success in increasing employment levels.

4.2 Trends in levels of employment intensity

The purpose of this section is to investigate changes in employment within the specific company size groups. Employment intensity refers to the revenue generated per employee. Changes in employment intensity provides an indicator of changes in productivity

Figure 29: Comparison of employment intensity for small, medium and large companies



	1995	1998	2001	2002	2003	2004
N	20	30	78	98	110	124

A significant increase in employment intensity is seen in extra large companies between 1995 and 2001. During the last 12 months these extra large companies have again been increasing employment intensity.

Dramatic step changes in employment intensity is evident in the extra large companies, in particular in the OEMs, due to pressure to cut cost and increase productivity to be globally competitive, and due to a technology intensive production environment.

Employment intensity in micro companies has decreased between 2002 and 2003 and employment intensity has stagnated in medium sized companies with a slight decreasing trend over the last three years.

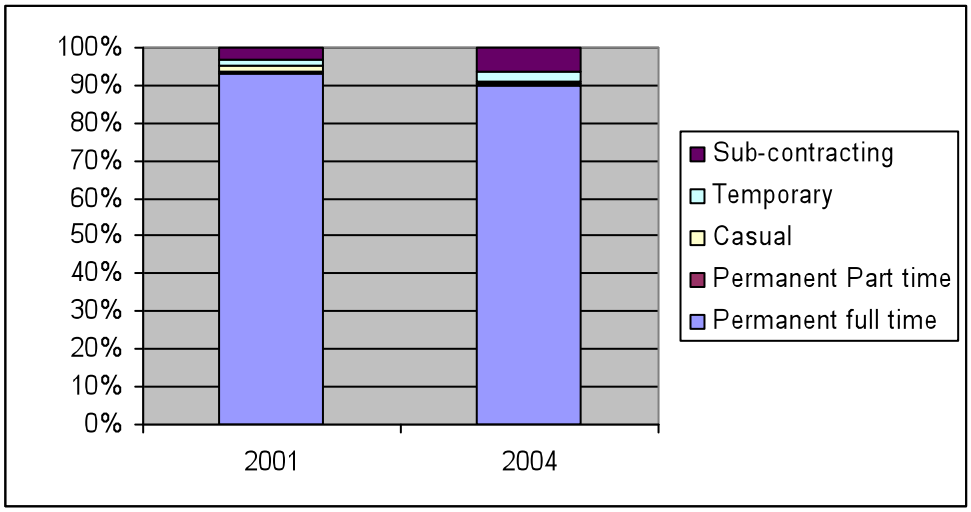
Figure 29 may also be indicative of productivity problems in the smaller companies which will influence their growth potential if not addressed.

4.3 Types of employment

It is useful to evaluate changes in the type of employment as this will indicate the quality of employment opportunities available in the automotive sector. For example, many sub-contracting positions may have been created as a result of activities by labour brokers. Engaging in such a contract often excludes the employee of normal benefits such as for example medical aid.

The structure of employment has changed in recent years. Permanent employment opportunities are often associated with high quality employment opportunities.

Figure 30: Changes in structure of employment



Permanent work opportunities have been reduced by 3% in total since 2001. This is substantial considering the total employee headcount in the automotive sector. Permanent part-time employees have been increased by 1% for the same period.

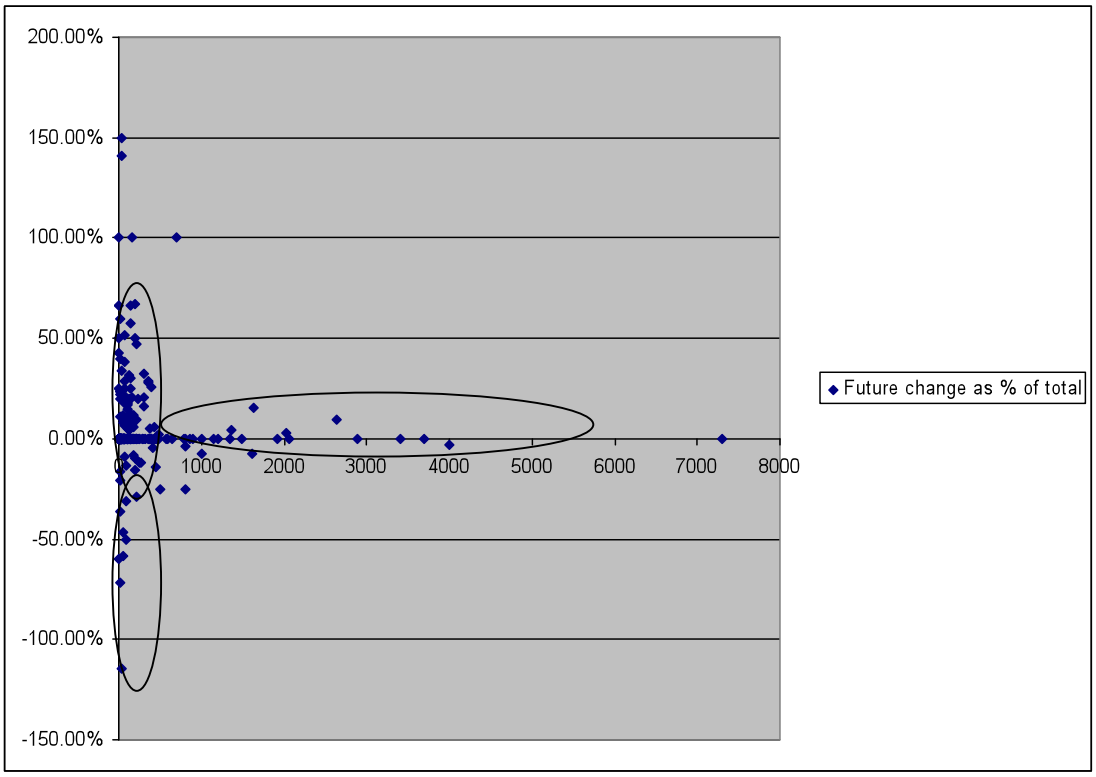
Subcontracted employees have doubled in numbers, increasing from 3% in 2001, to 6 % in 2004. This is driven by the strong presence of labour brokers in the sector.

4.4 Future Employment Trends

The purpose of this section is to predict the segments in which future employment growth may occur.

The future employment as a percentage of total employment is indicated on the vertical axis of the scatter graph shown in Figure 31 and number of employees on the horizontal axis. The figure provides an indication of the concentration of employment growth and decline expected as company size increases. Note that company size is defined by number of employees.

Figure 31: Future employment as a % of total employment



Two thirds of companies are expecting future increases, with a third of these expecting more than a 25% increase. Two thirds of the respondents are expecting increases between 5 and 20%.

The majority of large companies are not expecting employment growth although few of them have definitely indicated some expansion plans.

4.4.1 Quantification of future employment

Figure 32 and Figure 33 report expected change in employment for companies who reported actual employment numbers for 2001-2004 as well as expected employment numbers by 2007.

The net number of employees employed by the automotive industry is expected to increase by an additional 3.1% by 2007 based on absolute values obtained from the survey. If this trend is extrapolated, total employment can be expected to be approximately 114,500 by 2007.

Excluding OEMs from the analysis results in a 3.9% increase i.e. the component manufacturers (see Figure 33).

Figure 32: Expected future employment growth (including OEMs)

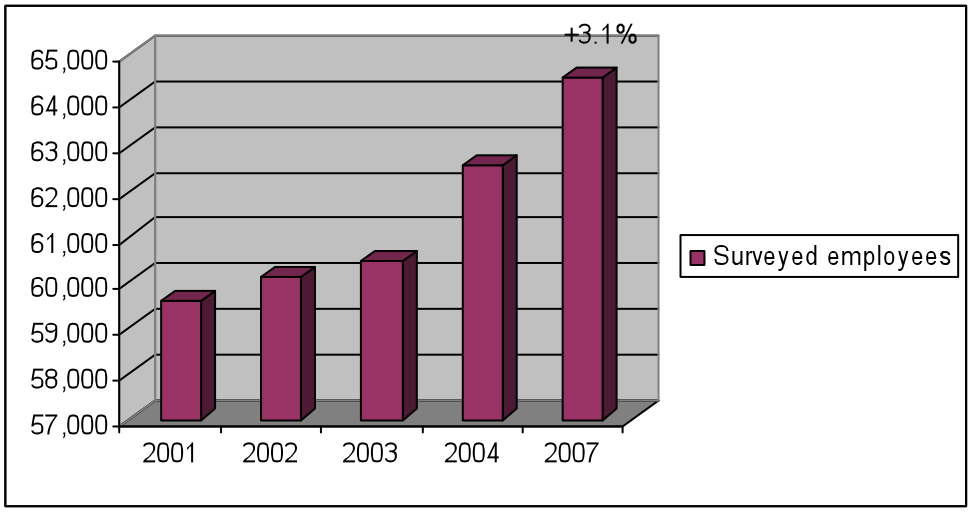
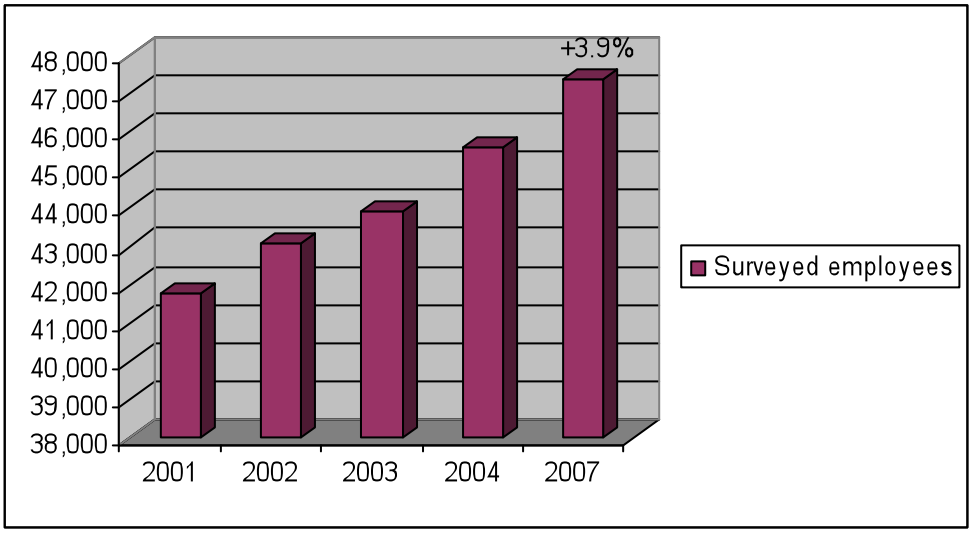


Figure 33: Expected future employment growth by component manufacturers (excluding OEMs)

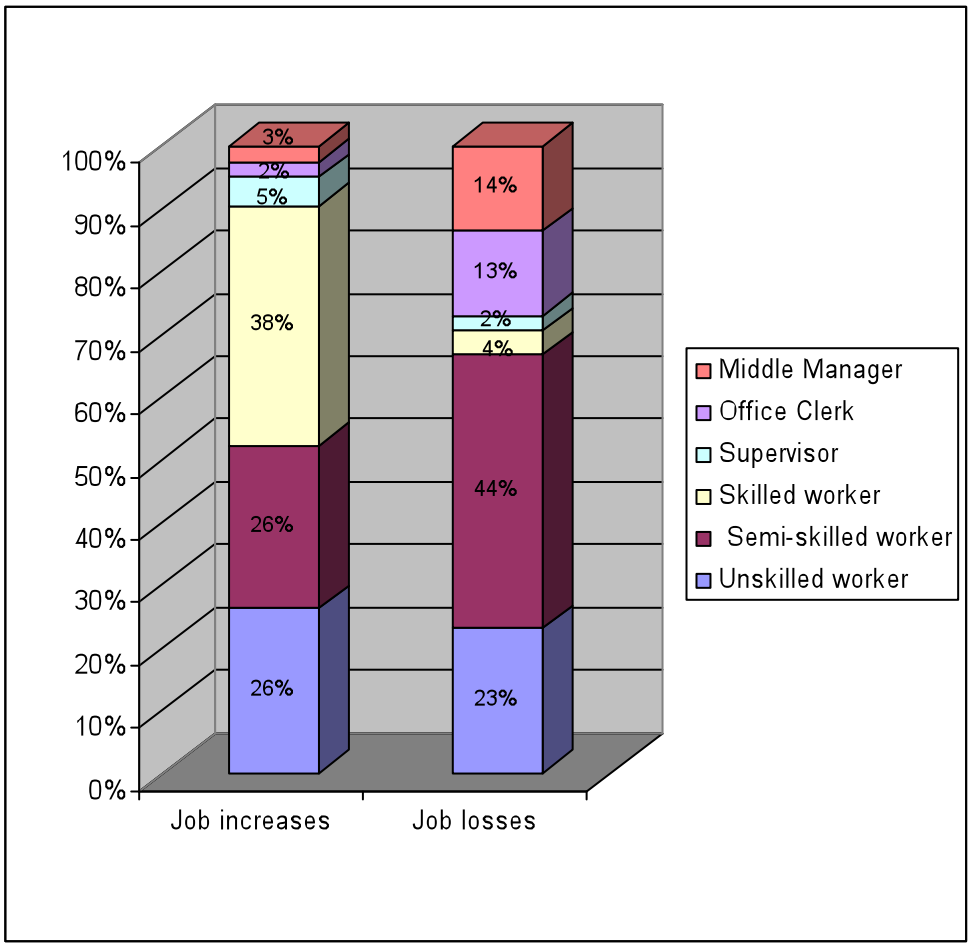


4.4.2 Influence of changes in employment on occupational categories

Employment opportunities will shift in the future according to the business requirements of the companies operating in the automotive sector. This section provides an indication of occupational categories where skills may have to be developed, as well as occupational categories where decreases are experienced or expected. Future planning will have to make provision for employees working in the declining categories.

Figure 34 indicates the expected changes in occupational categories over the next three years. Note that the graph shows results for companies that are expected to reduce employment and those expected to increase employment separately.

Figure 34: Expected job gains and losses affecting occupational categories (2007 forecast)



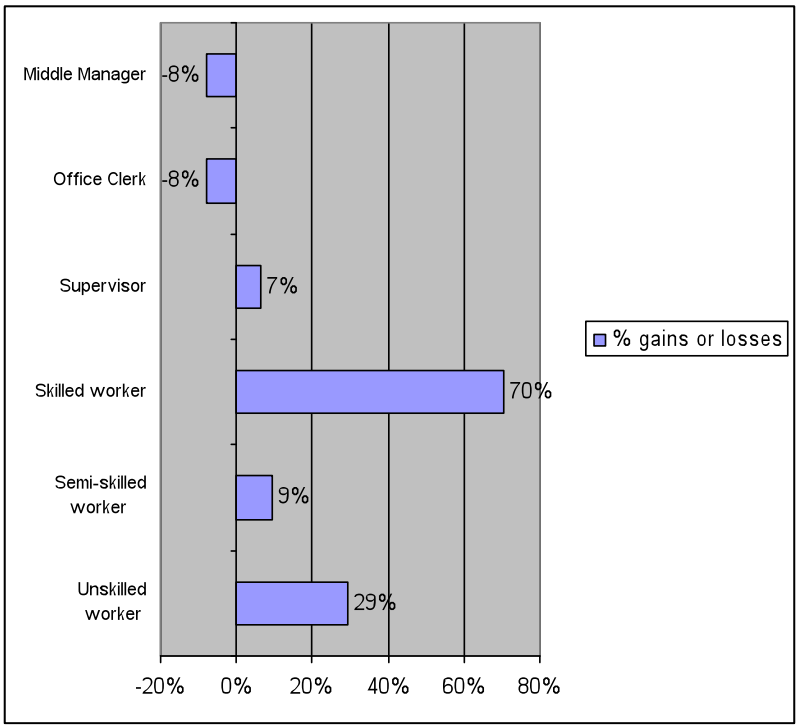
Skilled workers are classified as qualified tradesmen e.g. tool-makers and workers with some manufacturing experience while unskilled are those that have no experience. Level of education is not necessarily relevant to the skills level of the workers.

38% of respondents who are planning to increase employment opportunities are expecting that it will be skilled workers. Only about a quarter of the respondents who are planning to increase job opportunities, are anticipating employment of unskilled workers.

44% of the respondents reporting future retrenchments are planning to decrease the quota of semi skilled workers. In addition to this, 23% are planning to decrease the quota of unskilled workers and 14% are planning to decrease middle management.

An aggregated view of the respondents who are increasing and decreasing in various occupational categories is required. The net effect is depicted in the following Figure 35.

Figure 35: Aggregate gains and losses per occupational category



The most significant finding is that future job losses are expected to be on middle management and office clerk levels and that 70% of responds expect that the amount of skilled workers will increase. 29% of respondents expect increases in the unskilled category.

4.4.3 Analysis of future growth segments

This section evaluates the growth potential of the automotive sector over the next 3 years (up to 2007). This will not only provide an indication of future employment levels, but also points out specific areas where provisions should be made to ensure timely availability of the right skill sets. Table 22 shows growth expectations for the various company size segments.

Table 22: Future growth expectations per company size segment

Company size	Negative growth	Positive growth	Stagnant	Average
Extra Large	30%	40%	30%	1%
Large	35%	50%	15%	9%
Medium	16%	50%	34%	10%
Micro	9%	18%	73%	5%
Small	19%	35%	46%	2%
Total	**20%**	**43%**	**37%**	**7%**

Medium companies look the most promising with regard to future employment growth, expecting increases of around 10% in employment levels. Small companies with less than 50 employees on the other hand are not expecting significant growth, reporting growth expectations in the region of only 2% (less than 1% per annum).

Table 23: Future growth expectations per product category

Business activities	**Negative growth**	**Positive growth**	**Stagnant**	**Average**
Engines	10%	30%	60%	7%
Fuel supply and exhaust systems	0%	71%	29%	15%
Transmission systems	0%	25%	75%	5%
Steering, suspension and braking systems	20%	40%	40%	-1%
Tyres and wheels	29%	14%	57%	-4%
Electrical and electronics	10%	20%	70%	8%
Body equipment	25%	58%	17%	20%
Interior	40%	47%	13%	11%
Tooling	20%	40%	40%	2%
Other	20%	50%	30%	6%
General and specific engineering	43%	29%	29%	-9%
Engines	33%	33%	33%	2%
Total	**20%**	**43%**	**37%**	**7%**

As can be seen from Table 23 the highest average employment growth is expected by manufacturers of body equipment (20%), followed by manufacturers of fuel supply and exhaust systems (15%). Average growth is expected to be negative for general and specific engineering suppliers (-9% average) and for manufacturers of tyres and wheels (-4% average).

Table 24: Future growth expectations per ownership group

	Negative growth	Positive growth	Stagnant	Average
Multi-national	19%	42%	40%	6%
Locally owned	22%	43%	34%	7%
Total	21%	42%	37%	7%

Employment levels in both locally owned and multi-national companies are expected to grow by about the same level over the next 3 years, constituting annual employment growth rates of about 2% per annum (see Table 24).No significant differences exist in the number of companies expecting employment growth by 2007 through the various regions (see Table 25).

It is however noteworthy that companies who operate in multiple regions of South Africa, are expecting slightly higher future employment growth (10%).

Table 25: Future growth expectations per geographic region

	Negative growth	Positive growth	Stagnant	Average
Gauteng	25%	42%	33%	6%
KZN	14%	45%	41%	9%
EC	16%	39%	45%	4%
Multiple regions	9%	64%	27%	10%
Total	19%	44%	37%	7%

The average employment growth expected for KZN companies is however 3% higher than that expected by Gauteng companies, and 5% higher than that expected for companies in the Eastern Cape.

Table 26: Future growth expectations of exporters vs. non-exporters

	Negative growth	Positive growth	Stagnant	Average
Exporter	23%	44%	33%	4%
Non exporter	19%	42%	39%	8%
Total	20%	43%	37%	7%

Companies who are not currently involved in export activities are expecting double the rate of employment growth, compared to those companies who are already involved in export activities (see Table 26). This could be explained in light of strong business confidence at possibly future export contracts that they may be secured, which will enable more companies to enter the export arena.

4.5 Relation between employment growth and industry trends

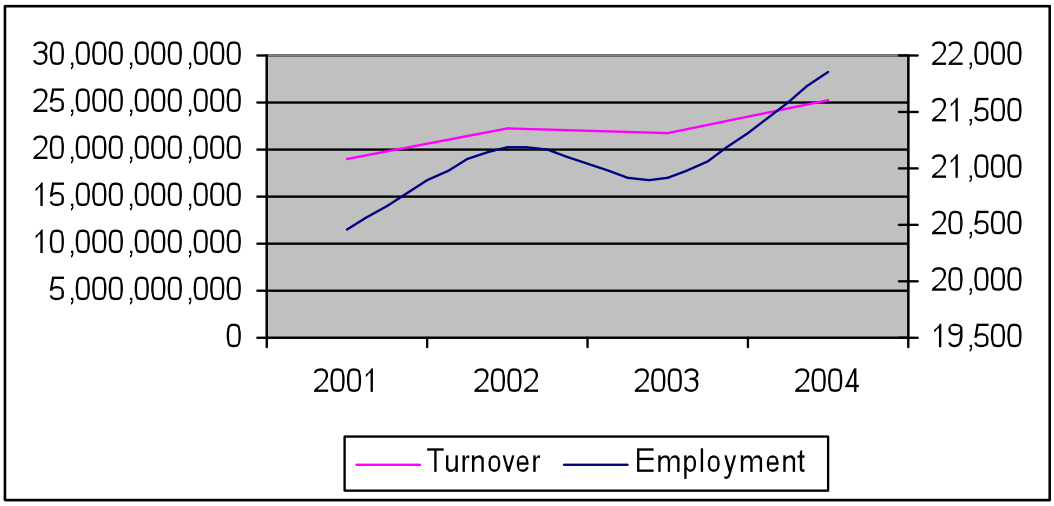
A few factors are playing a significant role in influencing the employment levels in the automotive industry. It is necessary to understand the correlations between these factors and the employment levels to develop effective interventions that will increase employment levels in the future.

4.5.1 Employment and turnover growth correlations

A strong correlation between employment levels and company turnover has been identified as shown in Figure 36. The magnitude of this relationship has however decreased in recent years. In 2004 the total employment growth is increasing at a higher rate than turnover

growth. This may be due to companies gearing up employment in anticipation of increased business (turnover) in the near future.

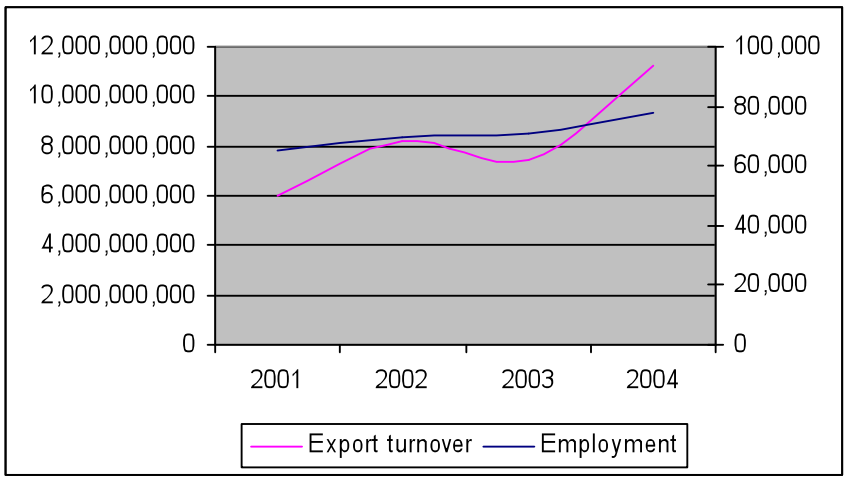
Figure 36: Employment and turnover growth correlations



4.5.2 Employment growth and export growth correlations

The correlation between export growth and employment growth was found to be weak as can be seen in Figure 37. This may be explained by the greater efficiency requirements of export markets that negatively impact on employment growth, thus causing employment growth to be weak relative to the comparative increase in export turnover.

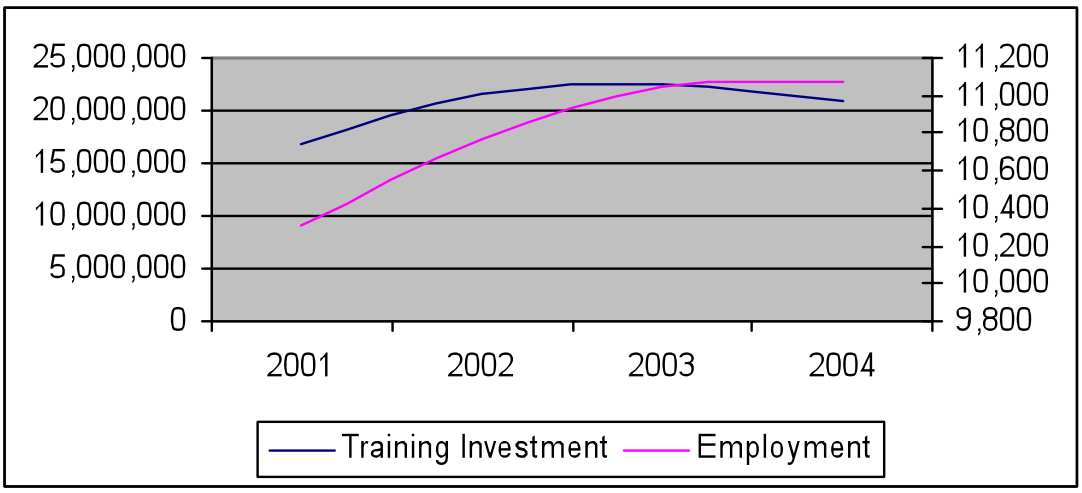
Figure 37: Employment and export growth correlations



4.5.3 Employment growth and training expenditure correlations

Figure 38 investigates the correlation between training investment and employment growth within organisations that provided data on both training investment and employment levels.

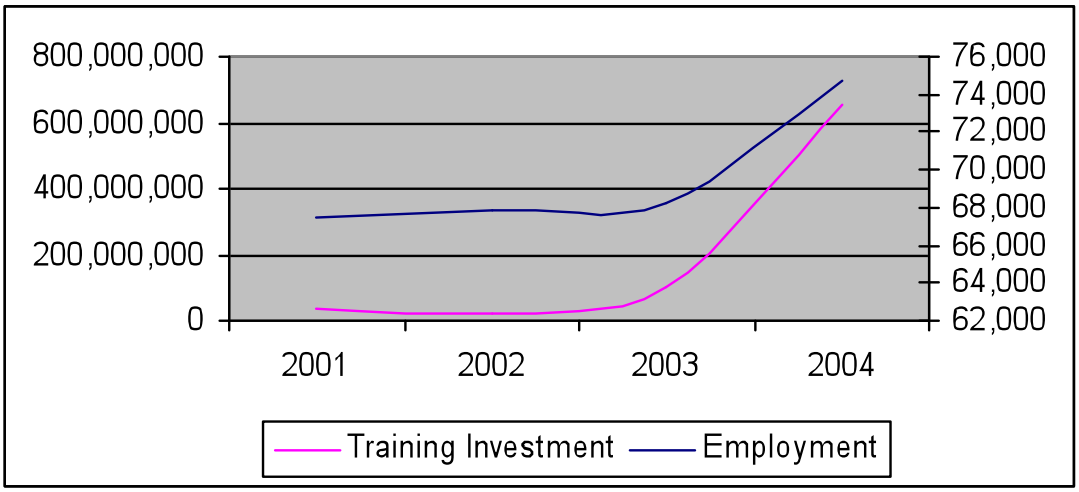
Figure 38: Correlation between training investment and employment growth



The correlation coefficient is weak when the correlation between training investment and employment growth is analysed and it appears that training investments have very limited effect on the employment levels of these organisations.

However, when training investment is compared with the employment growth rate of the entire automotive sector, an entirely different picture comes to light. Figure 39 reveals a strong correlation between total training investments made by surveyed companies and the general employment levels of the sector as a whole.

Figure 39: Correlation between training investment and employment growth of the whole sector

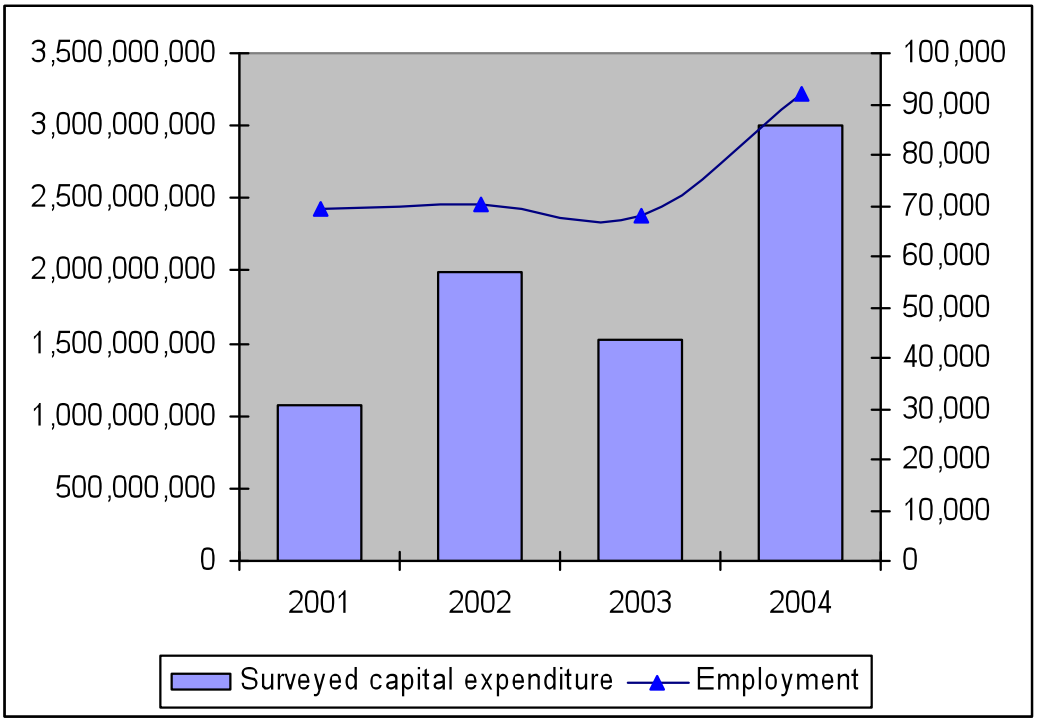


This would indicate that training investment enables employees not only to progress within their organisation but more significantly to also find opportunities within a wider context of the industry. This is in line with frustration expressed by some of the respondents regarding retention of skilled employees. Interventions should be developed to encourage continued investment in their employees.

4.5.4 Employment growth and capital investment growth correlations

One will expect that capital investment will have a negative impact on the organisations' employment levels, especially in the case where such an investment results in lower labour intensive processes. Surprisingly Figure 40 shows the contrary, with companies that made significant capital investment over the last 3 years also showing increased employment opportunity. This may be due to increased turnover being a far more significant driver of employment opportunity than the capital investment required to achieve the increased turnover. Since capital expenditure can result in increased turnover or improved efficiency, or both, the results shown in Figure 40 would indicate that capital has been employed mainly to support increased turnover rather than significantly improve efficiency over the last 3 years.

Figure 40: Correlation between capital investment and employment growth



The net effect of capital expenditure on employment levels are positive as demonstrated by the strong correlation between capital expenditure and employment levels in the automotive industry as a whole. Competitive companies have the ability to secure more and larger contracts, and even export contracts. This will normally result in various spin-offs to their

supplier companies, and with the MIDP's rebates on local content, many of the South African companies will receive the benefits which will increase employment levels.

5 Drivers and inhibitors of employment growth (Component Manufacturers)

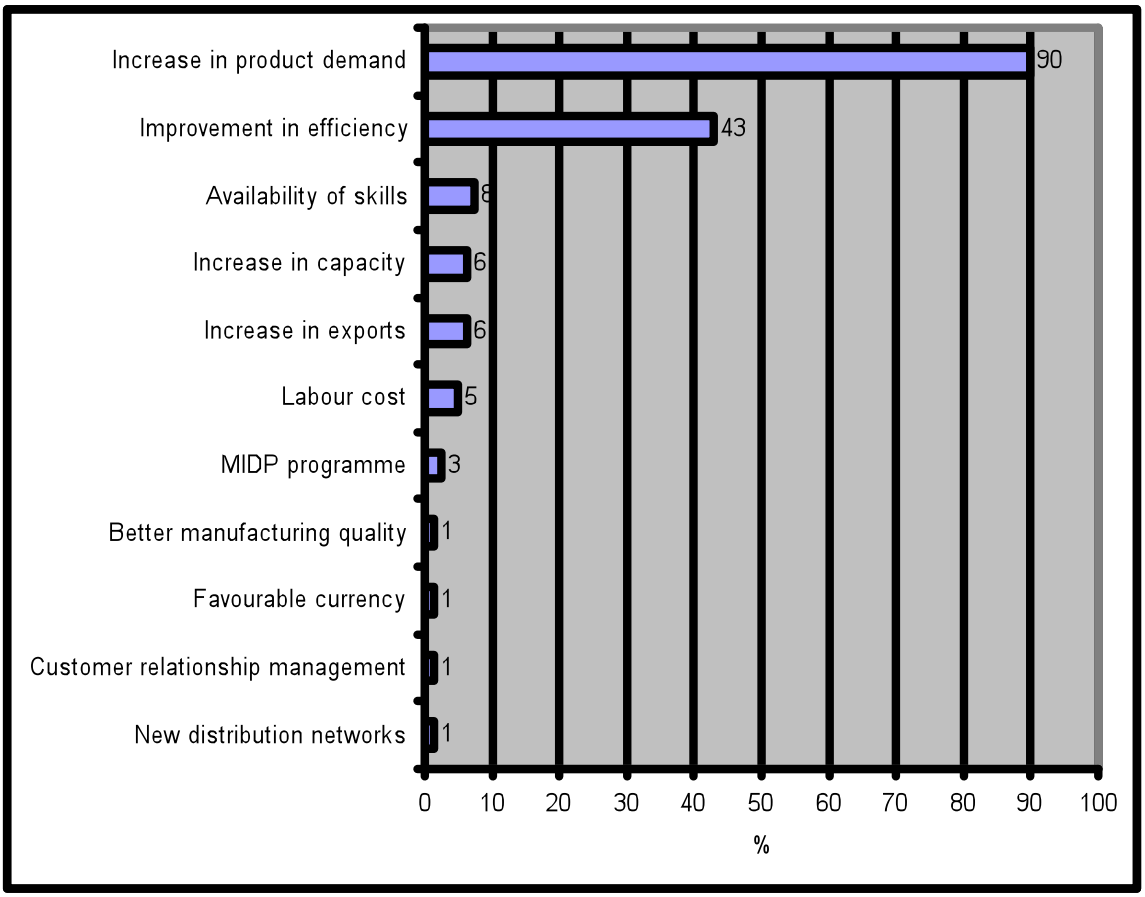
Each of the segments within the automotive sector has unique business and operational conditions and therefore different sets of factors that will affect their ability to employ more people. Therefore trying to explain job losses or gains on a year to year basis on an aggregate level will be a futile exercise except for major industry defining events such as entry into international markets. Job losses and job gains on a year to year basis will only be of significance if it is done on an individual company basis. However such an analysis falls outside the scope of this study and will provide little more than a factual record of company histories. Of far greater importance are general lessons learned with regard to drivers or inhibitors of employment growth. The purpose of this section is to provide insight to the various factors that influence the sector in general, as well as the factors that that may be unique to segments that form part of the automotive sector.

5.1 Factors contributing to employment growth

Figure 41 depicts the factors that generally influence employment growth. Not surprisingly, it was found that the most important factor that will positively influence employment levels in the sector is increased product demand (89%) which only confirms the findings presented in paragraph 4.5.1 of this report. Of greater interest is the fact that efficiency improvements (43%) where found to be the second most significant driver of increased employment. This seems to be a paradox since greater efficiency are widely accepted to indicate lower employment levels for any given level of activity. However, a closer analysis reveals that more efficient companies have lower overall cost of production and therefore the ability to reduce product price which would drive increased demand and thus increased activity. Increased activity in turn, goes hand in hand with job creation.

Some of the detailed comments under the banner of product demand include: additional contracts, bigger market share, and an increase in clients' turnover and production. Improvement in efficiency consists of introduction to new work methods, restructuring, and new technology. Increase in capacity includes increase in capital expenditure, increase in product lines, and increase in production.

Figure 41: Factors contributing to employment growth



Clearly the factors influencing employment growth as presented in Figure 41 are not mutually exclusive and should thus not be viewed in isolation as can be seen from the efficiency example discussed in the previous paragraph.

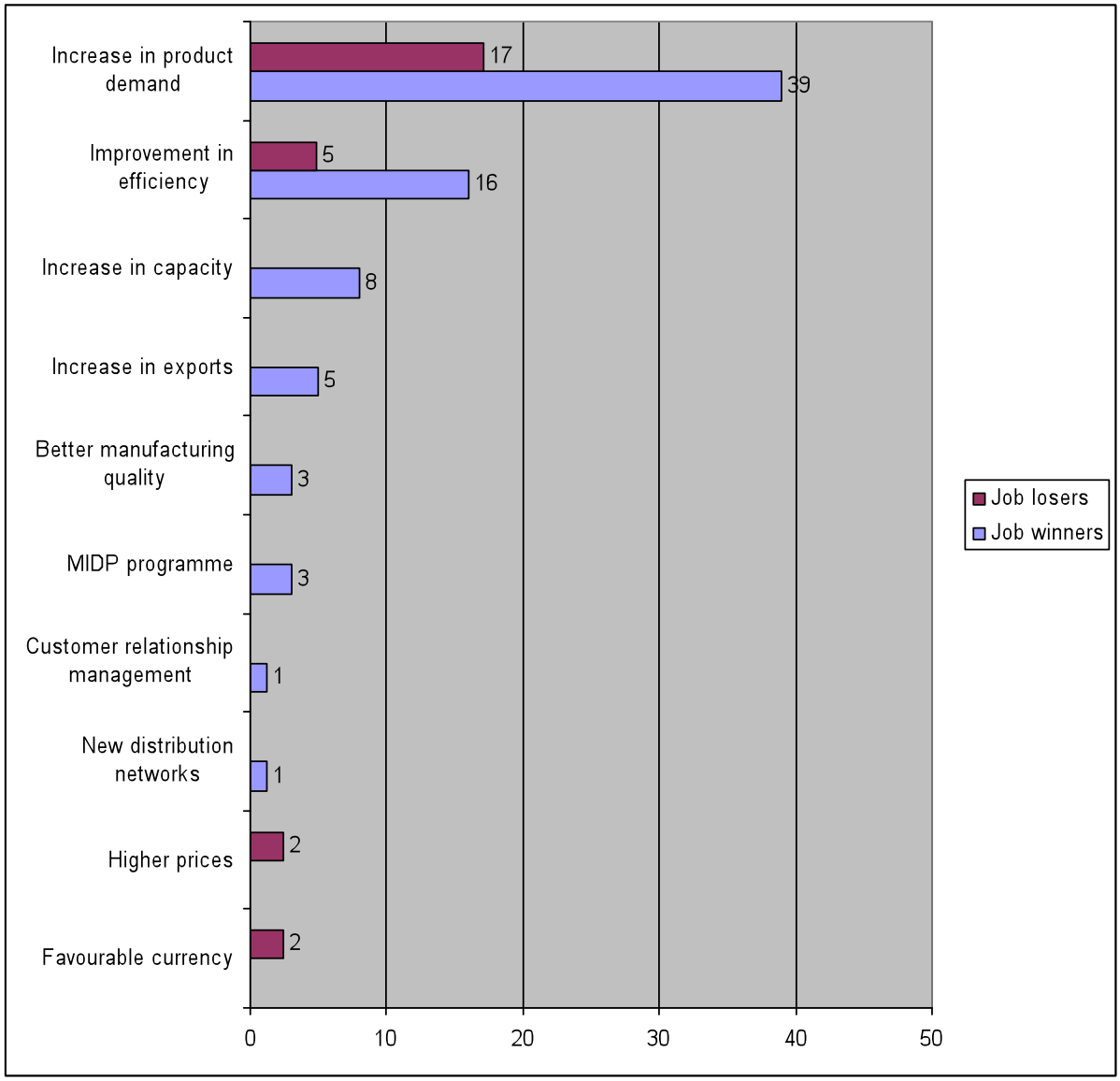
5.1.1 Factors contributing to employment growth – per job winners and job losers

To gain a better understanding of the factors that cause employment growth, a closer look will be taken at the importance rating of each of these factors that affected companies of various sizes, business activities, ownership structure, BEE status, as well as export status.

Figure 42 shows the relative importance of factors that contribute to employment growth for companies that have shown a decrease in employment (job losers) and for companies that have shown an increase in employment (job winners). Both job losers and job winners rate increase in product demand as the number one factor influencing employment growth.

Job winners also identify increase in capacity and increase in exports as significant factors to stimulate employment growth, with job losers attributing tertiary significance to higher prices and favourable currency.

Figure 42: Factors contributing to employment growth - per job winners and job losers



5.1.2 Factors contributing to employment growth – per size of company

Factors contributing to employment growth in micro companies

1. Increase in product demand (83%)
2. Improvement in efficiency (67%)
3. Increase in exports (17%)

Factors contributing to employment growth in small companies

1. Increase in product demand (84%)
2. Improvement in efficiency (26%)

3. Increase in capacity (11%)
4. Availability of skills (11%)
5. Increase in exports (5%)
6. Customer relationship management (5%)
7. Better manufacturing quality (5%)

Factors contributing to employment growth in medium companies

1. Increase in product demand (84%)
2. Improvement in efficiency (53%)
3. Labour cost (8%)
4. Increase in exports (8%)
5. Increase in capacity (8%)
6. Availability of skills (8%)
7. MIDP programme (3%)
8. Favourable currency (3%)

Factors contributing to employment growth in large companies

1. Increase in product demand (90%)
2. Improvement in efficiency (31%)
3. Labour cost (6%)
4. MIDP programme (6%)
5. New distribution networks (6%)
6. Availability of skills (6%)

Thus regardless of company size, increase in product demand is the most significant contributing factor to increasing employment levels, followed by improvement in efficiency which played more of a contributing role to employment growth in micro and medium companies.

5.1.3 Factors contributing to employment growth – per product category

Manufacturers of starting systems, ignition systems, electrical and electronic equipment and lighting

1. Increase in product demand (90%)
2. Improvement in efficiency (67%)

Manufacturers of engines

1. Increase in product demand (63%)
2. Improvement in efficiency (63%)
3. Labour cost (25%)

Manufacturers of fuel supply and exhaust systems

1. Increase in product demand (90%)
2. Improvement in efficiency (60%)
3. MIDP Programme (20%)
4. Increase in capacity (10%)

Manufacturers of transmission systems

1. Increase in product demand (67%)
2. Improvement in efficiency (67%)

Manufacturers of steering, suspension and braking systems

1. Increase in product demand (90%)
2. Improvement in efficiency (50%)
3. Increase in exports (10%)
4. Increase in capacity (10%)
5. Availability of skills (10%)

Manufacturers of tyres and wheels

1. Increase in product demand (50%)
2. Labour cost (50%)
3. Increase in capacity (50%)
4. New distribution networks (50%)

Manufacturers of body equipment

1. Increase in product demand (67%)
2. Availability of skills (22%)
3. Improvement in efficiency (11%)
4. Increase in exports (11%)
5. Increase in capacity (11%)

Manufacturers of interior components

1. Increase in product demand (75%)
2. Availability of skills (25%)

Manufacturers of tooling components

1. Increase in product demand (90%)
2. Improvement in efficiency (20%)
3. Availability of skills (20%)
4. Labour cost (20%)

Engineering

1. Increase in product demand (50%)
2. Improvement in efficiency (50%)
3. Increase in exports (50%)

Manufacturers of other components

1. Increase in product demand (81%)
2. Improvement in efficiency (56%)
3. Increase in capacity (13%)
4. Increase in exports (6%)
5. Customer relationship management (6%)

Increase in product demand is the most significant factor contributing to employment increase across all business activities, with particular prevalence in the following manufacturing categories: starting systems, ignition systems, electrical and electronic equipment and lighting; fuel supply and exhaust systems; steering, suspension and braking systems; and tooling components.

Improvement in efficiency is the second most important contributing factor in 70% of the categories, with availability of skills (in the manufacturers of body equipment and interior components) and labour cost (in the manufacturers of tyres and wheels) taking secondary significance in the remaining 30%. Labour cost also plays a contributing role in the manufacturers of engines and tooling components, with increase in capacity and new distribution networks playing a contributing role equal to that of product demand increase and efficiency improvement in the manufacturers of tyres and wheels. Increase in exports also plays an equally significant (to the first 2 factors) contributing role in the engineering category.

Manufacturers of fuel supply and exhaust systems are significant exporters and interestingly rate the MIDP programme (20%) as a significant contributor to employment growth.

5.1.4 Factors contributing to employment growth – per ownership structure

Factors contributing to employment growth in multi-national companies

1. Increase in product demand (90%)
2. Improvement in efficiency (50%)
3. MIDP programme (8%)
4. Labour cost (4%)
5. Increase in capacity (4%)
6. New distribution networks (4%)
7. Better manufacturing quality (4%)

8. Availability of skills (4%)

Factors contributing to employment growth in local companies

1. Increase in product demand (82%)
2. Improvement in efficiency (39%)
3. Increase in exports (8%)
4. Increase in capacity (8%)
5. Availability of skills (8%)
6. Labour cost (6%)
7. Customer relationship management (2%)
8. Favourable currency (2%)

Increase in product demand and improvement in efficiency are yet again the first and second most significant factors contributing to employment growth in both multi-national and local companies. However, these factors contribute more significantly in multi-national companies.

5.1.5 Factors contributing to employment growth – per BEE status

Factors contributing to employment growth in companies with 0% black ownership

1. Increase in product demand (95%)
2. Improvement in efficiency (49%)
3. Increase in exports (7%)
4. Increase in capacity (7%)
5. Availability of skills (7%)
6. Labour cost (5%)
7. MIDP programme (2%)
8. New distribution networks (2%)
9. Customer relationship management (2%)
10. Favourable currency (2%)
11. Better manufacturing quality (2%)

Factors contributing to employment growth in companies with 1 - 29% black ownership

1. Increase in product demand (73%)
2. Increase in capacity (36%)
3. Labour cost (9%)
4. MIDP programme (9%)
5. Increase in capacity (9%)
6. Availability of skills (9%)

Factors contributing to employment growth in companies with 30 - 50% black ownership

1. Improvement in efficiency (50%)
2. Increase in product demand (25%)
3. Availability of skills (25%)

Factors contributing to employment growth in companies with >50% black ownership

1. Increase in product demand (86%)
2. Improvement in efficiency (14%)
3. Availability of skills (14%)

Increase in product demand is still the most significant contributing factor to employment growth in black empowered companies, but it seems to be of slightly lesser importance with improvement in efficiency moving into first spot for 30-50% black-owned companies. Improvement in efficiency is still the second most significant contributing factor with availability of skills and increase in capacity making also ranking high.

5.1.6 Factors contributing to employment growth – per export status

Factors contributing to employment growth in exporting companies

1. Increase in product demand (90%)
2. Improvement in efficiency (18%)
3. Labour cost (9%)
4. Increase in exports (9%)
5. Increase in capacity (9%)
6. Availability of skills (9%)
7. New distribution networks (4%)
8. Favourable currency (4%)

Factors contributing to employment growth in non-exporting companies

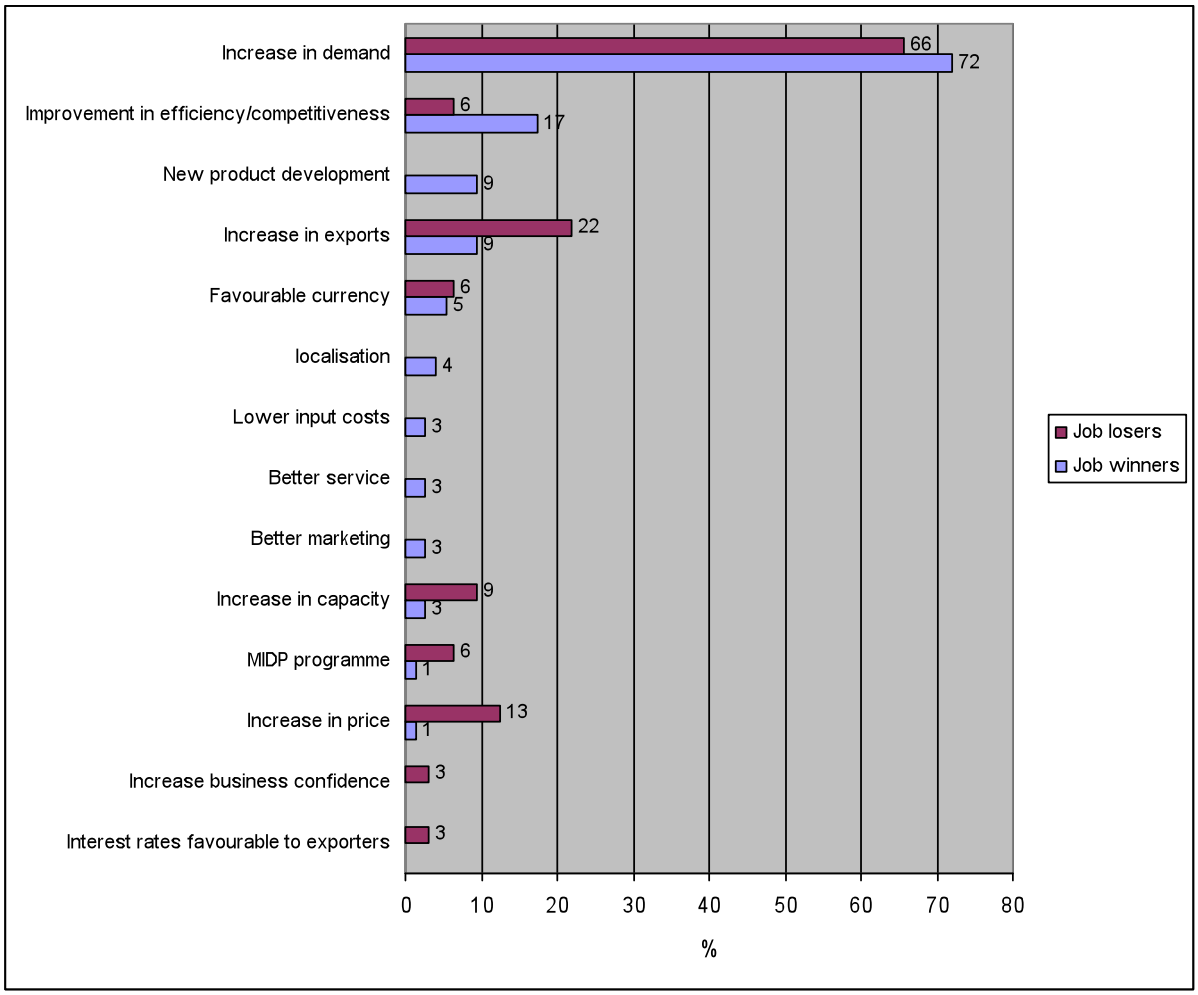
1. Increase in product demand (82%)
2. Improvement in efficiency (53%)
3. Availability of skills (7%)
4. Increase in capacity (5%)
5. Increase in exports (5%)
6. Labour cost (4%)
7. MIDP programme (4%)
8. Customer relationship management (2%)
9. Better manufacturing quality (2%)

Increase in product demand and improvement in efficiency are the first and second most significant contributing factors in both exporting and non-exporting companies. Increase in exports and increase in capacity also contributed to employment growth in exporting companies.

5.2 Changes required to facilitate growth

5.2.1 Changes required to facilitate growth – per job winners and job losers

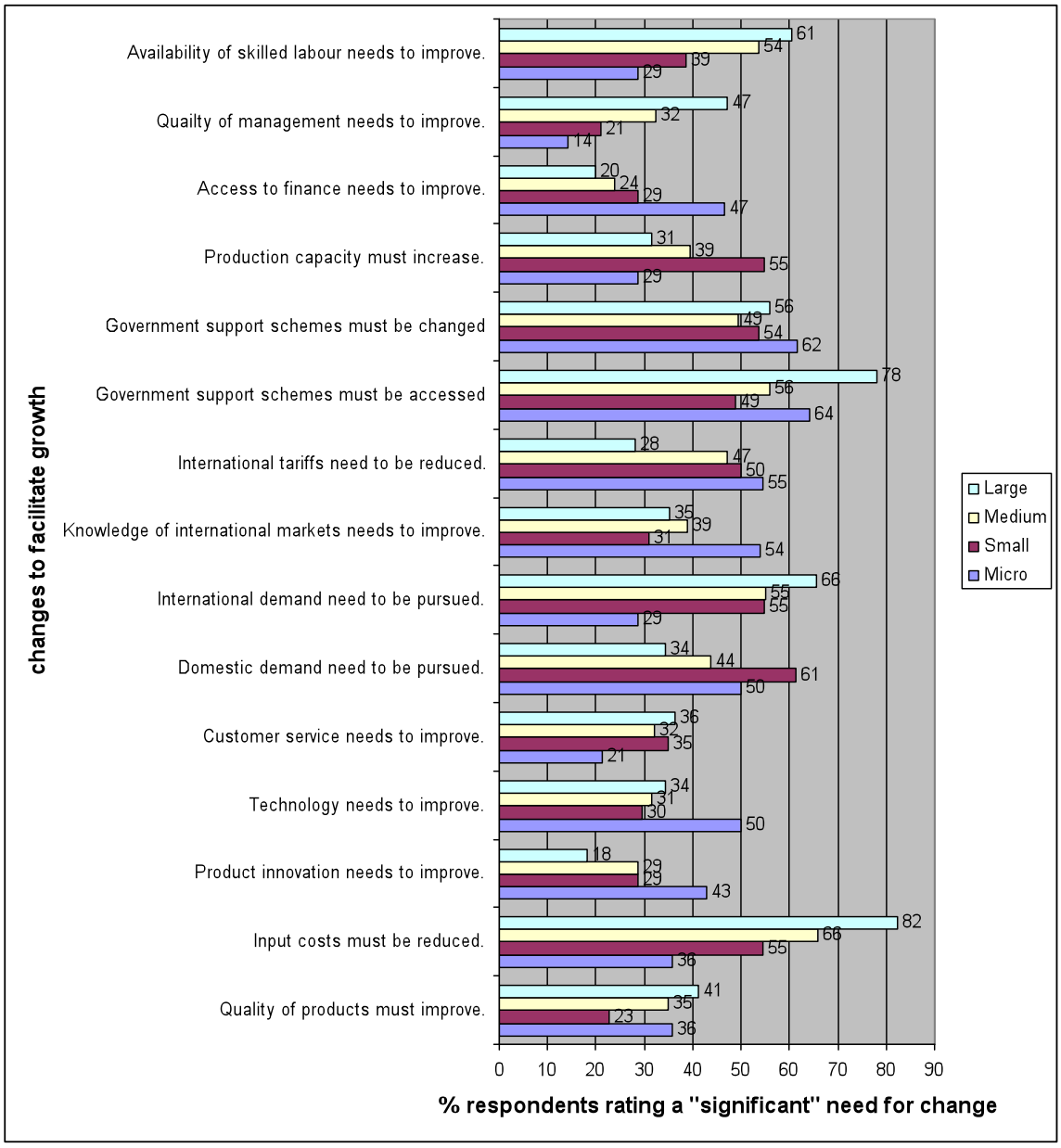
Figure 43: Changes in factors to facilitate growth - per job winners and losers



Both job winners and job losers require product demand to increase significantly in order to facilitate growth. Job winners also afford significance to the need for competitiveness to improve, as well as changes in new product development and increase in exports, for growth facilitation. Job losers, however, required significant increases in exports and price (which could be due to below industry standard efficiency levels) respectively to enable growth.

5.2.2 Changes required to facilitate growth – per size of company

Figure 44: Perceived importance of various factors in facilitating growth by micro, small, medium and large companies



A reduction in input costs is the factor that needs to be most significantly changed in large and medium companies in order to facilitate growth. Both large and medium companies need to see significant change in their pursuit of international demand and in the availability of skilled labour. Large companies exhibited improved access to government support systems as a significant factor, with medium companies requiring a significant change in government support systems to facilitate growth. Small companies require changes in the pursuit of domestic demand, an increase in production capacity, greater pursuit of international demand, and a reduction in input costs as respectively important factors to facilitate growth. Micro

companies require government support systems to be accessed and changed, a reduction in international tariffs and improvements in international market knowledge, domestic demand, technology, and access to finance to facilitate growth

5.2.3 Changes required to facilitate growth – per product category

Manufacturers of starting systems, ignition systems, electrical and electronic equipment and lighting

1. Domestic demand need to be pursued (100%)
2. Government support schemes must be accessed (79%)
3. Government support schemes must be changed (69%)
4. International demand need to be pursued. (57%)
5. International tariffs need to be reduced. (53%)
6. Input costs must be reduced. (50%)
7. Knowledge of international markets needs to improve (43%)
8. Access to finance needs to improve (43%)
9. Availability of skilled labour needs to improve (43%)
10. Technology needs to improve (38%)
11. Quality of products must improve (36%)
12. Production capacity must increase (29%)
13. Product innovation needs to improve (25%)
14. Customer service needs to improve. (21%)
15. Quality of management needs to improve (21%)

Manufacturers of engines

1. International demand need to be pursued (67%)
2. Input costs must be reduced (64%)
3. Government support schemes must be accessed (64%)
4. Availability of skilled labour needs to improve (38%)
5. Technology needs to improve (36%)
6. Government support schemes must be changed (36%)
7. Production capacity must increase (36%)
8. Knowledge of international markets needs to improve (29%)
9. Quality of management needs to improve (29%)
10. Domestic demand need to be pursued (27%)
11. Product innovation needs to improve (21%)
12. Customer service needs to improve (21%)
13. Access to finance needs to improve (21%)
14. International tariffs need to be reduced (14%)
15. Quality of products must improve (7%)

Manufacturers of fuel supply and exhaust systems

1. Government support schemes must be accessed (75%)
2. Government support schemes must be changed (75%)
3. Input costs must be reduced (63%)
4. Technology needs to improve (56%)
5. Production capacity must increase (56%)
6. International demand need to be pursued (53%)
7. Availability of skilled labour needs to improve (50%)
8. Domestic demand need to be pursued (47%)
9. International tariffs need to be reduced (47%)
10. Access to finance needs to improve (38%)
11. Quality of management needs to improve (38%)
12. Quality of products must improve (25%)
13. Product innovation needs to improve (25%)
14. Customer service needs to improve (19%)
15. Knowledge of international markets needs to improve (19%)

Manufacturers of transmission systems

1. Input costs must be reduced (71%)
2. Technology needs to improve (43%)
3. Customer service needs to improve (43%)
4. Domestic demand need to be pursued (43%)
5. International demand need to be pursued (43%)
6. International tariffs need to be reduced (43%)
7. Quality of products must improve (29%)
8. Product innovation needs to improve (29%)
9. Knowledge of international markets needs to improve (29%)
10. Government support schemes must be accessed (29%)
11. Government support schemes must be changed (29%)
12. Production capacity must increase (29%)
13. Availability of skilled labour needs to improve (29%)
14. Access to finance needs to improve (14%)
15. Quality of management needs to improve (14%)

Manufacturers of steering, suspension and braking systems

1. Input costs must be reduced (68%)
2. International demand need to be pursued (65%)
3. Government support schemes must be accessed (44%)
4. Availability of skilled labour needs to improve (44%)

5. Domestic demand need to be pursued (41%)
6. International tariffs need to be reduced (36%)
7. Production capacity must increase (35%)
8. Quality of products must improve (33%)
9. Customer service needs to improve (32%)
10. Knowledge of international markets needs to improve (31%)
11. Government support schemes must be changed (31%)
12. Quality of management needs to improve (29%)
13. Technology needs to improve (22%)
14. Product innovation needs to improve (18%)
15. Access to finance needs to improve (11%)

Manufacturers of tyres and wheels

1. Input costs must be reduced. (88%)
2. Domestic demand need to be pursued (75%)
3. International demand need to be pursued (63%)
4. Availability of skilled labour needs to improve (63%)
5. Quality of products must improve (50%)
6. Technology needs to improve (50%)
7. Customer service needs to improve (50%)
8. Government support schemes must be accessed (50%)
9. Government support schemes must be changed (50%)
10. Quality of management needs to improve (50%)
11. Product innovation needs to improve (38%)
12. Knowledge of international markets needs to improve (38%)
13. International tariffs need to be reduced (25%)
14. Production capacity must increase (25%)
15. Access to finance needs to improve (13%)

Manufacturers of body equipment

1. Government support schemes must be accessed (75%)
2. Input costs must be reduced (69%)
3. Government support schemes must be changed (69%)
4. International demand need to be pursued (62%)
5. Knowledge of international markets needs to improve (62%)
6. Domestic demand need to be pursued (54%)
7. International tariffs need to be reduced (54%)
8. Availability of skilled labour needs to improve (50%)
9. Product innovation needs to improve (38%)

10. Quality of products must improve (31%)
11. Technology needs to improve (31%)
12. Production capacity must increase (31%)
13. Access to finance needs to improve (23%)
14. Customer service needs to improve (15%)
15. Quality of management needs to improve (8%)

Manufacturers of interior components

1. Government support schemes must be changed (63%)
2. Input costs must be reduced (58%)
3. Domestic demand need to be pursued (56%)
4. International demand need to be pursued (50%)
5. Government support schemes must be accessed (50%)
6. Customer service needs to improve (47%)
7. International tariffs need to be reduced (44%)
8. Availability of skilled labour needs to improve (42%)
9. Knowledge of international markets needs to improve (39%)
10. Quality of products must improve (37%)
11. Quality of management needs to improve (37%)
12. Production capacity must increase (32%)
13. Product innovation needs to improve (21%)
14. Technology needs to improve (16%)
15. Access to finance needs to improve (11%)

Manufacturers of tooling components

1. Government support schemes must be accessed (83%)
2. Availability of skilled labour needs to improve (83%)
3. Government support schemes must be changed (60%)
4. Input costs must be reduced (50%)
5. International tariffs need to be reduced (50%)
6. Quality of products must improve (33%)
7. Customer service needs to improve (33%)
8. International demand need to be pursued (33%)
9. Knowledge of international markets needs to improve (33%)
10. Production capacity must increase (33%)
11. Quality of management needs to improve (33%)
12. Product innovation needs to improve (17%)
13. Technology needs to improve (17%)
14. Domestic demand need to be pursued (17%)

15. Access to finance needs to improve (17%)

Engineering

1. International demand need to be pursued (75%)
2. Input costs must be reduced (70%)
3. Domestic demand need to be pursued (67%)
4. Government support schemes must be changed (63%)
5. Production capacity must increase (60%)
6. Government support schemes must be accessed (57%)
7. Quality of management needs to improve (56%)
8. Availability of skilled labour needs to improve (56%)
9. Technology needs to improve (50%)
10. Product innovation needs to improve (44%)
11. Customer service needs to improve (44%)
12. Access to finance needs to improve (44%)
13. Quality of products must improve (38%)
14. International tariffs need to be reduced (38%)
15. Knowledge of international markets needs to improve (25%)

Manufacturers of other components

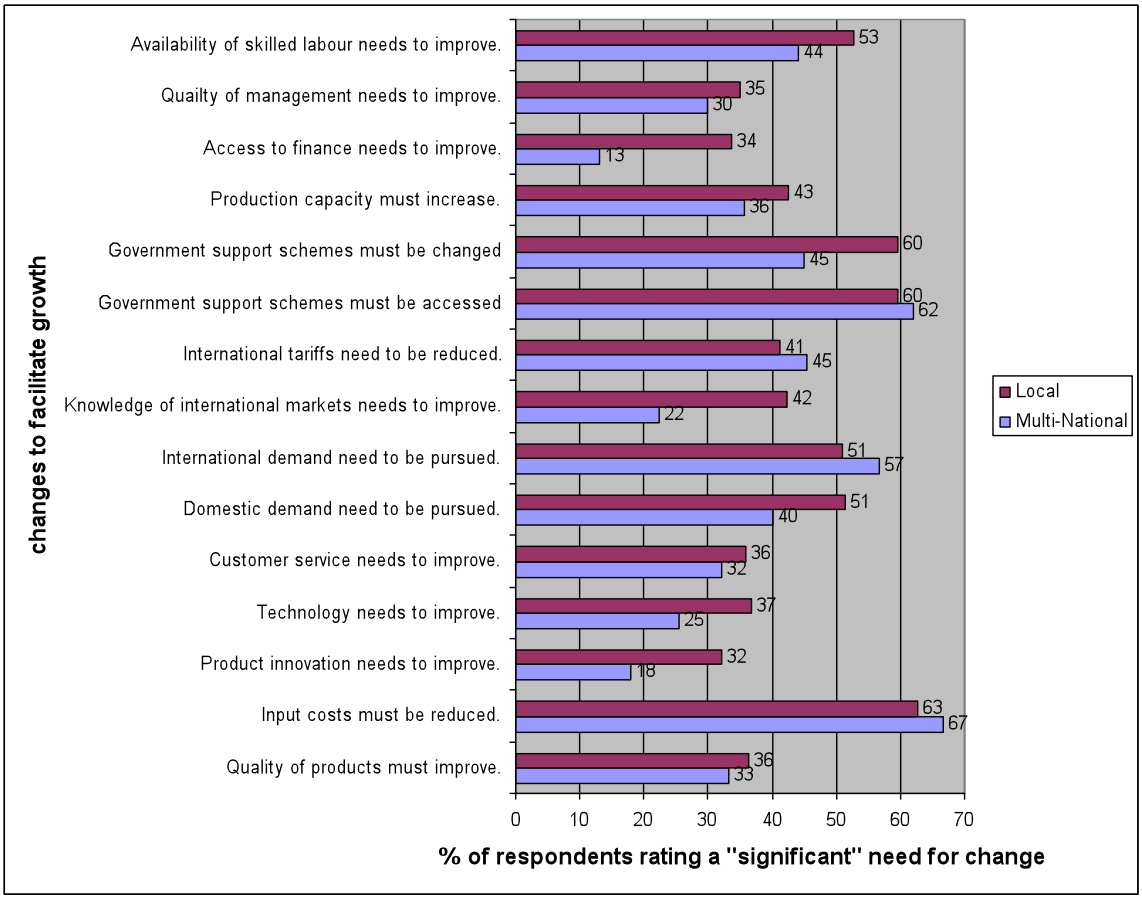
1. Input costs must be reduced (64%)
2. Availability of skilled labour needs to improve (53%)
3. International tariffs need to be reduced (52%)
4. Government support schemes must be accessed (52%)
5. Production capacity must increase (52%)
6. Domestic demand need to be pursued (45%)
7. International demand need to be pursued (45%)
8. Government support schemes must be changed (42%)
9. Knowledge of international markets needs to improve (40%)
10. Product innovation needs to improve (38%)
11. Technology needs to improve (34%)
12. Customer service needs to improve (34%)
13. Quality of products must improve (33%)
14. Access to finance needs to improve (31%)
15. Quality of management needs to improve (30%)

Reduction in input costs is the lead factor requiring change in the manufacturers of other components, tyres and wheels, steering, and transmission systems; and is secondary in significance in the interior components, engineering, body equipment, fuel supply and engines

categories. Pursuit of domestic demand is an extremely important factor requiring change to facilitate growth in the starting systems category, with access to and change of government support schemes being dominant in the interior components, body equipment, fuel supply, tooling, and engines categories. Availability of skilled labour is a leading factor in tooling, with pursuit of international demand taking a significant role in the engines and engineering categories.

5.2.4 Changes required to facilitate growth – per ownership structure

Figure 45: Local and multi-national companies' views on the need for change in various factors to facilitate growth



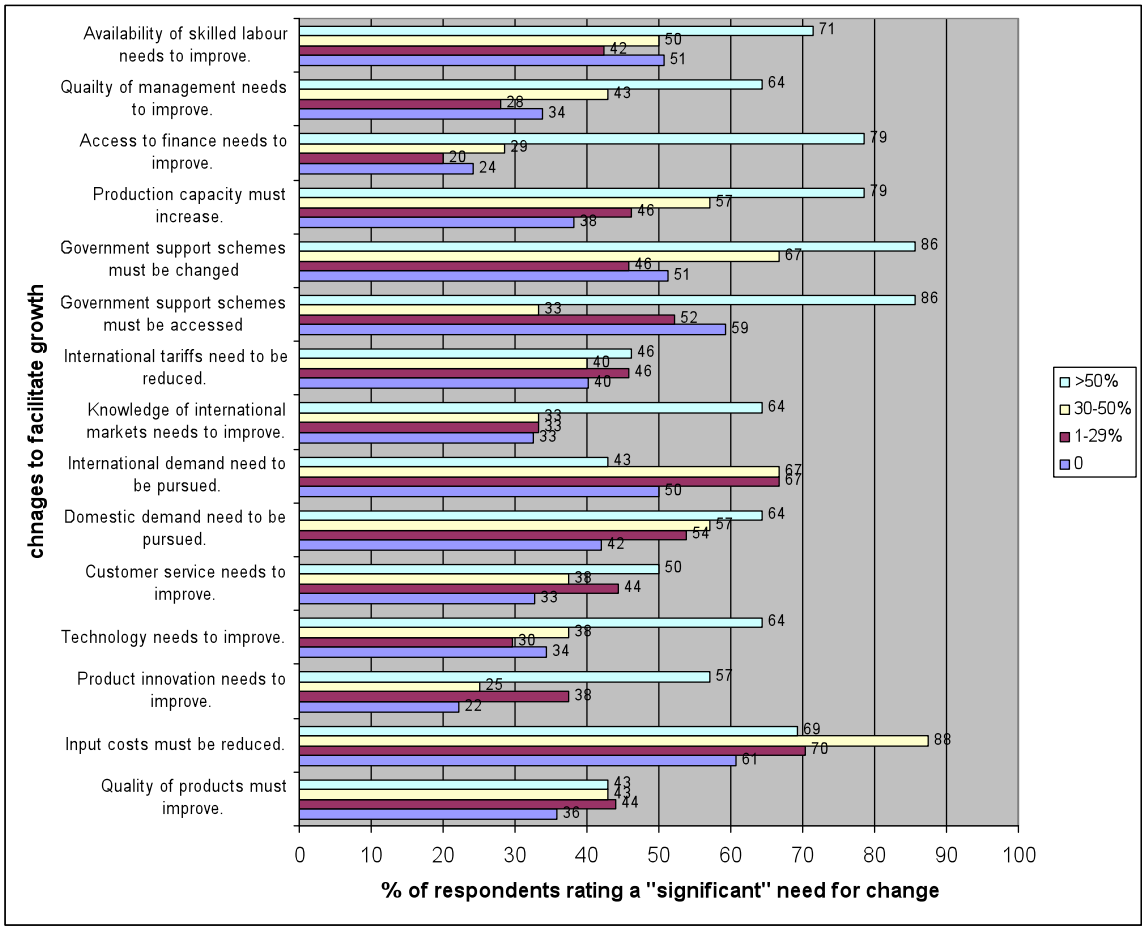
Multi-national and local companies rate most factors to be of similar importance relative to each other - the exceptions being access to finance, knowledge of international markets and product innovation which is not surprisingly rated of lesser importance by multi-nationals relative to local companies.

Both multi-national and local companies rate a reduction in input costs as a factor that requires significant change. Multi-national companies require government support schemes to be accessed, while local companies require these schemes to be accessed and changed as the second most important factors requiring change. In addition, local company's rate improved

availability of skilled labour and pursuit of international and domestic demand as significant factors requiring change to facilitate growth, whereas multi-nationals afforded such significance to the pursuit of international demand only.

5.2.5 Changes required to facilitate growth – per BEE status

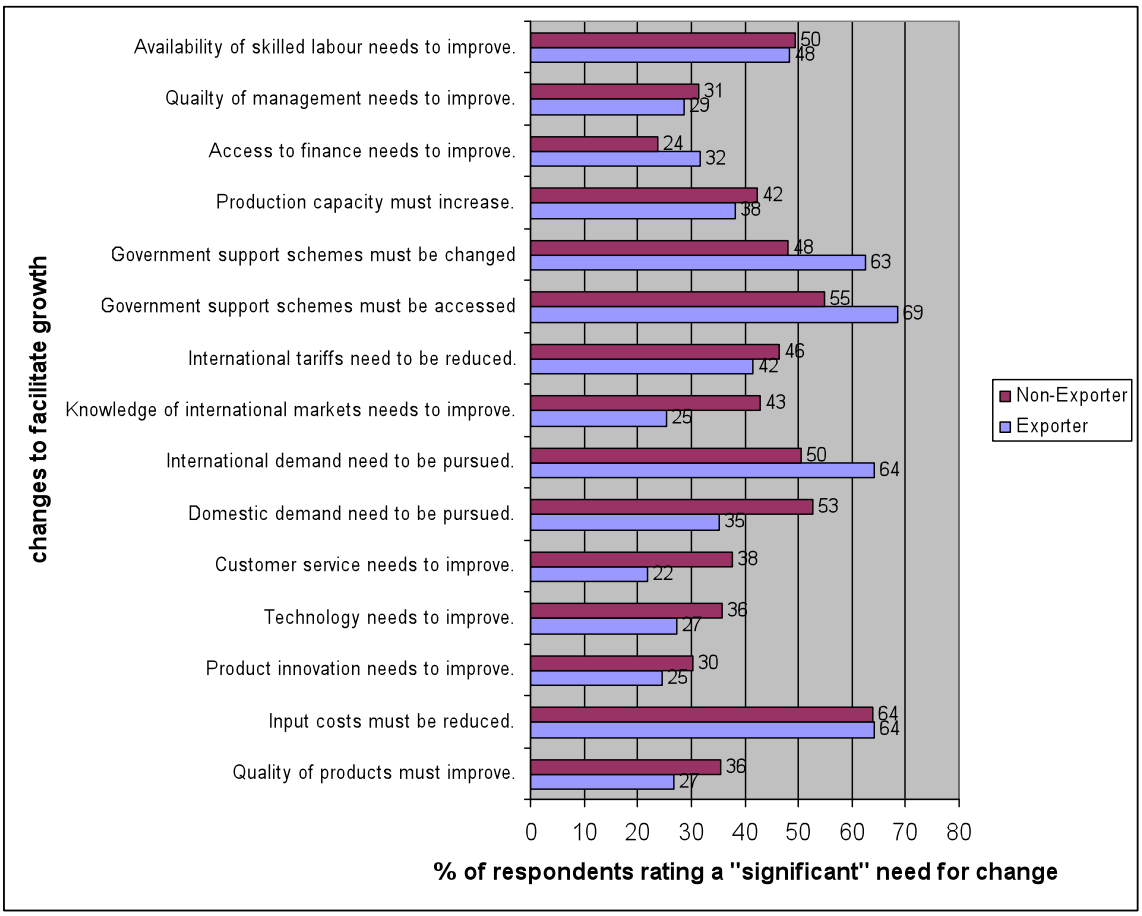
Figure 46: Companies' views on the need for change in various factors in facilitating growth by companies with 0%, 1-29%, 30-50% and >50% black ownership



>50% black-owned companies rated government support schemes access and changes to be of equal significance, with improved access to finance and increase in production capacity being a close second in terms of significance. Improved availability of skilled labour is also an important factor requiring change. A reduction in input cost was the most significant factor for 30-50%, 1-29%, and 0% black-owned companies. 30-50% black-owned companies afforded equal significance to the need for change in international demand pursuit and government support schemes, with 1-29% companies signalling out the pursuit of domestic demand as the third most significant factor following international demand pursuit. 0% BEE companies rated government support schemes access as the second most significant factor, followed by the availability of skilled labour and the change of government support schemes being afforded equal significance.

5.2.6 Changes in factors to facilitate growth – per export status

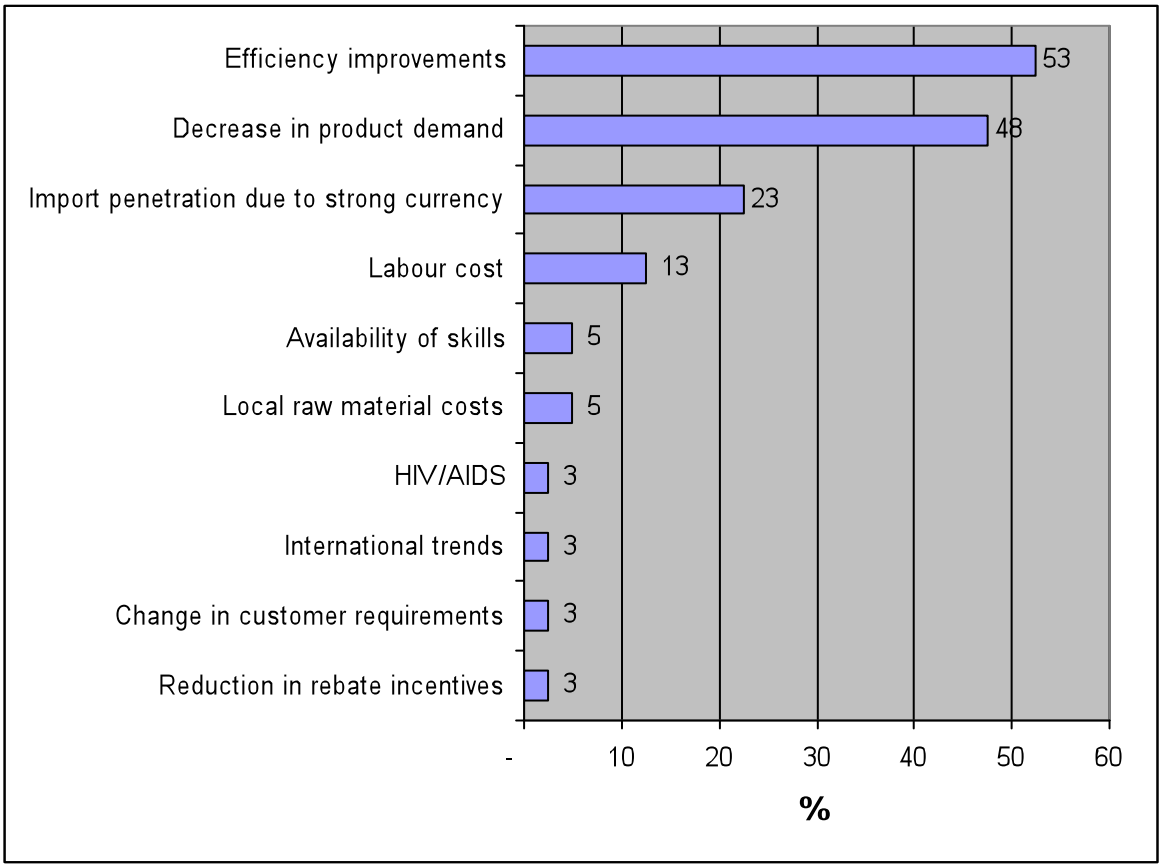
Figure 47: Exporters and non-exporters' views on the need for change in various factors to facilitate growth



Exporting companies viewed access to government support schemes as the most significant, closely followed by changes to international demand pursuit and input costs reduction as requirements to facilitate growth. A fair amount of significance was afforded to the need for government support schemes to be changed. Non-exporting companies rated a reduction in input costs as the most significant, followed by the need for improved access to government support systems. The pursuit of domestic and international demand and the availability of skilled labour were also rated as important factors requiring change to facilitate growth.

5.3 Factors contributing to employment decline

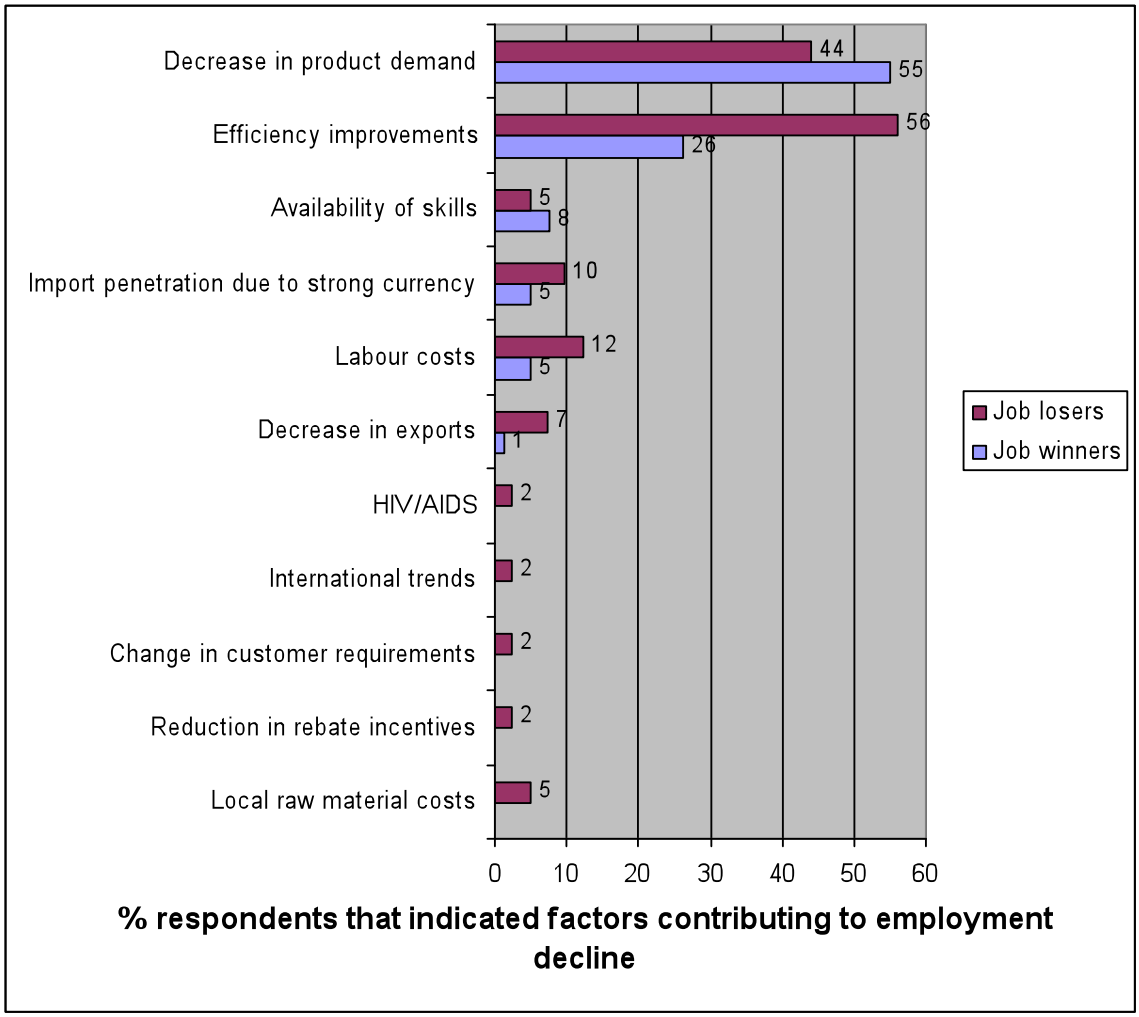
Figure 48: Factors contributing to employment decline



Various responses were grouped together to create the results represented in Figure 48. Decrease in product demand includes lower volumes, lost contract/business and competitive production facilities in China. The latter is attributed to globalisation and changing strategies, e.g. specialisation of a certain component in a specific country. To get a better understanding of the factors that cause employment growth, a closer look will be taken at how each of these factors affect companies in terms of the size of the company, product category, ownership structure, BEE status, as well as their export status.

5.3.1 Factors contributing to employment decline– per job winners and job losers

Figure 49: Factors contributing to employment decline - per job winners and job losers



Both job winners and job losers afford significance to decrease in product demand as a contributing factor to employment decline. Significance is also given to efficiency improvements, although job losers viewed this factor as more prevalent than job winners. Job losers also attributed labour costs as an additional contributing factor, while job winners signaled availability of skills as a significant factor succeeding decrease in product demand and efficiency improvements.

5.3.2 Factors contributing to employment decline– per size of company

Factors contributing to employment decline in micro companies

1. Decrease in product demand (100%)

Factors contributing to employment decline in small companies

1. Decrease in product demand (42%)
2. Improvement in efficiency (42%)
3. Labour cost (25%)
4. Import penetration due to strong currency (17%)
5. Local raw material costs (8%)
6. HIV/AIDS (8%)
7. Availability of skills (8%)

Factors contributing to employment decline in medium companies

1. Decrease in product demand (67%)
2. Improvement in efficiency (27%)
3. Import penetration due to strong currency (27%)
4. Labour cost (7%)
5. Local raw material costs (7%)
6. Reduction in rebate incentives (7%)
7. Change in customer requirements (7%)
8. International trends (7%)

Factors contributing to employment decline in large companies

1. Improvement in efficiency (100%)
2. Decrease in product demand (25%)
3. Import penetration due to strong currency (25%)
4. Labour cost (8%)
5. Availability of skills (8%)

Decrease in product demand affects SMMEs significantly in terms of employment decline, followed by efficiency improvements and import penetration due to strong currency. In the large companies, however, efficiency improvements is the lead contributing factor, followed by decrease in product demand and import penetration due to strong currency

5.3.3 Factors contributing to employment decline– per product category

Manufacturers of starting systems, ignition systems, electrical and electronic equipment and lighting

1. Decrease in product demand (100%)
2. Import penetration due to strong currency (25%)
3. Availability of skills (25%)

Manufacturers of engines

1. Improvement in efficiency (100%)

Manufacturers of fuel supply and exhaust systems

1. Decrease in product demand (50%)
2. Improvement in efficiency (50%)
3. Reduction in rebate incentives (50%)

Manufacturers of steering, suspension and braking system

1. Decrease in product demand (100%)
2. Improvement in efficiency (40%)
3. Labour cost (20%)

Manufacturers of tyres and wheels

1. Improvement in efficiency (100%)
2. Decrease in product demand (25%)
3. Import penetration due to strong currency (25%)

Manufacturers of body equipment

1. Decrease in product demand (50%)
2. Labour relations (50%)
3. Local raw material costs (50%)
4. Improvements in efficiency (25%)
5. Import penetration due to strong currency (25%)

Manufacturers of interior components

1. Improvement in efficiency (50%)
2. Decrease in product demand (38%)
3. Import penetration due to strong currency (25%)
4. Change in customer requirements (13%)
5. Availability of skills (13%)

Manufacturers of tooling components

1. Improvement in efficiency (100%)

Engineering

1. Decrease in product demand (33%)
2. Labour cost (33%)
3. Import penetration due to strong currency (33%)
4. HIV/AIDS (33%)

Manufacturers of other components

1. Improvement in efficiency (50%)
2. Import penetration due to strong currency (50%)
3. Decrease in product demand (33%)
4. International trends (17%)

Decrease in product demand is the lead contributing factor to employment decline in 50% of the product categories, with efficiency improvement being the lead factor in the remaining 50% (and being the sole contributing factor to decline in the engine and tooling components manufacturing categories). Decrease in product demand and improvement in efficiency consequently predominantly serve as the top 2 contributing factors, with labour relations and import penetration due to strong currency being common contributing factors. Reduction in rebate incentives (in the manufacturers of fuel supply and exhaust systems) and local raw material costs (in the manufacturers of body equipment) are important contributing factors in their product categories.

5.3.4 Factors contributing to employment decline– per ownership structure

Factors contributing to employment decline in multi-national companies

1. Improvement in efficiency (77%)
2. Decrease in product demand (43%)
3. Import penetration due to strong currency (23%)
4. Availability of skills (15%)
5. Labour cost (8%)
6. Reduction in rebate incentives (8%)
7. Change in customer requirements (8%)

Factors contributing to employment decline in local companies

1. Decrease in product demand (48%)
2. Improvement in efficiency (40%)
3. Import penetration due to strong currency (24%)
4. Labour cost (16%)
5. Local raw material costs (8%)
6. HIV/AIDS (4%)

Efficiency improvements, decrease in product demand, and import penetration due to strong currency are among the top 3 factors contributing to employment decline. However, local companies indicate decrease in product demand to be the most significant, while multi-national companies indicate efficiency improvements to be their most significant factor.

5.3.5 Factors contributing to employment decline – per BEE status

Factors contributing to employment decline in companies with 0% black ownership

1. Improvement in efficiency (58%)
2. Decrease in product demand (50%)
3. Import penetration due to strong currency (21%)
4. Labour cost (13%)
5. Local raw material costs (8%)
6. Reduction in rebate incentives (4%)
7. Change in customer requirements (4%)
8. HIV/AIDS (4%)
9. Availability of skills (4%)

Factors contributing to employment decline in companies with 1 - 29% black ownership

1. Improvement in efficiency (64%)
2. Decrease in product demand (45%)
3. Labour cost (18%)
4. International trends (9%)
5. Availability of skills (9%)

Factors contributing to employment decline in companies with >50% black ownership

1. Import penetration due to strong currency (100%)
2. Decrease in product demand (33%)

Companies with 0% and 1-29% black ownership exhibited similar contributions to employment decline as a result of improvement in efficiency, followed by decrease in product demand. Companies with 0% black ownership also experience import penetration due to strong currency, while companies with 1-29% black ownership experience labour relations as one of the top 3 contributing factors. Companies with <50% black ownership find import penetration due to strong currency a very strong contributing factor, with decrease in product demand also contributing, albeit not as significantly, to employment decline.

5.3.6 Factors contributing to employment decline – per export status

Factors contributing to employment decline in exporting companies

1. Decrease in product demand (54%)
2. Import penetration due to strong currency (46%)
3. Improvement in efficiency (38%)
4. Local raw material costs (8%)
5. Reduction in rebate incentives (8%)

6. Change in customer requirements (8%)
7. Availability of skills (8%)

Factors contributing to employment decline in non-exporting companies

1. Improvement in efficiency (58%)
2. Decrease in product demand (46%)
3. Labour cost (19%)
4. Import penetration due to strong currency (12%)
5. Local raw material costs (4%)
6. International trends (4%)
7. HIV/AIDS (4%)
8. Availability of skills (4%)

Decrease in product demand and efficiency improvements are indicated by exporters and non-exporters as being among the top 3 contributing factors. Exporters are more affected by import penetration due to strong currency than non-exporters are, while labour relations is quite a significant contributing factor according to non-exporters.

5.4 Factors that affect the ability to employ more people

Figure 50: Factors that affect the ability to employ more people

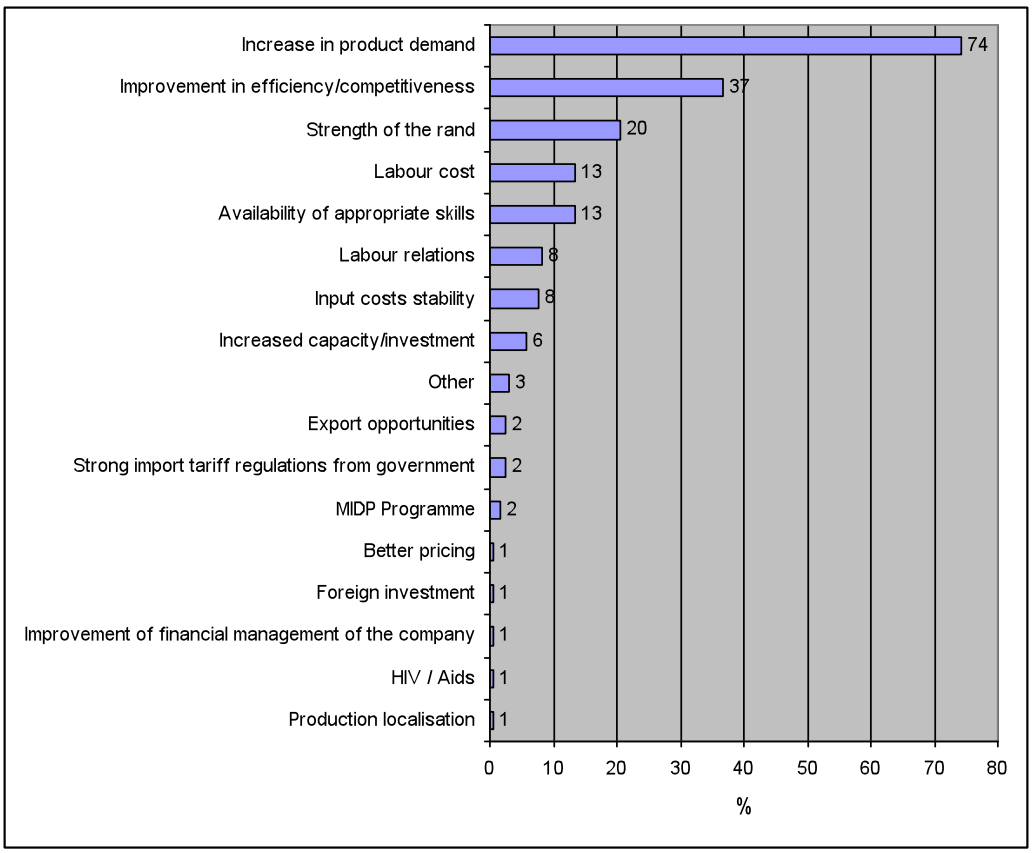
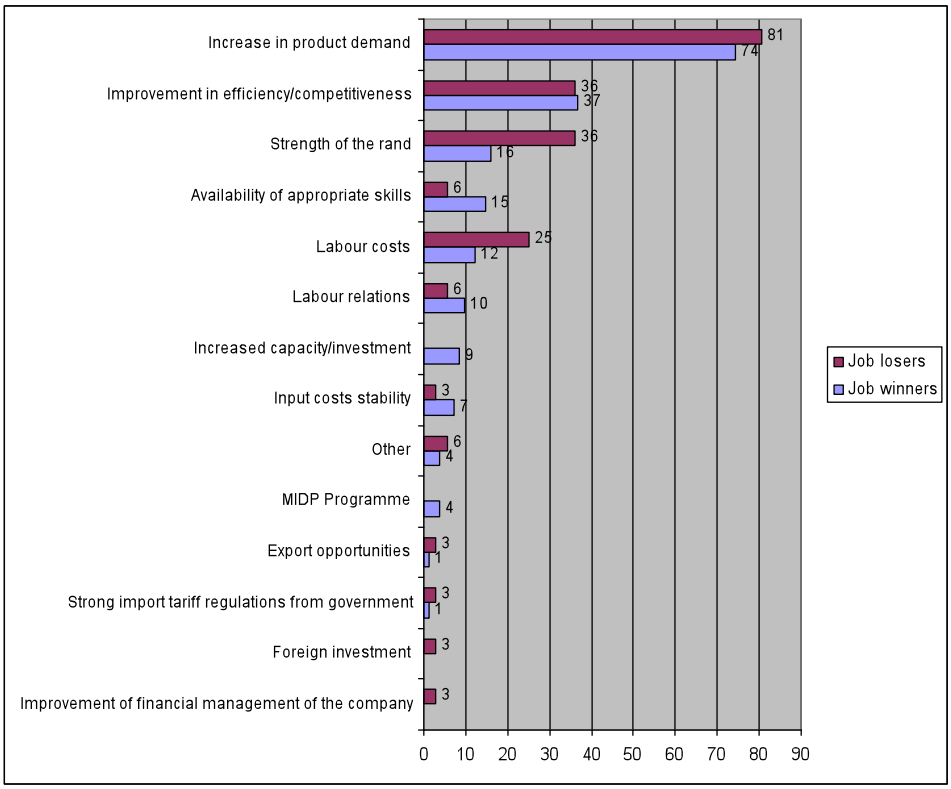


Figure 50 indicates the factors that affect the ability of a company to employ more people. Increased capacity includes increase in shifts, increased capital investment and expansion of products. Decrease in product demand includes new models that require fewer components. These factors are further broken down into factors that affect the ability of growing companies to employ more people and factors that affect the ability of shrinking companies to employ more people. Each of these two sections will deal with how the factors affect the companies in terms of size of the company, product category, ownership structure, BEE status, and export status.

5.4.1 Factors that affect the ability of companies to employ more people – per job winners and job losers

Figure 51: Factors that affect the ability of companies to employ more people - per job winners and job losers



Increase in product demand and improvement in efficiency/competitiveness are the primary and secondary most important factors (respectively) contributing to the ability of companies to employ more people among both job losers and job winners. The third most significant factor contributing to this employment ability is Rand strength, although this factor is more prevalent among job losers. In addition, availability of appropriate skills was viewed as a significant contributing factor among job winners, with job losers affording significance to labour costs.

5.4.2 Factors that affect the ability of companies to employ more people – per size of company

Factors that affect the ability of micro companies to employ more people

1. Increase in product demand (60%)
2. Improvement in efficiency/competitiveness (27%)
3. Labour relations (20%)
4. Availability of appropriate skills (13%)
5. Strength of the Rand (13%)
6. Input costs stability (7%)
7. Strong import tariff regulations (7%)

8. Increased capacity/investment (7%)
9. Other (7%)
10. Export opportunities (1%)
11. Labour cost (1%)

Factors that affect the ability of small companies to employ more people

1. Increase in product demand (68%)
2. Improvement in efficiency/competitiveness (33%)
3. Strength of the rand (20%)
4. Availability of appropriate skills (10%)
5. Increased capacity/investment (10%)
6. Labour relations (8%)
7. Labour cost (4%)
8. HIV / Aids (3%)
9. Other (3%)
10. Export opportunities (1%)

Factors that affect the ability of medium companies to employ more people

1. Increase in product demand (78%)
2. Improvement in efficiency/competitiveness (34%)
3. Strength of the rand (20%)
4. Input costs stability (11%)
5. Labour relations (9%)
6. Availability of appropriate skills (8%)
7. Labour cost (8%)
8. Increased capacity/investment (5%)
9. Strong import tariff regulations from government (4%)
10. Other (3%)
11. MIDP Programme (1%)
12. Improvement of financial management of the company (1%)
13. Export opportunities (1%)

Factors that affect the ability of large companies to employ more people

1. Increase in product demand (85%)
2. Improvement in efficiency/competitiveness (56%)
3. Availability of appropriate skills (33%)
4. Strength of the rand (22%)
5. MIDP Programme (7%)
6. Labour relations (4%)
7. Foreign investment (4%)

8. Other (4%)
9. Labour cost (1%)

Increase in product demand is the lead factor that affects the ability of all companies to employ more people, but contributes most significantly in medium and large companies. Improvement in efficiency/competitiveness is the second most prevalent contributing factor, but is most significant in large companies. Labour relations are also an important contributing factor in all companies except large corporations, with Rand strength playing a general contributing role. In addition, availability of appropriate skills is particularly prevalent in large companies.

5.4.3 Factors that affect the ability of companies to employ more people – per product category

Manufacturers of starting systems, ignition systems, electrical and electronic equipment and lighting

1. Increase in product demand (92%)
2. Labour relations (15%)
3. Availability of appropriate skills (15%)
4. Other (15%)
5. Improvement in efficiency/competitiveness (8%)
6. Strength of the rand (8%)
7. Labour cost (2%)

Manufacturers of engines

1. Increase in product demand (69%)
2. Improvement in efficiency/competitiveness (38%)
3. Labour relations (15%)
4. Strength of the rand (15%)
5. Availability of appropriate skills (8%)
6. Increased capacity/investment (8%)
7. Improvement of financial management of the company (8%)
8. Export opportunities (1%)
9. Labour cost (1%)

Manufacturers of fuel supply and exhaust systems

1. Increase in product demand (69%)
2. Improvement in efficiency/competitiveness (50%)
3. Increased capacity/investment (25%)
4. Availability of appropriate skills (13%)
5. Strength of the rand (13%)

6. MIDP Programme (13%)
7. Input costs stability (6%)
8. Labour relations (6%)
9. Labour cost (1%)

Manufacturers of transmission systems

1. Increase in product demand (100%)
2. Improvement in efficiency/competitiveness (43%)
3. Availability of appropriate skills (43%)
4. Strength of the rand (29%)

Manufacturers of steering, suspension and braking system

1. Increase in product demand (65%)
2. Improvement in efficiency/competitiveness (65%)
3. Strength of the rand (20%)
4. Availability of appropriate skills (15%)
5. Input costs stability (10%)
6. Strong import tariff regulations from government (5%)
7. Increased capacity/investment (5%)
8. Labour relations (5%)
9. Labour cost (2%)

Manufacturers of tyres and wheels

1. Improvement in efficiency/competitiveness (71%)
2. Increase in product demand (43%)
3. Availability of appropriate skills (29%)
4. Labour relations (29%)
5. Strength of the rand (29%)
6. HIV / Aids (14%)
7. Export opportunities (1%)

Manufacturers of body equipment

1. Increase in product demand (71%)
2. Strength of the rand (21%)
3. Input costs stability (21%)
4. Improvement in efficiency/competitiveness (7%)
5. Strong import tariff regulations from government (7%)
6. Other (7%)
7. Labour cost (3%)

Manufacturers of interior components

1. Increase in product demand (88%)
2. Strength of the rand (44%)
3. Improvement in efficiency/competitiveness (19%)
4. Labour relations (13%)
5. Availability of appropriate skills (6%)
6. Input costs stability (6%)
7. MIDP Programme (6%)
8. Strong import tariff regulations from government (6%)
9. Foreign investment (6%)
10. Export opportunities (1%)
11. Labour cost (1%)

Manufacturers of tooling components

1. Increase in product demand (100%)
2. Availability of appropriate skills (50%)
3. Labour cost (1%)

Engineering

1. Strength of the rand (50%)
2. Improvement in efficiency/competitiveness (33%)
3. Increase in product demand (17%)
4. Availability of appropriate skills (17%)
5. Input costs stability (17%)
6. Other (17%)
7. Export opportunities (1%)
8. Labour cost (1%)

Manufacturers of other components

1. Increase in product demand (79%)
2. Improvement in efficiency/competitiveness (39%)
3. Labour relations (12%)
4. Strength of the rand (15%)
5. Availability of appropriate skills (9%)
6. Increased capacity/investment (9%)
7. Input costs stability (3%)
8. Strong import tariff regulations from government (3%)
9. Other (3%)
10. Labour cost (1%)

Increase in product demand is the leading contributing factor that affects the ability of 9 out of the 11 product categories to employ more people, with particular contributing significance in the manufacturers of: starting systems, ignition systems, electrical and electronic equipment, and lighting; transmission systems; interior components; and tooling components. This factor plays a secondary contributing role in the remaining two sectors, which exhibit improvement in efficiency/competitiveness as the lead factor (this factor, in turn, plays a secondary contributing role in 4 of the 9 categories). Labour relations also plays an important role in most categories, with availability of appropriate skills and Rand strength also forming an important factor, particularly with regards to manufacturers of tooling components and engineering respectively.

5.4.4 Factors that affect the ability of companies to employ more people – per ownership structure

Factors that affect the ability of multi-national companies to employ more people

1. Increase in product demand (93%)
2. Improvement in efficiency/competitiveness (47%)
3. Strength of the rand (15%)
4. Availability of appropriate skills (13%)
5. MIDP Programme (5%)
6. Increased capacity/investment (5%)
7. Labour relations (5%)
8. Labour cost (5%)
9. Input costs stability (3%)
10. Strong import tariff regulations from government (2%)
11. Foreign investment (2%)
12. Export opportunities (1%)

Factors that affect the ability of local companies to employ more people

1. Increase in product demand (63%)
2. Improvement in efficiency/competitiveness (28%)
3. Strength of the rand (26%)
4. Input costs stability (12%)
5. Availability of appropriate skills (11%)
6. Labour relations (9%)
7. Labour cost (9%)
8. Increased capacity/investment (6%)
9. Other (4%)

10. Strong import tariff regulations from government (3%)
11. Export opportunities (2%)
12. Production localisation (1%)
13. Improvement of financial management of the company (1%)
14. Better pricing (1%)

Increase in product demand is the most significant contributing factor in both multi-national and local companies, but is particularly prevalent in multi-nationals. Labour relations is the third most significant contributing factor across both company types with the second most significant factor exhibiting a difference: improvement in efficiency/competitiveness is more prevalent in multi-nationals, with Rand strength playing a more significant contributing role to the ability of local companies to employ more people.

5.4.5 Factors that affect the ability of companies to employ more people – per BEE status

Factors that affect the ability of companies with 0% black ownership to employ more people

1. Increase in product demand (73%)
2. Improvement in efficiency/competitiveness (40%)
3. Strength of the rand (21%)
4. Availability of appropriate skills (13%)
5. Input costs stability (9%)
6. Labour cost (9%)
7. Labour relations (8%)
8. Increased capacity/investment (7%)
9. Other (3%)
10. MIDP Programme (2%)
11. Export opportunities (2%)
12. Strong import tariff regulations from government (1%)
13. Improvement of financial management of the company (1%)
14. Foreign investment (1%)

Factors that affect the ability of companies with 1-29% black ownership to employ more people

1. Increase in product demand (81%)
2. Improvement in efficiency/competitiveness (39%)
3. Availability of appropriate skills (23%)
4. Strength of the rand (19%)
5. Labour relations (10%)
6. Strong import tariff regulations from government (6%)

7. Labour cost (4%)
8. Input costs stability (3%)
9. MIDP Programme (3%)
10. HIV / Aids (3%)

Factors that affect the ability of companies with 30-50% black ownership to employ more people

1. Increase in product demand (71%)
2. Improvement in efficiency/competitiveness (43%)
3. Availability of appropriate skills (43%)
4. Labour relations (29%)
5. Strength of the rand (14%)
6. Production localisation (14%)
7. HIV / Aids (14%)
8. Labour cost (2%)

Factors that affect the ability of companies with >50% black ownership to employ more people

1. Increase in product demand (54%)
2. Increased capacity/investment (23%)
3. Improvement in efficiency/competitiveness (15%)
4. Strength of the rand (15%)
5. Availability of appropriate skills (8%)
6. Strong import tariff regulations from government (8%)
7. Better pricing (8%)
8. Labour relations (8%)
9. Labour cost (1%)

Increase in product demand is the leading contributing factor in the ability of all companies (regardless of BEE status) to employ more people. Improvement and efficiency/competitiveness is the second most significant contributing factor in 0% and 1-29% black-owned companies, with labour relations equaling increase in product demand in terms of significance in companies exhibiting 30-50% black ownership. Labour relations are also a contributing factor in companies with 0% and 1-29% black ownership. Availability of appropriate skills contributed in 1-29% and 30-50% black-owned companies, with increased capacity/investment playing a significant role in >50% black-owned companies.

5.4.6 Factors that affect the ability of companies to employ more people – per export status

Factors that affect the ability of exporting companies to employ more people

1. Increase in product demand (71%)
2. Improvement in efficiency/competitiveness (48%)
3. Strength of the rand (40%)
4. Input costs stability (13%)
5. Availability of appropriate skills (8%)
6. Increased capacity/investment (4%)
7. Labour cost (4%)
8. Other (4%)
9. Strong import tariff regulations from government (2%)
10. Labour relations (2%)
11. Export opportunities (1%)

Factors that affect the ability of non-exporting companies to employ more people

1. Increase in product demand (78%)
2. Improvement in efficiency/competitiveness (31%)
3. Availability of appropriate skills (16%)
4. Strength of the rand (11%)
5. Labour relations (11%)
6. Labour cost (9%)
7. Increased capacity/investment (7%)
8. Input costs stability (3%)
9. MIDP Programme (3%)
10. Strong import tariff regulations from government (3%)
11. Other (3%)
12. Export opportunities (2%)
13. HIV / Aids (1%)
14. Foreign investment (1%)

Increase in product demand is the leading factor among exporters and non-exporters, followed by improvement in efficiency/competitiveness. Non-exporters exhibited labour relations as an additional contributing factor, while exporting companies indicated Rand strength as a factor in their ability to employ more people.

6 Drivers and inhibitors of employment growth (OEMs)

The OEMs interviewed only answered selected questions and therefore the response rate is limited.

6.1 Factors contributing to employment growth

The following table indicates the factors that OEM job winners consider to be significant factors contributing to employment growth.

Table 27: Factors that contribute to employment growth as per OEM

Factors contributing to employment growth	**OEM 1**	**OEM 2**	**OEM 3**
	Job Winner	Job Winner	Job Winner
Increase in product demand	*		*
Improvement in efficiency			*
Increase in exports		*	
Increase in capacity		*	
Labour legislation	*		

6.2 Factors contributing to employment decline

The following table indicates the factors that OEM job losers indicate as significant factors that contribute to employment decline.

Table 28: Factors that contribute to employment decline as per OEM

Factors contributing to employment decline	**OEM 4**	**OEM 5**
	Job Loser	Job Loser
Decrease in product demand		*
Efficiency improvements	*	*
Labour cost	*	
Availability of skills		*
Natural attrition		*

6.3 Changes in factors to facilitate growth

The following table indicates the factors that various OEMs indicate as factors need to change to facilitate growth.

Table 29: Changes in factors to facilitate growth as per OEM

Changes in factors to facilitate growth	**OEM 1**	**OEM 2**	**OEM 4**	**OEM 5**
	Job Winner	Job Winner	Job Loser	Job Loser
Quality of products must improve		*	*	*
Input costs must be reduced	*	*	*	*
Technology needs to improve			*	*
Customer service needs to improve		*	*	*
Domestic demand need to be pursued				*
International demand need to be pursued.	*	*	*	*
Knowledge of international markets needs to improve.		*	*	*
International tariffs need to be reduced.		*	*	*
Government support schemes must be accessed	*	*	*	
Government support schemes must be changed	*		*	*
Production capacity must increase.		*		*
Access to finance needs to improve.				*
Quality of management needs to improve.		*	*	*
Availability of skilled labour needs to improve.		*	*	*

** Significant factor*

OEMs afforded equal significance to input cost reduction and the pursuit of international demand as the leading factors requiring change in order to facilitate growth.

6.4 Factors that affect the ability to employ

The following table indicates the factors that various OEMs indicate as factors that affect the ability to employ more people.

Table 30: Factors that affect the ability to employ as per OEM

Factors that affect the ability to employ	**OEM 1**	**OEM 2**	**OEM 3**	**OEM 4**	**OEM 5**
	Job Winner	Job Winner	Job Winner	Job Loser	Job Loser
Increase in product demand	*		*	*	*
Improvement in efficiency/competitiveness					*
Availability of appropriate skills					*
Labour cost				*	
Strength of the rand	*				
Export opportunities		*			

7 Qualitative Findings

The qualitative findings from in depth interviews with approximately 25 companies operational within the industry, as well as other industry stakeholders, are summarised in this section. This section reflects the combined views and perceptions of these respondents and is therefore purely a summary of issues raised by industry. These issues were considered alongside those raised by other stakeholders (government, organised labour) in order to reach meaningful conclusions presented in the final section of the report.

7.1 Regulatory and policy environment

7.1.1 *MIDP* and other government support programmes and activities

There is a general agreement that the MIDP has contributed immensely to the development of the industry. There is general consensus among industry players about the positive role of the MIDP in creating a sustainable automotive industry. However, there are a few concerns raised, including:

- Concern about absence of a formal long-term strategy with regards to the MIDP
- Concern about CBU imports
- Concern about import penetration without MIDP
- Concern about creation of artificially competitive upstream industries (e.g. leather)

The MIDP is generally seen to be positive but the lack of a long term strategy remains a reason for concern because of the uncertainty surrounding the long term existence of the MIDP. Concern was raised that the MIDP is potentially not compliant to WTO rules, and South Africa could be forced to abandon the MIDP if challenged at the WTO. Policy stability is seen to be a key factor in the future to ensure sustainable growth in the industry.

Interviewees indicated that other government support programmes are generally adequate, with the exception of incentives for capital investment, and for the development side of R&D. In terms of incentives for capital investment, there appears to be a particular need for more capital investment support and it is questioned whether the foreign investment grant (FIG) and PAA are sufficient. The Productive Asset Allowance (PAA) is perceived to be ineffective in that credits can not be freely sold to other companies Component manufacturers noted that it is a challenge to use the PAA and that they are excluded in terms of certain criteria on some of the other government

schemes. It was also consistently mentioned that there is room for improvement in terms of administration.

*Industry support through the AIDC and TISA is seen in a positive light and b*oth these organisations are regarded by industry as having positive roles, with AIDC particularly influencing smaller companies

7.1.2 Labour legislation and labour relations

A number of companies indicated that labour legislation is not flexible enough which results in an increase in non-permanent employees. With one notable exception, companies do not follow a deliberate strategy of moving to non-permanent employment (utilised for production smoothing), but most indicated that inflexible labour legislation do contribute to an increase in non-permanent employees. Companies that utilise labour brokers all indicated that they make sure they are acting according to labour legislation.

7.1.3 BEE

The industry in general has embraced BEE but expressed concern over the ability of multinationals to comply with rules of ownership and shareholding.

7.2 Supply-side factors

7.2.1 *Input costs*

Some domestic commodity producers base their domestic prices for commodities such as steel, aluminum, polymer etc. on import parity pricing, which sets the local price by taking an international benchmark price and adding the costs of international and domestic freight charges, as well as any duties.. Raw material prices, e.g. aluminium, polymers and stainless steel were consistently raised as a major negative factor.. Companies feel so strongly about this that they are accusing various raw material suppliers of excessive pricing. Strong opinions were also expressed to indicate that much more can be done to collectively negotiate lower prices (e.g. bulk buying arrangements with steel merchants).

The cost of electricity and certain infrastructure (land, buildings) are seen to be a positive contributing factor to manufacturing competitiveness. The following were additional points raised in qualitative interviews with regards to infrastructure:

- Port operations have improved considerably, but further improvement is still required
- Improved and cost effective rail operations could potentially be a positive factor is light of high road transport costs

- A number of companies also indicated that minimum wages level at bottom end could be too high, and is preventing employment creation at lowest occupational categories.

7.2.2 *Skills*

Companies indicated that there is a continuous need to increase the skill level of workers at all levels, and that employment in sometimes constrained by the lack of skills available in the labour market. There are specifically shortages of artisans and basic engineering skills in the industry. It was also indicated that skilled workers for the tool making industry are virtually non-existent. However, there are some companies that have apprenticeship programmes to alleviate this problem.

7.3 Demand-side factors

7.3.1 *Domestic market and import penetration*

Companies in general are of the opinion that the domestic vehicle market will always be too small to sustain the automotive industry, although the increases in vehicle sales currently being experienced is welcomed.

Companies however indicated that they are experiencing increased levels of import penetration in the domestic market, mainly due to two factors. The first factor is the strengthening of the Rand which as reduced the cost of imports and the second is imports from low cost producers in China, Brazil etc. With regards to the latter there are conflicting views as to whether the utilisation of tariffs (minimum binding GATT) should be involved as a defence mechanism. On the one hand there is a view that the utilisation of tariffs will be a step backwards in the quest for global competitiveness as it could create artificially competitive industries. On the other hand there is a view that it could be used as a protective mechanism as companies come to terms with the challenges of global competitiveness.

Some companies also indicated that the current levels of CBU imports are reaching unacceptable levels and that the MIDP need to be reviewed as it is the primary driver of CBU imports.

7.3.2 Export market

Companies are of the opinion that the MIDP has greatly facilitated export growth, and without a sustainable export market, the automotive manufacturing industry will not be sustainable. A number of concerns were however expressed:

- Exporters indicated that export markets are being eroded due to the strong Rand, and that it will be difficult to recapture

- Exports are highly concentrated amongst a few products and that policies must be put into place that will result in broader participation in exports

- The global procurement strategies being follows by OEM's require economies of scale, international presence and large investment in R&D. Companies are of the opinion that it will be difficult for most domestic manufacturers to become global players unless they form strong linkages with large multinational companies

7.4 Manufacturing Competitiveness

Significant improvements have been made to become competitive in terms of quality, cost, and to an extent price. Price competitiveness is an on-going issue and relates to efficiencies and economies of scale (in most instances). A key issue regarding competitiveness *is integration into the international value chain* OEM's are reducing suppliers, have global purchasing policies, and are increasingly giving suppliers more responsibility for design. There is a general consensus in the industry that without international technology agreements, micro, small and medium sized companies will struggle. International ownership provides competitive advantages in aspects such as marketing and technology.

Companies in general did not raise access to finance as an inhibiting factor, but did indicate that there should be more government support for capital investment, as earlier discussed.

8 Conclusions

The conclusions of this study draws on the secondary research of prior work, the extensive quantitative research conducted, the qualitative interviews, as well as a stakeholder workshop where the findings of the study were discussed.

The conclusions section comprises three sections

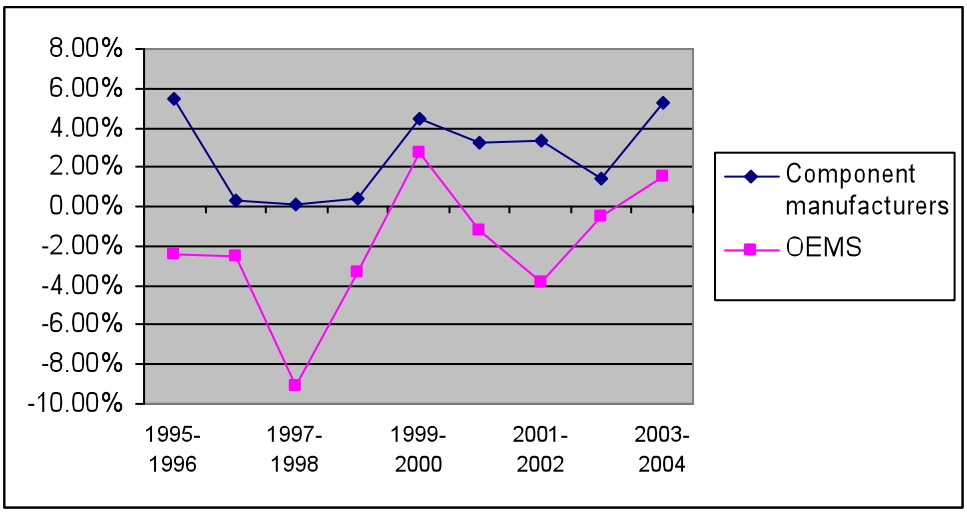
- The first section concludes employment trends in terms of historical change to the absolute number of employees, the concentration of gains/losses across the industry, and trends in the structure of employment. It also identifies three key macro-level drivers of these trends.
- The second section concludes the key factors that are currently, and in future will be inhibiting/driving growth and employment creation. Areas of concern are identified and suggestions of possible intervention are made. This section covers the total landscape as follows:
    - Supply-side considerations
    - Sectoral and structural considerations
    - Operational (manufacturing) considerations
    - Demand-side considerations
    - Operating environment considerations
- The final section summarised key trends over the last decade, considering all factors researched

8.1 Employment trends

8.1.1 Employment levels over the last decade

This study found that the automotive industry as a whole has been successful in creating employment over the last decade, albeit marginal. . In 1995 the automotive industry employed 102 164 people. This figure has increased to 111 063 in 2004 While there has been increased employment by component manufacturers over the last decade, OEM employment declined, especially between 1995 and 1998

Figure 52: Historical employment growth trends



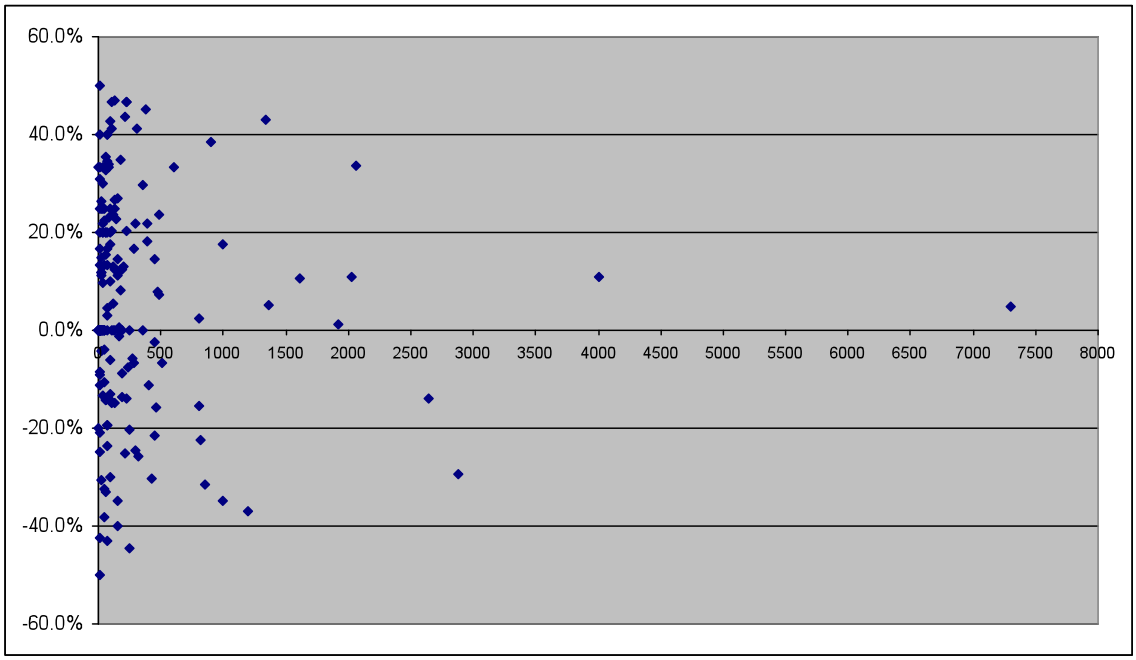
The success in developing the automotive industry over the last decade, and the resultant overall employment gains can generally be ascribed to three primary factors:

- **The MIDP** which has ensured globally integrated and competitive OEM and first tier supplier manufacturing, facilitated exports through the export credit system, and lead to increased economies of scale and efficiency improvement through product rationalisation
- **Increased globally competitive manufacturing.** As the South African economy opened-up after 1994 companies had to content not only with highly efficient global competitors but also with reduced tariff protection. This resulted in extensive cost-cutting and rationalisation programmes up until 1998. The sustained increased in employment growth after that period, especially by component manufacturers is testimony to the fact that the industry, by-and-large are coming to terms with operating in a global environment.
- **Macro economic influences.** Macro-economic stability over the last decade, sustained economic growth, reduced interest rates, and for many years an exchange rate favourable for exports have also contributed to the development of the industry.

8.1.2 Concentration of job gains/losses across the industry (2001 – 2004)

A second important conclusion is that employment gains were not driven by a handful of companies. Although the next figure shows that although many companies did shed jobs, there were more companies that reported job gains over the period 2001-2004

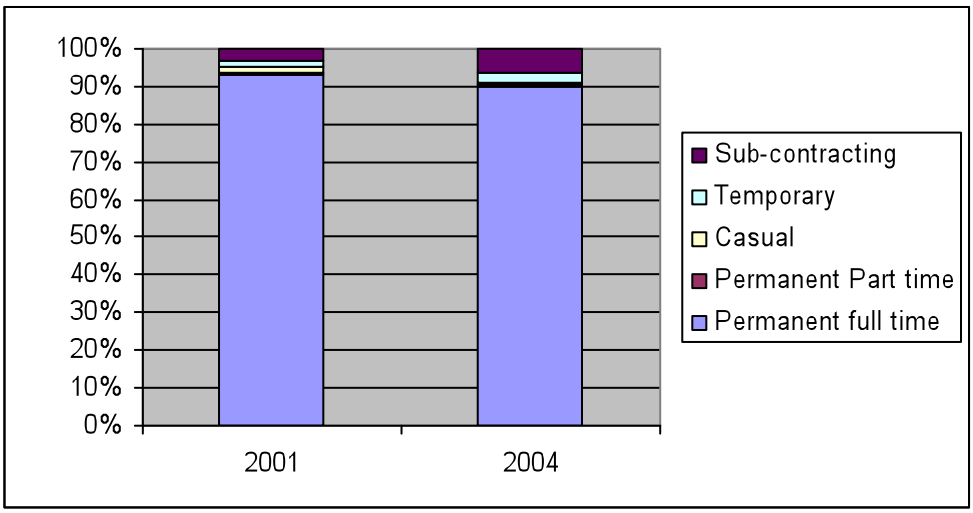
Figure 53: Employment growth percentage per company size, 2001-2004



8.1.3 Structure of employment (2001-2004)

Although this study identified an increase in non-permanent employment over the last 3 years, as can be seen from Figure 54, care must be taken with the interpretation thereof.

Figure 54: Changes in structure of employment



When the sampled absolute change in number of employees per employment category is investigated (Table 31) two important conclusions are apparent. Firstly that absolute permanent employment did not decrease as a result of an increase in non-permanent employees, and more important, that four companies (3 OEM's and one large component manufacturer) were responsible for 76% of the increase in non-permanent employment of the companies surveyed Although the utilisation of non-permanent staff is an industry-wide practice to cater for production peaks and valleys, it does not appear to be an industry wide strategy to employ more people on a non-permanent basis.

Table 31: Employment trends: structure of employment

	2001	**2004**
Permanent full time	49 476	52 118
Permanent part time	212	364
Casual	701	384
Temporary	807	1 268
Subcontracting	1 597	3 509
Total	52 793	57 643

8.2 Key considerations for the future development of the industry

8.2.1 Supply side considerations

Input costs

- Raw material prices, e.g. aluminium, polymers and stainless steel were consistently raised as a major negative factor. Current studies and negotiations to address this issue (whether perceived or real) should continue.

- The cost of electricity and certain infrastructure (land, buildings) are seen to be a positive contributing factor to manufacturing competitiveness.

- A number of companies also indicated that minimum wages level at bottom end could be too high, and is preventing employment creation at lowest occupational categories. This required further investigation.

Skills

Companies indicated that there is a continuous need to increase the skill level of workers at all levels, and that employment is sometimes constrained by the lack of skills available in the labour

market. Availability of skills was consistently raised as an impeding factor to employment creation. There are specifically shortages of artisans and basic engineering skills in the industry. It was also indicated that skilled workers for the tool making industry are virtually non-existent. However, there are some companies that have apprenticeship programmes to alleviate this problem.

BEE

The industry in general has embraced BEE but expressed concern over the ability of multinationals to comply with rules of ownership and shareholding.

Infrastructure

The rail transport system in South Africa came under consistent criticism from all stakeholders during this study. High cost and poor reliability and customer service were major issues raised. Although the improvements in port operations are recognised, opinion is that there are sill areas for improvement.

8.2.2 Sectoral and structural considerations

Employment creation within various sub-sectors

Figure 55 summarises changes in employment in the various sub-sectors over the last decade, as well as the relative contribution of these sectors to industry turnover and employment. This analysis shows that not all sectors have been equally successful (or unsuccessful) in creating employment, neither do they contribute equally to overall employment.

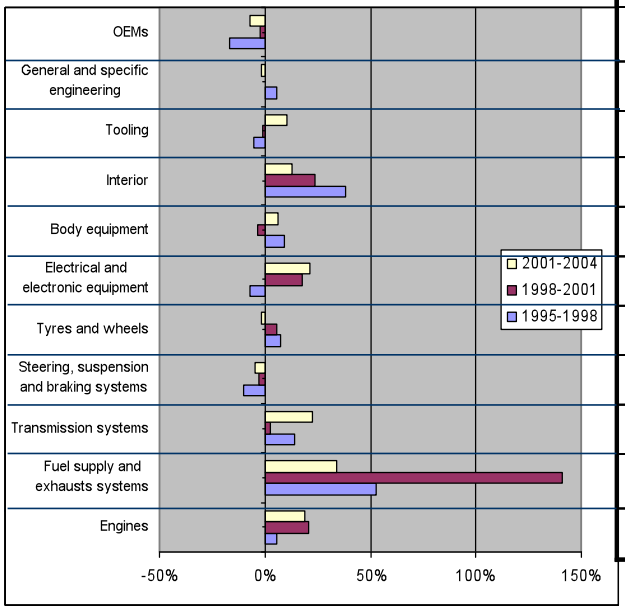
Of specific concern are the following sectors:

- Job losses in the tyres and wheels sector over the last three years. This is a relatively large sector which is also fairly labour intensive.
- Sustained job losses during the last decade in steering, suspension and braking systems sector. Although not a large sector, it is highly labour intensive.

Further research should be conducted to investigate whether there are specific reasons why these sectors have come under threat, and specific strategies developed to turn them around.

The export success of the fuel supply and exhausts systems sectors, as well as the interior (especially leather seats) sectors are well known and has consistently achieved employment growth. Surprisingly the tooling industry has achieved employment growth over the last three years, as has the electrical and electronic sector over the last six years.

Figure 55: Change in employment per industry sector



Employee contribution	Turnover contribution	Comments
27.72%	68.13%	BMW, Nissan etc have sold operations in last 3 years
5.28%	1.67%	Sluggish
1.32%	0.22%	In turnaround underway?
10.19%	5.10%	Star performer
7.38%	2.33%	Is turnaround underway?
9.03%	2.77%	Showing potential
12.00%	8.77%	Of concern
4.22%	1.01%	Of concern
2.97%	1.58%	Showing potential
5.38%	6.39%	High growth, but not that labour intensive
3.94%	0.98%	Showing potential

Across industry sectors the importance of growth and efficiency were consistently raised as important factors of employment creation, however:

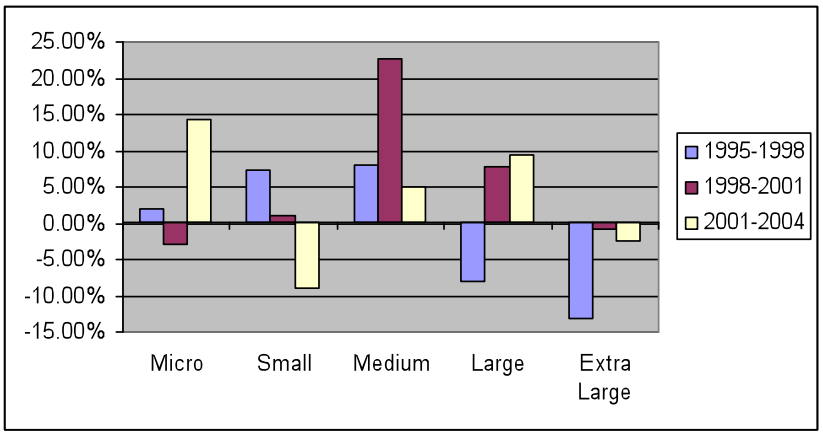
- Labour cost also featured prominently for:
  - Manufacturers of engines
  - Manufacturers of tyres and wheels
  - Manufacturers of tooling components
- Availability of skills also featured prominently for:
  - Manufacturers of body equipment
  - Manufacturers of interior components
  - Manufacturers of tooling components
- Decrease in product demand was cited as the main factor contributing to job losses across all sectors except OEM's engine manufacturing and manufacturers of tooling equipment – these sectors indicated improvement in efficiency as the only factor that contributes to job losses.
- Improved efficiency was cited as a factor in all sectors except for manufacturers of electrical and electronics, manufacturers of body equipment and Engineering, while HIV/AIDS featured only as a contributing factor in the Engineering sector.
- Labour relations is a contributing factor in the following sectors:
  - Manufacturers of steering, suspension and brake systems
  - Manufacturers of body equipment
  - Engineering

- OEM's

- Import penetration due to strong currency is a contributing factor in the following sectors:
  - Manufacturers of starting systems, ignition systems, electrical and electronic equipment
  - Manufacturers of tyres and wheels
  - Manufacturers of interior components
  - Engineering

Employment trends by company size

Figure 56: Change in employment per company size



The large employment reductions by extra large and large companies during mid 1990's are reflective of SA industry at large as internationalisation occurred. The reductions during late 1990's of micro and small companies could be in response to supplier rationalisation and internationalisation of large and extra large companies. The reductions in employment by small companies in recent years are of concern and it appears that there could be barriers to moving from a small company to a medium company. A company must either be a very small niche player or achieve economies of scale and global competitiveness typically associated with larger companies Medium and large companies, who are considerably more labour intensive than extra large companies (OEM's) and marginally less than micro-and small companies are therefore primary drivers of employment

Table 32: Factors that contribute to job losses by company size (ranked)

Factors that contribute to job losses	Micro	Small	Medium	Large
Decrease in demand for product	1	1	1	2
Improvement in efficiency		2	2	1
Import penetration due to strong currency			3	3
Labour relations		3		

- Not surprisingly, decrease in demand is identified as a key contributor to job losses. However, improved efficiency is cited as the second greatest contributor to job losses which raises a

question regarding the longer term effect of improved efficiency. Improved efficiency should in the long term result in job gains as discussed below.

- Common belief would dictate that efficiency improvement would reduce dependency on labour and this causes employment losses. However, improvement in efficiency was identified as a major factor contributing to job gains (see Table 33). This is based on the principle of improved efficiency resulting in lower cost and improved products, which in turn increases demand and thus fuels job creation.
- It can thus be concluded that companies undergo efficiency improvement for two reasons:
    - To achieve a competitive market position (catch up with competition) that provides no additional edge and thus just maintains demand. This could result in job losses.
    - To achieve an advantage regarding competitive position relative to other market players. This second group of companies will achieve demand growth in the longer term due to their efficiency improvement efforts and thus contribute to job gains.

Table 33: Factors that contribute to job gains by company size (ranked)

Factors that contribute to job gains	Micro	Small	Medium	Large
Increased demand for product	1	1	1	1
Improvement in efficiency	2	2	2	2
Labour relations	2	3	3	
Strength of Rand	2			
Availability of skills	3			3

- As can be seen in Table 33, the availability of skill was consistently ranked third after at least increased demand and improvement in efficiency by all sizes of enterprises. However, in qualitative investigations, availability of skill was cited as a major issue. From this, it can be concluded that availability of skills can be closely related to efficiency improvement. That is, the ability to improve efficiency is somewhat dependent on the right skills being available or being developed.

8.2.3 Operational (manufacturing) considerations

The continued development of a globally competitive OEM and supplier industry is considered essential for sustained employment growth. Although this study found that a large section of the component manufacturing industry has made tremendous strides to become globally competitive, it must be considered that the quest is never-ending. A number of issues are of specific importance and should be considered by policy makers, the industry, organised labour and other stakeholders:

- There should be a continued focus to develop the component manufacturing industry beyond the supply of SA based OEM's and SA based aftermarket to form part of a globally competitive supplier industry. Although export success has been achieved, it has been limited to relatively few products (catalytic converters, leather seats, etc).

- The automotive industry is a high-technology industry which increasingly requires highly skilled employees. The OEMs in specific are hoping for modest but stable employment growth provided that the labour market continually adjusts to the move to higher skills levels.
- OEM's are continuing the trend of placing more and more research, development and design responsibility with component manufacturers. Reality is that smaller component manufacturers simply do not have the resources to establish the competencies and technology required to meet OEM requirements for product development and design, and unless they form strong linkages with multinational in this regard (technology agreements probably being the minimum requirement), they will come under pressure. Within the next 10 years, it is expected that nearly all successful component manufacturers will be internationally linked, through various mechanisms such as joint venture, technology agreements, ownership, etc. A link to a large international company is becoming increasingly essential for survival as the international company can relieve the burden of the local companies by assisting with functions such as technology and marketing.
- Although many South African companies have made significant strides to align themselves to global standards in terms of quality, volumes and practices. many still have a long way to go, and the MIDP can continue to be an important catalyst in this process.
- Competitive input cost is a significant contributing factor to manufacturing competitiveness. This qualitative research of this study revealed that, on the positive side, low cost of electricity is a positive contributing factor. On the negative side, the cost of raw material such as steel, and polymer, which are sold at domestically at import parity prices, were consistently raised as an inhibitor to competitiveness.
- Efficiency improvement is the most important contributing factor to job losses for companies that have shed jobs. Companies that have not lost jobs indicated decrease in demand (as opposed to the need to become more efficient) as the potentially most important factors to job loss
- Companies that have lost jobs struggled with some fundamental issues including:
    - Price competitiveness
    - Capacity
    - Labour costs (although some job winners also indicated this as a factor)
- Companies that have created jobs also indicated the following additional factors as important in creating more jobs:
    - Weaker rand
    - Availability of skills
    - Labour relations
    - New product development
    - Increased capacity/investment
- A number of factors are consistently rated as not being an issue, namely:
    - Quality
    - Customer service
    - Marketing

- Cost of finance
- HIV/AIDS

- In addition to increased product demand and efficiency improvements, some factors were continuously raised as factors that constrain employment creation
  - Availability of skills
  - Input costs (specifically steel)
  - Labour relations (and to an extent labour costs), labour regulations, labour cost (minimum wage)
  - Import penetration

It is clear that the above-mentioned factors are the actual drivers of job gains and losses since these factors all affect product demand and efficiency:

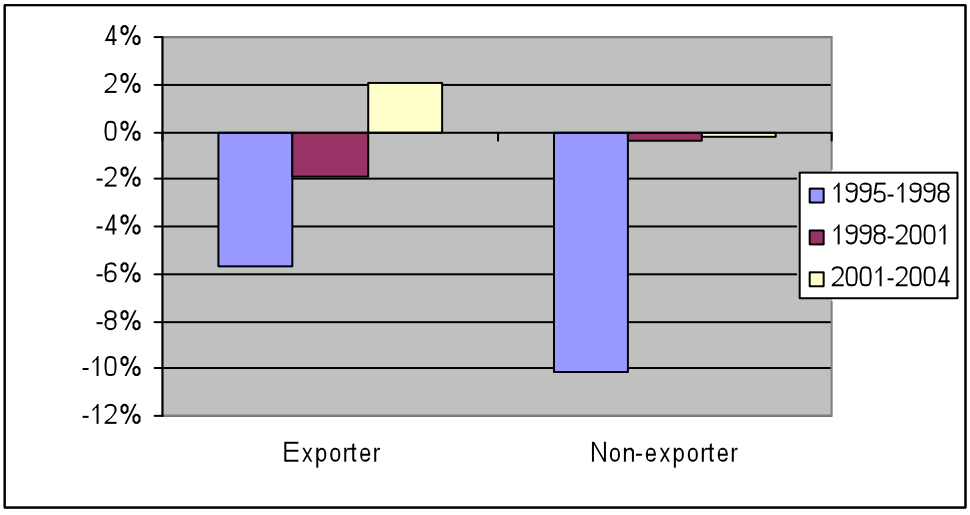
- Availability of skills and labour relations are key contributors to efficiency.
- Input cost (directly affecting product cost) and competitive imported products have a direct effect on product demand.

8.2.4 Demand side considerations for the future development of the industry

Export markets

Much success in employment growth has been on the back of export growth, but this export growth is still highly concentrated in only a few products.

Figure 57 Changes in employment per exporters and non-exporters



From Figure 57, it is clear that employment losses in non-exporters are far greater than that of exporters. The ability to export products (directly and indirectly) has a large influence in a company's ability to grow and create employment

- Both exporters and non-exporters feel strongly about the following as levers for employment creation
  - Input costs need to reduce

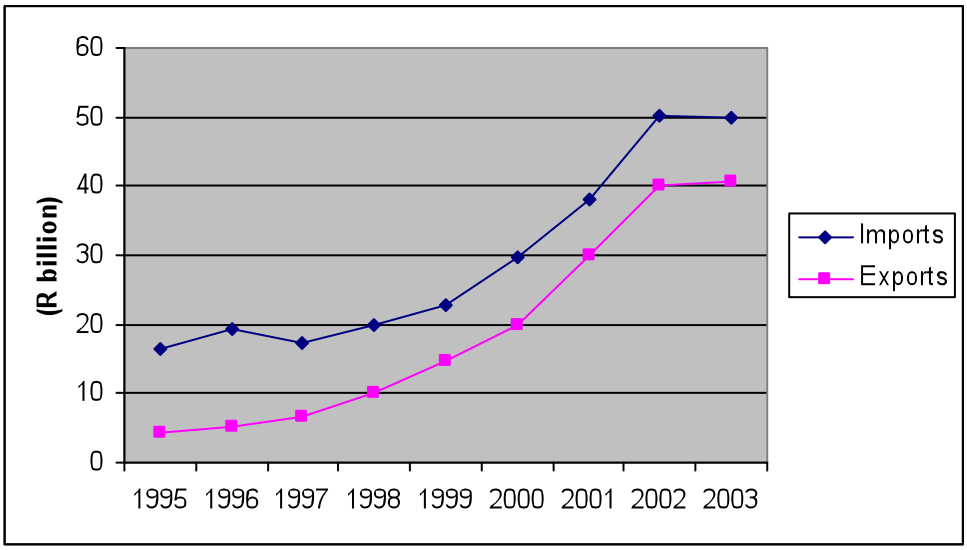
  - International demand to be pursued
  - Government schemes need to be changed and accessed
  - Availability of skilled labour need to improve
- Exporters feel considerably stronger that government schemes need to be changed. The reasons for this is not all that clear and requires further investigation
- Both exporters and non-exporters rate import penetration as a key contributing factor to employment decline, and not surprisingly, exporters more so.

Domestic markets

Although general opinion is that the domestic market is too small to sustain a domestic manufacturing industry, it is never less an important market, and the following should be considered:

- Import growth has increased at the same pace as export growth (Figure 57),mainly due to the inherent offset effect of the MIDP
- The strengthening of the Rand has accelerated import penetration over the last 12 months
- During the qualitative interviews a number of companies in various sectors indicated that import penetration is having a serious negative effect on their market-share and could result in employment losses

Figure 58: Trade Balance of the Automotive Industry



8.2.5 Operating environment considerations

The MIDP and government support programmes

During the early years of MIDP (up until 1998) OEMs were forced to rationalise and become globally cost competitive. This inevitably resulted in job losses during that period. In recent years there has however been a positive shift in the employment trend for this group of companies. Although it is unlikely that OEM's and large first tier suppliers will ever become large creators of additional employment, their existence is crucial for the industry because OEMs stimulate upstream business development. It would not be unreasonable to attribute much of the success South Africa had in securing multinational OEM and first tier manufacturing to the MIDP, and it can be questioned whether OEM's and large first tier manufacturers would invest in SA if left purely to market forces. A number of issues around the MIDP need to be considered

- **Policy stability:**: A clear message from industry is that policy stability is required for continued investment, i.e. long term certainty of MIDP and its mechanisms.
- **Alternative strategies:** In recent years the MIDP has come under fire for potentially not being compliant to the WTO Agreement. The question being raised by role-players is what is "plan B" should South Africa be forced to abandon the MIDP. A minimum a clear response strategy should be formulated in conjunction with role-players.
- **Monitoring of the MIDP on upstream manufacturing:**. The positive effect of the MIDP on upstream manufacturing has been highlighted throughout this report. However, a few instances were identified where the MIDP might be creating artificially competitive "upstream" industries. This should be monitored and adjustments to the programme made where necessary
- **CBU imports**: It is recognised that an inherent mechanism of the MIDP is to stimulate export through import credits, but many industry players are of the opinion that the level of CBU imports are reaching levels that are detrimental to domestic manufacturing, including the aftermarket. This situation should be monitored and adjustments made to the MISP as necessary.

National infrastructure

Companies were in general of the opinion that port operations have improved considerably, but further improvement is still required, and that Improved and cost effective rail operations could potentially be a positive factor is light of high road transport costs

Macro-economic influences

Macro-economic factors influence the automotive industry, e.g. the exchange rate affects the performance of companies and hence employment. The industry in general, is optimistic that marginal employment increase will continue over the next 3 years. The effect of macro-economic factors should however not be underestimated. The exchange rate for example has proven to be an important influencer of GDP and employment in recent years:

- The strength of the Rand squeezes the automotive industry from both sides i.e. imports and exports. The strong Rand lowers the cost of imports which leaves the industry even more vulnerable to cheap imports from overseas competitors. It also has a negative impact on exports

as exporters earn less foreign revenue from their foreign clients for their products. Both consequences impact employment in the automotive industry negatively

- Although the stronger Rand has been cited as a contributing factor to employment losses, more sophisticated companies does not see this as such a strong contributor. It is however recognised that the strength of the Rand affects the cost of capital which has an effect on the ability of a company to increase its capacity. This causes limitations in exports and subsequently affects a company's ability to employ more people

8.3 Summary of key trends over the last decade, job winners versus job losers

A final analysis provides an overall summary of trends over the last decade, distinguishing between the two major segments researched, namely companies that lost jobs and those that gained jobs. The table summarises key characteristics (size, BEE, location, product sub-sectors, etc) of the industry segment that has experienced the largest percentage change in employment growth or employment decline. These segments should be studied to replicate employment growth and avoid further losses in the future. However, it must be stressed that the identified characteristics do not have equal impact on the industry as a whole due to differences in structure and sub-sector size and thus the ranking is based on relative sub-sector growth and not industry impact.

Table 34: Summary of top 5 job winners and job losers, 1995-1998, 1998-2001, 2001-2004, (ranked)

Job winners				
***Rank**	**1995-1998**	**1998-2001**	**2001-2004**	**Reasons for job gains**
1	Fuel supply and exhausts systems	Fuel supply and exhausts systems	Fuel supply and exhausts systems	• Increase in product demand • Improvement in efficiency
2	>50% BEE ownership	Multiple	Interior	• Increase in product demand • Availability of skills
3	Transmission systems	>50% BEE ownership	KZN	
4	Electrical and electronic equipment	1-29% BEE ownership	30-50% BEE ownership	• Improvement in efficiency • Increase in product demand • Availability of skills
5	Engines	30-50% BEE ownership	Locally owned	• Increase in product demand • Improvement in efficiency
Job losers				
***Rank**	**1995-1998**	**1998-2001**	**2001-2004**	**Reasons for job losses**
1	Exporters OEM	Exporters OEM	OEMs	• Improvement in efficiency • Labour cost
2	Non-exporters OEM	Body Equipment	Steering, suspension and braking systems	• Decrease in product demand • Improvement in efficiency
3	Extra large	Steering, suspension and braking systems	Small	• Decrease in product demand • Improvement in efficiency
4	Multinational	OEMs	Electrical and electronic equipment	• Decrease in product demand • Availability of skills • Import penetration due to strong currency
5	0% BEE ownership	Micro	1-29% BEE ownership	• Improvement in efficiency • Decrease in product demand

** Ranking based on annual percentage change in employment*