

Business' input to the Nedlac Trade & Industry Chamber Strategic Session 2017

A BUSINESS PERSPECTIVE ON SELECTED IPAP FOCAL AREAS

22 SEPTEMBER 2017

Background: Overview of the economy

- Largely due to concerns around governance, business confidence is at its lowest level since 1985.
- In Q1 of 2017, the economy contracted by 0.7%, thereby bringing the economy into recession for the first time since the global financial crisis in 2008/2009.
- In contrast to the previous recession, this one is largely self-inflicted. While Q2 results are better at 2.5%, still insufficient to meet the needs of South Africa. 2017 GDP unlikely to exceed 1%.
- South Africa's 2016 GDP growth rate was 0.3% against a global GDP of 3% (according to the OECD). SA behind average global growth rates.
- SA per capita GDP now declining.
- Unemployment is currently 27.7%, with youth unemployment at 56%.
- Labour force participation rate only 60%, meaning 40% of our economically active population is neither employed nor actively looking for work.
- In the current fiscal year the debt-to-GDP ratio is expected to rise to 53.5%.
- Strong commitment to turnaround required from all social partners. No remaining fiscal or policy space for “own goals”.

Technical Regulatory Infrastructure Agencies

- Business welcomes the constructive engagements on the responsiveness of agencies to business' concerns in the Technical Regulatory Agencies Nedlac task team.
- On the SABS, the DTI review is awaited.
- On the NRCS
 - Good progress being made on building common understanding of challenges.
 - Agreement reached on publication of all policies on the website.

Technical Regulatory Infrastructure Agencies (2)

- Business concerned that insufficient capacity is available to implement legal metrology act regulations: engagements are on-going in this regard.
- Potential for reduced turnaround times for approvals based on risk being explored.
- Potential for alignment with SARS risk engine to streamline customs procedures being pursued.
- Use of agencies to support localisation being explored.

Local Content Verification

- Significant challenges are being experienced in the implementation of SANS 1286.
- Ability to verify local content essential for the implementation of designation of products.
- Business suggests that alternative mechanisms must be explored for this purpose.
- Accept certificates from auditors setting out local inputs.

Local Content Verification (2)

- Build on other systems like APDP which require local content calculation
- Business is keen to work with Government and Labour through the TIA Task Team to develop a concrete proposal

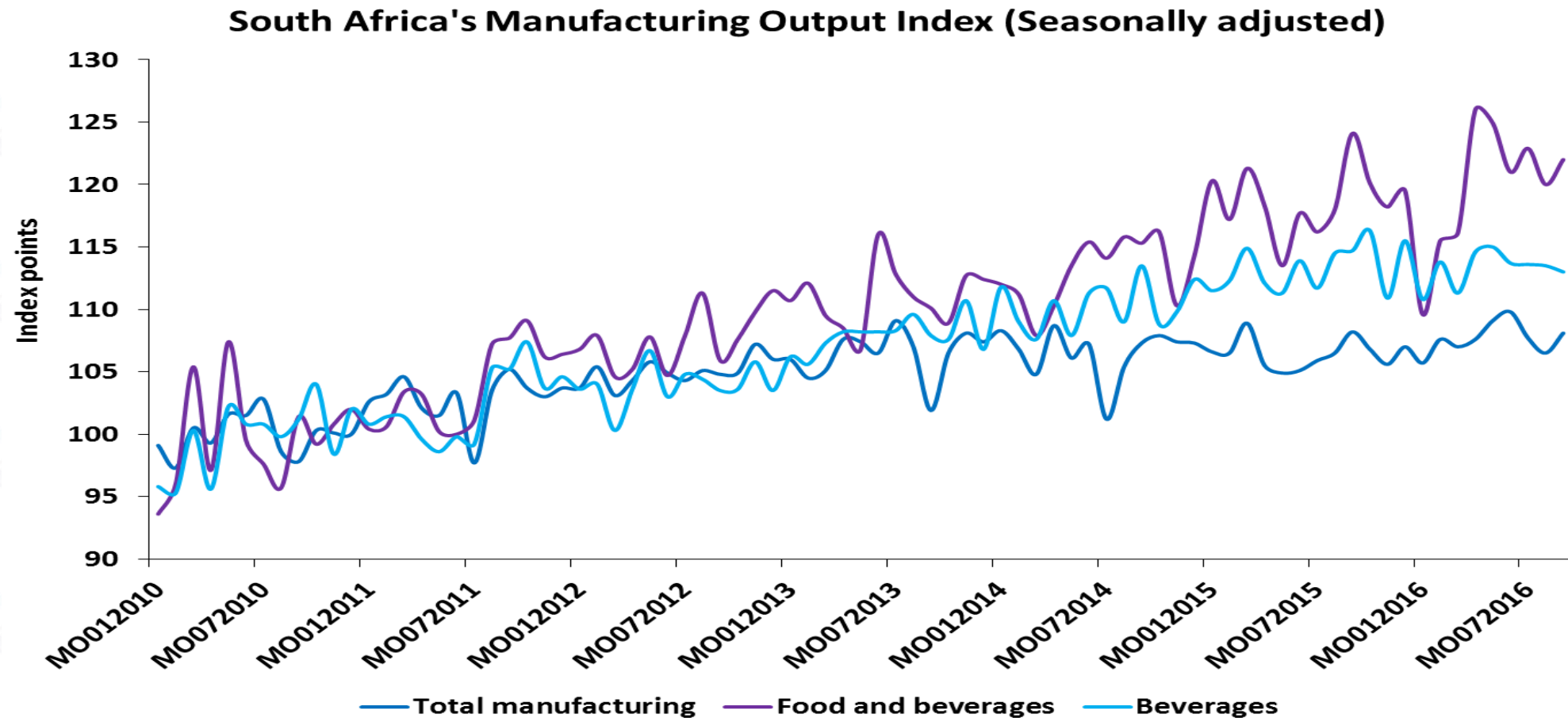
Designation

- Designation as a policy instrument should primarily be guided by one rule, that is: if the product can be made locally, and a compelling economic case exists, it should be designated for procurement by the state.
- Progress should be made however, in improving on the time it takes to obtain a designation decision (currently between 2-4 years).
- This is problematic given that capital commitments are often significant; hence delays create significant uncertainty and may even prevent investment.
- Stricter policing of compliance with designation is necessary, as is greater promotion of awareness among state officials.

Pulp & Paper Industry: Performance & Challenges

- Shortage of fibre - regulatory and policy uncertainty biggest challenges
- Recycled paper collection up to 68.4% 2016 - 1.4 million tonnes
- Don't need mandatory tax proposed in section 28 of Waste Act – industry has trained 5000+ entrepreneurs; and mentor co operatives & SMMEs
- Growing tissue capacity (3 medium companies invested in total 75 000 tons capacity plus)
- At least R2 billion investment seen in last 2 years – paper & related – both waste and green economy – up to 500 000 tonnes of various pulp investment potential in next 2 - 3 years
- Old DAFF forests in KZN need reclamation & planting permits for Eastern Cape
- REIPP goal post change may see lost investments in sector (- 50M plus lost on pre-engineering)
- Need waste exclusion legislation simplified and fast tracked to beneficiate ash gypsum & biomass

Agro-processing and agricultural trade



Source: Stats SA, Agbiz Research

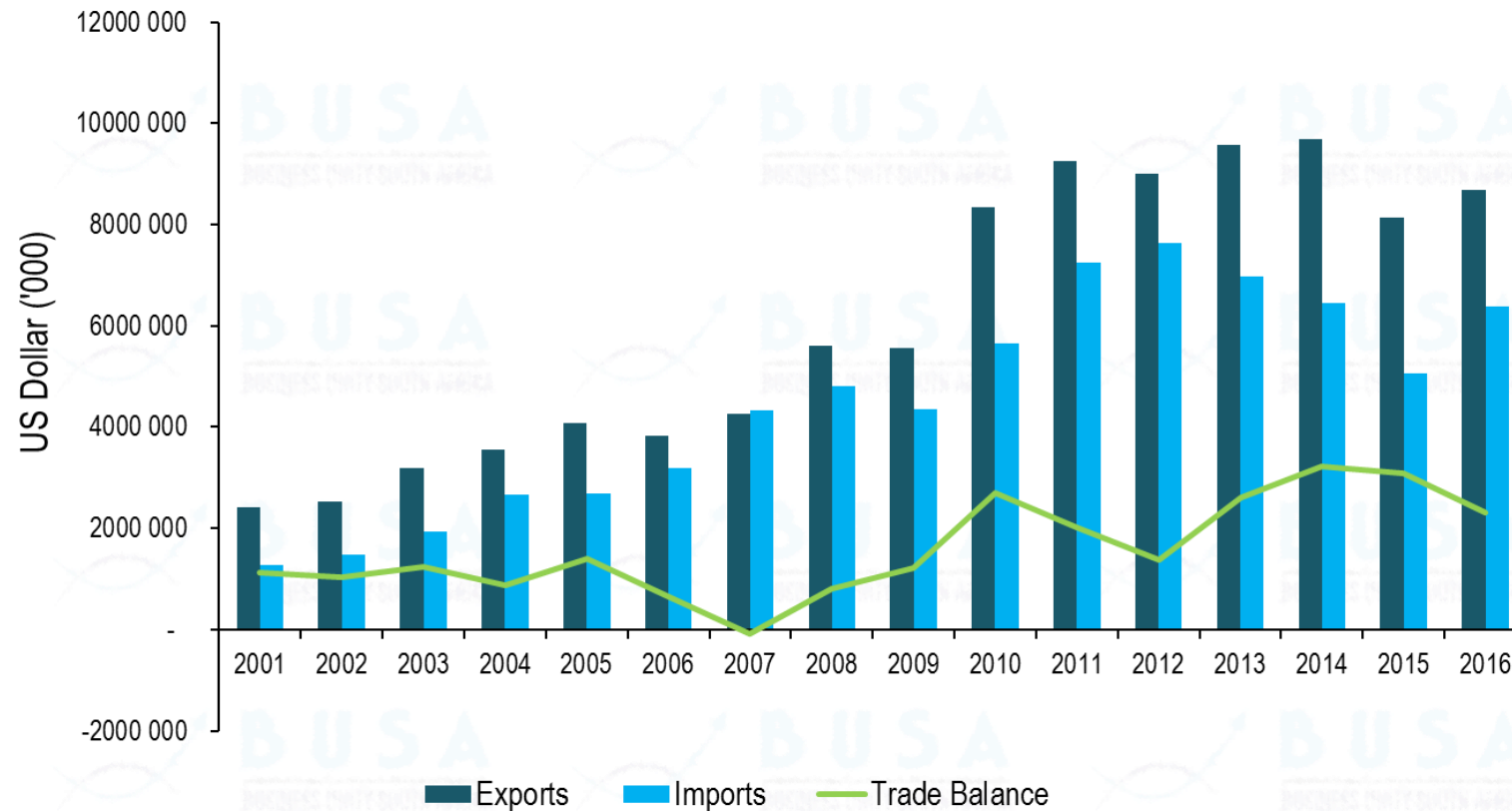
Agro-processing and agricultural trade (2)

Rapid Rise in Value of Agriculture Exports (High-value Products)

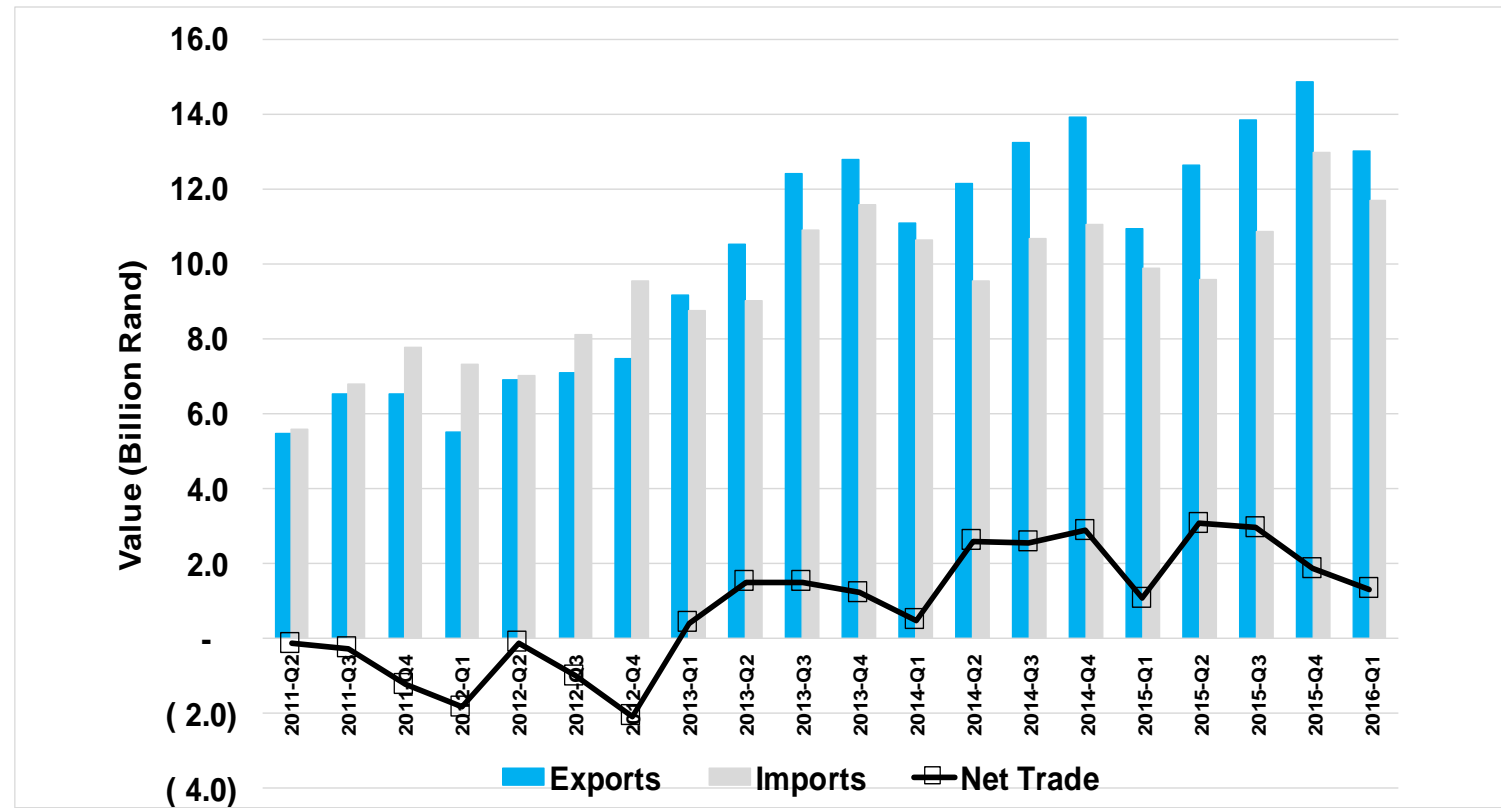
- Agriculture exports have outperformed agro-processing. Due to strong focus on agro-processing, industry has convinced government to treat exports of high-value produce also under agro-processing
- Preference of agro-processing (i.e. manufacturing) over primary agriculture should not exclude the labour-intensive high-value export orientated industries
- Technological sophistication, R&D, packaging, temperature and disease control, computerised logistics, etc. in producing a fresh orange or avocado for foreign market often outstrips that of orange juice or avocado oil (Cramer and Sender, 2015)
- Industry research indicates that the largest opportunities for transformation lie in niche agro-processing and the broader agricultural value chain.

Agro-processing and agricultural trade

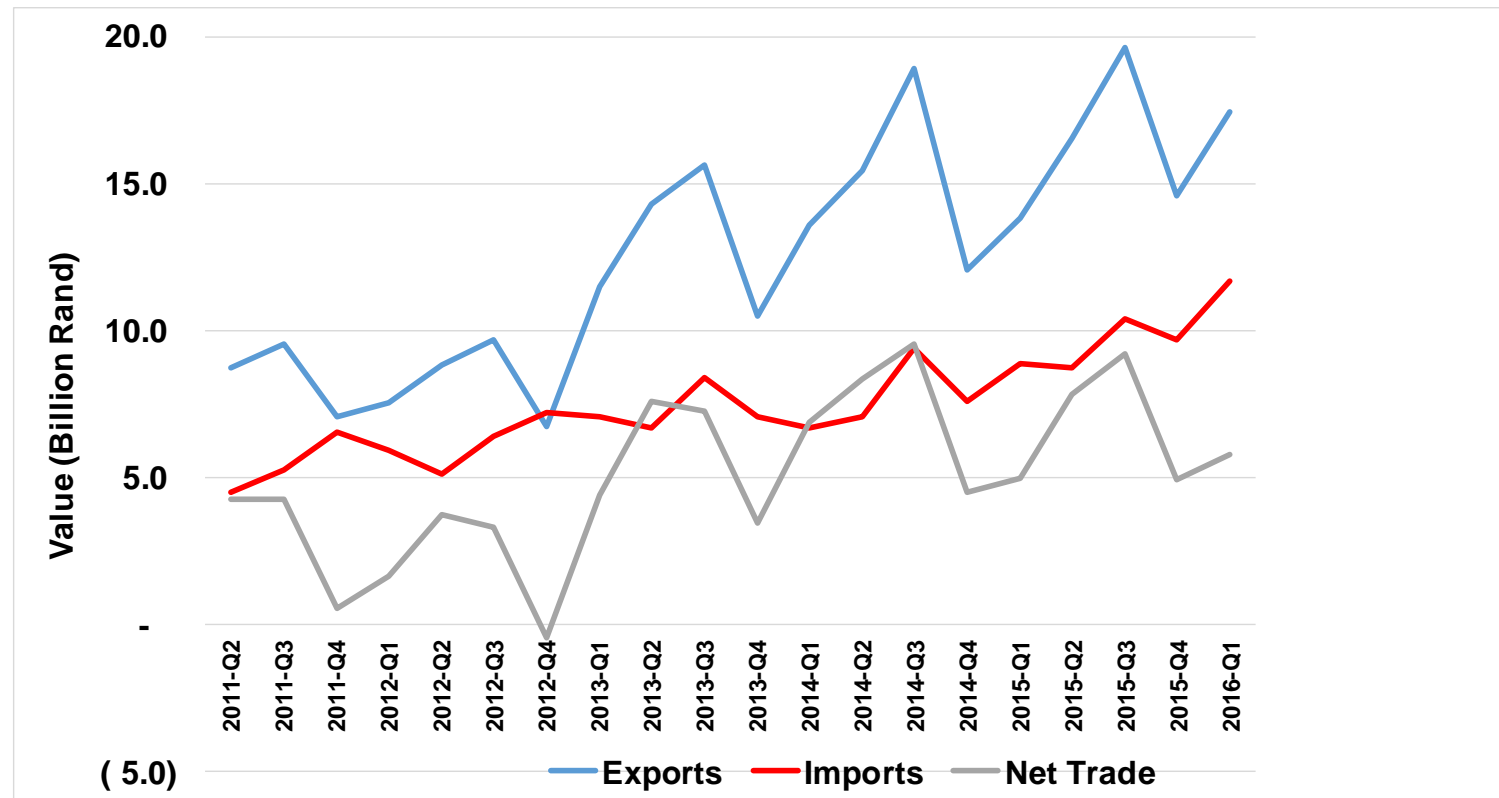
(3): SA's agricultural trade balance



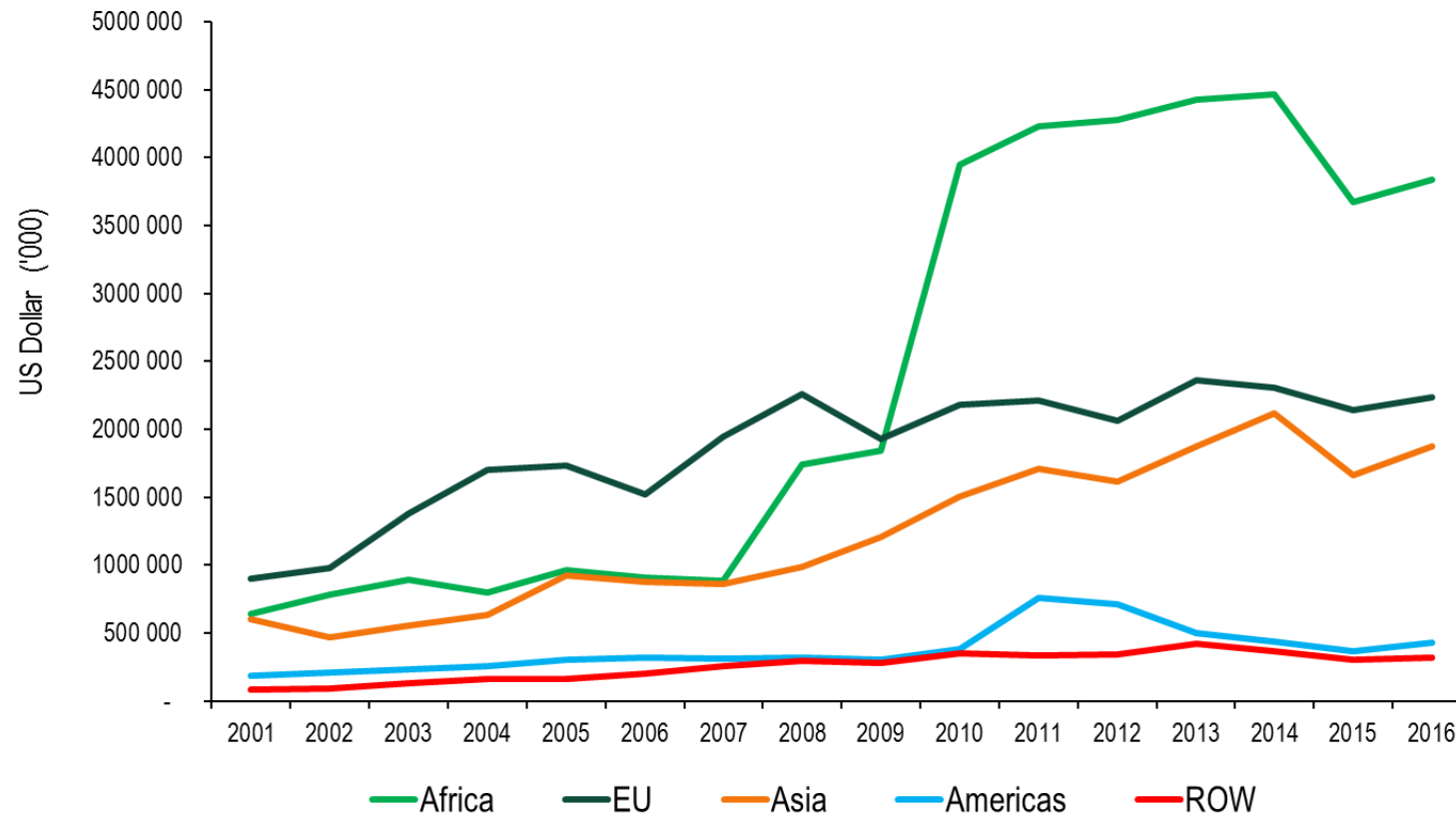
Agro-processing and agricultural trade (4): SA's trade balance for processed agricultural products



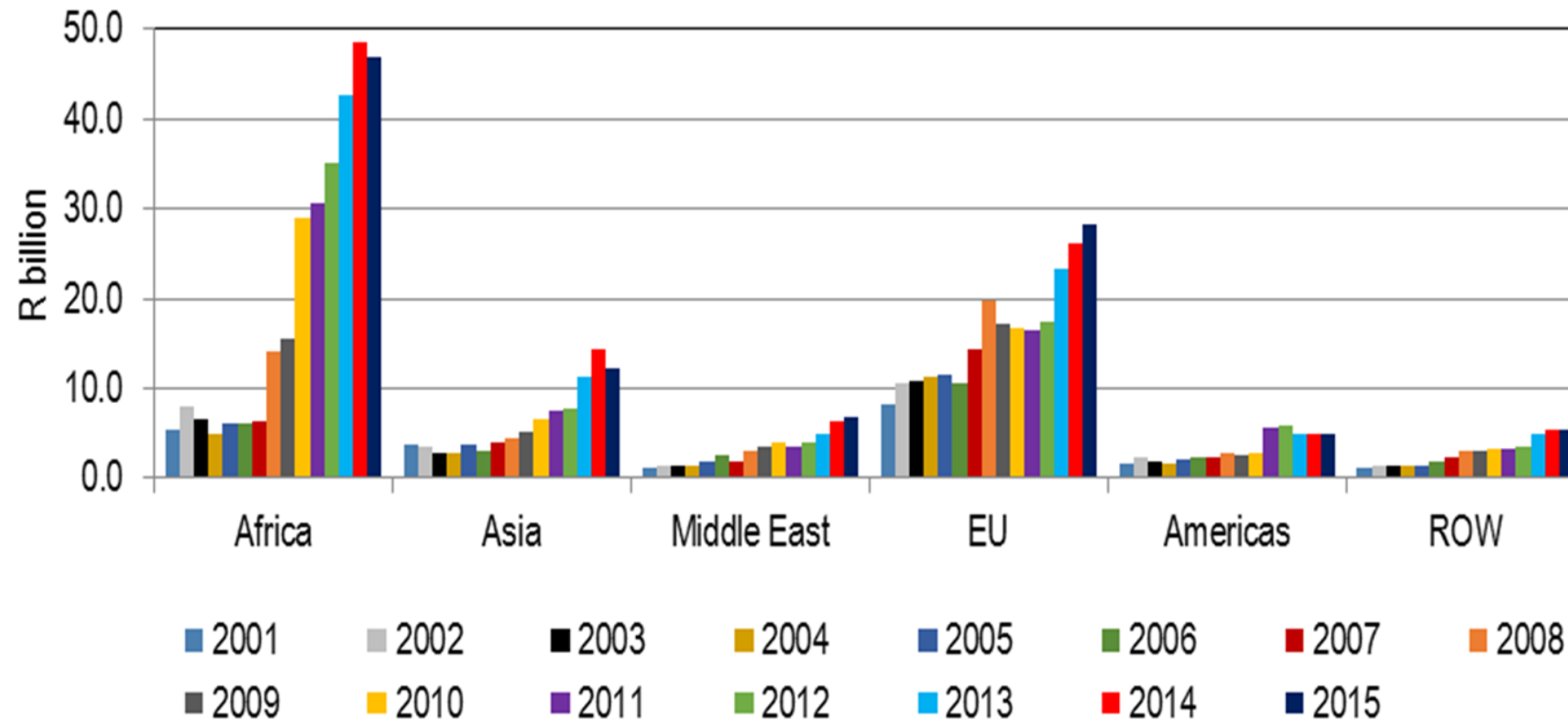
Agro-processing and agricultural trade (5): SA's trade balance for primary agricultural products



Agro-processing and agricultural trade (6): Trends in SA's agricultural exports per region



Agro-processing and agricultural trade (7): SA agricultural exports



Regulatory and red tape barriers

- Business welcomes the one-stop shop
- However, a plethora of additional regulatory requirements continue to overwhelm business
- SEIAS fails to achieve the promise of reduction in the regulatory burden in that
 - It fails to identify duplication of requirements
 - It fails to identify the real cost of implementation. For example, it is common for SEIAS to not mention the potential jobs impact.
- Business proposes a **moratorium on new legislation unless it is required to reduce the current regulatory burden.**
- Further, government should consider **involving stakeholders in SEIAS process.**

Electricity Supply

- Critical to future of SA economy and key factor in competitiveness.
- Supply constraints largely overcome due to reduced demand.
- Long term price trajectory needs to support industrialisation.
- Cost of electricity one of the key concerns raised across all sectors.
- Potential for own generation and cogeneration constrained by unfriendly regulatory environment.

Electricity Supply (2)

- Need to ensure revised IRP is developed from least cost base – not merely a technical matter as it will determine the sustainability and competitiveness of SA Inc. going forward.
- Need to ensure the introduction of cost reflective tariffs for industry.
- Need to remove discrimination among customers between Eskom and municipal supply.
- Need to ensure that municipal industrial customers are not compromised by non-payment to Eskom by municipalities.