Budget Vote 2021 Ebrahim Patel, Minister of Trade, Industry and Competition, 18 May 2021. Parliament, Cape Town.

Budget Vote 2021 Ebrahim Patel, Minister of Trade, Industry and Competition, 18 May 2021. Parliament, Cape Town.
House Chairperson, Honourable Members, fellow South Africans.

The Covid-19 pandemic has deeply scarred the South African economy. While the economic recovery is better than expected, it is still slow and its impact uneven, with larger job losses for lower-paid workers, and severe damage caused to many small businesses. More than ten million South Africans willing to work are unemployed; the 3% growth forecast for this year will need to be stepped up in future to effect a full economic recovery and address the reality of so many South Africans, particularly women and youth who are still left out of the mainstream economy. To speed up economic recovery and ‘build back better’, we need a whole-of government approach.

In my remarks today, I wish to set out the Department’s future strategic focus, based on deeper integration of our efforts to galvanise inclusive growth and build local industrial capacity. Deeper integration will enhance the connection between our policy vision and effective implementation.
We will achieve this by:
– Uniting growth with transformation
– Boosting local production
– Growing exports
– Increasing investment, and
– Expanding the green economy.

I will speak to each of these strategic pillars in turn. They form the basis for the department’s programme of work for the year ahead, which involves a bold set of measures covering greater worker ownership in the economy, higher levels of local industrialisation, a roadmap for producing electric vehicles and working on green hydrogen opportunities, boosting investment levels, and building and strengthening export platforms through the AfCFTA and other measures. First, we must build a new model of growth and economic inclusion that unites South Africans in the economy and promotes transformation. In other words, “inclusive growth”. Growth that benefits everyone and not the few. How do we achieve this “inclusive growth”, which is easy to speak of, but harder to achieve?

It is about sharing wealth and opportunity, breaking free from the shackles of the past, of a society divided between bosses on the one hand, and workers and servants on the other. If we really are all in this together, then our patterns of ownership, power and control must be transformed. So, by building on our successes, we now need to step up policies that actively promote worker ownership of shares in firms and representation of workers on corporate boards, as well as support for broad-based ownership vehicles in the economy. What is new in this approach is that worker ownership arrangements should not be in the form of passive dividend-flow arrangements but be accompanied by mechanisms for the voice of labour to be heard in the top decision-making structures in the corporate sector.

In this way a greater democratization of the economy can be realised and the stakeholder model of company law introduced by the 2008 Companies Act can be extended by giving a real voice to workers. This is an important way in which we can create meaningful economic inclusion. This can be the new frontier of economic empowerment. It is not a pipe-dream. Our research has revealed the extent of worker ownership: more than 230 000 workers currently own shares in about 50 companies. It is a vision of industrial democracy that is being executed by significant companies, who recognise the role that they can play in building an inclusive economy. For example, the ground-breaking decision by Coca-Cola to appoint two worker representatives – within the next 4 weeks there will be a ballot of the 8 000 workers to elect their representatives. Pepsico expects to have a worker representative on its Board by September this year.

To advance this agenda further, our annual plan will cover the following actions:
– A Companies Amendment Bill will be prepared within the next three months to set out the modalities for improved representation of worker interests in company decision-making and boards;
– The outcome of the register of worker ownership in the SA economy will be published on an annual basis and we will work with unions and corporates to improve the funding arrangements to ensure that this model provides for real ownership and a greater say in decision-making. We also intend to work with tertiary educational institutions to assist in the further education of worker directors and potential directors.
– A Practice Note under the BB-BEE Act will be gazetted today to provide guidance to regulators and clarity in the market on the treatment of broad-based empowerment vehicles, so that worker ownership schemes, community trusts and union investment vehicles are properly recognised for BEE-purposes. Aside from worker representation, there are other significant steps that must be taken to achieve greater fairness, more opportunity, and deeper transformation in the economy:
– Promoting black industrialists and small businesses is critical. Though we have made progress with BB-BEE , it is clear that we need to bring greater rigour and credibility to BEE statistics and practices and ensure that claims made by firms in their BEE reports are verified. This may require adjustments to the reporting requirements. I will appoint an expert panel to review the current BEE Framework in order to address these legitimate public concerns.
– We recently released a report containing details of R32 billion made available by **the dtic**-institutions to nearly 800 black-owned entities to grow their footprint in areas such as food production, auto components, textiles, steel and film-making.
– Master Plan implementation of transformation measures, covering some R9bn will begin rollout; and the first allocations from the Auto industry's Transformation Fund will be

made, covering black component suppliers.
– By November, the new JP Morgan Fund to support 500 local firms and small businesses, with R384 million of support through an 'equity equivalent' agreement with the state, will begin disbursing funds.
– Tomorrow, the Competition Commission will launch a Market Inquiry into online platforms, like e-commerce market places, food delivery, short-term accommodation and travel e-platforms, the first such inquiry under the new legislation; and will later this year release a report on the state of economic concentration in SA industry. I am pleased to announce that Deputy Commissioner, James Hodge, an eminent competition economist will chair the Market Inquiry into online platforms.
– A Policy Statement on Competition Policy for Jobs will also be released tomorrow.
– A Green Paper on the Social and Solidarity Economy will be released for public comment within 60 days, which can assist with the rebuilding of the economy in the wake of the number of formal businesses that have been devastated and to support township and rural enterprises. A further amendment to company law is required to tackle the gross injustice of excessive pay.

A new Bill will that will be finalised within 60 days will require disclosure of wage differentials in companies, stronger governance on excessive director pay, and enhanced transparency on ownership and financial records. Our economy needs a production boost. So the Second Pillar of our deeper integration strategy recognises that we must build local industrial capability, both for the domestic and export markets. South Africa's import to GDP ratio is too high for an economy that desperately needs more jobs. We import goods worth 25% of our GDP – our propensity to import is out of line with peer countries and developed economies and more can sensibly and sustainably be produced locally. Compare our 25% with China at 14%, India at 16%, Brazil 10%, the US at 12% and the EU at 14%.

The local industrial effort – what we call localisation for shorthand – must be rooted in building both dynamic firms and an inclusive economy. Competitiveness and industrial agility are critical to longer-run localisation efforts. Sector master plans developed and implemented in partnership with business and unions contain the details of how to do this. We also need practical steps to promote, where sustainable, a greater level of beneficiation of our natural resources here in SA.

We have already made progress on this, proving that it can be done. Pre-Covid, we imported R1,1 trillion of non-oil imports, which provides a useful marker of the potential for localisation. In the past year, we built local production capacity – often from scratch – with more than R10 bn of local production of Covid-19 products, ranging from face-masks, hand sanitisers, ventilators and vaccines; and R2 bn of it was exported to other African countries. SA's first fuel-cell factory started production in the Dube Trade Port, and a greater proportion of local scrap metal has been used in our foundries.

Further beneficiation actions include a vanadium electrolyte manufacturing plant in the East London IDZ that will begin production later this year, using SA-mined vanadium-oxide to create energy storage solutions, and a nickel sulphite facility has been established in North West using by-products of the PGM mining process to create components for lithium batteries used in electric vehicles. A new edible oil refinery will be built in Richards Bay that will add half a billion rands of local content to the SA economy when it is completed.

We produce not only widgets and cars, but increasingly films and music, too. During the lockdown last year, THE MAURITANIAN, nominated for a few Oscars and BAFTA Awards, starring Jodie Foster and Benedict Cumberbatch, was shot in South Africa, helping to create local jobs. A number of local films are currently being produced.

Last year we had 3 Master Plans in place, covering the auto, clothing and poultry industries. Since then we finalized three more, covering sugar, steel and furniture. These Master Plans cover about 700 000 workers with a combined industrial output of about R300 billion. We selected these industries because they promoted food security and rural development; and two of them are labour-intensive, especially in terms of jobs for women.

Progress in the Master Plans were set out in detail by President Ramaphosa in February covering the additional one million chickens produced, the reduction in sugar imports and the performance of our auto industry; and I subsequently provided Parliament with more details.

For the future, we will be looking at Master Plans that support growth in new economic sectors as well as consolidating existing sectors. In this coming year, our portfolio of new sector work covers among others global business services, film animation, the chemical and plastic sectors, green industry, medical products and capital goods.

To clarify our overall approach to industrialisation, we are releasing today a Policy Statement on Localisation for Jobs, addressing local product development, cracking down on illegal imports and under-invoicing, and implementing localisation modalities through the joint effort with the private sector. This will be complemented by integrated efforts with other Ministries to drive local vaccines development and use of local components in the national infrastructure plan.

Tariff adjustments and rebates are an important policy instrument available to the state to lower or increase import duties, but in future will need to be accompanied more clearly by binding commitments by applicants to improve their competitiveness, create jobs and price restraint.

Our localisation strategy has the support of major corporate players. Thirty CEO champions have been nominated from the private sector, including Mamongae Mahlare from Illovo, Mark Cutifani from Anglo, Vikesh Ramsunder of Clicks, Fleetwood Grobler of Sasol and Fortune Majapelo of Bushveld. They, as much as government, are committed to achieving far greater localisation, recognising its wider benefit for the economy and society. We now have an accord at Nedlac to drive progressive achievement of this, to localize up to R200 billion of additional production over an indicative five-year period. An initial list of forty-two products have been identified for localisation; and R240 million has been raised from the private sector to appoint technical experts to drive localisation, bringing together industrial engineers, supply-chain managers, experts in dealing with illegal imports, and project managers.

Thirdly, we must increase our exports through trade with the rest of the world. Trade policy needs to be a source of new jobs and expansion of the industrial economy. Last year, we secured a trade surplus of R270bn, the largest on record, mainly due to a decrease in import levels; and exports to the US increased in absolute terms. Agricultural exports have grown; and so too the export of manufactured products such as catalytic converters used to reduce carbon emissions in cars and trucks, mining equipment, and cosmetics.

One of our key successes has been export of services. Last month, SA was named as the most attractive destination for global business services which includes call centres; and some 275 000 workers are now employed in the sector as a result of **the dtic** incentives and active support to the sector during the pandemic lockdowns, when call centres were kept open safely while their competitors elsewhere were closed.

The key focus of trade policy is the work on the AfCFTA. We made significant progress with the legal framework for the AfCFTA to enable trading legally to commence during 2021, and in December gazetted regulations for the start of trading.

Trade policy is about jobs but it must also help to save lives during this pandemic. For this reason, South Africa supported by India sponsored a formal request at the WTO for a Waiver to enable vaccines, diagnostics and therapeutic products to be produced without some of the restrictions imposed by the TRIPS agreement on intellectual property. To date, more than 100 countries have supported this initiative; and the United States and New Zealand became the first developed countries to back the Waiver request.

This is an extraordinary, watershed achievement and this House should be proud of the leading role that South Africa played in building such a global alliance. To clarify our trade policy stance, we are issuing a Policy Statement on Trade Policy for Jobs and Local Industry on Thursday.

In the period ahead, we will build on these foundations:
– To take our biggest market for manufactured products, the AfCFTA forward, we aim to have rules of origin covering between 87% to 90% of products on our tariff book adopted by Heads of State; and to conclude bilateral offers with a number of countries.
– To support local industry to export, the mandate of the Export Credit Insurance Corporation will be amended from 1 June this year to permit it to provide risk cover for a range of industrial products.
– To support improved trade with the United States, we will within the next 30 days follow up discussions with the new US Trade Representative, Ambassador Katherine Tai, building on constructive meetings held in March and May this year.
– To ensure that exports help the economy to transform, we will launch a new network bringing together black industrialists active in export markets; and
– To address widespread levels of illegal imports, we will finalise discussions with trading

partners on measures to combat such activities. Fourth, investments are the lifeblood of growth, and complement the steps to expand our markets through localisation and exports.

At the Investment Conference seven months ago, new pledges of R110 billion were made. The DTIC is now busy on implementation of the pledges and obtain new ones.

One of the most significant was the R16 billion Ford car-making expansion, that we expect will be matched by close to R4.3 billion investment by component suppliers and further investment to strengthen the rail lines between Gauteng and the E Cape port of Coega.

Large new investment has been facilitated by the DTIC through the section 12i scheme in the past 12 months, to build and expand factories across the country like fridge manufacturing in KwaZulu-Natal and a black-owned glass manufacturer in Gauteng.

We will now step up the drive to mobilise new investments in the economy, setting the DTIC a target of R100 billion over the next year, which together with other efforts in the state, can help to achieve the goal for the next Investment Conference.

Fifth, we will expand our efforts on green industrialisation and the just transition Climate change will impact on industrial development as well as human development and security, in a number of ways: through new opportunities for industrial processes and products, constraints to access to export markets and capital markets; and through disruptions to existing business-models based on carbon-intensive technologies.

Make no mistake, climate change represents a very real and grave threat to our future economic prospects, not least because global markets are changing fast. We must recognise the urgency of the situation and take action accordingly. We must not get left behind, with stranded assets and a carbon-dependent economic model.

We have made progress in some areas: with an increasing mix of renewable energy on our grid; assembly of hybrid vehicles using a combination of internal combustion engines and electric motors; work on battery-storage technologies; and a new fridge/freezer production in KZN using solar energy, with more than 2 400 units produced already.

We must step up efforts to build full electric vehicles in SA, to maintain our capacity to export to key markets such as the EU and UK, both of which have set new targets and deadlines to reduce the number of fossil fuel reliant vehicles on their roads. We need charging infrastructure – and must expand the existing 200 charging points for electric vehicles in SA using the agreed SABS standard.

The big opportunity will be in the advancing technologies based on green hydrogen energy, with time projected to be the best solution to humanity’s energy needs.

If the 20th century becomes known as the century of crude oil and nuclear energy, the 21st century may be known as a century of renewable energy and green hydrogen.

SA is well-positioned to become a key player, with our reserves of platinum group metals used as a catalyst in green hydrogen fuel-cells; as well as vanadium used in battery storage technologies.

Already, SASOL and one large car-maker have launched a partnership to explore fuelcell technologies across the N3 corridor between Joburg and Durban. As countries reconstruct their economies beyond Covid-19, renewable energies and renewable technologies will play a critical role.

Covid-19 reminded us that in a globalised world, if we get it wrong, the price all of us pay is huge. And hence we must continue to ensure an economy that is congruent with international best practice in the field of energy production, that is climate friendly.

Climate change demands that we rise to this challenge and seize the vast opportunity that it presents. The technologies we're talking about provide an opportunity and a solution, and this allows South Africa to play to its advantage.

To unlock the opportunities, our action plan will focus on the following:
– On electric vehicles, I have today issued a draft sector green paper containing a proposed roadmap to local production, setting out options being considered by auto-makers, unions and government, with steps and tentative timeframes required. We now seek public comment on the document to finalise the strategy within 90 days.
– On hybrid vehicles, Toyota plans its first production-run this year, providing consumers with greener cars assembled in SA
– On the green hydrogen economy, I have mandated the IDC to be the industry commercialization agency to work with the DSI on achievement of its roadmap, and will appoint a panel led by Dr Johann van Zyl, an experienced global carmaker, to finalise a report on the practical actions to be taken to realise the opportunities for SA.
– On renewable energy, the IDC is mandated to partner with viable solar, wind and other renewable energy projects with the private sector To unlock the potential of these 5 strategic pillars, the state will need to integrate its own work and that of the private sector and labour into a more compelling growth and transformation story. Deeper integration, enhanced state capability and more spatial development at District and metro level and with SEZs will be needed.

We will implement steps to boost state capacity and agility, improve the ease of doing business and cut bureaucracy and red tape, replacing them with smarter regulation.

Our focus is on clear and concrete actions:
• This month, the first 4 black auto component manufacturers under the new Industry Transformation Fund will be supported; and rebate certificates for local clothing manufacturers will be issued, stimulating potentially R250 million local clothing manufacturing;
• In June, we launch the fund for technical resources required to implement our localisation initiative, and Solar Africa Energy will open its solar carport manufacturing facility in Silverton in Pretoria;
• In July, South Africa's auto component sector will expand its capacity, when production

of steering systems begins from the expanded ZF Lemfoerder factory in the Eastern Cape;
• In August, black industrialist Dalisu begins commercial production from its sodium sulphate plant in Piet Retief, to replace current imports;
• In September, Pepsico launches its new Development Fund to bring more emerging farmers into its supply-chain, and finalise a worker representative on its board;
• In October, production of industrial helium commences from a new facility in Free State, making SA one of only 8 countries globally to produce this vital gas; and the dtic and IDC funded film, Happily Ever After will have its global release on Netflix;
• In November, the first units of the new Toyota Corolla hybrid vehicle rolls off the production line in SA; and the next SA Investment Conference is expected to be convened.
• By December, Aspen Pharmacare based on capacity is expected to have produced its 100 millionth dose of the COVID-19 vaccine in Gqeberha;
• In January next year, Scaw Metals begins production of steel products from its expanded facility;
• In February, a new aluminium packaging facility for the beverage industry starts production in Gauteng;
• In March, our digital infrastructure will expand through establishment of a new data centre in Gauteng; and
• By April, the first building in the Tshwane SEZ for new Ford car component firms will be completed; and the BAIC light vehicle assembly plant will start commercial production in the Coega SEZ. Important steps are being taken. There is real action on the ground-floor of our economy.

With deeper integration, and bolder ambition, the progress that we made will be a springboard for the inclusive growth this economy urgently needs and our people deserve.

In conclusion, I wish to thank Deputy Ministers Gina and Majola, as well as Lionel October who served for 10 years as DG and the team led by Acting DG Malebo Mabitje-Thompson, for their invaluable contributions; the Boards and leadership of **the dtic** agencies and our social partners for the work done this past year. It is my pleasure to table the Budget of the Department today before the National Assembly.