

BUSINESS REMARKS ON THE CURRENT BUSINESS ENVIRONMENT IN RESPONSE TO MINISTER DAVIES

Today's meeting marks almost three years of constructive dialogue between South African business as represented by the BBC and BUSA, and President Zuma and his government. Much has been achieved over these months of working together, as will be made clear in the report backs, from our Task Teams.

The successes that we have achieved in the working groups would not have been possible without the robust bilateral engagements in the Task Teams, which have been based on a solution orientated approach to challenges. We have learnt through the joint approach to challenges, which has been developed in our engagements in the task teams, that together we can do more.

However whatever successes we may have had in the working groups, the socio economic environment particularly in relation to employment is today more challenging than it was last year.

We all know that the decline in the GDP to debt ratio leaves us with limited buffers, within which to manoeuvre against a potential rating downgrade. Private sector investment remains integral to economic growth and the recognition of the need to enable such investment as set out in Minister Davies' remarks is welcome. The challenge for both Government and the private sector is to engage more frequently on the interventions that can support investment as has been achieved in the automotive, clothing and textile and agro processing sectors, through partnerships with the private sector. The success of the renewable energy sector is an example of what can be done with a focussed program by government to encourage private investment. Successes from this initiative

should be explored for potential extension to other infrastructure areas where delivery is hampered by lack of resources.

We agree with Minister Davies that Business and Government must do more to respond to the current situation.

The decline in commodity prices has mining companies under considerable pressure, and the impact is wider than losses in corporate earnings. It has decimated South Africa's export income, deprived the fiscus of revenue and we are now witnessing the social impact; recently, a number of mining companies announced that they would have to close shafts leading to significant retrenchments. These companies have few options to maintain competitiveness, after years of increasing costs and decreasing commodity prices; for some of them the cost of producing is now close to or higher than realised prices for their commodities.

The secondary sector is facing similar difficulties. Manufacturing and industrial companies are struggling to survive. The steel-manufacturing sector in particular is nearly on its knees and job cuts are inevitable in the absence of action. The proposed intervention in this sector is therefore welcomed.

The great challenge remains the unacceptably high level of unemployment, which must be addressed if we are to have any hope of the sustainable and prosperous future for all which we envisaged in 1994.

The challenge is that the current situation is not simply cyclical but structural in nature. For instance, the mining sector, which has traditionally been a creator of relatively decent wages for unskilled and semi-skilled workers, is facing long-term structural adjustment. While there will be some kind of stabilisation of prices as the global economy recovers, structural shifts in the Chinese economy almost certainly mean many commodity prices, such as iron ore, may never recover to levels seen over the past 10 years. For more than a decade China's economic

impact was greater than Germany, France and Italy put together; that kind of economic stimulus will not be repeated again. That means demand for commodities, especial industrial commodities will not return to historic levels.

We need to consider how to extend the partnerships between Government and the private sector which have been established in some sectors of the economy so that the hard decisions that are required for meaningful change can be made in all sectors of the economy.

The challenge for both Government and the private sector, under the current circumstances, is to engage more frequently on the interventions that can support investment as has been achieved in the automotive, clothing and textile and agro processing sectors, through partnerships with the private sector. The success of the renewable energy sector is an example of what can be done with a focussed program by government to encourage private investment. Successes from this initiative should be explored for potential extension to other infrastructure areas where delivery is hampered by lack of resources.

We trust that, the Mining Phakisa which will be held later this year and for which preparations are well advanced, will be used as an opportunity by all parties to address the challenges facing everyone in the sector. The mining industry is committed to a successful outcome.

Thank you for sharing the nine point plan with us. We welcome the opportunity to work in partnership with you in implementing specific aspects of the plan. We believe that the plan offers a concrete platform for delivery in a number of areas. As some of the interventions are already receiving attention in the five task teams or in other forums, we believe that it would be important to use these structures to pursue such issues further.

We welcome the opportunity to comment on each element of the nine point plan by committing to further engagement, in all the areas but for the purposes of this meeting, we would like to focus particularly on those areas which are already being considered in the five task teams, where we are already working together and where the private sector could make a meaningful contribution.

In this respect, we propose that specific interventions be allocated to existing task teams as follows:

All skills initiatives to the Education and Skills Task team.

Introduction of the Black Industrialists policy already forms part of the work of the Inclusive Growth Task Team, as does unlocking the potential of SMME, co-operatives, township and rural enterprises and should be pursued expeditiously in that Task Team

Financing South Africa's economic infrastructure programme requires closer partnership with the private sector to unlock new sources and methods of infrastructure financing. There has been good progress in a range of discussions between government and the private sector in this regard. The private sector finance industry organisations have already committed to working with government to translate the completed preparatory work into transactions that can go to the market and are keen to work with Government in expediting the development of an Infrastructure Funding and Private Sector Participation Framework.

Managing workplace conflict is the subject of a Nedlac process under the leadership of the Deputy President and progress is being made in the areas referred to in the presentation. Additional work on Labour Market Policy is also being dealt with in a task team. Working together in the Task Team has allowed us to gain a greater mutual understanding of the challenges in the Labour Market

and particularly to view Labour Market Policy within the overall economic context. Greater mutual understanding provides a stronger platform for social dialogue, which is much needed at this time.

In respect of the regulatory impact on investment, the Task Team supported the adoption by Cabinet of the tool for assessing the socio economic impact of legislation is welcomed. A set of regulatory principles which should underpin all legislation has also been agreed and will now be considered through government processes to complement the assessment tool. We see the proposed imposition of a carbon tax as an issue, which would benefit from the application of the new socio economic assessment tool as it would allow the current differences in opinion between Business and Government to be discussed on the basis of a common set of facts.

Work is continuing on enhancing policy certainty in the mining industry, particularly implementation of the “one environmental system for mining”. It has also been agreed in the Task Team, that a technical task team will be established to make input into the Cabinet Task Team which has been established to assess the unintended consequences of the Immigration Regulations. We believe that this engagement on these unintended consequences is required urgently both in respect of requirements affecting tourism and corporate visas.

We welcome the establishment of a “one stop shop for investment, and particularly the opportunity partner with Government in the establishment of such an institution. We believe that we should move expeditiously to engage on the elements that would make such an entity successful.

In the short term companies will have no option but to make difficult decisions to preserve their competitiveness and therefore the competitiveness of the South African economy and ensure that we have the capacity to turn the economy

around. No business that wants to succeed can see the retrenchment of its employees as anything other than both an economic and social failure. A growth in its workforce conversely is evident of both its economic and social success. We therefore welcome the talks that have now commenced in the mining industry.

It is common cause that we need to improve the conditions for sustained investment in increasing our productive capacity and economic output. The Task Teams are focusing on some of these conditions which were referred to in Minister Davies' introductory remarks.

The recent Economic Report on South Africa by the Organisation of Economic Co-operation and Development (OECD) states that South Africa must focus on lifting investment and job creation by improving the business climate and increasing the efficiency of public sector service delivery, particularly regarding infrastructure; all issues that are recognized. We need to work together to make sure that the right interventions are made and that they are seen to made.

Although, as highlighted above many of the elements of the nine point plan are receiving attention in the Task Teams, some like: Resolving the energy challenge and reform of state owned enterprises are two elements of the plan which are not currently enjoying the same level of attention from Business and Government jointly as others may be, which are both areas where we believe we need to work together.

It is common cause that the lack of a reliable and adequate electricity supply is a binding constraint to economic growth. We recognise the structures that Government has put in place to address this constraint and welcome any engagement that allows us to support the implementation of the five point plan for Eskom. We are currently meeting regularly with representatives of the war

room and offer support wherever we can. In this regard we do think that more could be done to implement some elements of the five point plan.

Interventions that could alleviate the current supply shortage all have financial implications which present their own challenge. We welcome the appointment of the Acting CEO of Eskom and are ready to support him in whatever areas may be considered helpful. In the short term, we agree with the Acting CEO that attention needs to be paid to supporting interventions aimed at improving maintenance by focussing on risk based approaches. At the same time every effort must be made to expedite the completion of Medupi, Kusile and Ingula; procurement processes to introduce new IPPs should also be expedited.

We believe that load shedding can be alleviated through aggressive rollout of a solar water geyser program as originally contemplated and that this is an area where a concrete partnership with Business could make a meaningful difference

Notwithstanding the need to focus on the short term challenges in the electricity sector, the energy sector as a whole needs the development of a clear and transparent policy framework within which the necessary actions can be taken. For example, the long awaited Integrated Energy Plan should be finalised. It is understood that an update of the Integrated Resource Plan for electricity is currently in progress as is a Gas Utilisation Master Plan; both of these should be completed so that engagement with stakeholders can commence this year. We believe that this is also an area where partnerships with Business could enhance the process.

While recognising the potential benefit of nuclear power as a low carbon source of electricity, the anticipated high cost of a nuclear program on top of the already steep rises in electricity prices over the last few years, is a concern to Business. A nuclear power program is a long term endeavour and it is important that the process going forward takes stakeholders along. It is requested that the

estimated cost of this program and its impact on the longer term tariff trajectory be shared at the earliest opportunity.

The Presidential Review Committee on State Owned Entities, presented a number of recommendations, which they proposed should be implemented in three phases. We understand that Government has developed a plan to consider implementation of the recommendations. Business believes that implementation of some of these recommendations of the Committee would be helpful in addressing the current unacceptable state of affairs in a number of the more prominent entities.

The overarching nature of some of the recommendations is recognised as being challenging to implement without a centralised implementation agent. The short term recommendation to appoint an SOE Reforms Committee is therefore supported. We see the development of a framework for the appointment of Boards and the prioritisation of managerial and technical skills and strategy-setting capacity as priorities in the short term and would be happy to be involved in the work of whatever structure is established to consider the recommendations.

Although much remains to be done, as will be clear from the reports from the task teams, significant success has been achieved through dialogue between Business and Government.

We would like to leave the meeting today with agreement on immediate actions to be taken in respect of a number of aspects, on which we believe Business as a collective could successfully work together with Government. We believe that sectoral issues are better dealt with in partnership with the affected sectors as is currently the case with a number of industrial sectors.

We agree with Minister Davies on the need for appropriate institutional models to ensure that the partnerships that we have already established are strengthened to improve delivery.

We would certainly support more regular interactions at Working Group level and believe that the Task Team Co-chairs should meet more regularly and in particular before the end of August to refine Task Team work programmes where appropriate to incorporate interventions contemplated in the nine point plan. We may need to consider the capacity that may be required to give more focussed attention to these interventions.