The Times

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Bail-out is open to question

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Newsmaker: Head of SA's vehicle-making industry admits the sector is uncompetitive, writes Chris BarronDavid Powels, President Of the National Association Of Automobile Manufacturers

CAR CARE: David Powels of Naamsa says the industry wants a loan, not a handout

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There is not much sympathy for the plight of the car industry in South Africa. When times were good, consumers paid more for cars than just about anywhere else in the world.

Even cars that were made locally, and subsidised by taxpayers through the Motor Industry Development Programme (MIDP), were more expensive here than in the countries to which they were exported.

A few years ago the competition authorities confirmed a popular suspicion that there was collusion in the industry to prevent consumers getting the best price.

Once you'd bought your obscenely expensive car, you generally experienced poor after-sales service. Bloated with profits, the industry was seemingly deaf to complaints.

Now times are terribly hard, of course. A team of motor executives led by the president of the National Association of Automobile Manufacturers, David Powels, had an urgent meeting with government last week to ask for help.

Instead of commiseration, though, what we hard-pressed consumers want to know is: why should we bail them out?

"We're not asking for a US-style corporate bail-out," says Powels.

A figure of R10-billion has been mentioned, but Powels says that is "a journalistic fantasy".

No financial value has been pegged to the help the industry is seeking, he says.

But there is money involved, and it will be going from government, in other words taxpayers, to the industry. Which sounds like a bail-out to me.

It is no such thing, he insists. All the industry wants is for government to "stimulate short-term demand and flatten the bottom of the curve a little by making credit available".

So you do want money?

"A loan, not a handout," he says. And not for the manufacturers, but for suppliers of parts and components. Many of them are small, privately owned companies who have suffered a "dramatic reduction of credit facilities".

Of course, if the suppliers go under then "we, the auto companies that assemble the final product, won't have a reason to exist in South Africa". So in fact the bail-out is for manufacturers, and dealers, the same guys who have spent most of the last 10 years wallowing in record sales and profits.

If they were so concerned about the welfare of local suppliers, why did they import most of their components, one wonders?

One answer is that the MIDP, which the manufacturers fought tooth and nail to protect against arguments that it was unfair and a waste of taxpayers' money, gave manufacturers handsome rebates on import duties.

In other words, it wasn't in their interests to support local suppliers then. Now, suddenly, Powels and his colleagues are telling the government that "we're never going to be globally competitive if we import 60% of the car, so we have to get local content to 70%, through a massive (taxpayer-funded) industrialisation project. Otherwise, it won't survive."

Powels, who is 47 and who is also MD of VW South Africa, objects strongly to the "great misunderstanding" that the MIDP had anything to do with taxpayers' money.

"It is duty the industry has paid on imports. There is no taxpayer money going into it. We are drawing back through exports the duty we paid to the fiscus on our imports."

The money they've been "drawing back" from the fiscus has amounted to an average of at least R5-billion a year since 1995, when the programme started. In 2002 and 2003 the figure was a whopping R15-billion a year.

If manufacturers had imported less and used local suppliers more, they would not have qualified for these lucrative rebates.

However, Powels denies that the programme incentivised manufacturers to ignore local suppliers.

"The reason we imported so many parts is because we have a very inefficient component supply industry," he says. "That wasn't an effect of MIDP but of competitive reality."

If the local suppliers are so inefficient, why should the government/taxpayer help them out?

"This is not about protecting inefficient suppliers," says Powels. "They must fall by the wayside."

It is not only the suppliers who are inefficient. Powels admits that the entire industry is uncompetitive. Production costs are too high (20% higher than in Europe, 40% higher than in China, India and Korea) and productivity levels too low.

We've known this for a long time, of course.

A survey of the industry in 2006, when sales were still rocketing, found "a potentially dangerous complacency" which stretched from supply chains (many manufacturers had no idea what the cost of their supply chain was as a percentage of sales) to the issue of skills training and a paucity of proper planning and forecasting.

Commissioned by Barloworld, the survey concluded that "the industry's attitude is ill advised in an era when globalisation and supply-chain technology are making great leaps forward".

Powels concedes that "historically, this industry has not been viable".

Why should taxpayers fund an industry that is chronically uncompetitive and has never been viable?

"We believe if we do things differently, we can become competitive," he says. "If we can increase local content from 40% to 70%, we have a chance of being globally competitive — and then we have a chance of standing on our own two feet."

If government comes to the party, it could be done in between five and seven years, he says.

If they couldn’t do it in the last 15 years, since the government support programme began, why should they be able to do it in the next five?

“Because there wasn’t an aggressive enough rationalisation of the industry.”

Whose fault was that?

“Probably the industry’s.”

So now the chickens are coming home to roost?

“That’s a bit of a harsh assessment.”

Why wasn’t more done to make the industry leaner and thus less dependent on state aid?

“That’s a fair question, but I’m not sure that looking backwards is really going to get us anywhere,” he says.

“What we must realise is that if we can the auto industry, we won’t only lose 400000 jobs, we’re also going to have a massive import burden with a massive further deterioration of the trade deficit.”

A chartered accountant from Marist Brothers College in Port Elizabeth and the University of Port Elizabeth, Powels was sent to Brazil for five years in 2002 where he experienced “intense competition like you could never imagine in the auto industry”.

The industry is dominated by three big players “who are killing each other. It’s a dogfight”.

Had there been the same healthy spirit of competition in South Africa, perhaps our big players wouldn’t be lining up outside the Union Buildings, cap in hand?

Powels says he doesn’t know about that.

In Brief

Marital status: Married, with three children

Personal philosophy: The more you put in, the more you’ll get out

Defining moment: The five years I lived in Sao Paulo with 20million people

Current reading: The Monk Who Sold his Ferrari

Relaxation: Hopping into the car on Friday night and heading for his holiday house on Thesen Island in Knysna