Dube TradePort

Export fact sheet: Automotive components

DUBE TRADEPORT
AFRICA'S GLOBAL TRADE GATEWAY
KWAZULU-NATAL SOUTH AFRICA

1 Overview of automotive component manufacturing and exports within the dtp catchment area

The automotive sector in the DTP catchment area is characterised by globally integrated value chains, with value chain governance and decision-making dominated by multinational Original Equipment Manufacturer (OEM) parent companies. This follows the global pattern of automotive value chains in which OEMs are supplied by a number of Tier 1 suppliers, who in turn are supplied by a base of Tier 2 suppliers.

Production in KZN is primarily centred around the South Industrial Basin, Pinetown, New Germany, and Pietermaritzburg. Additionally there is significant production in the potential catchment area outside KZN, namely in Gauteng and the Eastern Cape.

The sector is considered to be globally competitive and has the potential to expand, in particular by building on the platform of Toyota's recent restructuring, investments and increased supply chain localisation.

Most automotive exports are freighted by sea, using specialised facilities at the Durban Container Terminal. However, airfreight is used in the following circumstances:

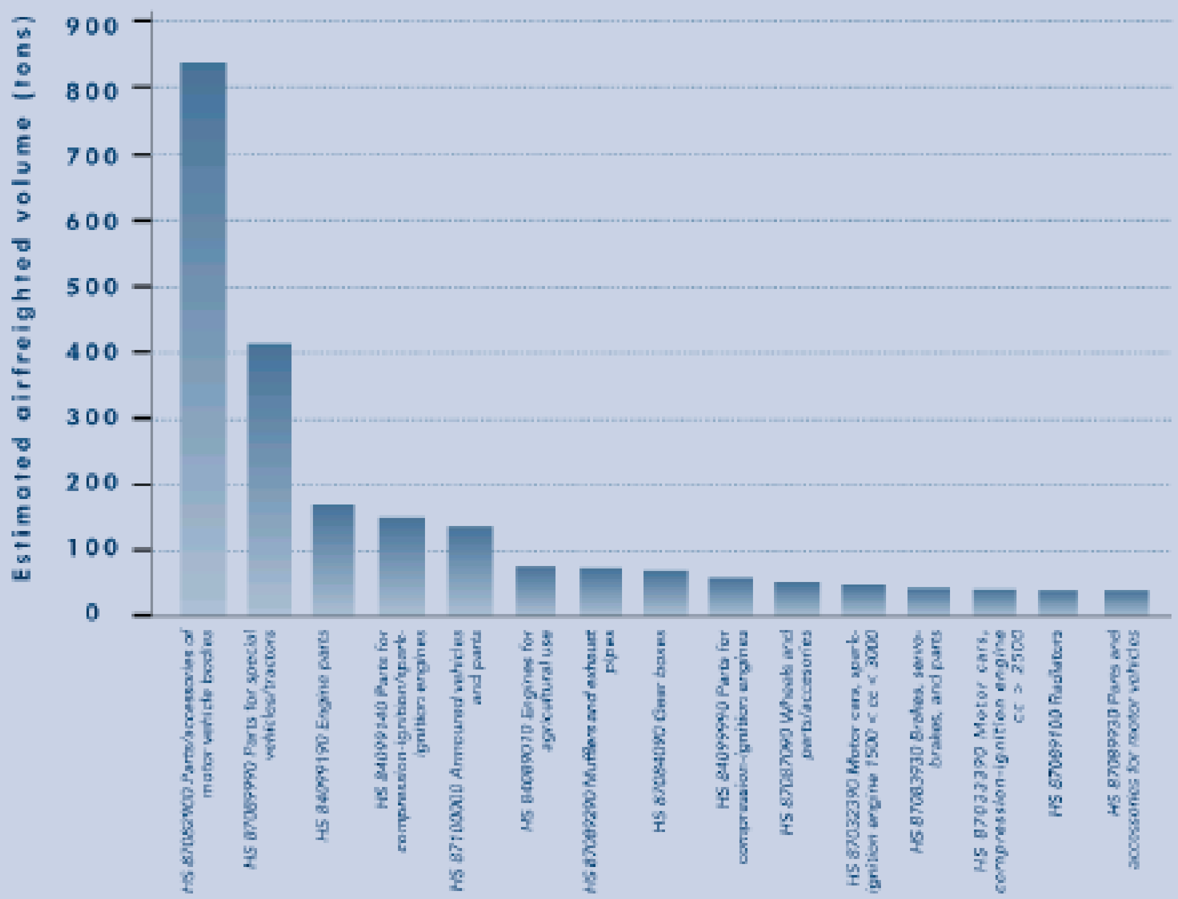
- To supply components where unforeseen circumstances have delayed delivery, thereby avoiding the extremely high cost of downtime on an assembly line (although production is normally planned to limit inventory to a minimum)
- To supply certain high value and humidity-sensitive products, particularly those including leather

The following table highlights the rand value of airfreighted automotive exports from the entire DTP catchment area in 2004:

AUTO AND COMPONENTS	*R*
Estimate of DTP catchment area exports airfreighted (2004)	*1,806,300,000*
Estimate of total exports from DTP catchment area (2004)	*18,941,150,000*

The graph on the next page summarises statistics derived from customs data for current automotive component exports from the catchment area.

FIGURE 1: ESTIMATED AIRFREIGHT VOLUMES FROM THE CATCHMENT AREA BY PRODUCT TYPE, 2004



2 International market trends

Globalisation and a drive towards more cost-effective production have opened up the automotive industry for imports of components from developing countries. However, import volumes from developing countries are modest as countries with historically large vehicle manufacturing industries remain the dominant source markets for imports. For example, in Europe the CBI estimates that intra-EU trade accounts for more than 80% of the US$75bn in automotive imports. However, external imports, most of which come from subsidiaries of the main European, US and Japanese vehicle OEMs, are increasing. Key locations for these subsidiaries include China, Eastern Europe, Turkey and Brazil.

The automotive sector in the US and Europe has been badly affected by the global economic slowdown and consequent lower vehicles sales, and despite improving economic conditions, sales of passenger cars in Western Europe and overall sales in the US are not expected to improve in 2005. There is intense competition amongst vehicle OEMs, and consumers are increasingly demanding lower cost vehicles of higher quality and greater safety, with more 'included-as-standard' luxury features (e.g. leather seats, air conditioning, etc).

SPECIAL FOCUS: LEATHER GOODS

The worldwide value of leather produced for the automotive industry has been calculated at US$1.35bn, with automotive upholstery seen as the most profitable segment of the leather industry. Overall, the market is far from saturated, and industry analysts expect demand for raw materials and finished products to exceed supply over the next 5 to 10 years.

A key demand driver is the trend towards value-added, aesthetically appealing interiors, where the demand for improved interiors extends to mid-range and economy passenger cars. Nevertheless, there is a long-term threat of substitution by plastics and other petrochemical-based leather imitation products, as manufacturers develop improved high-performance synthetic leather products and seek to utilise ecologically responsible materials.

Price pressures from OEMs have driven Tier 1 supplier companies to substantially reduce the number of suppliers with which they deal. Therefore leather manufacturers face the potential challenge of a shrinking Tier 2 customer base. However, it appears that some vehicle manufacturers are exploring opportunities for sourcing seat leather from tanneries with in-house cutting operations rather than relying on Tier 1 supply partners, such as Faurecia, Magna or JCI. This presents a potentially significant opportunity for automotive leather suppliers to forge stronger relationships with vehicle manufacturers.

Overall, high tariffs on leather and leather products, which increase progressively the further down the value chain, hamper market access in many importing countries. This is especially true for emerging economies such as China, India and Mexico. The European Union, which is the main export market for the African leather industry, applies relatively lower tariffs with an average of 5.1% for leather.

There are increasingly strict environmental regulatory requirements with which manufacturers must comply. For example, the EU's End of Life Vehicle Directive will, over a period, oblige vehicle manufacturers to produce vehicles which can either be fully recycled or safely disposed of. Consequently, the use of chrome-tanned leathers is likely to decline.

COMPETITION ISSUES

South African leather exports are perceived as highly competitive in terms of quality, and South African tanneries are considered specialists in automotive leather. In South Africa, automotive leather dominates leather products – of the annual production of around 2.2 million hides, automotive tanners finish around 1.8 million hides.

South African suppliers are also competitive on price – hide prices are comparable to those of other exporting countries, and finished goods benefit from the Motor Industry Development Plan (MIDP) export credits. Similar credits are not available when sourcing from key competitors in South America or China. However, this benefit may be eroded due to disputes regarding the MIDP in the WTO.

China's entry into the WTO has transformed it into a major supplier of leather goods. China benefits from low labour costs, high productivity on raw leather materials and products, and strong import and export trade. China's leather industry is strongly export-oriented with the total export value of main leather products reaching US$12.48bn in 2001, and shows an annual growth rate of more than 6%. Recently, leading US-based suppliers have formed joint ventures with Chinese tanneries to manufacture and market automotive leather for the rapidly emerging Chinese auto market – the fastest growing market in the world – and other world markets.

European tanners are realising that they cannot compete with Asia on price but have the ability to stay at the forefront through innovation and superior technology. They are therefore developing niche competitive positions by focusing on customer-specific development and design, and optimal serial production. They are also investing in precision engineering using computer-aided processes to match patterns to leather, thus using hides more efficiently.