

Special report: Africa's auto industry



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Africa's automotive aspirations are built on local assembly

A push to make it easier and cheaper for outside investors to set up local operations has seen vehicle assembly in Africa grow

While South Africa remains a gem for automotive manufacturing in the African continent, other markets are yet to create significant opportunities for foreign investment. For the next five to ten years, it looks as though most regions will simply continue efforts to scale up assembly operations.

Other countries in the north of the continent such as Morocco, Tunisia and Algeria have also stood out on this front, with foreign investments gaining pace thanks to favourable export opportunities around the Strait of Gibraltar and free trade agreements. However, South Africa continues as the continent's top performer; in 2017, the market saw new light vehicle sales of around 356,000 units, some way ahead of Morocco in second place, with around 155,000 units. The next largest markets are currently Egypt and Nigeria, which both sit at around 100,000 units each.

For some markets in Africa, annual new light vehicle sales are not quite so simple to quantify; low consumer spending power has seen an influx of second-hand vehicles being brought in to Africa from abroad. This means that OEMs in the market not only compete with each other, but with the used market to a significant degree. "With Nigeria and Kenya at the moment, for example, we lump together new and used vehicle sales," explained Fabrice Gatwabuyege, Research Analyst, Autos at BMI Research. "Kenya is at about 67,000 units in terms of both new and used vehicle sales combined, while in



Many markets in Africa are adopting a policy of trying to grow their own local vehicle production

Nigeria – with all the economic hardship – total annual vehicle registrations have contracted slightly to around 10,000 units."

SUV boom and consumer dynamics

Despite any economic difficulties that an emerging market may be facing, the premium and luxury vehicle segments often remain strong. This trend can be seen in Africa today, albeit to a lesser extent. The definition of a luxury vehicle in Africa is also quite different to that of other markets. For example, in Nigeria, some consumers would consider a full-size Toyota SUV as a luxury vehicle.

In fact, the SUV market is one of the strong points across the board for African vehicle sales. "South Africa is doing quite well on the luxury front, although it is not quite as robust as other emerging markets such



Kenya has been doing quite well; the government has provided OEMs with a number of attractive incentives for them to come in and assemble locally

as Russia,” noted Gatwabyege. “The likes of BMW and Mercedes-Benz are producing decent numbers, and in South Africa, both are doing quite well.

Mercedes has also committed to investing more in local production, and will be producing a number of AMG models there.”

Africa’s demand for SUVs and pickups is influenced somewhat by the natural geography of many countries in the continent. Toyota has proven to be a key player in these segments, with the Hilux sitting as South Africa’s most popular new vehicle in February 2018. “SUVs do quite well in Africa because infrastructure-wise, there are not many proper roads in some places, so many consumers tend to go for SUVs or crossovers for the added comfort and ride height,” explained Gatwabyege. “The pick-up market is quite strong in Africa, with the likes of the Ford Ranger and the Toyota Hilux, and there are some good selling pick-up trucks in the South African market in particular.”

Assembly operations, for now

Purchasing power remains relatively low in most African markets, and the majority of vehicles that are registered have simply been shipped in and assembled. But there is governmental support in place to help domestic manufacturing efforts increase, and reduce reliance on imported vehicles and components. “Many markets in Africa are adopting a policy of trying to grow their own local vehicle production, and are looking to implement higher taxes on imports that are brought into their country,” observed Gatwabyege.

Localisation may be a significant talking point, but today most vehicles in Africa are still built through complete knock-down (CKD) assembly, rather than full-line production. Only a handful of full-scale vehicle production facilities exist on the continent. BMW’s

Rosslyn plant in Pretoria, South Africa, is one of the most significant automotive manufacturing operations in Africa, and has manufactured the last six generations of the 3 Series. Later in 2018, production of the 3 Series will be halted to make way for the X3 instead.

Also notable is Renault-Nissan’s Tangier, Morocco plant, which comprises a press shop, body assembly facility, paint shop and final assembly building. The facility produces various Dacia models, but almost all are exported out of the country via Tangier Port, primarily to Turkey, Europe, the UK and elsewhere in Africa.

Ford and Mercedes-Benz both have major assembly facilities in South Africa, as do Volkswagen and PSA in Algeria and Namibia respectively. Ford also has a dedicated engine manufacturing plant in Struandale, Port Elizabeth to supply the Ranger pick-up and Everest SUV. “In most markets in Africa – such as Nigeria, Kenya and Ethiopia – parts are shipped into the country and assembled,” affirmed Gatwabyege.

It is unlikely that this approach will change in the near-term at least, as OEMs have little incentive to splash out on dedicated manufacturing facilities for the moment. In the current environment, it is more cost effective to simply assemble vehicles in most African markets. There is also the underlying conflict between new and used car sales.

“For the next five years, we think it would make sense for vehicle manufacturers to continue assembly operations,” continued Gatwabyege. “Aside from the likes of South Africa which is a very developed economy, other markets such as Nigeria and Kenya do not have the level of disposable income to afford a new vehicle,” he explained. “As such, it does not make much financial sense for OEMs to be investing in full-scale production capabilities in those markets over the next five years.”

There are a number of challenges, such as basic infrastructure and the strength and reliability of power grids, which would need to be overcome. In addition, OEMs and suppliers will be seeking political stability, something that is rare in many African countries. “Stability is required for these OEMs to come in and invest huge sums into full-scale production,” affirmed Gatwabyege. “But certainly the consumer base is there in the likes of Kenya and Nigeria for OEMs to reap the benefits of assembly operations over a ten-year plus horizon. After that, they should be able to decide whether to invest in new greenfield sites.”

Grow local

While OEM manufacturing footprints across Africa have seen little change in recent years, some governmental incentives have proven successful in expanding existing production and assembly programmes.

Both Volkswagen and Peugeot have increased production at their respective plants in Kenya, for example, following the introduction of import duty exemptions on CKD kits. “Kenya has been doing quite well; the government has provided OEMs with a number of attractive incentives for them to come in and assemble locally,” observed Gatwabyege.

However, many automotive markets in Africa face a two-pronged challenge in securing not only the OEM presence, but also the supply chain to support it. Such efforts have been made by other emerging markets; during the height of the Russian automotive market crash in 2015, Chief Executive of GAZ Group, Vadim Sorokin, told *Automotive World* that the company was “luring” and “incentivising” suppliers to invest in Russia. Localisation for GAZ Group could mean the difference between receiving components in weeks or hours.

In Africa, a similar push to localise is being made, and Morocco has been able to secure investment from a number of suppliers so far in 2018, including steering specialist Nexteer and metal components company Gestamp. “Overall, there is a government push to put policies in place to help encourage the localisation of componentry. Some countries require a certain percentage of components to be produced locally in order to unlock incentives,” commented Gatwabyege.

South Africa has had a dedicated Automotive Production Development Plan (APDP) in place since 2013, which was implemented to position its automotive industry as a



Some countries require a certain percentage of components to be produced locally in order to unlock incentives

more serious contender in the global vehicle market. With a specific focus on light-duty vehicles only, the APDP scheme looked at issues such as import duties, increased support for vehicle assemblers and localised production incentives. The primary aim was to increase annual new light vehicle sales to 1.2 billion by 2020. In 2017, passenger car sales totalled 368,068 units, with ‘bakkies’ (read: pick-ups), vans and minibuses registering 2.6% growth to 163,346 units.

Whilst generally in support of the APDP, the South African body for automotive component suppliers (NAACAM), remarked that the 2020 target is ‘unlikely’ to be achieved, citing ‘extreme difficulty’ in growing the local supply base so significantly.

BMI Research’s Gatwabyege is more positive on the scheme’s outcome so far, highlighting Ford as a particular success story. Back in November 2017, the OEM announced plans to invest Rand 3bn (US\$211m) into its South African assembly operations in order to meet growing demand for the Ford Ranger pick-up. A year earlier, the OEM had invested US\$170m into the Pretoria plant to begin local production of the Everest full-size SUV.

“It has certainly been a very successful policy,” said Gatwabyege. “Ford’s investments highlight the overall strength of South Africa’s automotive industry, and this policy – in terms of getting OEMs to produce a certain number of vehicles in the country in order to unlock tax incentives – has indeed played a part in helping the industry do well.”

Whether other emerging automotive markets across Africa will be able to lure manufacturers in remains to be seen.

Africa's struggling auto market set for modest recovery in 2018

Indraneel Bardhan of EOS Intelligence considers the challenges facing the African new vehicle market

After a challenging 2016, most African economies experienced modest recovery in 2017, aided by a recovery of oil and commodity prices.

The 2016 economic downturn and a decline in oil prices in Africa impacted some of the largest economies in both Sub-Saharan Africa and North Africa, including Algeria, Angola, Nigeria and South Africa. A recovery in oil prices to US\$65-70 per barrel, from as low as US\$30 in 2016-2017, has resulted in these economies rebounding after a period of low economic growth, and recession in the case of Nigeria. The World Bank expects economic recovery to continue over the next couple of years, and predicts African GDP to grow by 3.2% and 3.8% in 2018 and 2019, respectively. While economic conditions continue to ease, a negative sentiment has set in the African consumer markets, which has changed the outlook of the automotive industry significantly across the continent.

Domestic new vehicle sales continue to decline

The International Organization of Motor Vehicle Manufacturers (Organisation Internationale des Constructeurs d'Automobiles, commonly known as OICA) estimates that total new automotive sales in Africa slid by 9% in 2017, down from about 1.32 million in 2016 to just above 1.19 million in 2017, the third year of decline in a row. The drop is more prominent in the passenger car segment, which is estimated to have declined by 12% in the same period – down from 979,014 in 2016, to 862,907 in 2017.

With little production to talk of, most new vehicle sales comprise imported vehicles targeted at the upper echelon of consumers with the strongest financial capabilities. Most consumers struggle to finance new vehicle purchases owing to their lower purchasing power, a challenge further magnified by the lack of

Top 10 countries - Passenger vehicle sales in Africa (2017)

	2016	2017	%Increase/Decrease	
South Africa	3,61,289	3,69,599	↑	2.3%
Morocco	1,52,324	1,55,218	↑	1.9%
Egypt	2,14,800	1,33,391	↓	37.9%
Algeria	85,300	74,979	↓	12.1%
Tunisia	36,400	35,963	↓	1.2%
Reunion	23,701	25,289	↑	6.7%
Libya	31,600	15,800	↓	50.0%
Mauritius	8,700	10,353	↑	19.0%
Ivory Coast	4,300	4,438	↑	3.2%
Nigeria	19,200	4,051	↓	78.9%

Source: World Motor Vehicle Sales, OICA 2017

proper vehicle financing options. Instead, consumers steer towards purchasing cheaper used cars imported from the US, Europe, and Asia.

Recent downturn in major African economies has put further pressure on consumers' pockets, and new vehicle demand is unlikely to recover immediately, even if economic growth starts to pick up. The one factor that simply must change for demand to start picking up again is the affordability of vehicles. The easiest way to achieve this is to reduce reliance on imports and to promote domestic production of vehicles in Africa. This, however, is easier said than done.

Lack of domestic production hurts affordability

Several African governments have imposed significant taxes on the import of finished cars, with the intention to spur domestic production and improve affordability. Currently, the majority of passenger vehicle production is concentrated in two countries – South Africa and

Morocco. These markets are dominated by international players assembling cars, with only a few local manufacturers producing cars domestically.

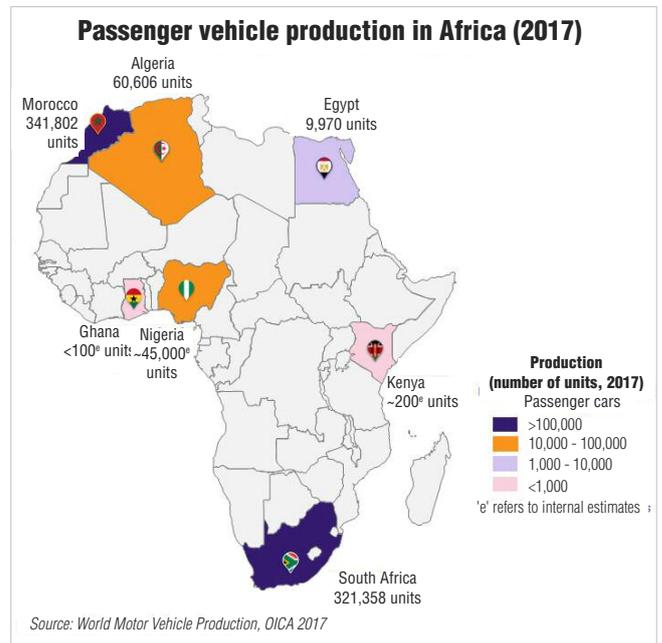
Major OEMs, such as Toyota, Mercedes-Benz, and Renault, have set up production bases in Africa to produce vehicles targeted at both domestic and export markets. These companies import vehicles as completely or partially knocked down kits and assemble them locally at a lower cost compared with their imported counterparts. However, with limited local content, these vehicles are still largely unaffordable for the average consumer in most African countries.

A sustainable supply chain must be developed, with both vehicle manufacturers and components suppliers undertaking production domestically. While South Africa and Morocco boast a developed automotive components industry, the share of local content in domestically produced and assembled cars remains low, at around 40%. If manufacturers can push the local content up to anywhere between 60% and 80%, it can potentially make the cars much more affordable for an average African consumer, which in turn will boost domestic demand.

Morocco shines while other auto markets struggle

Vehicle sales in three of the largest economies in Africa – South Africa, Algeria, and Egypt, which together accounted for two-thirds of all passenger car sales in Africa in 2017 – continued to tumble owing to weak economic conditions during 2016 and 2017. Several OEMs, including Volkswagen, Toyota, Ford, Hyundai, BMW, and Mercedes-Benz, have used South Africa as a base to expand their sales across Africa. While exports have helped offset limited local sales to a certain extent, a strong domestic demand is vital in order to sustain growth in the long run. As the economy recovers, domestic sales of passenger vehicles are expected to pick up in 2018 and 2019. However, the scale of this growth is likely to be low or modest at best.

OEMs, however, still sense potential for investments in the South African market as an export destination to Europe, the US, and emerging nations in South and East Africa. The recent investment by Chinese OEM BAIC to set up a production joint-venture in South Africa is an example of the faith international OEMs have in this country to perform in the long run. Ford has also announced its plans to invest in a production plant in Pretoria to produce SUVs and pick-up trucks suited for the African market.



Algeria has been dependent on vehicle imports to meet its demand, which consists of primarily new, high value vehicles, given the ban on imports of used cars due to driver and road safety reasons. Until 2014, Algeria was the largest importer of vehicles (both passenger and commercial) in Northern Africa, importing about 400,000 vehicles that year. Faced with a significant drop in oil prices in 2016, the Algerian government, in a knee-jerk reaction, decided to reduce import quotas for new vehicles, leading to a significant decline in new vehicle imports and sales. Only about 75,000 new passenger cars were estimated to be sold in Algeria in 2017, down from about 217,600 in 2014.

The government is now looking to incentivise the development of domestic vehicle manufacturing to cover up for this decline in vehicle imports. There is an opportunity for OEMs to set up plants in Algeria and to benefit from the government's plans to develop the domestic industry. However, with Renault and Volkswagen currently the only companies with production and assembly plants in the country, the plan is unlikely to bear fruit over the short- to medium-term. Vehicle imports are likely to rebound once oil prices stabilise at a sustainable level, but are unlikely to reach the highs of 2014.

Morocco's strategic location offers a significant advantage when it comes to trade with European countries. Moreover, a relatively stable political environment and modern infrastructure make Morocco a favorable investment destination. Major OEMs, such as

Recent Automotive Production Investments in Africa

Date announced	Country	City/State/Region	Company	Brief description
September 2017	Kenya	Thika	Peugeot	Set up local assembly plant to benefit from exemption from import duty and excise tax levied on fully-built imports
November 2017	South Africa	Silverton	Ford	Increase production capacity of the plant to produce Ford Ranger pick-up truck
November 2017	Algeria	Oran	PSA Group	Set up a new production plant to undertake production of vehicle starting 2019, for sale in Middle Eastern markets
December 2017	Morocco	Tangier	BYD	Agreement to build an EV production unit in Tangier
January 2018	Kenya	Thika	Volkswagen	Increase the capacity of it Thika plant to double the production of Polo Vivo in Kenya
January 2018	Algeria	Relizane	Volkswagen/SEAT	Expand current Relizane plant to produce SEAT's Ibiza cars for sale in Algeria

Source: EOS Intelligence Research

the Renault-Nissan-Mitsubishi Alliance and PSA Group (slated to start production in 2019), have already invested in setting up manufacturing facilities in Morocco. BYD is also due to establish a number of plants in the country to produce electric cars, trucks and buses. Numerous component suppliers, including Ficoso, Linamar, and Delphi, are also planning to localise production in and around Tangier, a major city in north-western Morocco. This localisation will help to create a sustainable supply chain aiding domestic production in the region. The Moroccan government has set an ambitious target of achieving the production of one million units a year (passenger and commercial vehicles) by 2026, which will make it the largest car manufacturing country in Africa.

New frontiers being explored

With traditional markets struggling, OEMs are looking beyond the large automotive markets. Kenya, which already has an established commercial vehicle manufacturing industry, is emerging as a favorable investment destination catering to markets in East Africa. With the government offering exemptions on tariffs applied to imports of unassembled vehicles, passenger car companies – including Peugeot and Volkswagen – have announced plans to establish assembly operations in the country. The establishment of Mobius Motors, an indigenous manufacturer producing low cost 'no-frills' cars, is another promising step in the long-term development of Kenya's domestic market.

Nigeria, Tanzania and Ethiopia currently lag behind Kenya in terms of market development. However, provided the region can maintain its demand, we may witness increased investments in these countries' automotive sectors.

While fast growth presents an attractive proposition, there are challenges to consider. First and foremost, the purchasing power of consumers in these new frontiers is relatively low. While there is some demand, consumers typically look towards low-cost options, such as buying used cars or turning to alternative vehicles such as motorcycles. Secondly, the road infrastructure in these countries is not developed, and the imported cars – which have been developed in more advanced European markets – generally do not perform very well here. Lastly, the scale of new automotive sales in emerging automotive markets such as Kenya is still very low. While companies investing in these countries are likely to benefit from the first mover advantage, it comes with high risk if domestic demand does not pick up as expected. Despite these challenges, there are plenty of opportunities, particularly for Chinese and Indian companies, which are capable of offering rugged, yet low-cost vehicles suitable for African conditions. Such low-cost vehicles do have the potential to usurp a spot in the used car market in some African markets.

As governments look to increase the percentage of local content in domestically-manufactured vehicles, there is an opportunity for Tier 1 and Tier 2 suppliers to set up shop in key production centres – especially in Morocco and South Africa – which have large production bases, enough to justify investments. Growth in the African automotive sector is likely to pick up in the medium-term, provided countries are able to sustain their economic growth. Companies will be faced with making a difficult decision in the immediate-term: whether to back their investments in the continent, or remain cautious, as another similar downturn could be calamitous to the health of the automotive industry.

Egypt's appeal strengthens as growth makes a steady return

The new vehicle market in Egypt had plummeted across all segments as a result of past austerity measures, but growth is returning for the first time since 2014

After a period of substantial decline, Egypt's automotive industry is set for resurgence, although a return to the highs of 2014 may take some time to materialise.

There have been declines across the board in recent years, with sales of new passenger cars, buses and heavy trucks all falling. In 2014, the new vehicle market in Egypt – which includes passenger cars and both light- and heavy-duty commercial vehicles – peaked at around 300,000 units. In the following year, growth fell flat and in 2016 was backed up by a significant drop to around 220,000 new vehicles. In November 2016, the Central Bank of Egypt floated the Egyptian pound (LE), devaluing it by more than 32%.

Dwindling demand for private and commercial vehicles in the country followed; in 2017, new vehicle sales in Egypt had fallen by almost 35% year-on-year to 141,000, with the worst of the impact felt during the first half of 2017. The decline gradually became less severe during the second half of the year, and Chevrolet – historically the market's leading vehicle manufacturer by sales volumes – is confident that demand will be restored within the next five years or so.

The OEM has experienced marginal growth in the first two months of 2018, and has projected total automotive industry growth of around 17% by the end of this year. Continued recovery is on the cards for 2019, according to Karim Tinawi, Director, Portfolio Planning and Programme Management, General Motors North Africa. "The outlook is even better today than we were forecasting last year," he noted, "due to the positive

“As a market leader in Egypt's automotive market for the past ten years, we foresee that recovery is happening

market dynamics that we are currently experiencing, which is being supported by a number of strong economic factors.”

March 2018 analysis from BMI Research also projects Egypt's new vehicle market to grow in 2018, but described the current state of recovery as 'fragile'. The report added that, "with many of the pressures that consumers faced in 2017 still in place, any sales recovery will be protracted."

Economic restructuring

In order for the automotive industry to grow, the country's underlying economic hardships had to be addressed first. One factor that has helped to catalyse recovery of the new vehicle market came in November 2016 in the form of a US\$12bn loan from the International Monetary Fund (IMF), which would be paid out over the course of three years.



With any programme that we work on, our goal is to increase local content with our local suppliers in Egypt

Following the approval of this IMF loan, the Egyptian government implemented a number of economic reforms, which included raised interest rates and price hikes to fuel and other commodities. “Year-on-year inflation began to drop in January 2017,” recalled Tinawi, “and GDP started to show a better performance than had been forecast.” In the third quarter of fiscal year 2017, Egypt’s GDP grew by 4.3%.

Then there were moves to curb power shortages that had become common across the country by increasing domestic gas production and building new power plants. In December 2017, the Zohr natural gas field – a giant off-shore facility located in the Mediterranean Sea – began production just over two years after its discovery. A project to modernise roads around the capital, as well as the construction of other highways, is also under way. Other so-called ‘megaprojects’ included a significant expansion to domestic agriculture and fish farming, which helped to kick-start demand for light commercial vehicles and pickup trucks.

“From our point of view as a market leader in Egypt’s automotive market for the past ten years, we foresee that recovery is happening,” said Tinawi. Recovery is expected to continue at a good pace; GM currently projects the overall new vehicle market across all segments to hit 240,000 units by 2020 – still below the high of 300,000 units in 2014. In 2017, new vehicle sales totalled just 141,000, a figure that is expected to rise to between 165,000 and 170,000 units in 2018. The market should hit around 200,000 units in 2019.

BMI Research is more cautious, projecting 2% growth of Egypt’s new vehicle market in 2018, “which will keep market volumes far below previous levels,” it added. The Economist Intelligence Unit (EIU) noted in August 2017 that car sales specifically should register a 7% CAGR between 2017 and 2021, “reflecting continued economic growth and pent-up demand.”

Pent up demand

Consumer spending power was critically affected by the currency flotation at the end of 2016, and was reflected in the following year. Purchasing decisions were put on hold, especially for commodities such as passenger cars. Many fleet and commercial vehicle tenders were also postponed.

While consumers had expected a strengthening of the Egyptian pound, this did not come as quickly as expected. As such, this created a ‘new normal’ in which most citizens simply prioritised vital purchases. It is worth noting that other markets such as Russia have also experienced a ‘new normal’ as the result of an economic crash. “Postponed car purchases have accumulated over the years and perhaps some of that will come through in the not too distant future,” Joerg Schreiber, Chairman of the Automobile Manufacturers Committee at the Moscow-based Association of European Businesses (AEB), told *Automotive World* back in January 2017.

The same trend can be seen in Egypt, with pent-up demand set to gradually introduce new vehicle registrations into the market. Indeed, Tinawi believes that the ‘wait and see’ attitude during Egypt’s economic slump was a significant contributor to the 35% drop in the new light vehicle market in 2017. “But today, we can see that there is some improvement in consumer spending power,” he noted.

Toward the end of 2017, recovery had begun and brought with it a rise in commercial activities within the automotive industry. In October 2017, Russian OEM AvtoVAZ announced plans to resume assembly of Lada models in Egypt, a programme that had been in operation since July 2015 through its local partner, Al Amal. In March 2018, Kia signed an agreement to assemble Kia models in Egypt, with an LE 4.24m (US\$241,000) investment over the next five years. It was also reported in the same month that Chinese state-owned OEM, SAIC Motor, was considering investing in



We believe that this is a promising market, a growing market, and see plenty of future opportunities

a local manufacturing facility in Egypt, which would be used both for domestic sales and for exports to other Arab countries and elsewhere in Africa.

“A positive sign is the return of manufacturing investment to the country, which will help to provide more locally-built models that will be more competitive for consumers,” said the March 2018 note from BMI Research.

Upping local content

Virtually all vehicle manufacturing in Egypt is carried out through completely knocked-down (CKD) assembly, and high value-add components and systems such as engines and transmissions are imported. A small handful of players carry out semi-knocked-down (SKD) operations.

GM was the first private automotive manufacturing company in Egypt back in 1983, with production commencing later in 1985. Since the company's inception in the market, the OEM has produced around 785,000 vehicles, which includes passenger cars, pickup trucks and light commercial vehicles (LCVs). Its plant is located in 6th of October city – around 40km (25 miles) outside of Cairo – and is built on an area of almost 150,000 square metres, with buildings covering around 55,000 square metres of that space. Total manufacturing capacity is currently 69,000 units per year; the highest figure that has been achieved was roughly 65,000 units.

Chevrolet is the leading brand in Egypt's LCV market, with various applications of its N-Series truck used as the basis for anything from vans and ambulances, to a school bus and dump truck. GM also manufactures the Chevrolet 'El Dabbabah' pickup, which is based on the Isuzu D-Max platform through a long-standing relationship with the Japanese OEM. GM has the highest level of local content in the commercial truck segment, with more than 60% of parts sourced in Egypt. In the passenger car segment – in which it sells

the Chevrolet Aveo, Equinox, Cruze, Lanos and most recently, the Optra – local content is at around 45%.

GM's Tinawi would like to see localisation levels increase in order for even more local content to be used in its vehicles, and further discounts to be realised. “We continue to support and encourage any opportunity to increase local content,” he said. “With any programme that we work on, our goal is to increase local content with our local suppliers in Egypt.”

In July 2016, the Egyptian government published a draft automotive strategy that would run until 2025 to support automotive manufacturing and any feeding industries. As part of the plan, passenger car production would grow to one million units through a combination of domestic registrations and exports to African and Arab markets. Incentives to attract foreign manufacturers into the market have already been offered for many years, and encourage those that do enter to increase the percentage of local content in their vehicles. To a certain limit, OEMs can receive deductions to the custom duties placed on CKD kits brought into Egypt; OEMs with high levels of local content can pay import duties of between 5% to 8%, as opposed to 30% for those with less local content.

The automotive strategy that is being put together aims to further support local manufacturing with additional incentives. However, there have been several revisions to the policy, and many manufacturers are unsure of what exactly will be approved by the government in future. If recovery can continue as projected, Egypt's automotive industry looks to be an attractive opportunity for foreign investment; for one, the rate of vehicle ownership is around 62 vehicles per 1,000 inhabitants, leaving much room for growth in private vehicle ownership.

“We believe that this is a promising market, a growing market, and see plenty of future opportunities,” concluded Tiwani. “We will continue to study all opportunities that make good business sense.”

Local assembly leaves Scania well positioned for African urbanisation

Automotive World speaks to Scania's Johan Gembäck to learn more about the challenges and opportunities in Africa's heavy truck market

It may not be the easiest market in which to operate, but truck manufacturers are confident that past investments in the African continent will bulk out global sales.

Poor road infrastructure and tough weather conditions make life difficult for everyday truck components; political instability is common in many African markets; and in some regions, access to high quality fuel can be a serious problem. Despite this, vehicle manufacturers have recognised Africa as an opportunity to expand outside of their established markets, notably Europe and North America. Not only can this support sales growth, but it can also limit risk by reducing dependence on specific global markets.

Poor consumer spending power has typically meant that commerce has not been a driving force for new commercial vehicle (CV) sales in Africa. However, many emerging markets on the continent have begun to develop a strengthening middle class, and population growth is projected to soar in coming years. The United Nations estimates that an additional 1.3 billion people will inhabit Africa by 2050, and a May 2016 report from McKinsey noted that "Africa is still urbanising and much of the economic benefit lies ahead."

Garnering interest

Fred Smith, Chief Executive of FedEx, remarked during the firm's Q1 2018 earnings call that "enormous populations" are arising out of poverty in emerging markets and gaining access to connected devices. This, he said, was creating 'e-commerce on steroids'. "You're seeing fundamental demand at the individual level drive companies to export, and international e-commerce to grow," he explained.

What's more, many large cities in Africa are encouraging the use of public transport to alleviate traffic and vehicle emissions. Both trends bode well for the truck and bus segment on the continent. In January 2018, Martin Lundstedt, Chief Executive of Volvo Group, remarked during an earnings call that the company had kept 'good momentum' in the heavy-duty commercial vehicle (CV) segment, noting 'a good situation' in South Africa in particular.

In 2017, Tier 1 supplier Wabco acquired the remaining 51% of its South African joint venture, something that Chief Executive Jacques Esculier described as a move to take control of the company's destiny in the market.



In general, the African truck market is in a developing phase, with some quite considerable differences between the different regions on the continent



We wouldn't implement local production with low volumes if those lowered import duties were not applicable, since it would normally drive higher costs for us

The intention, he said during the company's Q4 2017 earnings call, was to use South Africa as a base to reach "the entire southern part of Africa, where we believe there will be fast growing markets in the coming years."

Johan Gembäck, Sales Director, Sales Trucks Africa and Asia-Pacific at Scania, agreed that there is strong potential in Africa, but pointed out that not all markets on the continent are of equal strength today.

"In general, the African truck market is in a developing phase, with some quite considerable differences between the different regions on the continent, and the same can be said for the market maturity," explained Gembäck. "Scania has captive establishments in all regions – northern, western, southern and eastern Africa – meaning that we are investing together with our customers in all of these regions in order to further develop the logistics system."

Historically, South Africa has been one of the strongest regions in Africa both for passenger car and CV sales, due primarily to its comparatively strong economy. Kenya and Namibia have also proven popular areas for foreign investment over the years, with Egypt and Morocco to the north sharing similar, if not greater, interest.

"The level of market maturity is highest in the southern regions of Africa, but many investments are also taking place in the eastern and western regions," observed Gembäck. "In general, demand is good but the level of maturity among customers differs much more than in more developed markets; from the super professional customers asking for a full op-lease scheme, to others operating their business more on a day-to-day basis without the longer planning horizon."

CKD cuts costs

The way in which Scania vehicles enter the African market varies depending on the local legal and tax regulations, with trucks both imported and assembled locally on the continent.

In South Africa, the OEM runs an assembly plant in Johannesburg. This, its largest completely knocked-down (CKD) assembly operation globally, which was established in 2003 to become its hub for truck and bus operations. The plant was also planned to facilitate expansions in the neighbouring countries of Namibia, Botswana, Zimbabwe, Zambia, Malawi and Mozambique. "We have a production capacity of up to 2,500 units per annum per plant with our current facilities," noted Gembäck.

In many markets across Africa, government initiatives have proven vital in order to support the automotive industry, with an eye to encouraging foreign manufacturers to set up local operations. This is partly why practically all vehicle manufacturing in Africa is carried out through CKD, as imported vehicles are taxed heavily compared to unassembled vehicles. In addition, these CKD operations create new demand for local componentry and thus assist growth of the local supply base.

"In some of the markets in which we operate we get lowered import duties when setting up CKD assembly," said Gembäck. "These initiatives are creating local jobs, but in general we wouldn't implement local production with low volumes if those lowered import duties were not applicable, since it would normally drive higher costs for us," he explained. "Our main focus is always to get the lowest possible landed cost for our end-customers in the markets."

Local assembly also allows for these trucks and buses to be assembled in the market, for the market. This is an important consideration as the natural geography of many African regions can make trucking a tough job both for the driver and the truck itself. Harsh roads and weather conditions mean that trucks destined for Africa must be designed to suit local conditions. "The climate in many of the African markets is quite tough, with high temperatures and plenty of dust," explained Gembäck. "But our products are working very well thanks to our long history in Africa; we have been in these markets



There is some availability for gas and ethanol in some markets, whereas in others it is even tricky to find decent quality diesel to cope with the latest diesel engine technology

for decades, which has taught us to equip the vehicles with the right cooling system, filters and other things.”

Uptime is vital for any commercial vehicle operator, as time wasted during roadside repairs or trips to the workshop can be extremely costly. “For Scania, the uptime for customers is a key feature, and Africa is no exception,” said Gembäck. “Our vehicles are doing very well in these conditions and we secure uptime through our extensive service network spanning most parts of the continent.”

Another issue to contend with is the sourcing of spare parts. Much like other emerging markets such as India, the sale and use of counterfeit products can also be an issue in Africa. In November 2017, Scania announced that it had teamed up with the Ghana police force to tackle the ‘overflowing’ wave of counterfeit parts in Accra. Not only are customers being ‘ripped off’, said the OEM, but they are also potentially integrating dangerous parts that have not been subjected to proper testing, or produced with the correct materials.

“This is an issue we sometimes have to deal with, but I would not say it is more prevalent in Africa than in other developing markets,” advised Gembäck. “Scania always takes legal action where it is possible. Inferior counterfeit parts do not only hurt us as a company, but also our customers.”

Ghana eyes bus rapid transit system (BRTS)

Despite poor consumer spending power, many African cities suffer from extreme road congestion, and with many of these vehicles being second-hand imports, high levels of air pollution is commonplace. As such, governments have been making a push to improve public transport and discourage the use of private vehicles.

In 2014, Scania signed an agreement to supply buses and equipment for a bus rapid transit system (BRTS) in Accra, Ghana. The OEM would provide 300 buses and a range of supporting equipment such as ticketing machines and workshop services. At the time, Dzifa Attivor, Ghana’s Minister for Transport, commented that the government “is committed to addressing the transportation bottlenecks in our cities,” and that the BRTS would be a “major transport policy” being pursued by the Ministry.

There is significant demand across Africa to move people around cities in a more efficient and safer manner, said Gembäck. “Congestion in the larger cities in Africa is very tough, and investing in a BRTS is a smooth and quick way for a city to ease up this congestion.”

This system helps to replace many smaller cars and vans with modern and efficient buses, which drive on dedicated lanes and thus operate almost in isolation to the rest of city traffic. Gembäck suggested that the BRTS is “similar to a metro system above ground, with dedicated lanes ensuring that passengers arrive on time at their destinations.” Implementing a BRTS within any city – but particularly in that of an emerging market – is “leaner, faster and more cost-efficient than a rail or tram solution,” he added.

Elsewhere in more developed markets, Scania is taking steps to investigate new sustainable and renewable fuel sources with an eye to reducing the truck industry’s reliance on fossil fuels. For Africa, these technologies may be some way off, concluded Gembäck: “The supply is somewhat of a challenge. There is some availability for gas and ethanol in some markets, whereas in others it is even tricky to find decent quality diesel to cope with the latest diesel engine technology. Even here it is very varied.”

‘Not if, but when’ – Volvo Trucks bullish on African growth potential

Automotive World talks to Volvo Trucks’ Heléne Mellquist, who believes Africa offers strong potential for future sales growth

While it may not be a significant contributor to global sales volumes today, the African truck and bus market may prove to be a solid investment for Volvo Trucks in coming years as its emerging economies strengthen, and increased consumer spending power drives freight growth.

The OEM currently operates two completely knocked-down (CKD) assembly plants on the African continent: one in Johannesburg, South Africa and another in Casablanca, Morocco. Two sales hubs are strategically located in Johannesburg and Gothenburg, the latter of which serves the Middle East, East and North West Africa regions. The Casablanca plant has an annual production capacity of 380 vehicles, whereas Johannesburg can produce 1800 vehicles a year.

In 2017, Volvo Trucks delivered 1,040 vehicles in North West Africa, the majority of which were sourced from plants in Gothenburg and Ghent. By comparison, more

than 112,000 Volvo trucks were delivered globally last year, but Heléne Mellquist, who has served as Senior Vice President of Volvo Trucks International since March 2016, believes volumes in Africa could soon ramp up.

Speaking to *Automotive World*, Mellquist discussed Volvo Trucks’ current operations in Africa, where the opportunities lie, and the inherent challenges of working in emerging markets.

How important is the African market for Volvo Trucks?

We are well established in South Africa and have around 1,000 people working for us. We have a brand office and own almost the entire retail network, as well as our own parts distribution centre that was recently newly renovated. We also have a CKD factory with capacity of around 1,800 vehicles.



When we talk about the growth potential in Africa’s truck market, it is not a case of ‘if’, it is rather a case of ‘when’



With Angola and Nigeria, the potential of these markets depends very much on commodity prices; if oil prices improve, I think we will see customers starting to move there

Our focus is on the heavy-duty side with the FH and FM series, which are used for long haul and regional haul. We also have the FMX series that is used more for construction and mining applications. Those vehicles operate all over Africa, and not only in Morocco and South Africa.

It is about being in place and supporting our customers when they start to grow. We have been here for a very long time, and have great opportunities ahead of us.

Why is a CKD operation favourable in terms of producing trucks in Africa as opposed to setting up a full production line?

There are a couple of key reasons, one of which is clearly the financial benefit of reduced customs duties. The other is that we can have customer adaptations made closer to our customers, with a much shorter lead-time.

How would you describe the current health of the African truck market, and in which regions is demand for new trucks strongest?



There is such a wide variation between all of the markets on the African continent

There is such a wide variation between all of the markets on the African continent. If you look at the trends in South Africa today, the last six months have been very good, and there are positive trends following Jacob Zuma stepping down as president. There is great positivity in the entire region, which is reflected in order intakes.

We have a pretty good position in South Africa considering all of the different competitors that are present; we are currently either number two or number three in the market, and in 2017 we had just above 17% market share. For the last two months of 2018, we have had about 21% market share.

When we talk about the growth potential in Africa's truck market, it is not a case of 'if', it is rather a case of 'when'. It is a significant market from a growth potential perspective, and it is an area that we continue to look at. We know that things will happen here, and while it may not be significant when considering our global sales today, it is about the growth potential. That is why we have made capital investments in order to support our customers.

Are there any other countries in Africa that are showing promise?

Yes, there are a few that look particularly promising. Last year we introduced a number of new partners in East Africa, which are just about to commence operation. They face some difficulties with the political situation in Kenya and Tanzania, but these are two markets that will move and where things will happen. We also have our own people in place supporting them to build up the necessary infrastructure.

Then there is Angola and Nigeria, but the potential of these markets depends very much on commodity prices; if oil prices improve, I think we will see



With a growing middle class comes growing logistics, and of course this will mean demand for an increasing number of trucks

customers starting to move there. Then in Angola, we already have a very good network together with our partner, Auto Sueco.

Last year together with Titanium Motors, we also opened up our first truck centre in Lusaka, Zambia. With the higher copper price in the market currently we will also see things happening in this market as well.

We have a new partnership in Tunisia, and I have big hopes for that. There are also countries around Nigeria, such as Ghana and Ivory Coast, where I see potential. You really need to look at Africa as a collection of different islands, and where we see positive trends, we will start to gain an understanding of the local customers and what kind of support they need. We can then design our offers and tailor our support for their business to be as efficient as possible.

What are the overriding trends that affect the new truck market across Africa?

We often hold the view that Africa is full of poor people, but this is not the case. There is extreme poverty in Africa, but also extreme growth in the middle class, and with that comes urbanisation. But of course this is a long-term thing; we have heard projections that 60% of the African population will live in cities by 2050. There will be more trade between the different countries on the continent, and as a result of that we will have more logistics corridors growing.

With a growing middle class comes growing logistics, and of course this will mean demand for an increasing number of trucks. Due to the size of the continent and the infrastructure being built, I think Africa is also a good market for our premium trucks that deliver higher productivity; these trucks will need to travel long distances, and that's where we excel.

Are there any unique challenges when it comes to working with a developing market within Africa as opposed to Europe or North America, such as roads and refuelling infrastructure?

Of course, but that is also where considerable investments are being made. When countries develop like this, it is great to be along for the ride because we can be with our customers to support them, and to help them take the right steps from the beginning.

We also work with importers, but we still put our own people on the ground, supporting them with knowledge, processes and competence in areas where we see change taking place. We are active in the market, even if it is through partnerships.

And in some regions of Africa it can be difficult to source high quality fuel...

Our Euro 3 engines can handle varying levels of diesel quality, and we have not had large-scale issues with this in Africa. However, problems related to poor diesel quality do come up from time to time. When this happens, we diagnose the problem by investigating the type of failure and the parts involved. We then work with our customers to ensure their trucks are back on the road as quickly as possible.

Volvo Trucks has been vocal on its interest in clean and renewable fuel sources. What outlook is there for this approach in your key markets of Morocco and South Africa?

Unfortunately there is not much scope. We have Euro 3 in both of those markets, as well as within all of the other major African countries, including Kenya, Tanzania and Angola for example. These markets are all Euro 3, and to be quite honest, the political interest in changing this is not great at this current time.

Deeper localisation on the cards for South Africa's supply base

For South Africa's automotive supply base, it is not only about luring new Tier 1s into the market, but also strengthening the value chain – right through to Tier 3s and material suppliers

With the South African market making a concerted effort to ramp up domestic vehicle manufacturing, there are calls for the supply chain to receive the same attention.

The government has been incentivising vehicle manufacturers to set up local operations, and to some success. However, efforts to ensure suppliers are drawn in locally have not quite hit expectations. For the last few years, the South African automotive supply base has been in 'maintenance mode', according to Renai Moothilal, Executive Director of the Gauteng-based National Association of Automotive Component and Allied Manufacturers (NAACAM).

Good gains have been made in terms of shop floor competitiveness in recent years, and the industry outlook for improved localisation is promising; a study

commissioned by NAACAM found that 76.7% of OEMs surveyed saw opportunities to increase sourcing from local suppliers in 2016, up from 57.1% in the prior year. But while OEMs see scope to buy locally, Moothilal noted that supplier localisation has in fact seen little improvement, and expects the government to update its automotive development policy to tackle this issue.

In an interview with *Automotive World*, he discussed the main trends affecting South African automotive suppliers, and the steps that could be taken to strengthen the domestic supply chain.

South Africa's passenger car market is projected to double by 2050. How does the domestic supply chain need to adapt to this growth – will it pose a challenge or an opportunity?

From a supply base perspective, we need to ensure that we are always on or ahead of the technology curve. We need to continue investing in more productive technology, and need to ensure that the base of skills available to suppliers in South Africa is being developed.

Having said that, I don't necessarily think that this is an area that we need to focus on too much; as volumes increase, the business case for localisation and investment in new technology strengthens. If you are talking about a passenger vehicle market that is expected to double by 2050, assuming that a large portion of that can be produced domestically, you will

“*It is a proven global trend that a volume increase equals an improvement to the level of local content*”



Assembly plants in South Africa use CKD kits, and our intention is that a greater percentage of that CKD kit should be sourced in South Africa

have a supplier base that automatically has the market incentive to increase levels of investment, development and increasing competitiveness.

Which components and systems would you like to see being produced domestically?

One of the things we would like to increase is our participation in high value-add components, particularly those products such as engines and transmissions. In addition, we would like to produce more forward-looking technologies such as telematics and other advanced electronics in greater volumes.

We believe that attracting these suppliers to South Africa could have a significant impact in increasing localisation rates. Our challenge, and the reason why we are not sitting at the same localisation rate as some of our competitor countries, is that those very products are not being assembled at great volumes here.

Does the fact that South Africa operates primarily through a completely knocked-down (CKD) assembly model affect the global competitiveness of South Africa's automotive industry, and thus the supply chain?

All of the assembly plants in South Africa use CKD kits, and our intention is that a greater percentage of that CKD kit should be sourced in South Africa. I think it is a fair assessment that if you run a CKD assembly model, levels of global competitiveness will obviously increase as the level of localisation into that assembly model increases as well.

If a foreign OEM were to set up local production in South Africa, how would this affect the supply chain?

It is a proven global trend that a volume increase equals an improvement to the level of local content, and I think it would be fantastic to introduce a new source of production into South Africa. Again, it comes down to volumes leading to economies of scale; it is important to

realise that South Africa's total production of vehicles is 0.6% of global production. If that figure roughly doubles to capture 1.2% of the global market, this would immediately create a business case for supplier localisation, which no other form of artificial intervention can provide.

How would you describe the level of capacity utilisation in South Africa today – would suppliers be able to absorb a spike in new vehicle demand?

I think there is sufficient capacity to absorb new contracts, but it obviously depends on the supplier in question and the product area in which it operates.

When an OEM is considering assembling a vehicle in South Africa, if the capacity does not already exist in the market, the OEM will typically work with its global Tier 1 partners to ensure that they too have a presence in the host country. An OEM that enters South Africa would have convinced any of its suppliers not already in South Africa to set up shop locally, for example. If they are already there, then they will increase capacity accordingly.

Given the way global purchasing works, I don't think it would be reasonable for an OEM to say they will not invest, because the supplier capacity does not exist. If there is a business case for an OEM to be here, then they will ensure that the supply base follows.

Are there any examples you can provide of when this has happened in South Africa?

There are many examples domestically where an OEM has been awarded a new platform in South Africa. They would have sourced that platform in head office, and would have then made a case for their global suppliers to be close to the assembly plant.

Mercedes-Benz was awarded the W205 (the model code for the current C-Class) platform, for example, which is being assembled in South Africa at the



You cannot improve the localisation rate exclusively on the back of Tier 1s; it has to be deep and throughout the value chain. All of those tiers are key, and must be improved in South Africa

moment. I know of many multinational suppliers who were not in South Africa, but eventually came and settled in the East London industrial zone, which is right next door to the Mercedes plant.

Are there any other regions in South Africa that have been established as automotive supplier hubs?

Understandably, the supplier bases have typically developed in cities that host vehicle assembly plants. However, regional governments have also put considerable resources into developing dedicated supplier park facilities. There are four specialised automotive hubs in South Africa, at Pretoria, East London, Port Elizabeth, and Durban.

In the province of Gauteng, for example, most of the OEM plants sit in the northern city of Pretoria, which has a world-class automotive supplier park. A number of suppliers have settled there, and are on the doorstep of some of the largest assembly plants in South Africa (BMW, Ford and Nissan).

Tier 2, Tier 3 and materials suppliers are also important elements of the supply chain. How are these companies developing in South Africa?

This is a big area of improvement that we need to work on in the South African supplier base.

We have made very good progress in maintaining an assembly base, which typically brings its own set of Tier 1 manufacturers. It is no coincidence that most of the Tier 1s here are multinational companies. But where we need to spend time and focus on is the development of the Tier 2 and Tier 3 base.

I believe this area is where many of the opportunities are going to exist in the future as we look to develop localisation. You cannot improve the localisation rate exclusively on the back of Tier 1s; it has to be deep and throughout the value chain. All of those tiers are key, and must be improved in South Africa.

How has the Automotive Production Development Plan (APDP) improved the level of supplier localisation since its implementation back in 2013?

The APDP has been fantastic in terms of maintaining and stabilising the assembly base in South Africa, but we believe the next phase of policy support should look at how to stimulate further localisation growth. But during the period of the APDP, we haven't seen significant gains in localisation, and in fact over the last two or three years we've even seen a localisation rate decrease.

Having said that, we also understand that the APDP was designed before the market crash of 2008, and some of the assembly volumes that had been predicted did not materialise. The expectation was that as volumes increased, this would filter down into the supply chain and have a natural impact on the localisation rate, but that never happened.

NAACAM is deeply involved in the development of the next phase of policy support post-2020, and we are currently pushing for a much stronger stimulus for localisation.

Do you expect this to be taken on board following an update to the APDP?

We as an industry, including all of our stakeholders and the government, have agreed on the requirement for a South African automotive market plan to 2035. At the centre of that has been understanding how we want the sector to look by 2035.

Once we all agreed on the objectives behind that, we began the process of developing the policy framework that is needed to support that. Although it has not been finalised and still needs to go through the cabinet approval process here in South Africa, we are confident that the replacement to the APDP programme will have a greater impetus on supplier localisation.

Political and economic stability – it's what investors in Africa want, says supplier

Compared to other regions in North Africa, Morocco's political and economic stability has proven a useful attribute for attracting foreign investment

Morocco has become a popular destination for automotive manufacturers in recent years, due in part to its favourable location for global exports, but also the relative stability of the domestic market. Government incentives have created an attractive proposition for those looking to gain access to the wider African market, and many suppliers have taken advantage of free trade areas to set up shop on Moroccan shores.

Spanish Tier 1 supplier Ficosa, which produces a range of automotive products such as active safety cameras, battery management systems for electric vehicles and gear shifter systems, recently invested €50m (US\$61.3m) in a new production facility in the Moroccan capital of Rabat. Not only would this be the company's first production facility in Africa, it will also stand as the group's global centre of excellence for automotive cameras.

Javier Pujol, Chief Executive of Ficosa, highlighted the country as a low-risk investment opportunity. "We looked at Morocco for several reasons, and a very important one factor was the country's economic and

political stability," he told *Automotive World*. "There is also very low inflation, which is extremely important in order for economic stability."

Morocco has not always been lauded for a stable economic climate, and over the past decade or so has faced periods of difficulty. Back in August 2012, the country was approved a US\$6.2bn liquidity line as a pre-emptive measure to protect against fluctuating oil prices and a potential downturn in the country. At the time, Dominique Guillaume, Morocco's Mission Chief, told the International Monetary Fund (IMF) that the country had "solid economic fundamentals" but noted that "uncertainties about the euro zone and oil price increases pose risks."

However, compared to other markets in North Africa, the country has remained comparatively stable. In 2010, human rights protests during the so-called Arab Spring crippled the already weak Tunisian and Egyptian economies, along with other Arab nations. The respective ousting of Zine el-Abdine Ben Ali and Hosni Mubarak from power was hoped to spark political and economic reform in Tunisia and Egypt, but



Political stability is extremely important – if not critical – when investing in these emerging markets



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instead led to continued unrest and downturn in following years. In 2015, Egypt's new vehicle market fell 69% from 2010 levels to just 36,000 vehicles. In August 2013, the country's largest vehicle manufacturer, General Motors, was forced to temporarily close its assembly plant in Cairo due to continued protests.

Morocco has not been completely free of social unrest, and more recently in June 2017, thousands of protesters gathered in the capital of Rabat to support allegations of government corruption in Morocco's northern areas of Rif and Al-Hoceima. This aside, Morocco is generally considered as a haven for stability in the North African region, and has garnered interest from foreign manufacturers looking to make low-risk investments. In 2017, the Moroccan economy grew by approximately 4.4% according to the IMF.

"Today, there is a very strong ecosystem in Morocco," commented Ficosa's Pujol. "And that, together with the political stability, is extremely important – if not critical – when investing in these emerging markets."

Local attraction

For Ficosa, the attraction to invest in Morocco was also influenced by the presence of PSA Groupe and Renault-Nissan; the former is constructing a plant in Kenitra – just outside of Rabat – whilst the latter already operates plants in Casablanca and Tangier. "We are setting up operations in Morocco to supply Renault-Nissan and PSA locally," confirmed Pujol.

The city of Rabat in particular offered more than just a close proximity to these OEMs. Ficosa's new facility will be located in the Technopolis 'city of technology', which was established in 2008 as part of a government programme to develop domestic technology and software capabilities. The park also features modern highways that connecting with the global export hubs of Tangier and Casablanca to the north, as well as Morocco's second largest city, Fez.

Then there is the fact that the local supply base in Morocco is well developed to support Ficosa's needs, particularly in terms of one of its main procurement areas: wire harnesses. "We have a high consumption of wire harnesses at Ficosa, and there is an important global hub of wire harness production in Morocco," explained Pujol. "Almost all of the major suppliers are there."

For example, German supplier Leoni has a wire harness plant in Casablanca, and in January 2018 French supplier Acome launched a new plant in Tangier.

Waging the talent war

Ficosa will use Morocco as a global hub for the production of active safety cameras, a complex technology that requires "sophisticated talent", said Pujol, not only in terms of manufacturing competence but also in software engineering. Ficosa has a captive audience of prospective employees in the Technopolis science park, which is also home to the International University of Rabat.

"It was extremely important for us to be located in the Technopolis area to be part of this ecosystem of universities and high-tech companies," he added. This is partly why Rabat was chosen over Tangier, which is primarily an area dedicated to manufacturing. The demographics are favourable in this sense; Morocco is home to around 35 million people, with more than half below the age of 35. Pujol added that there is also scope to tap into the market's "interesting employment rate," which is neither high nor low at around 11%.

The plant in Rabat should create around 700 new jobs in the region, but it will not necessarily be easy to fill those positions; Ficosa is not the only company looking to snap up talent, and will have to compete with other suppliers, as well the outflow of graduates to PSA in Kenitra and Renault-Nissan in Tangier. "To say that securing these jobs will be easy is a bit too optimistic. With the massive investments from PSA,



The message from the cabinet was that Morocco would not be able to attract foreign investment and develop as a global supply hub unless safety and security was a top priority

Renault-Nissan and a lot of other Tier 1s, there is going to be a war for talent,” warned Pujol. “This is already happening, but it is going to become worse.”

To set itself apart from the pack, Ficosa will also be opening a supplementary engineering centre to support the rapid growth in camera production at its Rabat facility. “This means that we are also looking for high-end talent in addition to traditional engineering skills, which makes us a little different to some of the other companies here,” affirmed Pujol. “In order to grab and retain talent, you need to do something different.”

Targeting exports

The Moroccan government has made efforts to industrialise the country and encourage manufacturers to set up local facilities. A key driver of this was the creation of several free trade zones, which have continued to attract foreign companies over the last few years. Incentives are also offered to local manufacturers in terms of tax breaks, with additional benefits offered to those companies bringing new, differentiating technologies to the market – such as cameras used for advanced driver assistance systems (ADAS).

“There is a strong commitment from the Moroccan government to attain foreign investment in order to modernise the country,” commented Pujol. “It has created a very strong platform to not only set up business for Morocco and Africa, but also to export elsewhere through global trade agreements with the US, Europe, Africa and the Middle East.”

All of the cameras made by Ficosa in Morocco will be exported out of the country to developed markets where demand for active safety systems is necessitating the integration of camera sensors in new vehicles. The Rabat facility will also produce electric

cable sets, and ‘traditional’ products for the domestic market such as rear-view mirrors, shifter systems and washer systems, primarily for Renault-Nissan and PSA. The majority of these products will use local parts sourced in Morocco.

The current business plan is to produce 14 million cameras between 2019 and 2022, with approximately €150m in annual revenue by 2022. In future, there may be an opportunity to leverage demand in the domestic market as vehicles begin to integrate more advanced technologies.

Pujol recognised that while Morocco may not be the most obvious market to develop ADAS related hardware today, it is well placed to capitalise on any long-term growth potential. “Regulations are driving the adoption of these technologies, and if you look at the ideal short-term location, some people could question whether Morocco is the right decision,” he said. “However, our assessment is that in the long-term, it is a good location as these emerging markets will have nice volume growth of these safety devices in future.”

It is also worth noting the assurance that has been provided to investors with regards to security in Morocco, a market that has been highlighted as a potential target for Islamic State terror attacks given its proximity to Europe. However, the 2017 Global Terrorism Index ranks Morocco as 123 out of 163 countries, with developed markets such as France and the US considered far more dangerous at ranks 23 and 32 respectively.

In discussions with the Moroccan government, it became clear to Ficosa executives that security was “a number one priority”, explained Pujol. “The message from the cabinet was that Morocco would not be able to attract foreign investment and develop as a global supply hub unless safety and security was a top priority,” he concluded.

Morocco opens up to investment, reaps rewards

By creating areas of free trade in the country, Morocco has become an attractive entry point into Africa

Investment has been flooding into Morocco in recent years, with steps taken to promote the country as a manufacturing and export hub having worked wonders.

In an effort to present Morocco as an attractive investment proposition, its government had created a number of free trade areas – generally referred to as ‘free zones’ – in key coastal locations in the country. To date, a handful of OEMs and numerous Tier 1 suppliers and technology developers have set up shop in and around Tangier, Kenitra, and the dedicated Technopolis science park located in the capital, Rabat. Companies that have established a local presence within these free zones are exempt from customs regulations and foreign trade and exchange control.

“We have dismantled our customs barriers,” said Moulay Hafid Elalamy, Morocco’s Minister of Industry, Investment, Trade, and Digital Economy, during an event held at Renault-Nissan’s plant in Tangier back in July 2017. “We said we would open up to globalisation in order to enhance our competitiveness. If [foreign manufacturers] do not see this niche, they will not come to the country; this is why we decided to carve out this niche.”

Companies across the automotive value chain have seen an opportunity to not only leverage these free zones as attractive export hubs, but also as a way to tap into the wider African continent.

OEM investments lead the way

Early investments have helped to lay the foundation for continued interest in the market today. Groupe Renault has been assembling vehicles in Casablanca for nearly two decades; in 1999 the plant began assembling the Kangoo, and from 2005 added the Dacia Logan, with the Dacia Sandero and Sandero Stepway variant in production since 2009. In September 2007, the French OEM announced that a second plant would be established in Morocco, this time in Tangier.

With a planned maximum capacity of 400,000 units, this plant would be the largest automotive manufacturing operation in the country; as of July 2017, the plant was running at close to 340,000 units per year, with 1,150 cars produced each day. Most vehicles that leave this plant only have a fleeting visit in Morocco, with 95% exported elsewhere from Tangier Port. Mehdi Tazi Riffi, a board member of the Tanger Med Special Agency (TMSA), described the Strait of



Morocco remains the standout market in North Africa

- BMI Research



We have dismantled our customs barriers

- Moulay Hafid Elalamy, Minister of Industry, Morocco

Gibraltar on which Tangier Port sits as “essentially one of the busiest points in terms of global trade.”

In June 2015, PSA Peugeot Citroen – now rebranded as PSA Group – announced plans to construct a plant in Kenitra, 50km (31 miles) north of Rabat. The plant should be operational in 2019, and will produce engines and B- and C-segment vehicles. Initial local content levels will be at 60%, growing to 80% in future. “Local automotive equipment suppliers are set to enjoy very sharp business growth,” the company noted.

In December 2017, Chinese electric vehicle (EV) giant BYD signed a Memorandum of Understanding (MoU) with the Moroccan government in Casablanca, which will see the OEM establish a battery factory, an ‘electric tourism vehicle factory’, and an electric truck and bus factory. In addition, the company plans to locally produce monorail train carriages; the first of its so-called ‘Skyrail’ lines opened in Yinchuan, China late in 2017.

Speaking at an event held at the Renault-Nissan Tangier plant in July 2017, Marc Nassif, Managing Director of Renault Morocco, welcomed competition from other manufacturers entering Morocco, suggesting it would ultimately benefit the domestic automotive industry. However, he underlined that Renault has no intentions of losing its spot as the leading vehicle manufacturer in the country, and intends to up its activities to stay ahead.

“Those who decide to set up shop alongside Renault are most welcome, but when you are a leader in a market, you want to remain as such,” he explained. “What makes us optimistic is the size of the Moroccan market; there is much room for growth. We believe the Moroccan market can make room for other competitors, but we have to remain leaders and we will double our efforts to that end.”

Supplier activity rises

The Moroccan government is aware that the local supply base must be able to support a spike in demand for components and systems, and has been able to attract a significant number of Tier 1s in recent years.

“A number of suppliers have come in to establish a supply chain so that the country does not have to import parts from overseas and from South Africa,” observed Fabrice Gatwabayege, Research Analyst, Autos at BMI Research. “These suppliers are located within close proximity to major OEMs that are producing in the free industrial zones, and there is a government push to help encourage more localisation of componentry in the country.”

In July 2017, Faurecia opened a new seating plant in Salé, just outside of Rabat, which would supply seat covers for the Peugeot 3008 and 5008. The French supplier has been present in Morocco since 2009, with another plant in Kenitra.

In September 2017, Magneti Marelli signed a €37m (US\$45.5m) agreement to set up a new shock-absorber manufacturing plant in Tangier’s free zone. Production is slated for 2019, with production capacity of six million units when fully operational.

Then in November, US seating supplier Lear Corporation expanded its presence in Morocco by adding a fifth plant – this time in Tangier – to join others that had previously been set up in Kinitra and Rabat.

In December 2017, the Moroccan government announced that it had inked 26 automotive projects worth a combined total of €1.23bn, including contracts with Renault that would see the OEM increase its percentage of local parts sourcing to 55%.



Those who decide to set up shop alongside Renault are most welcome, but when you are a leader in a market, you want to remain as such

- Marc Nassif, Managing Director, Renault Morocco

February 2018 was a busy month for supplier announcements. Metal components specialist Gestamp announced that it had signed a joint venture agreement with local component manufacturer Tuyauto, marking the company's first move into Africa. Subject to approval, the transaction will facilitate the construction of a greenfield plant in Kenitra, in close proximity to PSA's factory. "Morocco in particular and Africa as a whole are emerging markets with great growth potential in vehicle manufacturing," commented Francisco Riberas, Executive Chairman of Gestamp.

Nexteer Automotive announced that its first facility in Africa – an electric power steering manufacturing plant – would be located in Kenitra, with production due to commence in 2019. This announcement followed an agreement with the Moroccan Government that was signed in July 2017. Hervé Boyer, Vice President and Chief Operating Officer, Europe and South America Division at Nexteer, remarked that this would allow the supplier to "expand our geographic operations' reach in both Africa and Europe."

Also in February, government agency Invest in Morocco announced that Nanjing Aotecar New Energy Technology (NANET), a Chinese supplier of automotive cooling systems, would construct a plant in the free zone of Kenitra. In the same month, French wiring and cabling supplier Acome also launched a €19m facility in the Tangier Free Zone, with 75% of its annual production to be exported out of Morocco.

In March 2018, Spanish component supplier Ficosa launched a production centre in Technopolis Rabat following a €50m investment. Moulay Hafid Elalamy, Morocco's Minister of Industry, Investment, Trade, and Digital Economy, said this further strengthened Morocco's domestic capabilities in high-tech development, and highlighted how the local automotive value chain is continuing to diversify.

Opening up to globalisation

Speaking at the aforementioned Renault-Nissan event in July 2017, Elalamy elaborated on the Moroccan government's push to attract and retain manufacturers in the country. "If you do not look after their interests, they will not stay, and they will not come in the first place," he advised. "We have to listen to the concerns of our investors, build that spinal cord of infrastructure, and then create those growth drivers."

Despite the continued influx of foreign companies into Morocco, the government is pushing hard to further strengthen the supply chain and increase domestic vehicle manufacturing. This, said Elalamy, would only come if the business case to set up local operations is made crystal clear. "Our purpose is to help Morocco become industrialised. At my desk, I am dealing with new and potential investors, many of which are foreign. Morocco has become so appealing industrially, but when investors come to your country, it is not for the sake of it – it is for profit," he emphasised.

As of July 2017, Elalamy advised that the Moroccan government was currently in communication with various vehicle manufacturers with regard to potential investment deals. When pushed for names of any prospective OEMs, he quipped: "You'll have to put me in the electric chair to get that answer."

BMI Research noted in March 2018 that "Morocco remains the standout market in North Africa," highlighting improvement in consumer confidence and growth of the tourism industry as key factors: "An uptick in tourist arrivals requiring hire cars will drive sales of passenger cars, which we forecast to grow 5%, while investment in infrastructure projects and a subsidy scheme to encourage the replacement of older heavy commercial vehicles and buses will contribute to growth of 7% in the commercial vehicle segment."

South Africa urged to adopt new emissions standards

The adoption of standards that curb CO2 emissions and improve fuel economy would be a win-win for both the government and consumers

South Africa may have the most developed automotive market on the African continent, but recent analysis has brought into question its approach to reducing vehicle CO2 emissions.

January 2018 research from the International Council on Clean Transportation (ICCT) found that although Europe has a heavier vehicle fleet in terms of gross vehicle weight, South Africa's fleet still emits more CO2, highlighting a slow uptake of efficient technologies and a lack of government impetus to enforce stricter standards.

Instead, efforts have been focused on growing light vehicle production figures as a whole, with the Automotive Production Development Plan (APDP) targeting 1.2 million new light vehicle sales by 2020. While many regard this figure as 'optimistic' at best, the new light vehicle market is projected to grow significantly in coming years. With relatively inefficient

vehicles entering the market at a growing rate, there could be a considerable spike in vehicle CO2 emissions unless measures are put in place.

As such, the ICCT has called for South African policymakers and stakeholders to adopt new fuel economy standards, which would subsequently help to curb CO2 emissions. According to analysis from the non-profit organisation, the average CO2 emissions of a new passenger car in South Africa was 148 grams of CO2 per kilometre in 2015, a figure 22% higher than the European average of 121g CO2/km.

How much of a priority is clean air?

The South African government is aware of the challenge it faces with regard to CO2 emissions and fuel economy standards, and is taking steps to investigate the issue. "The Department of Transport is working to understand the benefits of adopting a potential standard, and what the costs could be," Francisco Posada, a Senior Researcher at the ICCT, told *Automotive World*. "However, as of yet there is no official position we can refer to, as no documents have been made public by government officials yet."

Historically, there has been a lack of awareness around fuel economy and its impact on vehicle emissions in many African countries. However, "an increasing number of environmental, transport and energy officials are getting exposed to these types of policies, which have historically only been in the hands of very technical research institutions and academia," added Posada.

“*Adopting fuel economy standards is one of the most promising policies for South Africa*”



There is a very low penetration of very efficient technologies, and thus vehicles that emit anything below 90g CO₂/km are almost non-existent in the South African market

Many developed markets elsewhere have set specific targets for the reduction of CO₂ emissions from private transportation, but South Africa is yet to make any form of official mandate. For now, its plans are more generalised by targeting a reduction of total greenhouse gases emitted in the country.

“But the private transport sector is a clear option out of various areas that could be targeted, such as industrial or residential emissions,” suggested Posada. “The government is looking at a wide variety of options, and we believe that adopting fuel economy standards is one of the most promising policies for South Africa.”

Lacking efficiency

Considering the relative economic development of South Africa compared to Europe, and the maturity of their respective automotive markets, it is not wholly surprising to see the former with a less efficient vehicle fleet. However, Posada explained that these figures are exacerbated by the fact that South Africa’s fleet is in fact 5% lighter than in Europe.

“It was quite surprising to find this, because a lighter fleet is supposed to be more efficient,” he remarked, “but I think there is a partial explanation. There is a very low penetration of very efficient technologies, and thus vehicles that emit anything below 90g CO₂/km are almost non-existent in the South African market.”

In 2018, the ICCT will investigate this issue in more detail by carrying out a model-by-model study to compare the level of technology used in South African cars against European models. For example, this could involve checking a 1.6-litre gasoline Toyota Corolla from South Africa against a similar European vehicle, highlighting where the South African vehicle may be lagging behind. There are various models sold in South Africa that use four-speed gearboxes, for example, a dated technology that was phased out some time ago in Europe for its inefficiency.

A growing market

In 2015, gasoline took an 82.9% share of South Africa’s new light vehicle market. Diesel followed with 16.9% of sales, whilst hybrids and electric vehicles (EVs) accounted for just 0.1% of the market, with very few models available to consumers today – the BMW i3 and Nissan Leaf. A lack of supporting infrastructure across the country will not aid the uptake of these clean alternatives, which could otherwise prove extremely useful in slashing CO₂ emissions.

“These EV models are not huge sellers in South Africa today,” commented Fabrice Gatwabayege, Research Analyst, Autos at BMI Research. “Infrastructure is lagging and charging points are not widely available, except at some dealerships or shopping malls. It will take quite a long period of time for EVs to be widely available here.”

In order to achieve significant CO₂ reductions, the onus will rest on gasoline and diesel vehicles. Generally speaking, diesel cars emit less CO₂ than a gasoline equivalent, but interestingly, the average diesel car in South Africa emits 166g CO₂/km, which is 21g CO₂/km more than the average gasoline vehicle. Part of the problem is that SUVs are one of the most popular vehicle segments in the country, and more than half of new SUVs sold in South Africa feature a diesel engine. This shows that it is not only gasoline vehicle technology that needs to be addressed – the typical cause of rising CO₂ emissions from a passenger car fleet – but also diesels.

At the same time, new passenger car sales are projected to grow in coming years, creating a scenario where a growing number of highly inefficient vehicles will enter the market. In 2013, the South African government implemented an Automotive Production and Development Plan (APDP) to produce 1.2 million new light vehicles annually by 2020. Recent forecasts are more conservative; the International Energy



The introduction of fuel efficiency standards could spur the adoption of new vehicles, as fuel cost savings can be realised by consumers immediately

Agency Mobility Model (MoMo) projects new passenger vehicle sales to hit 600,000 units by 2030, and 800,000 units by 2050.

Posada believes that the adoption of a new fuel economy or CO2 emissions standard will – at the very least – help to mitigate the rise in emissions that would come from a growing passenger car fleet.

Best results from long-term targets

The ICCT has laid out three scenarios, ranging from a baseline case where no emissions standards are adopted, a short-term standard from 2020 to 2024, and a long-term standard between 2020 and 2030.

According to the study, the latter scenarios would both bring a 4.1% annual reduction to average CO2 emissions from the South African passenger car fleet. However, only the long-term scenario would create an overall reduction in CO2 emissions from the passenger car fleet; the short-term scenario would simply reduce the impact of a growing fleet, not cancel it out. The long-term scenario would also lead to fuel consumption savings of 4.7 billion litres between 2020 and 2030.

In the long-term scenario, OEMs would be required to meet 95g CO2/km by 2030 – the same target OEMs in Europe must meet by 2020. If this standard is enforced during this time frame, the average South African vehicle would consume 36% less fuel than vehicles on the market today.

Today, many vehicles are sold with technology equivalent to Euro 2-4, but Posada explained that automotive stakeholders are keen to push for Euro 6 in the near-term. “If the government decides to go ahead with fuel economy standards, then we will have to start working to improve the standards to Euro 6,” said Posada, “and it is my understanding that manufacturers have been trying to push the government in that direction.”

Spurring adoption

South Africa currently carries out vehicle certification under the New European Driving Cycle (NEDC), which Europe recently scrapped in favour of the World Harmonized Light Vehicle Test Cycle (WLTC) and Real Driving Emissions (RDE) test. The NEDC procedure was shown to produce unrealistically efficient test results under laboratory conditions, but there are no plans to transition South Africa away from the NEDC cycle just yet.



It is unclear exactly how any firm legislation will materialise, or when

Today, South Africa is focused primarily on ramping up automotive activities, and is catering to a market that demands budget vehicles. Introducing fuel efficiency standards would require the gradual integration of more efficient technologies, but this is unlikely to drive the market down or discourage the purchase of such vehicles. In fact, the introduction of fuel efficiency standards could spur the adoption of new vehicles, as fuel cost savings can be realised by consumers immediately.

For now, CO2 emissions reduction is firmly on the agenda for both government authorities and automotive stakeholders, but it is unclear exactly how any firm legislation will materialise, or when.

Key trends in Africa's automotive market

Continued reliance on vehicle assembly and low purchasing power will prevail for auto manufacturers in Africa, but the new continent-wide trade deal could break down barriers and generate growth

There are various macro trends affecting the economic development within key regions of Africa, but one of the most significant factors that could have profound implications for the African automotive industry is the pending formation of a continent-wide free trade zone.

Earlier in March, the majority of the 55-member strong African Union signed the agreement during an official meeting in the Rwandan capital of Kigali. The so called African Continental Free Trade Area (AfCFTA) agreement received initial backing from 44 member states within Africa. Through the agreement, member countries will remove import tariffs on 90% of goods, which is expected to boost trade between African countries by more than 50%.

The deal has not been met with absolute support, however; notably, Nigeria has voiced concerns and is yet to sign the agreement. South Africa has also been highlighted for not signing in Kigali, but Trade and Industry Minister, Rob Davies, later assured media that the country has “no reservations or differences”, and has purely had to delay the process for technical reasons.

Nigerian President Muhammadu Buhari has suggested that the country's manufacturing capabilities could fall behind as a result of the AfCFTA. “We will not agree to anything that will undermine local manufacturers and entrepreneurs, or that may lead to Nigeria becoming a dumping ground for finished goods,” he tweeted on 21 March 2018. Further discussions were necessary, according to the Nigerian government.

By comparison, Nigerian law firm Kusamotu & Kusamotu has highlighted the benefits of expanding intra-African trade, which currently sits at around 17%.

“Should the AfCFTA come into effect it will have wide ranging benefits for the African automotive industry

“The African continent over the centuries has traded more with the rest of the world and very little with itself,” it noted in March 2018. An increase in foreign direct investment is also expected.

“Should the AfCFTA come into effect, it will have wide ranging benefits for the African automotive industry,” Fabrice Gatwabyege, Research Analyst, Autos at BMI Research, told *Automotive World*. Vehicle manufacturers would face lower costs when importing components for local manufacturing, as well as reduced tariffs on finished vehicles that are shared across various borders in the continent. “This will therefore create a more open market for OEMs to launch sales and production operations,” he explained.

In addition, the African supply chain – an area that is generally considered to be lagging – would benefit from ‘multi-country supply chains’, said Gatwabyege, “where OEMs could source materials or labour from whichever country is best suited for the job.” What's more, OEMs and suppliers would be able to set up facilities and supply chains “in the best possible location, which would make Africa more competitive in the global market.”

Interestingly, Africa's two strongest automotive markets sit at polar opposites of the continent, with Morocco in the north and South Africa at the base. The formation of the AfCFTA would allow for "the transfer of technology and skills" from these established markets to "up and coming markets like Kenya, Nigeria and Ethiopia," added Gatwabuyege.

Helene Mellquist, Senior Vice President of Volvo Trucks International, suggested that the formation of the AfCFTA would ultimately be a positive for the brand's operations in the continent. "When we gain transparency in the political system and have agreements that can increase trade, that is positive for us," she commented. "You also get a growing middle class and people get into work. With that, the logistics business starts to move as well."

Javier Pujol, Chief Executive of Spanish Tier 1 supplier Ficosa suggested that the AfCFTA would open up a raft of new opportunities to trade within Africa from its hub in Morocco. "Morocco is an ideal platform to sell not only to Mediterranean countries, but also with African countries on the continent."

A push for localisation

Many markets in Africa have implemented policies to catalyse the growth of domestic manufacturing, primarily by penalising the import of finished vehicles, and incentivising manufacturers that assemble vehicles locally.

"We wouldn't implement local production with low volumes if those lowered import duties were not applicable, since it would normally drive higher costs for us," noted Johan Gembäck, Sales Director, Sales Trucks Africa and Asia-Pacific at Scania.

Karim Tinawi, Director, Portfolio Planning and Programme Management at General Motors North Africa, also voiced support for localisation. "With any programme that we work on, our goal is to increase local content with our local suppliers in Egypt," he affirmed.

Virtually no vehicles are produced from scratch in Africa, with vehicles imported in unassembled completely knocked-down (CKD) assembly kits. Many would like to see a larger portion of these kits being made in Africa instead of being brought in from elsewhere.

"All of the assembly plants in South Africa use CKD kits, and our intention is that a greater percentage of that CKD kit should be sourced in South Africa,"

“*When we gain transparency in the political system and have agreements that can increase trade, that is positive for us*

commented Renai Moothilal, Executive Director of the National Association of Automotive Component and Allied Manufacturers (NAACAM).

Vehicle manufacturing remains an assembly operation

Practically all vehicles in the African market are either produced locally via CKD assembly plants, or imported as finished products into the country from elsewhere.

This is true for both passenger cars and commercial vehicles. Volvo Trucks operates CKD plants in South Africa and Morocco, for example. Scania's largest CKD operation globally is located in Johannesburg.

In Egypt, the country's largest OEM, General Motors, runs a CKD plant in Cairo with manufacturing capacity of 69,000 units per year. Ford and Mercedes-Benz both run major assembly facilities in South Africa, with the former also operating a dedicated engine manufacturing plant in Struandale, Port Elizabeth. Volkswagen and PSA have CKD plants in Algeria and Namibia respectively.

"It is unlikely that the CKD trend will see any notable change in the near-term at least," said BMI Research's Gatwabuyege. "Despite the obvious appeal of high growth potential from an emerging market, OEMs have little incentive to splash out on dedicated manufacturing facilities for the moment. In the current environment, it is more cost effective to simply assemble vehicles in most African markets."

Poor consumer spending power

Poverty remains an issue for many African consumers, and consumer spending power is extremely low for the majority. The Paris-based International Organization of Motor Vehicle Manufacturers (OICA) estimates that

Africa's new passenger vehicle market declined by 12% in 2017, falling from 979,014 in 2016, to 862,907 in 2017.

"Aside from the likes of South Africa, which is a very developed economy, other markets such as Nigeria and Kenya do not have the level of disposable income to afford a new vehicle," observed BMI Research's Gatwabuyege.

This also leads to used imports undercutting the new car market in many African countries. "Most consumers struggle to finance new vehicle purchases owing to their lower purchasing power, a challenge further magnified by the lack of proper vehicle financing options," wrote Indraneel Bardhan of EOS Intelligence for *Automotive World*. "Instead, consumers steer towards purchasing cheaper used cars imported from the US, Europe, and Asia."

A growing middle class in more developed markets in Africa is expected to boost e-commerce and thus drive growth in the commercial vehicle market, although stakeholders are uncertain as to when this benefit may be felt.

Curbing emissions

The influx of used imported vehicles has also had an impact on air quality, a topic that is becoming increasingly prevalent in Africa today. Many governments are investigating ways to crack down on vehicle emissions, in particular by increasing the cost of vehicle imports. "Some markets in East Africa are starting to restrict vehicles that are being imported into the country because of this issue," noted BMI Research's Gatwabuyege. "These second hand vehicles are huge polluters."

Then there is a move to transition away from the use of private vehicles in urban areas. In Ghana's capital of Accra, traffic congestion and vehicle emissions are soaring. The government has taken steps to encourage public transport, and has worked with Scania to implement a bus rapid transit system (BRTS) in the city.

In South Africa, the government has been urged to adopt fuel economy standards for new vehicles, which would subsequently curb vehicle emissions. According to the International Council for Clean Transportation (ICCT), the average CO2 emissions of a new passenger car in South Africa was 148g of

CO2 per kilometre in 2015 – 22% higher than the European average of 121g CO2/km.

By requiring OEMs to meet 95g CO2/km by 2030, the average South African vehicle would consume 36% less fuel than vehicles on the market today. This would also bring a 4.1% annual reduction to average CO2 emissions from the South African passenger car fleet.

Morocco is a rising star

South Africa is Africa's largest new vehicle market, and is home to a number of foreign vehicle manufacturers. However, Morocco has received a slew of automotive investments of late, and is becoming a major player in vehicle exports.

While only two vehicle manufacturers exist in the country – Renault-Nissan and as of 2019, PSA Group – numerous suppliers across the value chain have set up shop locally. Indeed, while there is an opportunity to supply these OEMs, there is also the prospect of leveraging the country's export links.

Tangier Port lies on the Gibraltar Strait, one of the busiest shipping lanes in the world, and sees almost all Dacia vehicles produced at the Morocco plant shipped globally. Tier 1 supplier Ficoso has also recognised a lucrative export operation with its plant in Rabat, which will export 100% of the cameras it produces for advanced driver assistance systems (ADAS).

The domestic new vehicle market is the second strongest on the continent, behind South Africa.

A chance to diversify sales

With the future make-up of the North American Free Trade Agreement (NAFTA) uncertain and with little clarity on any repercussions from Brexit, global manufacturers across the value chain are eyeing investment opportunities in new emerging markets to diversify sales and spread risk.

Africa could well be an option for those looking to not only reduce their reliance on developed markets, but also to reap the rewards of a high growth market. For now, the mainstays of South Africa and Morocco will continue to attract investment, with other markets such as Namibia, Kenya and Ghana also on the list for some.