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SA's New Energy Vehicle future hangs in the balance

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As promised, South Africa's finance minister, Enoch Godongwana, did announce incentives for New Energy Vehicle (NEV) manufacturing in his 2024 budget speech. But the package is decidedly underwhelming and is unlikely to attract, on its own, significant new investment into the sector. There remains a wide gap between government and private sector, and time appears to be running out as the global movement towards battery powered vehicles continues to gain momentum.

Godongwana announced an investment rebate of 150 percent for new investments in the industry, starting in March 2026. He also said that government has also reprioritised ZAR964 million over the medium term to support the transition to electric vehicles.

The industry's response has been polite but subdued. The CEO of the National Association of Automotive Manufacturers of South Africa (NAAMSA), Mikel Mabasa welcomed the announcement but pointed out that the amount budgeted was small next to the current R5 billion annual capital spend by automotive manufacturers in South Africa. 'It is important to recognise the scale of investments required by the industry', he said. What NAAMSA has politely refrained from saying is that these sums, which may seem relatively large in a South African context, are not enough to tip a decision to locate battery vehicle production in South Africa.

Automotive manufacturers have previously detailed their preferred strategy in a document entitled 'South Africa's New Energy Vehicle Roadmap', released in February last year. The industry asked for three key policy changes. It wanted a 'temporary' reduction in import duties on batteries for vehicles sold into the South African domestic market. Further, it wanted to see development of the South African NEV market through both a reduction of duties on imported NEVs, (currently at 25 percent compared to 18 percent for internal combustion engine (ICE) vehicles) and a consumer incentive scheme.

The government's much delayed White Paper on Electric Vehicles was released in November 2023. It was immediately clear that there was a wide gap between the motor industry's envisaged way forward and the government's plans. The industry wants a policy driven by local demand. This is the key, it says, to increasing NEV production in South Africa from less than one percent of vehicles made at present to 20 percent by 2025, 40 percent by 2030 and 60 percent by 2035.

The industry has said it is ready to match government consumer incentives on locally made NEVs with equivalent subsidisation on its part. This is exactly how the world's big NEV markets in Europe, China and the US have been developed. Germany, for instance, offers a subsidy of up to €9 000 for NEV purchases and there are all sorts of exemptions (from VAT for instance) and conservation bonuses available in developed economies.

But government's White Paper makes it clear that local market development is not the immediate goal. It advocated a two-phase strategy. First, it believes, South Africa's seven automakers will have to start manufacturing NEVs for export alone. Only at a later date, perhaps after 'seven to nine years', does it anticipate local sales volumes will increase. Government has conceded only the first demand by the manufacturers, a 'temporary' reduction in import duties on batteries for NEVs sold locally.

It is clear that available fiscal support for NEV manufacturing is limited at present. Last year, it was reported that there are fewer than 400 public NEV charging stations in South Africa and that a largely electric fleet would require 262 000. This could cost as much as ZAR90 billion to install. Given fiscal constraints, buyer subsidies are clearly a non-starter in South Africa. The White Paper simply recognises this reality.

NEVs embody a completely new technology. The battery in NEV's is effectively part of the engine and comprises 20-30 percent of the cost of the vehicle. The problem for South Africa's automakers is that the value chain for this critical component does not exist in the country or indeed the region. The SA government's approach boils down to a bet that it will eventually emerge. While this is highly desirable, it is by no means certain. While Southern Africa mines the necessary raw materials, global competition is fierce.

70 percent of vehicles made in South Africa are exported and more than half of these go to either the EU or the UK. The EU Partnership Agreement with the Southern African Development Community (as well as the almost identical UK agreement) requires 60 percent local content in order to land duty-free in their markets. That is only possible for NEVs if the engines are made in South Africa. This may well require greater flexibility from the European side which is not impossible because the Partnership

Agreement is deliberately asymmetrical (i.e. imposes less stringent requirements of the SADC partners). However, it is not clear that South Africa has ever pushed the issue.

Responsibility for major new investment decisions in automaking are vested with the head offices of the global auto manufacturers, in Stuttgart (Mercedes), Wolfsburg (VW), Tokyo (Toyota), Dearborn (Ford) and Munich (BMW). Locally offices have to 'sell' the idea of expansion to their more senior colleagues and getting buy-in is often a long and arduous process. But the head offices are in a position to take a global view and South Africa is already in bad odour thanks to the well-documented problems of load shedding and logistics snarl-ups.

It is thus a long way from certain that global auto head offices would choose expansion in South Africa ahead of similar plants in Morocco, Thailand, Poland or Mexico. Morocco, for instance, is not only on Europe's doorstep but already makes 40 000 NEVs a year (and expects the figure to increase to 100 000 by 2025). The North African kingdom is also well ahead of South Africa in installing recharging infrastructure and developing its domestic NEV market. A VW executive said last year that the company does not anticipate manufacturing any of its vehicles in South Africa before 2035.

In South Africa, localisation ambitions may well clash with competitiveness. But in the hyper-competitive world that is automaking, as it adapts to new technology, the country needs to position itself to put a compelling proposition on the table. It has not yet done so.

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