The European Union - Service for Foreign Policy Instruments

EU Trade and Investment Policy in Sub-Saharan Africa

Activity 7A

Webinar No.2: Developing The Automotive Industry In Africa – Opportunities For Industrialisation, Job Creation And Green Growth of 14 December 2020

This project is managed and financed by the European Union

A project implemented by AETS and Cardno

Framework Contract N° 310000079–PSF2019

Policy Support Facility for the Implementation of EU Foreign Policy - PSF 2019 Worldwide

Lot 3: Trade and Market Access

Specific Contract N°300002256 – PSF-2019-154

EU Trade and Investment Policy in Sub-Saharan Africa

Report

Webinar No.2: Developing The Automotive Industry In Africa – Opportunities For Industrialisation, Job Creation And Green Growth

22 December 2020

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Table of Acronyms and Abbreviations

AAAM	African Association of Automotive Manufacturers
AfCFTA	African Continental Free Trade Area
CEMAC	Economic and Monterary Community of Central Africa
CEO	Chief Executive Officer
CKD	Completely knocked down
DG Trade	Directorate General for Trade of the European Commission
EAC	East African Community
EC	European Commission
ECOWAS	Economic Community of West African States
EPA	Economic Partnership Agreement
EU	European Union
NTB	Non-tariff barrier
OEM	Original Equipment Manufacturer
RoO	Rules of origin
SACU	Southern African Customs Union
SADC	Southern African Development Community
SKD	Semi knocked down
VDA	German Association of the Automotive Industry

1. Introduction

This webinar is part of a series conceived by the Directorate General for Trade of the European Commission (DG Trade) as part of the European Union (EU) Trade and Investment Policy in Sub-Saharan Africa and implemented with the assistance of the Policy Support Facility led by AETS. The series share the twin objective of: (a) allowing participants to reflect strategically on EU-Africa trade and investment policy; and (b) strengthening working relations between, on the one hand, the European Commission services and on the other the technical experts and critical influencers in Africa.

The present webinar aims at familiarizing EU and African policy experts from different backgrounds with the development path of the African automotive value chain. It also seeks to explore the role of EU policy and technical assistance in further developing the sector. It provides an opportunity to engage with the private sector on their expectations and ideas for EU support to the development of the sector.

The webinar's Moderator was **Dr. Martyn Davies**, *Managing Director, Emerging Markets and Africa, Deloitte Africa*, the panel was composed of:

- **Mr. Dave Coffey**, *CEO of the African Association of Automotive Manufacturers*
- **Mr. Marius Ochel** & **Ms Victoria Backhaus-Jerling** of the *German Association of the Automotive Industry*
- **Dr. Markus Thill**, *President Region Africa of the Bosch Group and Vice President of the African Association of Automotive Manufacturers*
- **Mr. Serge Kamuhinda**, *CEO of Volkswagen Mobility Solutions Rwanda*
- **Dr. Francis Mangeni**, *Director of Trade Promotion and Programmes of the AfCFTA Secretariat.*

The webinar was attended by 100 participants, from the public and private sectors of Europe and Africa.

Highlights and key messages of the webinar are summarized below.

2. Proceedings

2.1. Opening session

Welcoming participants and the panelists, the Moderator, **Dr. Martyn Davies**, *Managing Director, Emerging Markets and Africa, Deloitte Africa*, stressed the importance of industrialization on the path to development. In Africa, industrialization has been an objective for numerous years, but the facts point to a de-industrialization of the continent instead. Public-private partnerships are essential to reverse the trend, as well as the right policies, requisite eco-systems and markets. He then walked the audience through the webinar programme (Annex 1 – Webinar programme/agenda), highlighting that the EU had brought together a panel of seasoned experts to throw light on various important aspects relating to the development of the automotive industry in Africa.

In her opening remarks, **Ms. Cristina Miranda Gozalvez**, *Head of Unit, DG Trade, European Commission*, noted with pleasure the participation of representatives from several EU Delegations in Africa, where European investment in the automotive sector has been on the increase: 4 out of the 6 Original Equipment Manufacturer (OEM) present in Africa are European. She underlined the importance of EU trade and investment agreements in boosting such investments. Among outstanding challenges is the need to deepen value addition in Africa and to broaden the success of the South African and Moroccan automotive sectors through cross-border value chains that will bring on board a larger number of African countries. She was eager to be apprised of private sector proposals to that end, as well as the potential facilitating role to be played by the African Continental Free Trade Area (AfCFTA) in developing the sector.

2.2. Presentations – Part A

The first panelist to address the webinar was **Mr. Dave Coffey**, *CEO of the African Association of Automotive Manufacturers (AAAM)*. In his presentation entitled "*Are we heading towards vehicles made in Africa at scale?*" the AAAM CEO underlined that the scale of production in Africa was still very limited and confined to essentially two countries. Upscaling was necessary bearing in mind that, to be economically viable, a plant must produce at least 1.5 million units – which is higher than the present output of South Africa and Morocco combined. Morocco has doubled its production capacity over six years and both countries export part of their production.

Africa accounts for about 1.3% of demand for new vehicles, while its population represents 17% of the global population and is still growing rapidly. This underlines the huge potential of the continent. The socioeconomic benefits of the industry are well-know; in South Africa, it provides some 110,000 direct jobs, with another 900,000 indirect jobs in mining, finance or insurance.

Several obstacles have to be overcome to enable the full development of the industry in Africa. A major obstacle is the lack of vehicle asset-based financing which constrains affordability of automobiles. Consequently, demand for new vehicles is very low, with used vehicles representing 80% of sales. Political will is also needed to develop the sector; governments are confronted with the dilemma of supporting a sector that will only yield significant economic benefits in the medium to long term, against the short-term gains of customs revenue from imports of used vehicles. Investors need policies that increase the predictability of doing business and their confidence. Ghana is an example where such policies are being adopted with a strong political will to underpin the development of the sector.

A Pan African Automotive Pact with effective policies and ecosystems is required to develop the industry across Africa, with the potential to reach a market of 5M units per annum. The speaker then outlined a four-step process to reach that target, with support from the AfCFTA.

NB: At this point, connection with the speaker was lost. His presentation underscores the relevance of AfCFTA and of industry alliances in addressing the identified obstacles and as drivers for developing the sector in Africa.

At the invitation of the Moderator, **Mr. Marius Ochel** & **Ms Victoria Backhaus-Jerling** of the *German Association of the Automotive Industry (VDA)* then followed to present a recent initiative to link up the AAAM with VDA. The objective is to strengthen the framework conditions for the automotive sector in Africa. It draws on VDA's experience in developing similar initiatives with India. Through such projects, funded by the German Ministry of Economic Cooperation and Development, the associations involved can share industry knowledge, create platforms and promote public-private partnerships. The speakers opined that one area where the EU could help would be to support the creation and/or strengthening of private sector associations. The potential areas of collaboration, in line with VDA competencies, were then detailed. They include: sustainable technologies, development of industry standards (VDA has over 400 quality experts and an in-house quality management centre), training, and market access and reduction of trade barriers.

This first panel was completed by **Dr. Markus Thill**, *President Region Africa of the Bosch Group and Vice President of AAAM*. He provided a supplier's perspective on the webinar theme and looked into the requirements for developing a supplier base for the automotive sector in Africa. He first recalled the current state of automobile manufacturing in Africa, underlying that both South Africa and Morocco are barely viable given their relatively low outputs. While some estimates put at 80 million the number of vehicles on the road in Africa, production of new vehicles on the continent is around 1 million, part of which is exported to Europe. Used cars are key competitors not only for new vehicles, but also for the "auto-after" market dealing with servicing and the like. A possible path to developing the industry in Africa is indeed to locally assemble used vehicles from knocked-down used parts.

The issue of vehicle manufacturing in Africa also begs the question of the tier level on which the industrialization strategy should focus. In fostering a regional value chain, opportunities can be split across countries according to their comparative advantage such as: existing local competencies, local market size, proximity to critical infrastructure such as ports, availability of raw materials, cost of labour, etc. Nevertheless, the complexity of value chains should not be underestimated. To illustrate, Dr Thill used the example of the windscreen wiper motors which have several dozens of small parts. The complexity is at the same time the source of opportunities. Small firms can work at Tier 4 and 5 levels while larger companies target higher Tiers. Presently, African assembly lines get only about 25% of their supplies on the continent, the rest have to be imported, mainly from Latin America or Asia, underscoring the potential to increase local value addition.

2.3. Presentations – Part B

After a short question time (see below), the Moderator invited **Mr. Serge Kamuhinda**, *CEO of Volkswagen Mobility Solutions Rwanda,* to outline the Volkswagen innovative approach to develop the automobile industry in Rwanda. The Volkswagen "*Integrated Mobility Solution*" initiated in 2018 consists of four building blocks: the usual retail sector of dealerships; a local assembly line; a mobility company; and a training component. Its immediate objective is to renew the fleet of cars in Rwanda, with the longer term objective of creating the right policies and consumer habits to promote preference for new cars instead of used cars.

The dealerships offer vehicles which are comparatively cheaper because they are assembled locally. The mobility company is a central component as it offers corporate fleets of new vehicles coming from the local assembly plant, airport shuttles, car sharing products as well as ride-and-hail services. After two years, the vehicles used in the company are sold on the second hand market, at a lower price, acquainting consumers with safe and newer used cars. Customers with corporate fleets can have their workshop operators trained under the training component.

The scheme has also enabled advantage to be taken of the Economic Partnership Agreement (EPA), whilst testing innovations for European partners, including electric vehicles.

Above all, the approach is a concrete test of the political will to back the development of the sector; it compels policy-makers to choose between short-term customs revenue on imported vehicles and longer term benefits in terms of jobs creation with upscaling, road safety and reduced air pollution from used cars.

The final speaker to address the audience was **Dr. Francis Mangeni**, *Director of Trade Promotion and Programmes, AfCFTA Secretariat*. In his presentation on "*Growing the Automotive Sector in the African FTA*", Dr. Mangeni started by recalling the milestones (achieved and forthcoming) under Agenda 2063. He then shared the outcomes of the recent African Union Extra-Ordinary Summit held early in December in the lead to the commencement of trading under the AfCFTA on 1st January 2021. These included, for instance, 41 tariff offers cutting across several sectors, including from the Economic and Monterary Community of Central Africa (CEMAC), Economic Community of West African States (ECOWAS), East African Community (EAC), Southern African Customs Union (SACU), and agreed rules of origin (RoO) covering some 80% of all tariff lines. However, these agreed RoO do not include vehicles (chapter 87 of the harmonized system classification). He informed that some proposals for thresholds on value of non-originating inputs for vehicle manufacturing range from 50% to 75%. The issue is the proportion of local content that promotes industrialization and qualifies as "Made in Africa".

2.4. Questions and Answers

Questions from the audience and from the Moderator were addressed throughout the webinar, with a dedicated question time at the end of all presentations. For convenience, the main questions and replies are regrouped in this section.

2.4.1. Questions to the panel

Q: Should we regulate the used cars market in Africa and how? What are the European Commission's views as the EU is a major exporter of used cars?

Dave Coffey: We cannot ban used vehicles. We must ensure road-safety. AAAM's stand is that imported used vehicles should already have a road-worthiness certificate in the country from which they are being exported. To reduce pollution and encourage fuel efficiency some countries like Ghana or Mauritius have put an age limit on imported used cars.

Q: Is it premature for Africa to also look into the production of electric vehicles in Africa? Would existing plants be able to integrate the technologies?

Markus Thill: To be viable, engine manufacturing requires huge scales. We are talking about 2 to 3 million units per plant per annum. We must also segment the market. Are we talking about lithium-battery engines or hydrogen engines? Countries like Egypt, Côte d'Ivoire and Senegal have gas reserves and there is a significant potential for the use of hydrogen for trucks. But we must bear in mind that the engine represents only about 20% of the value-added of the vehicle production. There is therefore plenty of scope for industrial upscaling in the remaining 80% which includes the vehicle body, braking systems etc.

Q: *Ghana has been attracting major automobile producers with success recently, especially in semi knocked down (SKD) plants. What is Ghana doing right which could inspire other countries? What would be the timeframe for a country to develop its automotive industry?*

Dave Coffey: It is a case of political will and political vision. Although Nigeria next door has a bigger internal market, Ghana has been bolder and has taken the lead with a long-term view and with the regional rather than the national market in mind. While SKD implies lower value-addition, it allows learning and the prospect of then progressing to completely knocked down (CKD) and developing Tier 2 to Tier 4 industries that would replace currently imported spare parts and contribute to expanding the manufacturing base. As for the timeframe, it will essentially depend on the evolution of demand and on policies with respect to mobility.

Q: What about Morocco's approach? What accounts for its competitiveness despite relatively low volumes?

Markus Thill: Morocco has doubled its output over the last six years, thus demonstrating its commitment to develop the sector. Moreover, the industry is effectively integrated in European value chains through major European players. It has used an "eco-system approach" developing the value chain integrally, instead of focusing on specific tiers.

Dave Coffey: To be competitive, we cannot have less than 40% local content or value-addition. Recourse to auto-pacts agreements as advocated by AAAM, and creating the right eco-system to develop the sector by attracting investment, will be essential elements of an automotive development strategy. South Africa presently achieves 41% of local value addition and aims to reach 60%. This will require the adoption of new technologies.

Serge Kamuhinda: The facts are that we do not have the required suppliers on the continent, but at Volkswagen we want to encourage these suppliers to come forward. We hope that AfCFTA will help in this. We must think in terms of regional value chains as explained by AAAM.

Q: How does standards compliance affect participation in trade in automotives? Is VDA collaborating with national standard authorities in Africa?

Marius Ochel: Not directly. We work mainly with the associations to whom we provide information on standards, for instance with respect to fuels. We just started our collaboration with AAAM a few months ago and we can share our world experience with AAAM. VDA has set up two quality management centres already in Africa – in South Africa and in Ghana.

Q: What are the elements for an enabling environment for the development of the automotive industry on the continent? How can the AfCFTA contribute to such an environment? And what about non-tariff barriers?

Francis Mangeni: Under the AfCFTA, we will be setting sectoral development fora involving leading countries in a given sector and their private sector representatives. This dialogue should help to shape the right policies at continental level, including for the automotive industry. Regarding non-tariff barriers (NTBs), we must make sure that our various corridor programmes really deliver and that there are the required improvements in the efficiency of our infrastructure, including ports and border posts. The AfCFTA includes a comprehensive protocol on dispute settlement which will be binding and provide solutions to difficulties encountered. Furthermore, an online NTB reporting, monitoring and eliminating mechanism has been launched since 2019 to assist operators with solving their problems as soon as they arise. This mechanism, which works at continental level, has been developed building on the architecture and technologies that proved very efficient under the COMESA-SADC-EAC Tripartite NTB mechanism which shows to date a success rate of NTB elimination of over 90%.

Q: *As the AfCFTA negotiations are ongoing to fast-track the conclusion of pending issues, as well as phase 2 topics, what are the expectations, from the policymakers' perspective, to ensure that the AfCFTA generates optimal results in the automotive sector?*

Dave Coffey: It is important that the rules of origin favour Africa's industrialization. Nevertheless, the rules need to be considerate of the current state of industrialization. To this date, a reasonable level of local content should be around 40%. Going forward, such a threshold could be eventually increased as the industrial capacities upgrade.

Markus Thill: No African country can successfully create a viable automotive industry on its own. We need a "coalition of the willing". The AfCFTA has already agreed to facilitate such a coalition, for which we are very happy.

Serge Kamuhinda: With the setting up of the AfCFTA Secretariat, a major advantage is that we have a single point of contact for all African markets, which is very helpful. But negotiations are still ongoing with different governments. It would be important for those governments to involve their private sectors, for instance on discussions on RoO. It is important that trade rules are not designed without private sector inputs.

Q: When can we expect to see concretely the wins and benefits of the AfCFTA?

Francis Mangeni: Trade is already happening among the parties even if the Agreement takes effect on 1st January 2021. Policy prioritization of the automotive sector is already a win. We need now to ensure an adequate implementation of the Agreement. On the basis of where we are now, 40% of local content is probably where we will meet as regards RoO. The Secretariat encourages private sector participation and inputs. Private actors can write directly to the Secretariat with their proposals.

2.4.2. Other questions

Some other questions were raised, though too little time was available to answer them. Some of them are listed below:

- Regarding regional hubs, Ghana in Western Africa or Ethiopia in Eastern Africa were mentioned. What about those potential hubs like Nigeria or Kenya?
- What is the ambition for the AfCFTA, not only in terms of liberalization of trade in goods, but also trade in services, investment facilitation, movement of labour, etc?
- The reliability of energy supply and the cost of this supply may be a challenge for industrial development in some countries. What is needed to ensure an adequate and cost-effective supply for the development of the automotive sector?

The integral transcript of the chatbox is attached to this report (Annex 2 – Chatbox Transcript).

2.5. Concluding Remarks

In his concluding remarks, the Moderator thanked the EU for organizing such an event, as well as all participants and the panelists. He invited the latter to share a final message as their proposed "takeaways" from the event. The essence of these messages can be summarized as follows:

Industrialization: To further develop, Africa has no choice but to industrialize. This is in line with Agenda 2063 of the African Union. Transportation is a basic requirement for trade and industry; there is optimism for the development of an African automotive industry to contribute to those needs.

Role of the Private Sector: The experience of the automotive sector shows that the private sector is well ahead of policy-makers in shaping Africa's future. The collaboration between European and African associations and players augurs well for the future. There is a need for governments to support this trend and to fully involve the private sector in policy formulation.

Partnerships and Collaboration: Innovative partnership projects can contribute efficiently to development of the automotive sector and the EU should support such partnerships. Collaboration across the board is critical – among private sector actors, and between them and the public sector.

The final word went to Ms Lisa Eifert from DG Trade who, on behalf of the European Commission, thanked the Moderator, the panelists and all 100 participants (see Annex 3 – List of participants) for a lively and instructive webinar. The various inputs will be very useful to the EU in its programming and policy dialogue exercises. The EU will also endeavour to answer questions that may not have been answered during the webinar for lack of time.