



PRESS RELEASE

PROPOSED NEW AUTOMOTIVE CODE OF CONDUCT WILL BE CATASTROPHIC FOR MOTOR INDUSTRY

According to Mark Dommissie, National Chairperson of the National Automobile Dealers' Association (NADA), the proposed new Code of Conduct will have significant negative implications for the industry and a requirement for shared thinking is critical.

"NADA and its members fully recognise the need to broaden participation in the automotive aftermarket sector and are committed to co-operating and assisting the commission to address matters of concern raised in the proposed new Code of Conduct.

"The impact of implementing the code in its current form will, however, have a catastrophic effect on the economy as it undermines investment, employment and consumer welfare in this important sector of our economy," says Dommissie.

Economic contribution

South Africa currently has approximately 1,600 new franchised automotive dealerships comprising R48 Billion worth of investment. It employs 60,000 personnel directly.

The South African motor industry is impressively sustainable. Lionel October, Director-General of Trade and Industry, speaking on behalf of the Trade and Industry Minister, has called it "a South African success story".

It provides substantial benefits to the country and its impact on the overall economy and employment is substantial and far-reaching. Production and sale of automotive products also generates profits for a wide range of industries up and downstream.

"Only around 20% of the entire South African car parc comprises in-warranty vehicles, and it's this small portion which the new code is addressing. We feel that significant effort and focus should be placed on developing the other 80% of the industry – which is predominantly made up of out-of-warranty vehicles," says Dommissie.

The automotive retail industry's contribution to the whole industry includes consulting with government through NADA and the National Association of Automobile Manufacturers (NAAMSA), invaluable apprenticeship programmes, a broad range of employee benefits, hundreds of millions of Rands in staff training and funding healthcare and pensions.

"A loss of just one of the seven major manufacturers to South Africa would have unprecedented spill over effects both financially and socially that would far outweigh the current subsidies that manufacturers are receiving," says Dommissie.



PRESS RELEASE

“We should also keep in mind that Australia shut down an entire motor manufacturing industry due to adopting controversial codes.”

Anti-competitive hints

“If we were behaving in an anti-competitive manner, the arbiter would have said so, which to date hasn’t happened,” says Dommissie.

“Furthermore, the background document to the draft code notes that the basis for the code is derived from complaints related “to potential exclusionary conduct...”, and does not mention anti-competitive behaviour. However, proponents of adopting the code ‘as is’ blame the franchised dealers for just that.”

“To say we are anti-competitive is untrue and defamatory,” says Dommissie.

“We want to work with government and we want prosperity for all, but we want it to happen in a responsible manner that does not adversely impact consumer safety, the economy and job creation. We support a code that opens up the market in a way that protects investment, economic sustainability and consumers.

“We are a highly regulated industry and this protects our South African consumers. It will be impossible to effectively regulate a bigger industry in such a short space of time.”

By providing world-class training and exposure to global industry best practice, the franchised dealer sector plays an important role in developing the industry and its technicians. Many technicians leave these establishments to start their own businesses, or take up opportunities at other workshops. The skills they acquire are invaluable.

“Furthermore, if someone, or some organisation, is prepared to invest in us and set up costly facilities and services, then we have an obligation to protect them and their investment. This is not anti-competitive, it is responsible business practice.

“We also believe strongly that manufacturers have the right to determine the standards of those that service their products in much the same way that Boeing does with airliners or Apple does with cell phones, tablets or any of its exclusive products,” says Dommissie.

It is important to note that the franchised dealers’ standards include significant technical training, staff welfare, pension and insurance benefits, extremely expensive special tools (calibration machines, diagnostics etc.), specific detail of facilities (special flooring etc.), CI upgrades, higher than legislated minimum wage, skills development levies, injury protocol and healthcare benefits.

“We want to build our competition but it’s not reasonable to do it immediately. Our businesses have to meet global manufacturer standards which, on average, take many years to establish a return on investment on meeting these standards. Our level of



PRESS RELEASE

investment is mandatory. We therefore support opening the market slowly and responsibly. There are no defined standards in the code yet. These need to be developed appropriately, and here we can help," says Dommissie.

Service and maintenance plans

South Africa, according to many sources, does not have a culture of saving. Household debt ratios are increasing, inflation has the potential to skyrocket, and our currency is extremely volatile. Against this backdrop, a plan that costs out servicing and maintenance for a period of time (2 – 5 years), priced at today's exchange rate, and with the savings added in terms of reduced labour rates and parts pricing (volumetric pricing), is not only necessary, it is critical to the consumer.

"South African consumers should consider that service and maintenance plans which are built into vehicle purchase prices at the time of sale are beneficial to them. The volatility of the Rand should be a very real concern for motorists, and securing parts prices at current exchange rates is a wise move. Ultimately, service and maintenance plans are designed to help the customer, not hurt them," says Dommissie.

"Factory plans have a cost to them, but so does a steering wheel or car seats or any other standard feature, the costs of which will always be lower when there is massive scale (such as in every car) as opposed to purchases that cannot match these economies."

"Additionally, inflation and currency issues affecting South Africa are not the same in the EU, US etc. where their economies are stable, growing and mature," says Dommissie.

Service and maintenance plans add value and give customers peace of mind. NADA believes that over time, the cost of these should plans be disclosed. In the interim customers can assume that the costs for these are in line with any of the third-party bolt on plans - the costs will be similar, and most likely a bit less.

Alternate parts

"There is no quality control of alternate parts coming into the country and we don't believe that this is responsible. Our question is: How will the industry ensure quality parts are utilised in consumers' vehicles? Who is going to police the parts and vehicles coming into the independent workshop," says Dommissie.

"If the industry is not required to use genuine or approved parts, there can be no monitoring of safety standards. And this won't only apply to passenger vehicles - heavy commercials, trucks and buses will also be affected."



PRESS RELEASE

“In the case of a dispute, the Original Equipment Manufacturer (OEM) will have to inspect the vehicle. There are bound to be many claims and compliance will be unmanageable.

“If the independent workshops are going to use quality parts, made by an original parts manufacturer (such as Bosch or Denso) and of the same specification, design and model, then this might, one day, in theory, be acceptable. However, the reality is that it is unlikely that all independent workshops will use these parts due to the very high cost. It is doubtful that the manufactures will allow this during warranty,” says Dommissie.

“What we will likely see is the use of ‘equivalent’ generic parts that fit, but are nowhere near the quality nor have been tested under the conditions that Original Equipment (OE) parts are. Even in the case of OE parts, unless the person knows how to install them properly, test them, and assure that the work is completed to specification, the parts themselves are meaningless.

“Take cola for example. Cola is stored in the same container, is the same colour, has the same ingredients as Coca Cola®, but nobody comes close to the original. Applied to safety, this difference is critical,” says Dommissie.

“It is extremely important to emphasise that the sale, maintenance, repair and operation of a motor vehicle is ultimately about the safety of the customer.”

Positive aspects of the code

“In general, we agree with the principles noted throughout the code. It is the application and machinations of it that we object to. The changes made to draft 2 of the code have not taken on board the submissions made by NADA to the first draft,” says Dommissie.

“In order for the automotive industry to continue to contribute positively and sustainably to the South African economy, all stakeholders need to engage, discuss and constructively develop a meaningful and sustainable new Code of Conduct,” concludes Dommissie.

ENDS

Issued for and on behalf of NADA by:

Meropa Communications

For media enquiries please contact:

Ilana Salant – ilanas@meropa.co.za / 011 506 7300

ABOUT NADA



PRESS RELEASE

The National Automobile Dealers' Association (NADA) is a professional body representing the interests of business persons who own, operate and manage new passenger and commercial vehicle franchise motor dealerships and qualifying used vehicle only outlets in South Africa. NADA is a proud constituent association of the Retail Motor Industry Organisation (RMI) and has affiliations with a number of similar organisations world-wide. NADA is committed to enhancing the image of the retail motor business; facilitating the interface between dealers and the motor manufacturers and importers who supply them; building rewarding relationships between dealers and their customers; and bringing relevant issues facing its members to the attention of government at all levels. As a major role player in the automotive industry, NADA and its members are strong supporters of complying with the Retail Motor Industry Organisation and the Consumer Protection Act's Codes of Conduct for the Automotive Industry. In all forums, NADA is the fully representative and respected voice of the retail motor industry in South Africa.