Province of the EASTERN CAPE
ECONOMIC DEVELOPMENT, ENVIRONMENTAL AFFAIRS AND TOURISM

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THE GREEN MACHINES ARE COMING

OPPORTUNITIES AND RISKS ASSOCIATED WITH THE GREEN ECONOMY

INTRODUCTION

Ladies and Gentlemen, I would like to **welcome** you all to South African Automotive Week 2011. I extend a particularly warm welcome to our visitors from outside the Eastern Cape.

We gather here at a turning point in the history of our auto sector. We are witnessing a fundamental transformation; the greening of the sector is comparable to its emergence through the internal combustion engine in the 19th century. In response, or in anticipation, we are signalling a fundamental shift in how the Eastern Cape intends to support the transitions, the competitiveness, the growth potential and job creation possibilities of our auto sector. We will use the opportunity of this conference to announce the launch of a process to establish an integrated and responsive Eastern Cape Automotive Cluster Support Initiative.

We must commend the planners and organisers for developing such a focused and relevant programme. I am indeed honoured to be allowed to address you this morning. Let me briefly reflect on the weighty issues that we have before us today.

THE CONTEXT

In line with the conference theme, we must acknowledge that we are staring significant uncertainty and risk in the face. The global financial crisis of 2007-2009 served to expose a number of other trends, and highlight significant risks in non-financial sectors. Of particular concern is environmental sustainability, with issues such as global warming, carbon emissions, fossil fuel dependency and natural resources depletion being brought to the fore. The global financial crisis had the effect of changing the global political economy, with Asian economies rising as significant players in production, in consumption, and in R+D and design technology development. During 2009, China became the largest producer and market for automobiles.

These trends have significant consequences for the Eastern Cape. Our old manufacturing enterprises are increasingly under threat from far more cost competitive volume manufacturers in China. Where our local manufacturers cannot find niche markets, protection or support from the state, or innovative technological solutions, they are fast closing down. Internally, we also feel this competitive pressure between different regions in South Africa and many dispersed operations are restructuring their supply chains with disastrous consequences for our local labour markets. This regional competitiveness is a key factor driving regional cluster support initiatives globally.

While our threatened economy is testing the state in terms of providing support to desperate manufacturers, other opportunities are opening up. The Eastern Cape's position on the periphery of the minerals energy complex has now become a potential advantage, as new criteria for competitiveness associated with the green economy begin to emerge. The huge negative externalities associated with fossil fuel depletion and carbon emissions is slowly entering a phase where the polluters and extractors will have to take responsibility through shouldering the economic cost associated with these practices. South Africa's development of a carbon tax is a reflection of this.

The Eastern Cape is now amongst the lowest carbon emitting regions in South Africa. Added to this is the unspoilt environment with high solar and wind potential. These offer significant comparative advantages for the region, and many opportunities in the new green energy sectors, along with advanced environmental management practices, could make the region into a huge carbon sink. Our recent Spekboom project, launched at the Eastern Cape Climate Change conference in East London in June, is but a sign of things to come. We have also been developing key initiatives in the Biofuels sector including Biodiesel and Bioethanol in the East London and Coega IDZs. Within the alternative energy sector, therefore, we have a significant and diverse value proposition.

For the Automotive sector, the transition to the Green Economy requires that Government, Business and Labour work together. Such collaboration must necessarily underpin and inform our deliberations at this conference.

CLEAN PRODUCTION

The Eastern Cape takes the phenomenon of Climate Change seriously. We recently launched a Climate Change Mitigation Strategy. Coupled with the Green focus in our Provincial Industrial Development Strategy (PIDS), we have indicated that we intend to play our role in building a regional carbon sink.

Clearly, the global carbon chasm is due to the failure of western nations to maintain required emission targets. The Eastern Cape is amongst the lowest emitting regions in South Africa and that will prove to be competitive advantage in the future. If we use the Carbon Chasm to refer to the emission targets of local automotive companies then I think we are well on track. The VW Blue motion technology is a clear pointer for the future in this regards. The design of the Press shop at VW in line with Blue Factory standards is another example of this.

RESOURCE EFFICIENCY

The clean production programme, currently being implemented by the Eastern Cape AIDC with the National Cleaner Production Centre, supports automotive component manufacturers in the Eastern Cape to reduce energy consumption. The programme also begins to address the introduction of new green criteria of competitiveness in the global auto sector value chain and ensures that companies are certified in complying with global standards. This initiative will be an important component of the Eastern Cape Auto Cluster Support Initiative.

At its most basic, resource efficiency means using resources such as water, energy and even one's workforce more efficiently. Being resource efficient is beneficial in reducing the amount of material used, reducing the cost of manufacturing, reducing waste materials and ensuring compliance to environmental legislation. It also reduces the automotive manufacturing sector's impact on the environment.

An area of vehicle manufacturing often overlooked in the considerations around greening the automotive industry is the recycling of the end-of-life vehicles. Data from the UK shows that by improving both the manufacturing process and recycling techniques, it is possible to recover up to 85% of end-of-life vehicles. The waste products of the manufacturing process need not all go to landfill; many can be recycled. The implication is that secondary waste reclamation and recycling industries should become an integral part of the automotive value chain in the Eastern Cape. It is important that your deliberations at this conference ask the question, "what more can you do to manage your resources efficiently?".

EMISSION REDUCTION AND TRANSPORTATION ALTERNATIVES

We need to go further, and jointly chart the way to developing the new technologies required to decrease vehicle CO_2 emissions in the automotive sector over the next 30 years. We must recognise that futuristic, electric-powered vehicles are not the only way the industry can reduce emissions. By reducing vehicle weight and improving internal combustion engines, manufacturers will make an important contribution to cutting vehicle emissions. This is a critical consideration, especially if we acknowledge that traditional vehicles will make up the majority of road traffic, certainly in our lifetimes.

It is also pertinent in the context of the Eastern Cape, where the majority of citizens live in rural villages, and rely on human and animal driven means of mobility. While ensure that we take advantage of the manufacturing opportunities during the transition phase, we must also keep the expansion of the market for fuel efficient, low cost mass transport into account. If we address this challenge successfully at a local level, we will be well-positioned to take advantage of the un-tapped African market also.

In the urban context, transportation policy will need to look beyond the auto industry and commit to a major revival of inter-urban rail and urban mass transit networks. Developing, or expanding and modernising these systems and their infrastructure will promote energy efficient alternatives to the existing car- and airplane-focused system with which urban dwellers are familiar. The challenge of developing viable alternatives for rural transportation will similarly require innovation. Both approaches could potentially provide large numbers of well-paying manufacturing jobs in a diversified auto-industry.

The Eastern Cape Auto Cluster, which we will be launching in the coming months, will play an important role in promoting green manufacturing within the auto sector and hopefully stimulate broader thinking around the manufacturing of a wider, more diverse range of transportation options. Green manufacturing initiatives will include some of the green related programmes already underway, such as the AIDC’s cleaner production programme. Government, Business and Labour must collaboratively develop more such programs.

We are not alone in our analysis of the opportunities thrown up by the challenge of creating a greener economy. The automotive sector’s transition to Green must consider global developments. Many countries are aiming to meet CO_2 reduction targets. Like us, they are encouraging their auto industries to take advantage of the opportunities emerging from the transition to lower-emission vehicles. Both China and the US have announced large programmes to support the development of ultralow-carbon vehicle technology. We are therefore presented with a new and growing market sector. How well we exploit this potential will determine how successfully we create new jobs and stimulate economic growth.

LOGISTICS

Intimately linked to these Transportation Alternatives is obviously logistics. The rising cost of energy has a knock on effect on the cost of manufacturing, diminishing competitiveness and profitability in an already cut throat industry. The Provincial Government has recently been successful in lobbying Transnet to re-consider its investment programme for the Eastern Cape. Significant investment in port, rail and road infrastructure, as represented by our partnership with Transnet, is critical to ensuring that both component and original equipment manufacturers are able to bring their goods to market at competitive rates. Improved road networks will have the added advantage of reducing emissions from vehicles that are able to travel more efficiently.

Negotiations with other state owned enterprises around the security of utilities are also underway. The infrastructure to carry electricity and ICT in particular require attention, as does water supply. Improved delivery will improve efficiency and reduce input costs, providing a platform on which to build a competitive sector.

Emerging issues in the automotive sector

The new APDP has been introduced to launch a new phase in building the competitiveness of our automotive sector. The core thrust is to incentivise volumes, local content as well as R+D. However based on an initial scan of how the sector is gearing itself up to take advantage of the APDP there are some concerns that have been raised by a wide range of role players within the sector. It seems to me that in some instances we might be losing local content rather than increasing it. Is this part of the normal end of product cycle trends in the sector, or is this something we need to address more strategically? I think it will be useful for us to also reflect on this today in addition to the green related issues on the agenda.

There are currently a new set of incentives being finalised by the DTI supporting the Medium and heavy vehicle sector. The Eastern Cape is well placed to take advantage of these and to increase local manufacturing in this sector. I am optimistic that this sector will show growth over the medium term with some new investments potentially coming into the province.

In order to stay competitive as well as upgrade our position in the global auto sector value chain and carve a niche in the emerging green related value chain links we will have to above all develop significant local technological and human resource capabilities. We are seeing some extremely innovative skills development solutions emerging through the partnerships between local OEMs and the higher education sector. We anticipate that this will be stepped up significantly through the Eastern Cape Automotive Cluster Support Initiative based on the real medium to long term demands of the sector. Similarly, emerging partnerships in R+D and innovation linked to the local higher education sector are showing starting to develop. We have some extremely encouraging initiatives between VW and NMMU as well as more recently between Ford and NMMU.

LAUNCH OF THE EASTERN CAPE AUTOMOTIVE CLUSTER SUPPORT INITIATIVE

Let me use this opportunity to announce the launch of the process of developing an Eastern Cape Automotive Cluster Support Initiative.

Throughout the world, the trend to decentralisation and more intense regionally defined competitiveness has seen cluster support policies driven by local and regional government, rather than national government. In our recent discussions with OEMS it was stressed that local OEMS do not compete with other local OEMS but rather other sister plants in other locations. What they were in fact highlighting is that we compete as a region with other regions in terms of the competitiveness of our auto sector. This context forms the basis for the enormous growth globally of regional automotive cluster support initiatives in addition to the national incentives offered.

This idea of setting up a cluster initiative in the Eastern Cape is not new. And I don’t mean the highly successful nineteenth century wagon cluster in King Williams town, which manufactured and repaired horse and oxen driven vehicles. I am really referring to the local initiatives since the mid 1990’s. However, we never succeeded in sustaining momentum in these initiatives. I think the context now is far more favourable and there certainly seems to be more widespread consensus within the sector that this is the way to go.

IN CONCLUSION

Thank you for the opportunity to express the EC Government’s thoughts on the sector, whilst also creating the platform to announce the launch of the process to establish the Eastern Cape Automotive Cluster Support initiative. The Eastern Cape Automotive cluster support initiative will only really achieve its objectives if all sector stakeholders play an active role in the development and implementation of this initiative. This includes the OEMS, the suppliers, organised labour by way of NUMSA as well as provincial and local government.

Despite the significant threats in the current global economy, I believe we should maintain optimism concerning the significant opportunities presented by the new green economy in the automotive sector.