



Numsa – IG Metall Project

Building Transnational Solidarity Across Global
Value Chains



Numsa – IG Metall Project

Prepared by, Melanie Roy , NUMSA Research and Policy Institute

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Background of the Project & Research objectives

Background Information on Value Chain Project

Numsa- IG Metall Project :



- **The 3 Objectives of the Research**

- First would be that it should assist in building a common understanding of participants who take part in the workshop and Building a long lasting Transnational Solidarity between the 2 Unions
- Second, the research would help in identifying and Expressing workers **experiences** on the shop-floor and therefore, provide a **participatory view**
- Thirdly, empirical information on the structure value chain in South Africa as compared to Germany is largely missing. This information and a better understanding is needed to develop a (transnational) campaign and organizing strategy in component suppliers and logistics companies that address the working conditions and the income differentials along the value chain.
- Both trade unions have committed themselves to rejecting the division into ‘core’ and ‘non-core’ workers and to organizing along value chains .

The Automotive Industry Value Chain in South Africa and Economic Perspective 1



- Auto industry is characterised by the concentration of few dominant original equipment manufacturers (OEMs) worldwide
- The suppliers to the industry
 - Steel companies
 - Workshop Equipment Suppliers
 - OEM Parts manufacturers (7 in Total)
 - Generic Parts Suppliers
 - Paint suppliers
 - Insurance Companies
 - Fitment Companies
 - Tyre companies
 - Manufacturers of shock absorbers, exhausts and other parts
 - Recycling companies

Economic Perspective 2 :



- From this perspective, value chains can be understood as catalysts of **wage inequality** both between employees of different actors along the value chain (OEMs, component suppliers, logistic providers) as well as between permanent staff and contract workers
- In face of these processes of fostering inequality, which take place on regional, national and global levels.
- This includes a broad definition of the workplace that accommodates all workers who belong to the same value chain and makes new organizational strategies necessary

Key Terms Used in the Study



- OEMs Original Equipment Manufacturers
- LCV -Light commercial vehicles
- MCV -Medium commercial vehicles
- MBSA -Mercedes-Benz South Africa
- VWSA Volkswagen South Africa
- SA South Africa
- MERSETA – Manufacturing Engineering & Sector Education and Training Authorities

Overview of the SA Automotive Industry

Key Points



- Accounts for +- 7.5% of GDP in 2015
- Biggest contributor to manufacturing output
- Employs around 3.9% of employees with secondary education completed and 3.1% secondary education not completed
- Majority of job opportunities sustained by automotive industry value chain, medium & low skilled positions (an estimated 76.3%).
- Vehicle Production in SA 2015 615 658 and in 2016 599 004 , A Difference of -16654 Variation of 2.7%
- Motor Industry In SA is classified in 4 major segments
- Cars
- Light commercial vehicle (**LCV**), including bakkies and minibuses;
- Medium commercial vehicle (**MCV**); and
- Heavy commercial vehicle (**HCV**) comprising truck/bus segments.
- Export

Key Role Players in the Industry Overview



- The South African automotive industry is comprised of:
- **seven** major vehicle manufacturers/assemblers (car and LCV)
- **nine** assemblers of medium and heavy commercial vehicles (MCV, HCV and buses)
- approximately 500 automotive component suppliers, including 120 first tier suppliers

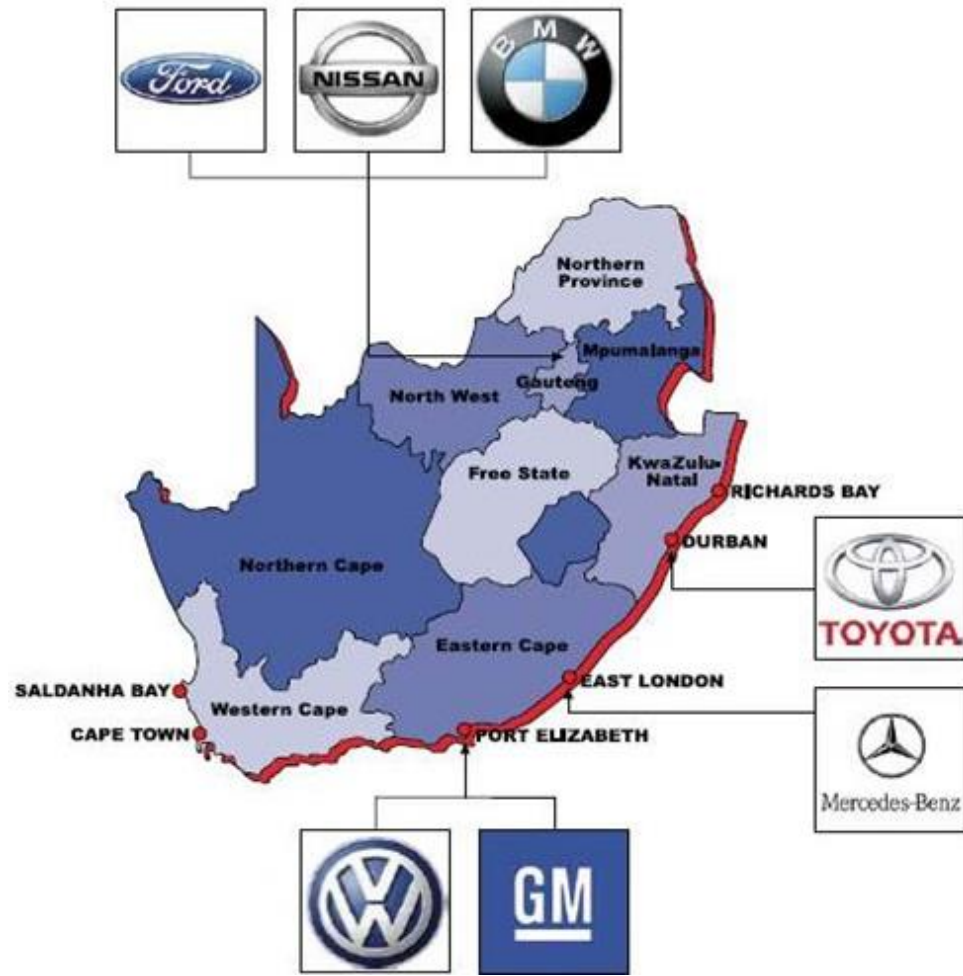
Original Equipment Manufacturers (OEMs)

- The value chain is primarily driven by the **seven OEMs**, BMW, Nissan, Ford, Volkswagen, General Motors,
- Mercedes-Benz and Toyota.
- Toyota SA Motors has maintained its overall market leadership in 2014 for the thirty-fifth year running with a
- market share of 19,8%, followed by Volkswagen Group of SA, Ford Motor Company SA and Associated Motor
- Holdings. Toyota currently has the highest levels of production capacity.
- The following chart shows the market shares of the top 10 OEMs/importers in the country in 2014.

Geographic Areas of the OEMS's



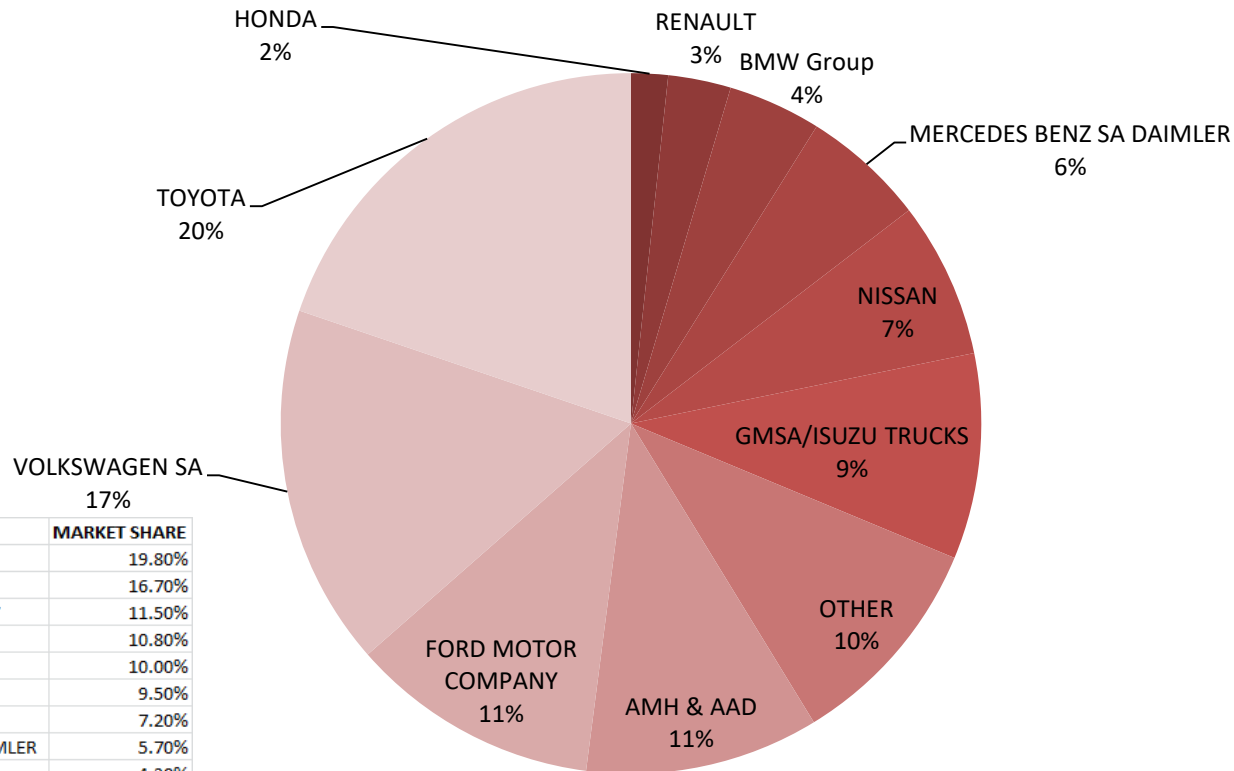
- The OEMs are clustered into four primary geographic areas, each home to one or more OEMs:





New Vehicle Market Share by Manufacturer

MARKET SHARE 2015 /2016



TOP 10 OEMS	MARKET SHARE
TOYOTA	19.80%
VOLKSWAGEN SA	16.70%
FORD MOTOR COMPANY	11.50%
AMH & AAD	10.80%
OTHER	10.00%
GMSA/ISUZU TRUCKS	9.50%
NISSAN	7.20%
MERCEDES BENZ SA DAIMLER	5.70%
BMW Group	4.30%
RENAULT	2.90%
HONDA	1.70%

Key Role Players in the Industry



- DOMINANT FORCE IN THE VALUE CHAIN = OEM
- SUPPLIER COMPANY = AT THE MERCY OF THE OEM WHICH DICTATES TERMS AND CONDITIONS, PROCUREMENT TO THE SUPPLIER

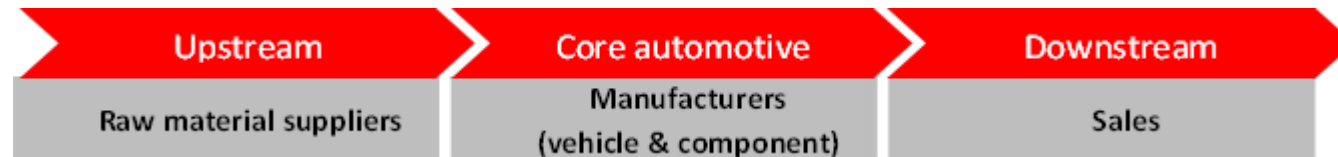
Outlook of the SA Automotive Industry

Key Points



- **COMPONENT MANUFACTURES**
- Components are manufactured from a variety of raw materials, including steel, rubber and plastics. They are manufactured separately and sourced locally or imported. An automobile part may carry the designation original equipment manufacturer (OEM) if the same manufacturer makes it and is the original part used when building and selling the product. The components industry is divided into three levels:
- **Tier one** is made up of companies, mostly subsidiaries of, or having joint ventures with, multinationals that deliver parts directly to vehicle assembly lines;
- **Tier two** companies provide the subcomponents and materials that go into those components; and
- **Tier three** is the next supply level down.

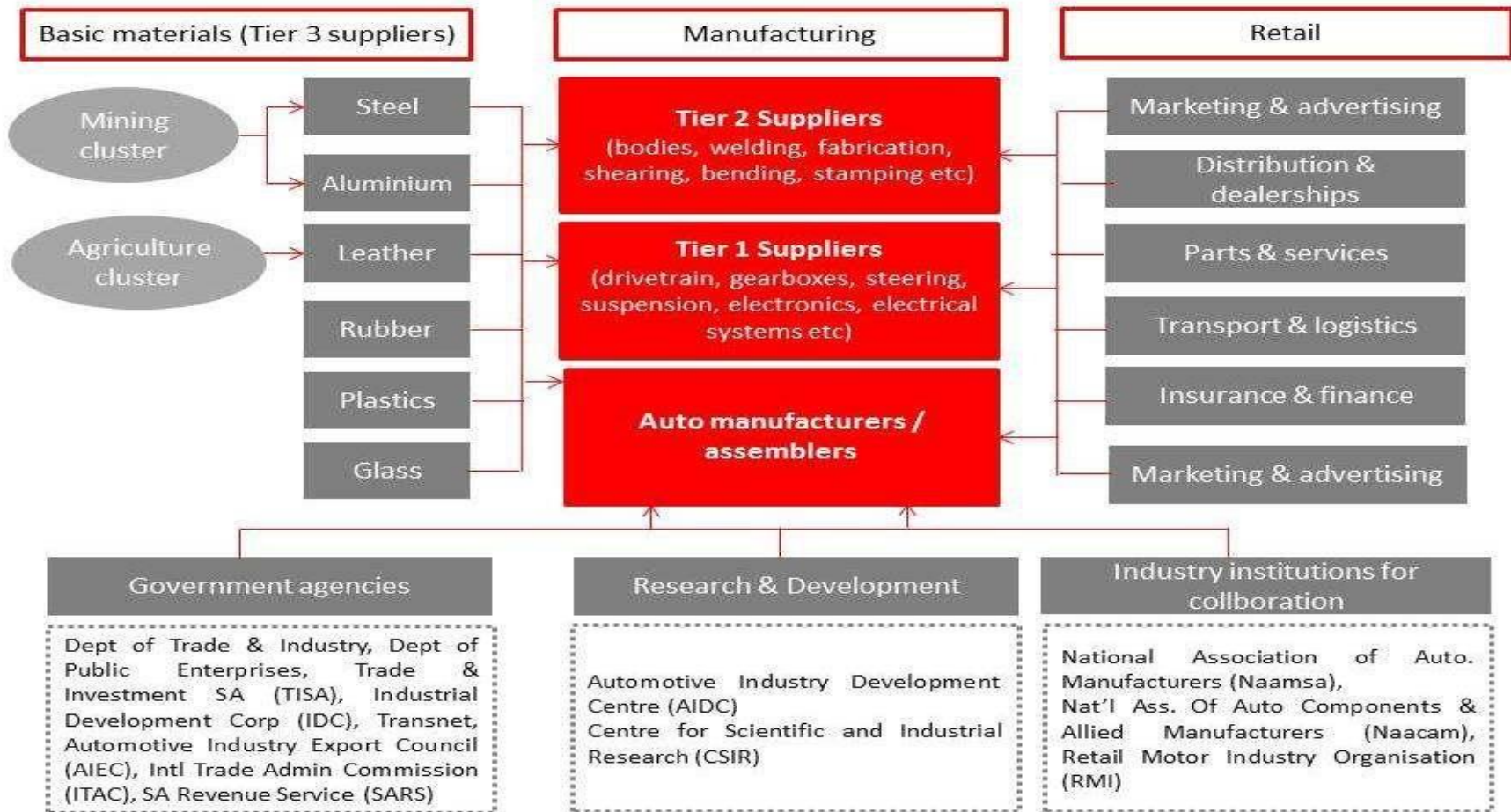
Automotive industry's supply chain and linkages with other industries: Up and Downstream



- **Upstream** consisting of Mining, Steel and Aluminum Manufacturers, Metals, Fuel and petrochemical , plastics & glass manufactures, Chemical & Textiles
- **Core** : Original Equipment Manufacturers (OEM's) and Assemblers , consisting of Passenger vehicles , LCV, MVC, HCV as well as component manufacturers
- **Downstream**: Local Distribution (dealerships) ,Global Distribution (exports) Aftermarket (service and Auto parts) , Warehousing & Logistics , Engineering , Car hires & Rental and Used Car Market.



Cluster Map – Industry Supply Chain



Manufacturers & suppliers of automotive components and parts



Tier 1 suppliers:

Deliver directly to final assembly; closely cooperate with OEMs to design and deliver complex modules.

120 1st Tier suppliers (approx. 75% are multinationals).

Include Faurecia, Johnson Controls, Mothersons, Benteler, Bridgestone, Arvin Exhaust, Bloxwitch, Corning, Senior Flexonics

Tier 2 suppliers:

Produce parts in the minor sub-assembly phase (e.g. airbags); deliver to Tier 1 suppliers or to OEMs directly.

Over 200-300 2nd and 3rd tier suppliers

Mostly local companies and SMMEs

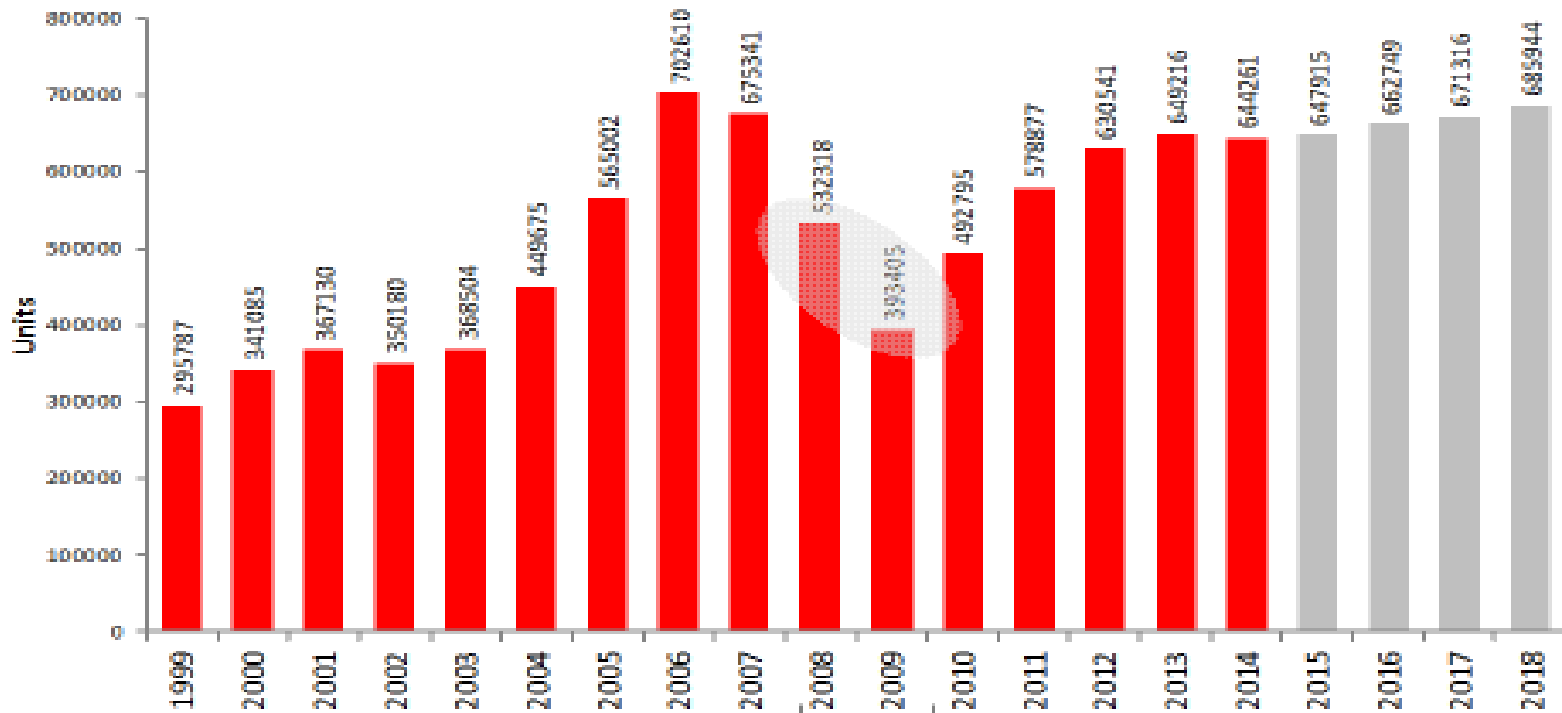
Tier3 suppliers:

Supply basic products

DOMESTIC DEMAND / SALES



Total new vehicle sales*



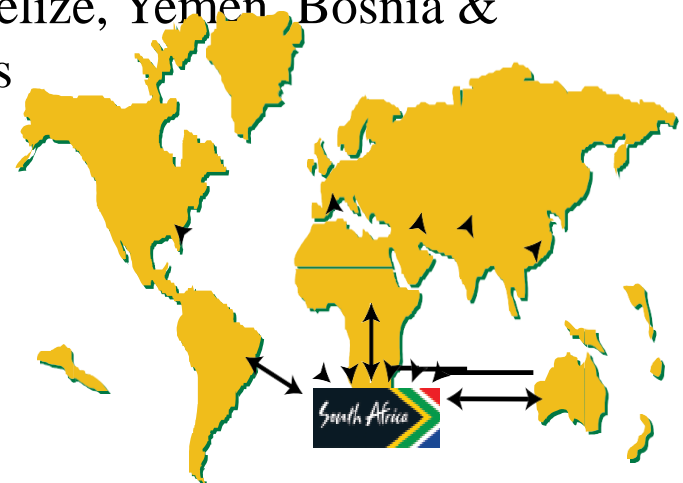
Source: Source: Lightstone Auto, Naamsa, Econometric
Incl. AMH & AAD; excl. re-exported imports

Impact of financial crisis

Export & Import Trends



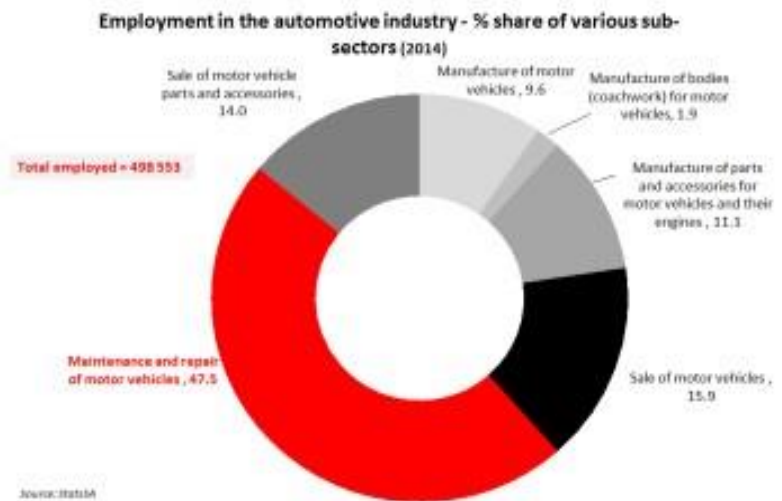
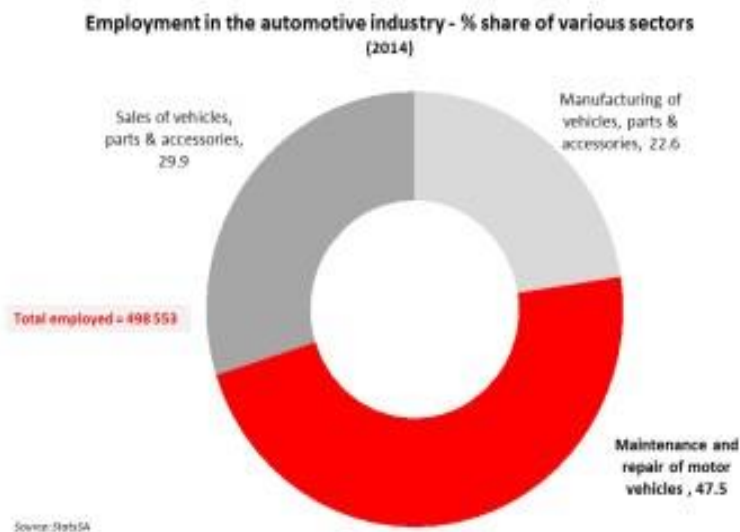
- The following table reveals that the South African automotive industry is strengthening its global export footprint with the export values to 30 countries .
- The number of export destinations, for values in excess of R1 million, reached 140 in 2015, with 24 countries recording export values in excess of R1 billion and 64 countries recording export values in excess of R100 million.
- Brazil, India, United Arab Emirates, Hong Kong China, Ethiopia, Qatar, Estonia, Ireland, Slovenia, Lebanon, Pakistan, Philippines, Bahrain, Togo, Iceland, Eritrea, Panama, Bolivia, St Helena, Sri Lanka, Nicaragua, Dominican Republic, Cyprus, Guatemala, Belize, Yemen, Bosnia & Herzegovina, Netherlands Antilles, Maldives



Total automotive employment by Sector



- Of the close to 500,000 people directly employed in the automotive industry in 2014
- 112,734 (23%) are employed in the manufacturing of motor vehicles and components,
- approximately 385,819 (77%) are employed in the combined sales and maintenance-related sectors



SA Vision 2035



- **Vision 2035**

S.A vision is to increase productivity by 60% which will enable the industry to produce 1.2 million vehicles by 2035 which is equivalent to 1% of global production in return creating 112 000 jobs in the industry.

Competitiveness of the industry: Access to finance

Large firms (Typically Tier 1)

Good access and widely used (all Tier 1 firms interviewed use gov. incentives)

- Firms have **larger balance sheets** against which to borrow
- Often part of **multinational network** improving access to financing or preferential lending rates through their parent companies
- **OEM** customers may provide financing or guarantees against loan facilities
- Long term **contracts** provide security to Tier 1 suppliers

Small firms (Typically Tier 2)

Access is limited (only 2 out of 5 firms interviewed use gov. incentives)

- **No security** to Tier 2 suppliers from Tier 1
- Tier 1 suppliers maintain flexible Tier 2 supply base, not engaging in **long term contracts** (as OEMs does)
- Limited priority in identifying and applying for government incentive support - either not aware of or lack time/inclination/skill
- **Process is complex** and time consuming for small firms
- Limited funding for **working capital** exacerbated by

Opportunity remains to:

- Create more **awareness** of available incentives; and
- Simplifying the process for accessing funding

assets

Competitiveness of the industry: Skills

- merSETA supports apprenticeships and learnerships for technically skilled individuals
 - Since 2001 merSETA supported 43,000 apprentices and 24,000 learners
- However... the quality of skills supplied is often not up to standard due to:
 - Quality of many institutions is not up to standard
 - Only 18 (out of 50) FET colleges are merSETA accredited
 - Preferred institutions include: NMMU, VW Learning Academy, Universities of Pretoria, CTN and Wits
 - Employers often prefer University of Technology (technical) students due to their practical training background

Key Points

- Modern manufacturing requires increasingly skilled individuals
- Mckinsey Global institute projects a potential shortage of more than 40 million high skilled workers in global manufacturing by 2020
- Aging economies such as China will face the greatest potential gap
- SA has the benefit of a younger economy with a median age of 25... However, low skills levels limit the value of youth to the economy as is evidenced in SA's high levels of youth unemployment
- Tier 2/SMMEs lag behind in matching skills requirements
- Interviews revealed skills shortages as a challenge to firms
- Considerable need for skills development, particularly for: engineers, technicians, vocational trades, maintenance workers, and management
- Many FET colleges lack merSETA accreditation



Sustainability of the South African automotive industry

Sustainability of the industry: Labour



- Poor **relationship** between industry and labour
- **Negotiations** becoming increasingly complex (2013 has seen unprecedented prolonged industrial action)
- OEM contracts are typically not affected in the short term, but timing and length of industrial action poses threat - lost production volumes will filter down the supply chain
- Tier 2 suppliers suffer greater consequences (can't avoid negative effects)
- **'Remuneration'** remains central to labour's discontent and is increasingly responsible for the complexity of the bargaining process
- **Inflexibility of labour** prevents suppliers to adapt production levels according to changing market demand (especially important for price sensitive products of T2 suppliers)

Sustainability of the industry: Social dialogue and relations



- SA has relatively **well-developed industrial relations environment** with strong trade unions and employers' organisations (Budlander, 2009)
- Labour organisations and government typically share a **political alliance**, creating additional tension between parties, contributing to the complexity of negotiations
- Employers **responsible to bridge the gap** left by inadequate delivery of public services
- **Business strategy**, or in-house **directive policy** often not communicated effectively
- Lower tier suppliers often **fail to introduce modern management procedures** and practical improvement activities – sometimes due to management competency at this level of the value chain

Sustainability of the industry: Legislation

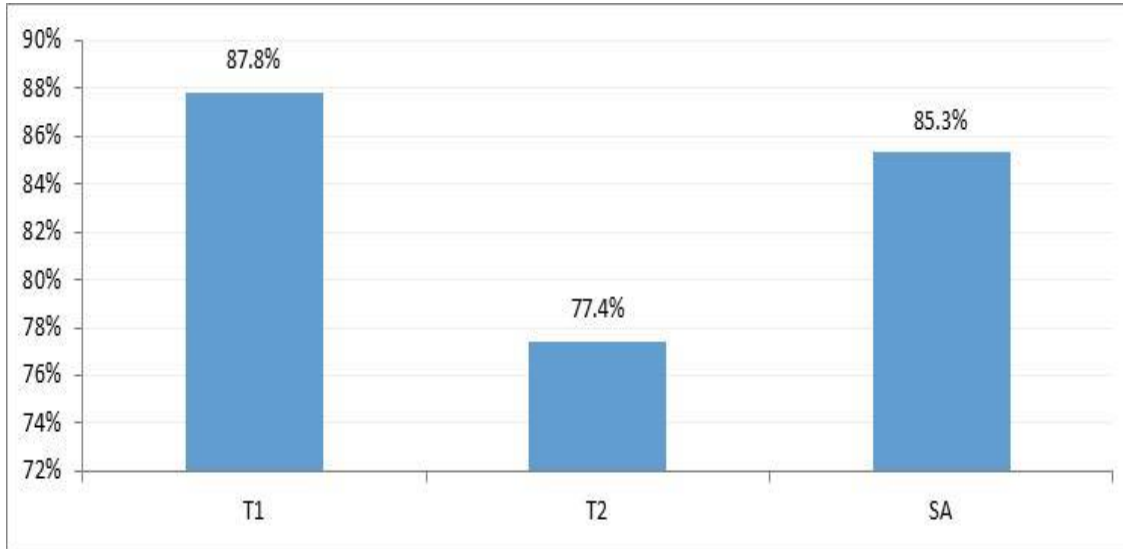


- **Labour flexibility** remain key concern – producers often delay workforce expansion
- Producers are concerned about **increased complexity** in the regulatory system as a result of recent and pending amendments to existing labour laws:
 - The Labour Relations Amendment Bill (recently adopted by national assembly) - aiming to provide more protection to fixed-term employees and regulate strike action
 - The Employment Equity Amendment Bill – “equal pay for work of equal value”
 - Broad-Based Black Economic Empowerment (BBBEE) Amendment Bill – stricter conditions of ownership, skills development, and enterprise/supplier development
- Added complexity could affect potential to attract investment and adds to the administrative burden of producers

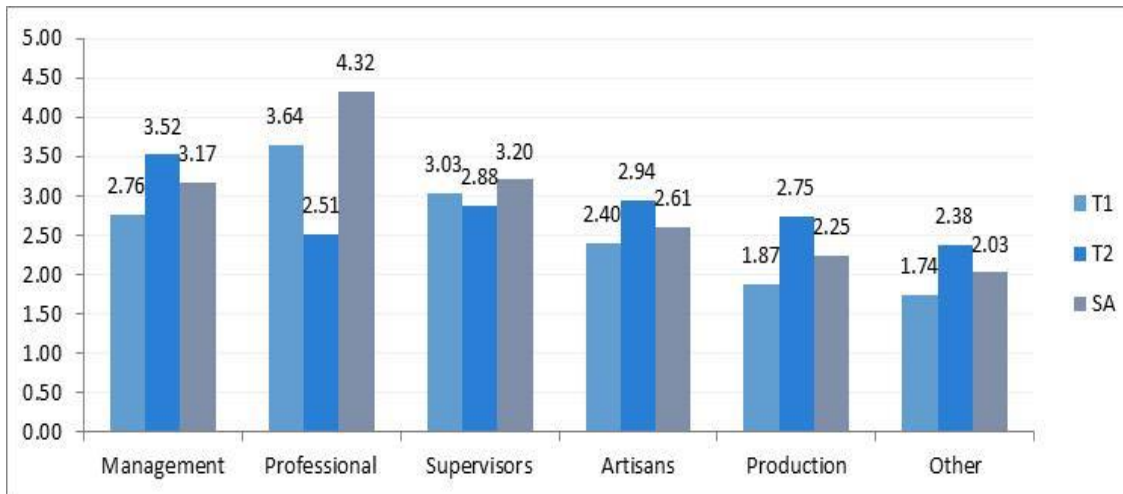
Sustainability of the industry: Skills and education



Employee education (attainment of ABET level 3)



Offline training days



Key Points

- Lack of skill contribute to local product sophistication (lack thereof)
- **Literacy** and **numeracy** levels of low-skilled employees are very poor, lacking simple calculation abilities of volumes and percentages
- **Technical skills** such as engineers and artisans are in high demand but difficult to obtain - recruitment processes become lengthy and expensive
- Core **maintenance skills** (tooling and factory) are scare among lower tier suppliers
- **Engineers** difficult to retain
- Mismatch between the **subject matter of institutions and industry needs**
- Educational institutions are slow to incorporate new technologies/processes into curriculums leaving graduates under-prepared
- Certain industry specific skills are not entirely provided for by (**merSETA**)

Sustainability of the industry: **Bargaining model**



- Past nine years have seen **progressively lengthy and increasingly** hostile industrial action - affects the reputation of the industry
- Each round of negotiation sees an **increasing number of issues** - currently 66 topics
- **Remuneration** consistently takes the focus leaving other substantive issues unresolved - discontent then builds up fuelling the already hostile nature of bargaining process
- Lower tier suppliers **experience greater pressure** from labour unrest due to bargaining in multiple industries – negotiated at different times
- Even the automotive industry is separated into different sectors with **negotiations taking place separately** for OEMs and for component manufacturers, adding additional complexity
- Current **structure of bargaining process** poses major challenge – should have different levels of bargaining
- **Bargaining model needs to be updated** (same since 1994)



Opportunity identification

Opportunity Identification



1. DEMAND SIDE INTERVENTIONS

- Growth opportunities in Africa

2. GOVERNANCE AND SUPPORT INTERVENTIONS

- Bargaining model review
- Building labour market flexibility
- Understanding the blockages to localisation

3. SUPPLY SIDE INTERVENTIONS

- Enhancing operational competitiveness
- Reducing overhead costs
- Upgrading skills
- Improving management-worker engagement
- Adopting a value chain approach
- Leveraging a shared services approach
- Focusing on process innovation

Challengers facing the SA Components Manufacturer Sector



- **Industry's competitiveness** : components companies struggle to achieve economies of scale. Linked to South Africa's high level of vehicle imports, with vehicle importers, for the most part, making little use of locally made parts, including in the after-market
- **Low Levels of Local Content** : Further, local vehicle production volumes remain low, and locally manufactured vehicles generally have low levels of local content
- **Fluctuating Rand** : companies report battling against the fluctuating Rand, with Rand volatility making it difficult to undertake business planning activities. During periods of Rand strength, component makers receive significantly fewer Rands for the components they export
- **Counterfeit parts** : The components industry also struggles against counterfeit parts. Such parts often look like the genuine item, but do not conform to industry standards
- **Dumped Parts** : Certain parts of the automotive components industry have also reported struggling against “dumped” parts
- **Relocation** of Production Lines – Offshoring

Challengers facing the SA Components Manufacturer Sector



- **Remuneration** consistently takes the focus leaving other substantive issues unresolved - discontent then builds up fuelling the already hostile nature of bargaining process
- **Income Differentials** – OEMS was identifies as a higher payer than the Supplier Company



Presentation of Results

Workers Struggles



- Rejection of Union and Union related activities
- Company Instability
- Outsourcing
- Dealer Reworks
- OEMS don't want to belong to same Bargaining councils due to agreements relating to wage differentials
- Government Policies (Sections of the NDP and the Auto Master plan
- Offshoring of production Lines
- Myth of high wages Vs. Income Inequality
- Food, medical and other inflation increases not matching salary increases
- Housing and State subsidy
- Company closures and shifting production
- Local companies at mercy of their mother multinationals
- Outsourcing of key components and competing with labour in the region

Key Findings For Both Trade Unions To Strengthen Collective Bargaining and Organizing Along Value Chain

IG METALL CAN USE NUMSA EXPERIENCE AND STRATEGY TO ORGANISE PARTY AND NON PARTY MEMBERS

❖ LOOK AT SHORTER CONTRACT TERMS AND IS THERE A NEED FOR A BARGAINING COUNCIL

FURTHER EXPLORE IG METALL APPROACH TO LABOURS MATTERS CONCERNING :

❖ TECHNOLOGICAL ADVANCEMENTS IE THEN FOURTH INDUSTRIAL REVOLUTION

❖ ROBOTICS

❖ ELECTRICIFICATION AND DIGITALISATION OF CARS

NUMSA CAN LEARN FROM IG METALL APPROACH TO DEALING WITH THE INTRODUCTION OF **ROBOTICS** TO THE INDUSTRY WITHIN PLANTS AND LOOK AT HOW PROGRAMMES WERE INTRODUCED . **STRENGTHS & WEAKNESS** AND HOW WE CAN LEARN FROM THIS AND IMPLEMENT THOSE STRATEGIES HERE IN SA

CONTINUE TO WORK ON **JOINT PROGRAMMES** ESPECIALLY THE **FOURTH INDUSTRIAL REVOLUTION** AND ITS IMPACT ON THE LABOUR FORCE

NUMSA CAN TAKE THE APPROACH OF WORK COUNCIL MEMBERS OF WORKING IN A **COLLABORATIVE** MANNER WITH EMPLOYERS AND PURSUE THAT KIND OF INTERACTION



Key Findings For Both Trade Unions To Strengthen Collective Bargaining and Organizing Along Value Chain



- ❖ **NUMSA SHOULD PERSUE APPRENTERSHIP PROGRAMS**
- ❖ **KNOWLEDGE TRANSFER SHOULD BE CONTINUED EVEN WHEN NEW SHOPSTEWARDS AND WORK COUNCIL ARE ELECTED**
- ❖ **LASTLY WITH ALL THE RESEARCH FINDINGS WE NEED TO ADJUST OUR BARGAINING STRATEGY TO INCORPORATE THE FINDINGS WE FEEL WILL BENEFIT THE WORKERS AND STRENGTHEN COLLECTIVE BARGAINING.**



THANK YOU

