

Mobility 2030

ICE in Africa

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1. Introduction

The South African automotive manufacturers have exclusively produced Internal Combustion Engine (ICE) powered vehicles for the past few decades. They export almost half of its production to Europe and the USA. However, this demand is expected to decrease significantly in light of the restrictions on pollution emitting ICE vehicles in favour of electric vehicles (EV), which are considered more environmentally friendly. Similarly restrictive environmental legislation is expected to be enacted across an increasing number of countries in these regions. Coupled with the improvement in electrical power train technologies and the consequence drop in cost of production, electric vehicles are expected to pose a significant substitution threat in these markets. This poses a stark threat to the SA automotive industry whose traditional strength is in the production of ICE vehicles. However, the African market is not expected to embrace electric vehicles in the medium term due to several factors including the affordability of electric vehicles, unreliable electricity generation as well as a lack of supporting infrastructure. Hence, the rest of Africa could be an alternative market for the export of South African ICE vehicles in the medium term, while they transition to participating in the electric vehicle production value chain.

2. The African automotive market

The urbanisation and population growth in Africa, coupled with an unreliable public transport infrastructure has led to an increase in demand for personal use vehicles. However, low affordability levels have resulted in a ready market for second hand vehicles from the major developed markets.

In addition, the emissions standards legislation, in the wake of the Volkswagen “Dieselgate” scandal, has become more onerous with the result that many automotive manufacturers are looking for alternative market for their new vehicles that do not meet these standards and the lack of restrictive emissions legislation has made Africa an attractive market for these companies. Germany and China account for 14% of car imports to Africa, while Japan an

d the US account for 15%¹. Although many African countries have placed age limits on imported second hand vehicles, these regulations have been weakly enforced and cars as old as 25 years are being imported into Africa. Hence the African continent could (and maybe already has) become a “dumping ground” for older, higher emissions cars.² An additional complication is that low fuel quality in Africa will still contribute to higher emissions even if high quality and cleaner cars are exported there – which provides a compelling argument for automotive manufacturers to target this market.

3. Government response to the opportunity

The African countries have recognised both the opportunity presented by an increasing middle demand for personal use vehicles and its contribution to the economy, as well as the challenge of increased air pollution in cities and its effect on the health of its citizens. Clearly, one of the opportunities is the development of an internal supply chain rather than importing from other countries. The African Association of Automobile Manufacturers (AAAM) has partnered with the relevant governments responding to the increasing demand by supporting local manufacturers – Kenya, Nigeria, Egypt, Algeria, and Angola are leading the way in developing their local automotive manufacturing capabilities. Governments are also considering limiting automotive imports, e.g. Nigeria is considering setting quotas of imported second hand cars as well as charging higher tariffs for older vehicles. However, the manufacture of new vehicles in Africa will not be in short term, given its challenges with developing a full supply chain with regard to poor infrastructure, lack of appropriate financing, absence of supportive policies and incentives etc. Through the Free Trade Agreement being introduced, OEM’s are looking at a scenario that allows components to flow through different African countries, so the entire value chain is not developed by a single country but spans multiple African countries – this partially solves the problem of increasing industrialisation in a region by collaboration without concentrated risks or costs in a single jurisdiction.

This period presents a window of opportunity for South African automotive manufactures to fulfil the demand for cars at appropriate price points that may compete with second hand imports.³

4. Automotive manufacturers are stepping up

Automotive manufacturers have recognised the potential of the African market and have been jostling to find the appropriate model to compete in these markets. Clearly, local manufacturing is the preferred model of government and manufacturers have to develop the full supply chain while balancing the need for profitability. Several initiatives are already in progress:

- Ford and Nissan are assembling vehicles from imported kits in Nigeria
- Volkswagen has begun assembling 1,000 cars per year in Kenya (launched in 2016)
- Volkswagen also launched a new car assembly plant in Rwanda, producing 5000 cars per year
- PSA Group (Peugeot) also established similar operations in 2017⁴

Since the model employed here is to import components that are manufactured elsewhere and assembled in these locations, a primary challenge arises: where will ICE vehicle components be manufactured since the auto companies are divesting away from ICE vehicles to EVs?

This presents an opportunity for local manufacture but also an opportunity for SA manufacturers to aggressively target these markets and potentially develop local capacity in African countries.

5. Size of the African automotive market

The availability of reliable data on the automotive market in Africa is extremely variable and forecasting demand is similarly challenging. That it is growing and will continue to grow is accepted but the actual market size is difficult to quantify. However, market sources continue to be bullish considering the drivers pushing growth in this market: increasing middle class, strain on public sector infrastructure, rising incomes, aspirational lifestyles, availability of affordable vehicles.

- For the East African Community - a common market including Kenya, Uganda, Rwanda, Burundi, Tanzania and South Sudan – demand is expected to double to 500,000 vehicles per year within the next decade
- The African auto aftermarket was worth US\$10 billion last year, with demand for parts and accessories expected to reach US\$15 billion by 2022.
- 1.3 million new cars were estimated to be sold in Africa last year
- New vehicle sales could reach 10 million units a year within the next 15 years.
- Volkswagen estimates the demand to be 3-4 million new cars a year in the medium term (10 times the current amount)⁵

6. Opportunities for SA manufacturers

It is clear that the African market presents a significant opportunity for South African based automotive manufacturers – the demand is increasing for vehicles at appropriate price points. However, this is counterbalanced by competition from three major sources:

- Second hand imports from other countries, particularly Europe, USA, Japan and the Middle East (although this is expected to slow given the push for developing local supply chains)
- New cars from global manufacturers in other countries, e.g. China see Africa as a significant source of growth
- Locally manufactured cars in African countries (although this will take several years to become a significant competitor)

However, these opportunities are not without risks, e.g. the punitive penalties placed on European automotive manufacturers for ICE vehicles may discourage them from doing business other players in the “dirty” supply chain (which include South African companies).

The other consideration is what would happen to the excess second hand vehicles in mature markets: if Africa is not an attractive destination, would it be recycled internally or exported for recycling? This may present an opportunity for developing a significant second hand spares/component market which may drive down costs.

South African manufacturers have a window of opportunity to position themselves as a supplier of choice both of fully manufactured cars as well as a supply of automotive components while navigating its transition to become more relevant to global demand for cleaner cars with alternative drive trains.

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¹ <https://www.cseindia.org/new-study-from-cse-exposes-massive-environmental-dumping-of-old-and-used-vehicles-in-africa-and-south-asia-8871>

² <https://mg.co.za/article/2018-07-31-is-africa-becoming-the-worlds-dumping-ground-for-dirty-diesel-vehicles>

³ <https://carfromjapan.com/article/industry-knowledge/will-sales-nissan-used-cars-decline-african-markets/>

⁴ <https://www.controlrisks.com/our-thinking/insights/automotive-made-in-rwanda>

⁵ https://www.wheels24.co.za/News/Industry_News/watch-the-battle-for-africas-giant-car-market-20190414