Mobilizing Africa’s Automotive Industry for the future

JICA Study for the promotion of African automotive industry: Post-COVID 19 supply chain & mobility reform

Pre-TICAD-8 Seminar

Co-hosted by AAAM

AAAM
African Association of Automotive Manufacturers

24th January 2022

Agenda

08:30 - 10:00 GMT
09:30 - 11:00 WAT
10:30 - 12:00 CAT / SAST
11:30 - 13:00 EAT
17:30 - 19:00 JST

Opening remarks	10 min
• Ms. Keiko Sano – DG Economic Development Dept., JICA • Mr. Dave Coffey – CEO, AAAM	
Presentation of key study findings	25 min
• JICA Study for the promotion of the African automotive industry	
Panel discussion	35 min
Open Q&A	20 min

Opening remarks

Ms. Keiko Sano

Director General, Economic Development Department

JICA

Mr. Dave Coffey

Chief Executive Officer

AAAM

African Association of Automotive Manufacturers

Your MC today:

Mr. Toru Homma

Senior Advisor, Private Sector Development Group

JICA

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Panel discussion — 35 min

Open Q&A — 20 min

Study background

JICA Study for the promotion of African automotive industry: Post-COVID 19 supply chain & mobility reform

Context

The African automotive industry is at a major inflection point:

- Nascent demand for vehicles in Africa
- Potential social & economic impact if manufacturers & service providers locate operations in the region
- Growing policy focus seen across Africa aimed at effectively promoting a viable auto industry
- Dramatic regional & global trends impacting the automotive industry:
  - Innovation trends of CASE/MaaS[1]
  - Influence of COVID-19
  - Rise of carbon neutrality regulations globally
  - Regional opportunities arising from AfCFTA[2]

As a result, there is an increasing need for coordinated & informed approaches to promote Africa's auto industry

Objective

Establish a vision & recommendation on how stakeholders can support African auto industry in an integrated & effective way

- Pan-African vision and recommendations
- Five country deep-dives:
  - Ethiopia, Ghana, Kenya, Nigeria and South Africa

Commenced in May 2021 and consulted more than 120 stakeholders from the public and private sectors in the target countries, region and global HQs

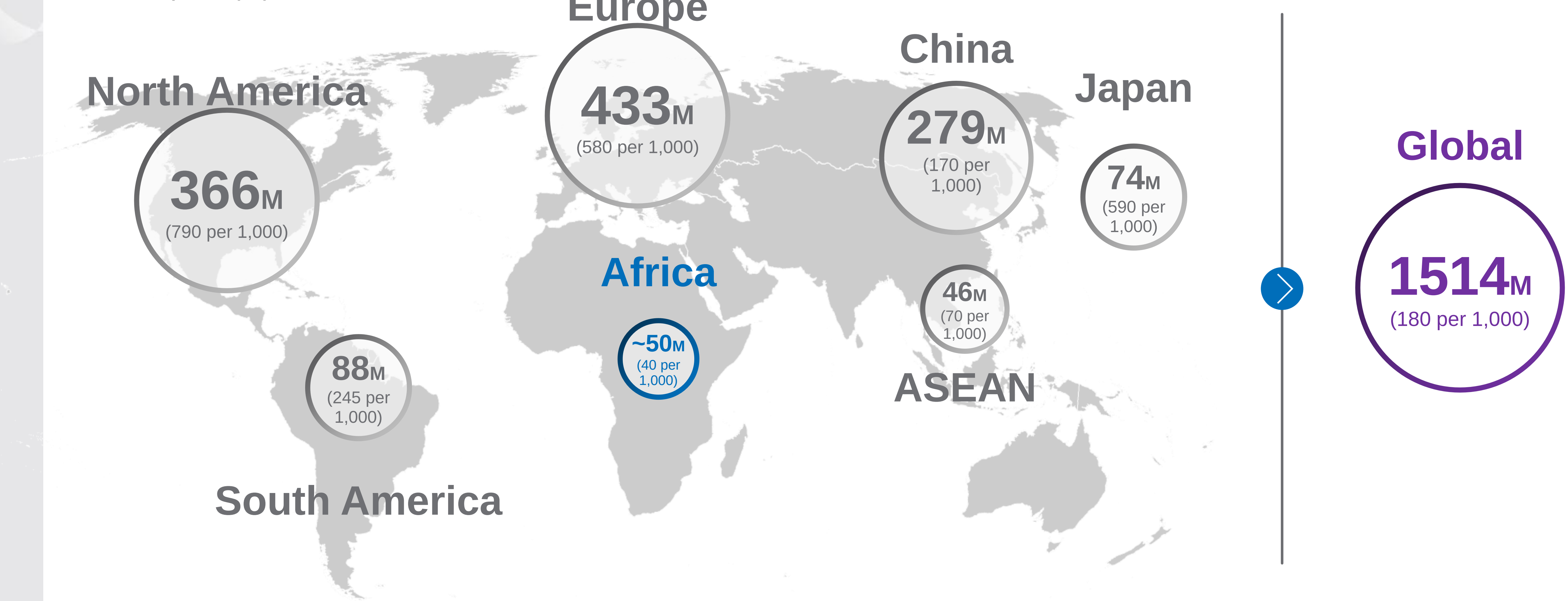
Proposals will be finalized and shared in a Final Report ahead of discussion at the Japan-Africa forum, known as TICAD8[3], later in 2022 in Tunisia

1. Connected, Autonomous, Shared and Electric (CASE) and Mobility as a Service (MaaS) 2. African Continental Free Trade Area (AfCFTA) 3. 8th Tokyo International Conference of African Development (TICAD8)

Current state of the African automotive industry

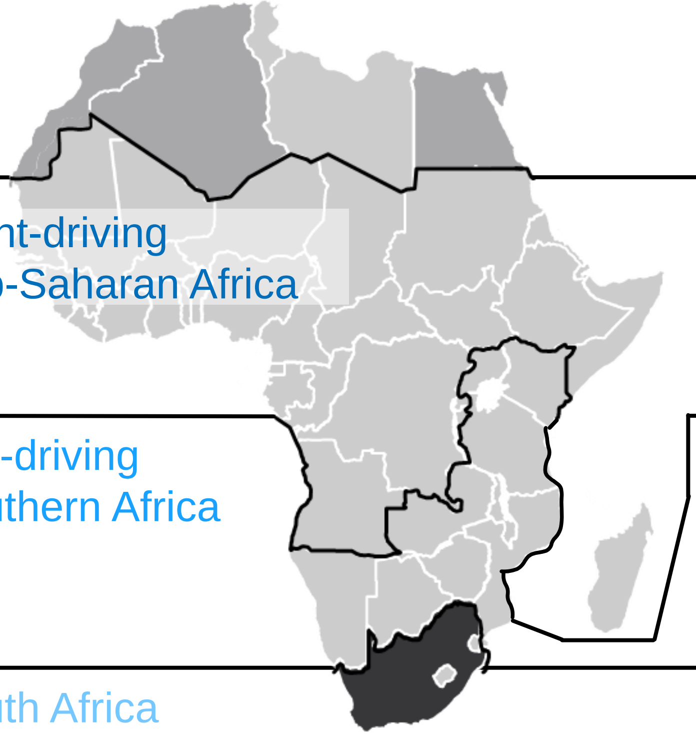
Africa's automotive industry is small by global standards – one ninth of Europe with almost double the population; world's lowest motorisation rates

Total car parc (M) in 2020



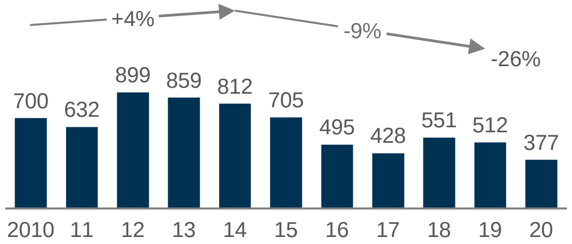
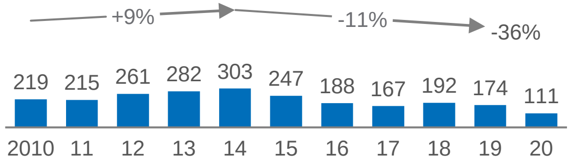
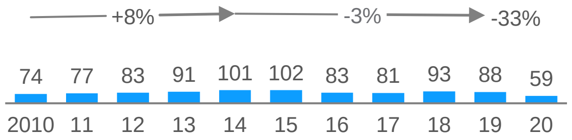
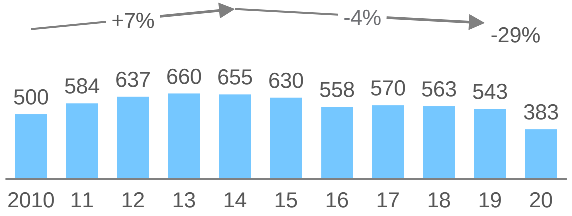
Sources: IHS Markit, Automotive Industry Export Council, ASEAN

New sales market is also nascent, fragmented and highly concentrated



New vehicle sales 2019

- >500K (1x)
- 100K – 200K (3x)
- 200K – 500K (0x)
- <100K (46x)

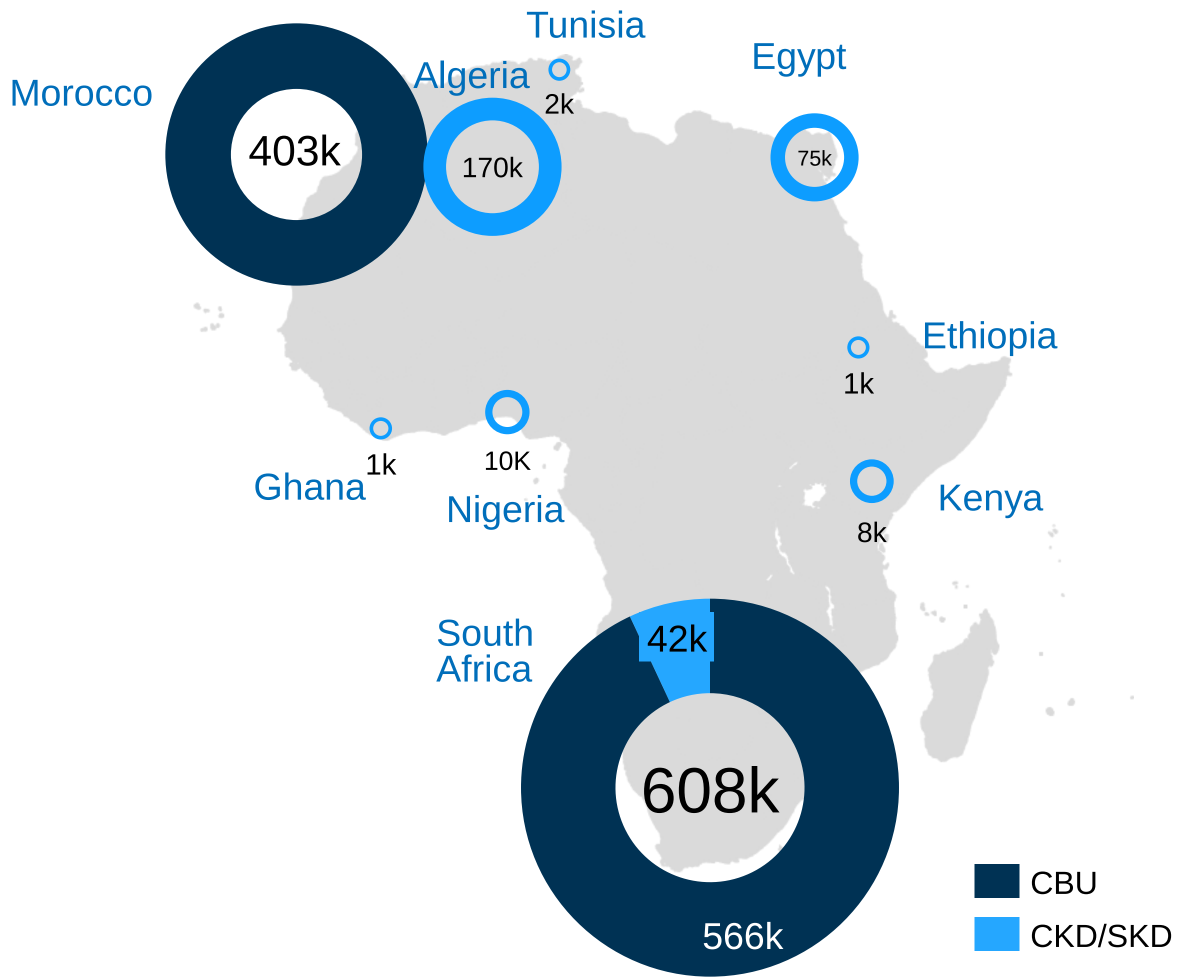
	Population	GDP per capita	Passenger vehicle sales (new)[1]	
The North African Belt	200M	$11K		512K 2019
Right-driving Sub-Saharan Africa	800M	$3K		174K 2019
Left-driving Southern Africa	250M	$3K		88K 2019
South Africa	60M	$12K		543K 2019

1. New vehicles only 2. Completely Built-Up (CBU) units only Source: IHS Markit, BCG analysis

Scale production is limited to South Africa and Morocco

Elsewhere, small-scale assembly with limited value addition

Production of vehicles per year by process in 2019 (K)



Source: IHS Markit; AfDB; Press search
CBU = Completely Built-Up unit; CKD = Completely Knocked-Down unit; SKD = Semi-Knocked-Down unit

Higher value-added production models require greater market scale

	DKD Negligible local content	SKD <10% local content	CKD ~10-40% local content	CBU >40% local content
	Assembled car is partly disassembled by OEM before export, re-assembled locally	Partly assembled car is exported & assembled with additional parts in destination country	OEM / tier 1 suppliers export parts that are combined with domestically sourced parts and assembled	Parts manufacturing and assembly takes place in the same plant/complex
Min. required scale for total market	<30K new PV sales	<50K new PV sales	50-75K new PV sales	>750K new PV sales
	N/A	<5K new CV sales	5-10K new CV sales	>50K new CV sales

NOTE: Multi-brand assembly can reduce the minimum addressable market for SKD and CKD

Note: DKD = Disassembled/Direct Knocked-Down unit; SKD = Semi-Knocked-Down unit; CKD = Completely Knocked-Down unit; CBU = Completely Built-Up unit; PV = Passenger Vehicle; CV = Commercial Vehicle; OEM = Original Equipment Manufacturer
Note: Scale for Bus manufacture is lower than truck CVs – typically between 1-300 for SKD/CKD & >500 for CBU per plant due to high labour intensity
1. Addressable market includes domestical, regional and international markets. Assuming one assembly/ manufacturer can capture at least 20% of addressable market
Source: Expert interviews and BCG analysis

Four key trends impacting African automotive market

COVID-19 impact

Regional integration

CASE[1] innovations

Carbon neutrality regulations

1. Connected, Autonomous, Shared and Electric (CASE), Mobility as a Service (MaaS)

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Demand shock in 2020-21

Regional producers recovering - new vehicle sales expected to reach pre-crisis levels by 2023

Global supply chain challenges - impacting future choices

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AfCFTA came into force Jan '21

- Timebound tariff elimination
- Auto ROO[2] being finalized
- Risk of protectionism

Africa Auto Pact proposed by AAAM, AFREXIM, ARSO

- To coordinate regional policy, temporarily allow SKD trade from aspiring producers

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1. Connected, Autonomous, Shared and Electric (CASE), Mobility as a Service (MaaS) 2. Rules of origin on regional content requirements 3. e.g., EU Carbon Border Adjustment Mechanism
AFREXIM Bank = African Export-Import Bank; ARSO = African Organisation for Standardisation; AfCFTA = African Continental Free Trade Area

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Connected services growing, esp. in B2B (e.g., fleet mgmt.)

Shared mobility gaining foothold
- Traditional taxis/buses remain affordable choice

NEV adoption lags global trend
- But exporters must adapt (e.g., SA, Morocco)

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Carbon neutrality regulations

Carbon tariff policy in EU[1] others may impact auto trade in future
- Markets are major destination for SA & N. Africa auto exports

Local/regional emission regulation discussions ongoing, early stages

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Country deep-dives | Starting points vary across the continent

	South Africa	Nigeria	Ghana	Kenya	Ethiopia
Vehicle sales[1]					
Vehicle production					
Auto policy					
Major opportunities					
Key challenges					

1. Vehicle sales includes all new additions to vehicle stock annually including used vehicle imports, new vehicle imports and new vehicle production (less exports) 2. Automotive Production and Development Programme 3. South Africa Automotive Masterplan 3. National Automotive Development Plan 4. Ghana Automotive Development Policy 5. National Automotive Policy

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	South Africa	Nigeria	Ghana	Kenya	Ethiopia
Vehicle sales[1]	~550K new				
Vehicle production	~560K CBU ~45K SKD/CKD				
Auto policy	APDP[2]; SAAM[3] 2018 Long-term implementation of stable incentive framework				
Major opportunities	Stable, attractive policy framework Large existing ecosystem of suppliers				
Key challenges	Key export markets shifting to NEV – potential bifurcation of demand Stagnant local demand				

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Major opportunities	Stable, attractive policy framework Large existing ecosystem of suppliers	Potentially large market if new sales incentivized Historic supply base / skills ECOWAS opportunity over longer-term			
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Key challenges	Key export markets shifting to NEV – potential bifurcation of demand Stagnant local demand	Local competitiveness challenged by 2020 vehicle tariff cuts and currency dips	Affordability of new vehicles; used imports are cheaper Currency depreciations		

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Major opportunities	Stable, attractive policy framework Large existing ecosystem of suppliers	Potentially large market if new sales incentivized Historic supply base / skills ECOWAS opportunity over longer-term	Strong policy momentum ECOWAS opportunity over longer-term	NAP tariff plans would boost new vehicle sales EAC doubles addressable market Existing production base	
Key challenges	Key export markets shifting to NEV – potential bifurcation of demand Stagnant local demand	Local competitiveness challenged by 2020 vehicle tariff cuts and currency dips	Affordability of new vehicles; used imports are cheaper Currency depreciations	Delays in full gazettement of NAP and used import limits Affordability of new vehicles	

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Auto policy	APDP[2]; SAAM[3] 2018 Long-term implementation of stable incentive framework	NAIDP[4] 2013 Not fully enacted; recent tariff revisions	GADP[5] 2018 Legislated in 2020; some tariff provisions set to come into force in 2022	NAP[6] 2019 Approved and awaiting full implementation	*Under development as of 2021* Auto excise taxes revised in 2020
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Key challenges	Key export markets shifting to NEV – potential bifurcation of demand Stagnant local demand	Local competitiveness challenged by 2020 vehicle tariff cuts and currency dips	Affordability of new vehicles; used imports are cheaper Currency depreciations	Delays in full gazettement of NAP and used import limits Affordability of new vehicles	Access to FX and currency depreciation No clear automotive policy / specific local incentives

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Future state potential

Future state | Potential future of African automotive industry

Regional market increasingly integrated 2025-40

- Drive regional integration through the AfCFTA, Regional Economic Communities and stakeholder coordination mechanisms (e.g., Africa Auto Pact) to expand addressable market
- Promote green manufacturing and sector development across continent (e.g., carbon neutral production facilities)

African manufacturing poles (SA, N. Africa) adapt and thrive
2022-30

- Facilitate switch to new technology for key exporters markets (NEV, carbon neutral) across supply chain
- Facilitate investment promotion for nearshore manufacturing in N. Africa (esp. Morocco, Egypt), and develop policy where gaps (e.g., Egypt)

North Africa and SA

Regional CKD assembly hubs emerge in rest of SSA
2025-35

- Generate local demand first – clear & stable auto policies, conducive business environment, vehicle finance
- Foster local supply chain – closely linked to viable scale of demand, incl. skills & productivity development

High potential markets (rest of SSA)

Downstream supply chain transformed
2022-40

- Professionalize downstream channels
  - Aftersales formalization, skills development, policy advancement (e.g., vehicle inspections, standards)
- Support innovative mobility solutions for Africa (e.g., Shared; Connected B2B) including incubator/accelerator models

Region-wide

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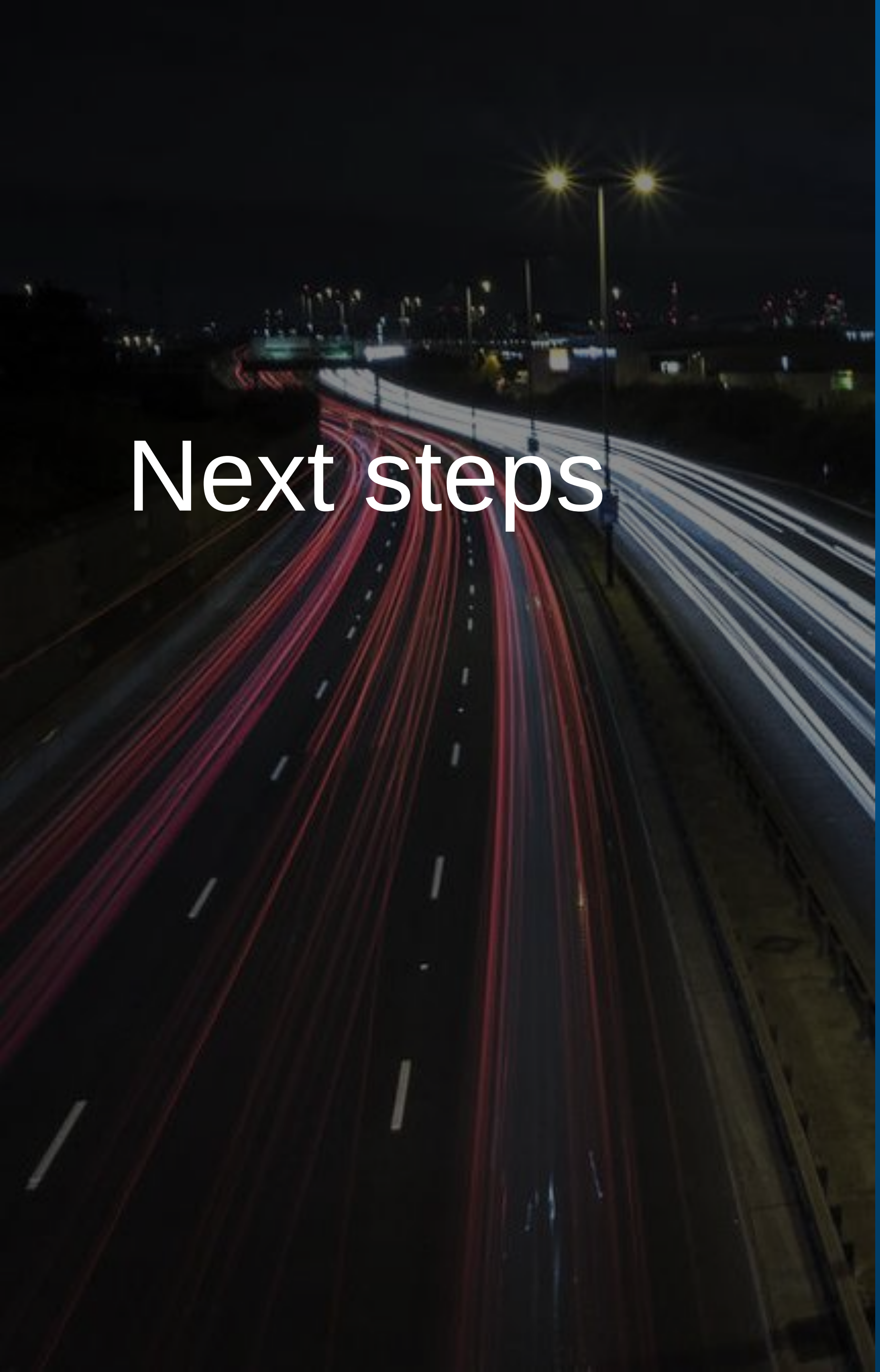

Next steps

The Final Report will be published once finalized and will be shared with all registered participants of today's seminar

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Today's panelists

Mr. Dave Coffey

Chief Executive Officer

AAAM African Association of Automotive Manufacturers

Mr. Themba Khumalo

Principal Advisor, Industrial Development

AfCFTA Secretariat

Ms. Rita Kavashe

Managing Director

ISUZU EAST AFRICA

Dr. Markus Thill

President, Africa

BOSCH

Mr. Takeshi Watanabe

Chief Executive Officer

mobility54 Toyota Tsusho Group

Moderator

Dr. Nikolaus Lang

Managing Director & Senior Partner

BCG

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