

SA's auto industry faces big threat from global shift towards EVs

On 14 February, the European Parliament approved the prohibition of all internal combustion automobiles by 2035, signifying a pivotal moment in the evolution of the worldwide automotive manufacturing sector. As South Africa's primary market for vehicle exports, this poses a significant risk - with more than 70% of the local industry's exports last year going to Europe.



Source: [Unsplash](#)

Although leading vehicle manufacturers such as Mercedes-Benz, Volkswagen and BMW report being on track to phase out internal combustion engine (ICE) vehicles, for traditional OEMs (or original equipment manufacturers) like Ford, GM, Mercedes or Volkswagen; it's been a real challenge to fundamentally change their way of thinking about producing vehicles.

This is according to Mark Lacey, head of resource equities at global asset manager Schroders, who explains that for these manufacturers the supply chain has fundamentally changed.

“As a traditional OEM, you now need a supply of rock commodities like lithium nickel. You also need to figure out the different architecture of moving away from ICE to electric vehicles. You have to really reimagine the way you think, and it costs billions and billions of dollars to make this transition,” says Lacey.

OEMs are being forced to adapt by the investment community

“The investment community has said they will not give any value for the old vehicle architecture that historically has been produced and they want these OEMs to produce EV vehicles. And the proof is in the valuations - you see the difference between the valuation for a company like Tesla versus Ford as an example,” says Lacey.

At the time of writing, Tesla ranked as the world's eighth most valuable company – with a market capitalisation of \$582.60bn according to companies market cap.com. Compare that with Ford, which makes many more cars, but is valued at just around \$47bn .

“From the standpoint of the traditional OEMs, it has been a challenge. Companies like Tesla, for example, who were early and really had relatively no competition, have really benefited. And this really paints a big picture of where investors want these companies to go in order to take advantage of EV's growing market share, which has almost doubled over recent years,” says Lacey.

With pressure from both the regulatory and investor communities, international car manufacturers will have to adapt – and as one of their suppliers, South Africa will need to follow suit – and quickly.

Yet the road will be a difficult one. One hurdle locally is regulatory constraints.

In a thought leadership discussion document on new-energy vehicles (NEVs), released by Naamsa, SA's local automotive sector body, Naamsa, CEO Mikel Mabasa said that “We need to urgently enhance existing auto policies to facilitate a high-yielding business environment, including developing an attractive fiscal and regulatory framework that makes South Africa a highly competitive and compelling location for NEV production.”

An EV arms race

Additionally, and on a global scale, Lacey believes that an even bigger hurdle for manufacturers will be supply constraints. “I'd say there's an arms race right now in building out not only EV platforms, but also managing this tricky supply chain. Given that automakers around the world have pledged an investment of a trillion dollars, I would say they are taking things very seriously.”

Battery longevity is a nut the industry is desperately trying to crack, but in the short term it's battery supply, which is the problem.

Lacey says that last year, Carlos Tavares, chief executive of Stellantis, one of the world's biggest car makers, warned of a looming crisis for the transition towards the electric vehicle. In particular, he said battery shortages could affect the industry as soon as 2025.

“There are three key materials for the production of batteries which go into EVs, lithium, nickel, and cobalt. All of these materials are in short supply and all have witnessed a relentless surge price over the last two years, albeit none as great as lithium.





“Lithium is the most sought after with its value having risen tenfold since the start of 2021. According to trading economics.com, demand is vastly outstripping supply. We believe the world will need five times the supply of lithium by 2030,” says Lacey.

“Elon Musk once tweeted that lithium's everywhere. What MrMusk left out is that it takes about a decade for a new mine to come online given the long permitting processes. We believe that the world needs 40 additional mines to come online to meet demand by 2030, which is a massive undertaking. 40 mines might not sound like a lot, but today there's about 10 mines producing lithium of any meaning. With three of the largest mines producing nearly half of the world's lithium. In North America, which contains a meaningful amount of lithium reserves, there's currently only one mine,” says Lacey.

Locally, while South Africa lags African neighbours like Zimbabwe in terms of lithium reserves, Marula Mining recently reported that sales of lithium processed out of stockpiles at the Blesberg project in the Northern Cape are expected to commence this month.

Additionally, South Africa has the world's largest reserves of manganese. Manganese is another strategic mineral in the lithium-ion battery value chain. Co-operation within the African region will be critical in order for South Africa to develop on-shore lithium-ion cell manufacturing ability.

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