

IHS AUTOMOTIVE

The Middle East and Africa Automotive Supplier Report

SupplierBusiness

2015 edition

supplierbusiness.com

REGIONAL REPORT

Algeria, Egypt, Iran, Iraq,
Morocco, South Africa

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Supplier Chain Growth Variance by Country

As vehicle production in the region grows, the demand for local sourcing of automotive components is increasing as well. However, growth in investments by automotive suppliers in the MEA region has been very different by country, many still relying on CKD production. South Africa, with the largest vehicle production, not surprisingly also has attracted the largest number of international automotive suppliers.

Toyota has the largest vehicle production capacity in South Africa. The carmaker opened its Durban plant in 1972 and was looking to replicate the same kind of supplier network in South Africa, as it has done elsewhere in the world. To date, Toyota has 86 local suppliers in South Africa, of which 10 are Japanese suppliers, 31 are global suppliers, 25 are joint-venture companies (or companies with technical assistance agreements with global suppliers) and 20 local suppliers. This is a much smaller network than it has developed, for example, in Thailand where more than 25 core Toyota Group suppliers have a production presence. The primary difference between the two countries is the size of vehicle production. In 2014, Toyota produced 725,000 units in Thailand, compared to 149,000 units in South Africa, and it produces nine vehicle models in Thailand, compared to four in South Africa.

This is true for overall vehicle production in South Africa as well, where 566,083 units were produced in 2014, compared to 1.8 million units in Thailand. This is also reflected in the total number of carmakers: 15 carmakers and assemblers in Thailand versus 8 in South Africa. The Thai government has also spurred on investments by automotive suppliers by imposing local content requirements on carmakers, which many of the MEA region governments are also trying to implement now. Most automotive suppliers in Thailand are also able to use their production bases as an export hub for the rest of ASEAN, where parts can be exported with zero-tariff under ASEAN Free Trade Agreement (AFTA). Without any comprehensive trade agreements in place within Africa or the MEA region, there is little incentive to establish a production base other than to primarily supply carmakers locally.

As with most developing automotive markets, the automotive supplier industry is dominated by international companies. Local companies have generally grown out of joint-ventures or technical assistance agreements. Nowhere is this development as clear as in Iran. Since the UN Security Council imposed sanctions against Iran in 2006, foreign investments in Iran have pretty much

ceased. However, many Iranian companies had technical assistance agreements with Western companies prior to the implementation of sanctions and have continued to build on this know-how. Also, with sanctions in place, it has become increasingly difficult to import automotive parts and this has forced local carmakers and suppliers to try to localise as much of production as possible and this has in turn spurred on supplier development. This means that if sanctions against Iran are lifted or eased, there are numerous Iranian automotive suppliers that could effectively compete in the MEA region.

Iranian companies that have grown through technical assistance agreements with international suppliers:

- **Alternators and starter motors:** Stam Sanat with Valeo.
- **Brakes:** Lent Tomoz Iran Company with Textar (now TMD Friction Group).
- **Clutch:** Paya Clutch with Valeo.
- **Control Cables:** Sabzevar Khodro Cable with Daedong System.
- **CVJs:** Khorasan Axial Parts with WIA.
- **Drive shaft:** Khavar Part Products with Spicer Gelenkwellenbau.
- **Electronics:** Sazeh Pouyesh with Bosch and Benteler.
- **Exhaust systems:** Khorasan Exhaust Manufacturing with Faurecia.
- **HVAC:** Tolidi Sanati Cooler Iran with Valeo.
- **Lock sets:** Farakoloun with Valeo.
- **Pistons:** Iran Piston with Mahle.
- **Shock absorbers:** Faravari & Sakht with Mando.
- **Springs:** Khavar Spring Manufacturing with Daewon, Heuser and NHK.
- **Transmissions:** Charkheshgar with ZF.
- **Tyres:** Barez Industrial Group with Continental.
- **Wire harness:** Electric Khodro Shargh with Yazaki.

The main attraction for automotive suppliers to invest in the MEA region has so far been driven by low labour

costs, especially for components that require high labour input, such as wire harnesses. Labour costs are lower, for instance in Morocco, than in Eastern European countries. This means that some international suppliers have moved production from countries like Romania and Czech Republic to Morocco. Because of the lower labour costs, investment levels can be lowered as well, as companies do not have to invest in automation. However, another challenge facing most MEA region markets is the shortage of skilled labour. This means that most international companies need to make their own investments to develop a training and education programme for workers.

neighbours. This means that suppliers are not reliant on a local market, with Renault being the only large-scale vehicle producer in Morocco, and suppliers are using its production bases in Morocco to export primarily to Europe. IHS estimates that over 80% of automotive components produced in Morocco are currently being exported, which is not only detrimental to the trade balance, but also means that vehicles are imported to meet domestic vehicle demand. To highlight this, Morocco has seen significant investments by international wire harness makers, which are using Morocco as an export base to supply OEMs in Europe, primarily because wire harness assembly is very labour intensive. IHS estimates that Morocco makes up

Table 9: New Investment Announcements by Suppliers in the MEA Region

Country	Supplier	Investment
Algeria	Bosch	In June 2015, Bosch announced that it is considering making a direct investment in Algeria, after servicing the Algerian market through local partners. In Algeria – the company is also looking to establish a 'Bosch Academy' in Algeria. Bosch currently has investments in Angola, Egypt, Ghana, Kenya, Morocco and Mozambique, with a new investment planned in Tunisia.
Egypt	Jushi Group	In May 2014, China's Jushi Group began production of fibreglass at its first overseas plant in Cairo. The company invested US\$223m in the plant and will initially export its production to supply carmakers in Europe. By 2017-2018 the company is looking to increase production from 80,000 tonnes per year to 200,000 tonnes.
	Pirelli	In November 2014, Pirelli announced that it had signed an MOU with the Egyptian government to expand its existing plant in Alexandria, which manufactures radial truck tyres. The planned US\$107m investment would increase tyre production by 35%, from 850,000 to 1.15 million tyres a year.
	Valeo	In October 2013, Valeo inaugurated a new R&D centre in Egypt. The main focus for R&D here will be the development of automotive software.
Iran	None	None
Iraq	None	None
Morocco	Bontaz Centre	In July 2014, French automotive supplier Bontaz Centre announced that it would invest an additional EUR22.0m (US\$29.5m) to establish a new unit to produce high-precision mechanical parts. The new unit is expected to employ 150 workers.
	Lear Corporation	In February 2014, Lear began production at its fourth plant in Morocco. The company manufactures Electrical Distribution Systems (EDS) at this plant, primarily to supply OEMs in Europe.
	Sigit	In November 2014, Italy's Sigit opened a plant in the Tanger Free Zone after it had won supply contracts with Renault in Morocco. The company supplies motor fan units to Renault in Morocco.
	Sumitomo Electric Wiring Systems (SEWS)	In December 2013, SEWS began operations at its eighth wire harness plant in Morocco. The newest plant, in Ain Harrouda, manufactures wire harness for commercial vehicles and will primarily supply Fiat IVECO in Europe.
	Yazaki	In April 2014, Yazaki began production at its third plant in Morocco, in Meknes. The plant will create 3,000 new jobs when production reaches full capacity. With an investment of EUR10.0m (US\$13.0m), the plant will supply carmakers in Europe with wire harnesses.
South Africa	Friedrich Boysen	In August 2013, Germany's Friedrich Boysen completed the construction of a new plant in the East London Industrial Development Zone. With an investment of US\$16.4m, the plant has an annual production capacity of 90,000 exhausts and will primarily supply Mercedes-Benz South Africa's new C-Class model.

Source: IHS, OEMs

Morocco is an outlier when it comes to investments by international suppliers. The country has been able to attract substantial investments by international suppliers, primarily due to its proximity to Europe, lower labour costs – especially when compared to labour costs in Eastern Europe – and political stability, when compared to its

5% of global wire harness production, driven by large-scale investments by leading wire harness makers such as Delphi, Fujikura, Lear Corporation, Leoni, Sumitomo Electric Wiring and Yazaki.

In the MEA region, some carmakers have circumvented