EVALUATION **REPORT**

ITAC

International Trade Administration Commission of South Africa

'15

Impact Evaluation on Selected Cases

Contributions to employment creating growth through ITAC's instruments

Contents

Overview

In addition to addressing unfair competition against domestic producers, the International Trade Administration Commission of South Africa (ITAC) also promotes value-added labour-intensive manufacturing in order to enhance economic growth, employment and equity, which are contributions that trade policy instruments should make according to the New Growth Path (NGP).

Government's outcomes approach provides a framework for the enhanced monitoring of service delivery, including guidelines for results-driven performance. To ensure continued relevance and alignment to both the dti and EDD, the Commission has begun to gauge the performance of the beneficiaries of its instruments against the policy objectives set out in the NGP, IPAP and South Africa's Trade Policy and Strategic Framework (TPSF).

Whether or not ITAC's instruments have made a positive impact depends on the extent to which the support has resulted in increased domestic manufacturing, investment, employment, value addition and competitiveness after the support was given in comparison to the periods before the support. The realisation of these policy objectives remains critical in ensuring that ITAC's trade instruments are efficiently and effectively utilised towards the realisation of the NGP targets.

A total of six impact studies have been carried out in the following five critical sectors: Agro-processing, Aeroplane parts, Textiles, Tower and Lattice Masts and Aluminium Extrusions. In each case, before finalising the report, the Commission also conducted an exploratory discussion of the findings with the relevant firm regarding how to realise better performance in the subsequent years. This is considered very important in providing better and well-informed policy advice to EDD and **the dti.** Key findings emanating from these

impact studies (particularly where gains have been made) are presented below. The subsequent section follows with a detailed discussion of each study.

The impact of customs duty increase on uncooked pasta, not stuffed or otherwise prepared in South Africa

- The share of exports to production increased from 1.7 per cent prior to the support to 2.9 per cent. Export volumes grew from an average of 270 312 kg to 424 754 kg after the support.
- Had it not been for the tariff support, the decline in country's total exports of pasta in the second and fourth quarters of 2013 would likely have been worse.
- Domestic value addition increased by 1.6 per cent following the provision of the tariff support.
- Total factor productivity growth increased from negative 3.34 per cent before the support to 3.70 per cent after the support.

The impact of a rebate provision on the manufacture of light aluminium and composite parts for passenger aeroplanes: The Case of Aerosud

- Exports increased almost 4 times from 100 513kg prior to the support to 400 208kg, an average growth rate of 44 per cent.
- Aerosud's exports accounted for 43 of South Africa's total exports of light aluminium and composite parts for passenger aeroplanes in 2013 up from 12 per cent in 2009.
- The provision of the rebate support has contributed to the employment of 33 additional people over the past five years.
- Gains were made in domestic value addition, which increased by 78 per cent following the continued rebate support.
- Aerosud has become more competitive in 2013. Total factor productivity growth (labour productivity growth) increased sharply from 3.0 per cent (6.3 per cent) in 2010 to 10.7 per cent (19.6 per cent) in 2013

The impact of the anti-dumping duties on acrylic blankets originating in or imported from China and Turkey

- Following the continuation of the anti-dumping support, the industry has invested an additional R8 million in real terms, particularly in machinery and equipment upgrading.
- Continued large volumes of cheap imports from China – in this case, of knitted polyester blankets and no longer the acrylic blankets for which the duties were imposed – has neutralised other gains that could have been made from the continuation of the anti-dumping support.

The Impact of Rebate Provision on Certain Fabrics for the Manufacture of Home Textiles in South Africa

- The creation of the rebate has seen the production of items covered by rebate overtaking the total production of other items. The share of production of items covered by the rebate to total production increased from 44 per cent to 68 per cent after the support.
- The industry – in this case, consisting of firms controlling only about 60 per cent of the market – has

invested an additional R3.3 million (or 40 per cent of the total investment) since the period of the support.

- The creation of the rebate facility has contributed to the employment of 35 additional people.
- There has been an improvement in domestic value addition from 28.3 per cent to 33.1 per cent after the support.

The Impact of the customs duty increase on aluminium extrusions in South Africa: The Case of Hulamin

- To date, an import duty of 5 per cent on extrusions, which was implemented in 2011 has not helped to curb the exponential growth of Chinese imports, the share of which has increased by 10 per cent.
- It should be noted that as at 2012, China produces 50 per cent of the world's total production in the aluminium extrusion market. Information gathered from Hulamin reveals that China does not base billet prices on the LME, but rather on the Shanghai Index, which offers competitive market prices. Yet, the country does not allow the export of billet to other countries at competitive prices. The export of this product is relatively restricted. The country will only allow the export of finished products.
- The increase in the manufacturing costs of extrusions has neutralised the gains that could have been realised from the provision of the tariff support and undermined the firm's ability to progress in the areas of domestic investment, employment, value addition and competitiveness.

The Impact of the customs duty increase on a tower and lattice masts manufacturing firm in South Africa: The Case of TRICOM

- The support gave the firm a form of protection, which it needed in the current face of uncompetitive export pricing when compared to China, India and Turkey.
- Gains were realised from greater domestic value addition and competitiveness.
- The negative effect of the loss in export share to total production was partly offset by the provision of the tariff support, as the firm switched from depending on exports to focusing largely on the local market in order to sustain output.
- The firm was able to retain 50 per cent of jobs, following the recovery in domestic production after the support was made available. Nonetheless, the firm's production capacity is still underutilised by about 2 000 tonnes per month.

'01 UNCOOKED PASTA

A

The impact of customs duty increase on uncooked pasta, not stuffed or otherwise prepared in South Africa

Introduction

The agro-processing sector has been identified in the Industrial Policy Action Plan (IPAP) as one of the key interventions in supporting industrialisation, economic growth and employment.

Consistent with this, ITAC increased the general rate of customs duty in January 2013 on uncooked pasta, not stuffed or otherwise prepared, classifiable under tariff subheading 1902.19, from 30 per cent to 40 per cent *ad valorem*. The aim of the tariff support is to enable the industry to achieve the objectives of increased domestic output, investment, employment, value addition and competitiveness.

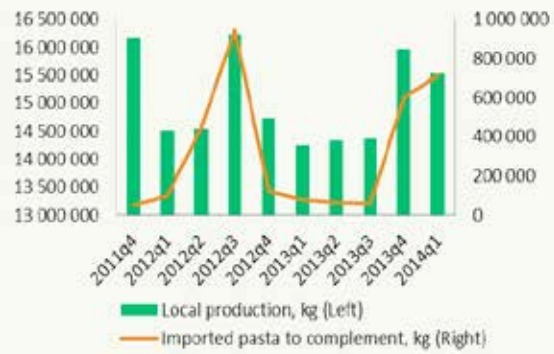
This study gauges performance with respect to progress made on the utilisation of the tariff support against the above-mentioned policy objectives. The realisation of these policy objectives remains critical in ensuring that ITAC's trade instruments are efficiently and effectively utilised towards the realisation of the NDP and NGP targets.

Whether tariff support to the pasta industry has made a positive impact depends on the extent to which the support has resulted in increased domestic investment, employment, value addition and competitiveness after the support was given compared to the period before the support, using aggregated firm-level data. Data limitation means that only about 55 per cent of the pasta market (comprising of two dominant firms whose information was available over the period under review) was analysed. We believe that this is enough to enable us to reach a conclusion on the effectiveness of the tariff support on the pasta industry.

Domestic Production

Although output has grown faster (1.2 per cent) than in the pre-support period (-1.9 per cent), this did not translate into a greater production volume, as domestic production was still 350 595kg (or 2.3 per cent) lower on average than the pre-support volume. The slower growth in production volumes can partly be attributed to a recall in products due to packaging damage experienced by one of the dominant firms between 2013q1 and 2013q3 (Figure 1).

Figure 1: Total domestic and imported output



Had imports of finished goods not increase almost 5-fold (6-fold) in 2013q4 (2014q1), but continued to decelerate at an average of 16.1 per cent between 2013q1 and 2013q3, domestic production volume would have been 105 247kg more than it was before the support.

In line with the slower growth in production volume, there was a decrease in production capacity utilisation during the period of support than before the support (figure 2). The industry has accumulated an additional 23 373kg per month in capacity utilisation after the support (figure 3). In particular, the production lines are operating below full capacity, and as such there has been commitment by one of the dominant firms in the industry to increase the number of shifts from three to four in order to address the existing underutilisation.

Figure 2: Capacity and capacity utilisation

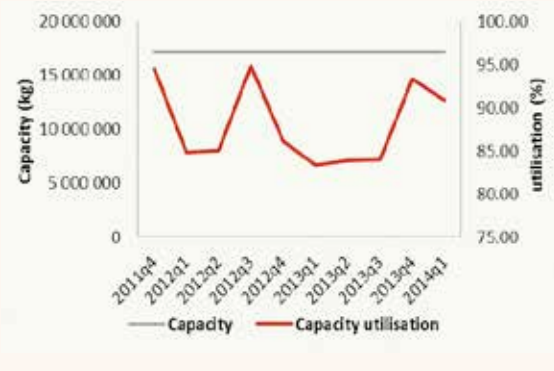
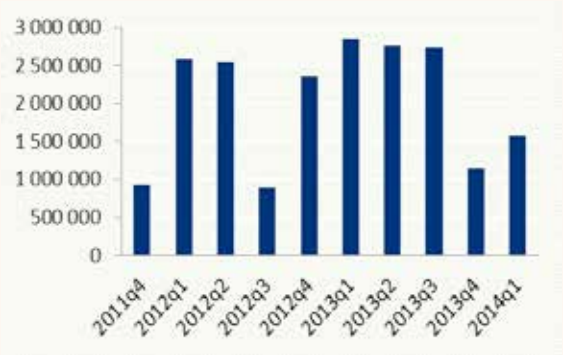


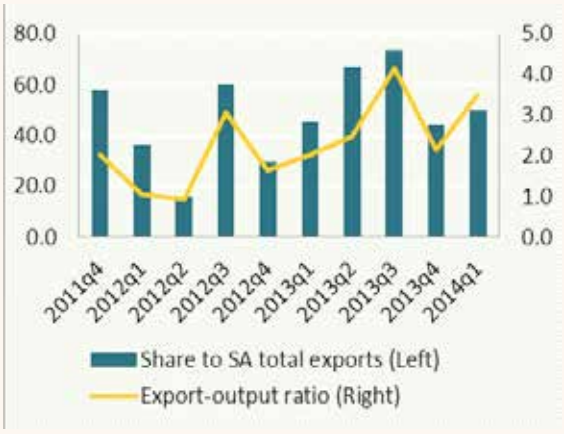
Figure 3: Underutilisation (kg)



Exports

South Africa exports its pasta products mainly to Zambia, Zimbabwe and Mozambique. Figure 4 shows that the share of output exported improved after the support, albeit volatile. On average, the share of exports to production increased from 1.7 per cent prior to the support to 2.9 per cent. Export volumes grew from an average of 270 312 kg to 424 754 kg after the support. Taking advantage of the rapidly growing exports to address underutilisation in this industry is essential for expanding and sustaining domestic production.

Figure 4: Exports of pasta



When compared to the country's total exports of pasta, the above figure shows that total exports for major firms within the industry accounted for almost 56 per cent after the support, up from 40 per cent before the support. Had it not been for the tariff support and resultant increase in the share of exports to South Africa's total exports, the decline in country's total exports of pasta in the second and fourth quarter of 2013 could have been worse.

Investment

In analysing investment it is important to not do so in isolation. Comparing the position of the industry before and after the support, Figure 5 shows that real growth in total investment and net profit has declined following a decline in sales.

Domestic sales declined by 36 per cent in the first quarter of 2014 compared to 13 per cent and 24 per cent in the preceding first quarters of 2013 and 2012, respectively. This together with a less than desirable increase in profit introduces some elements of uncertainty into the market, discouraging further investment.

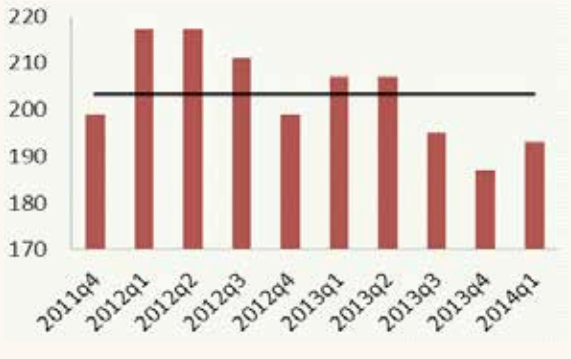
Figure 5: Real sales, investment and net profit

A further inspection of the data shows that domestic sales volumes are characterized by seasonal effects as a sharp decline is always witnessed in almost every first quarter. This trend is explained by the fact that retailers stock-pile ahead of the festive season in the fourth quarter which generally carry through into the first quarter where consumer demand is weaker.

Employment

Despite a 2.3 per cent loss of post-support production volumes, the industry managed to retain about 198 jobs over the period of support, leaving only a total of 11 jobs yet to be recovered (figure 6).

Figure 6: Number of employment

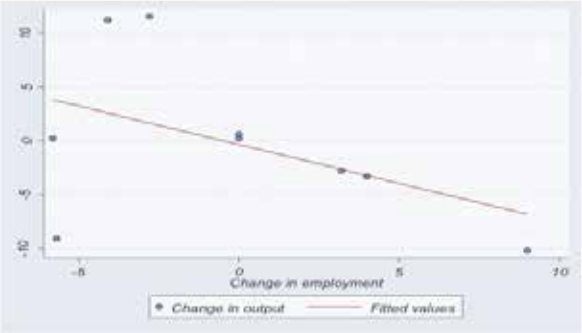


Meanwhile the decline in employment masks the fact that

7 employees in management, distribution, finance and sales units were re-deployed within a division of one of the firms (due to internal reorganisation and restructuring following the provision of the support. This results in a net loss of 4 jobs.

However, given the negative relationship between output and employment in the pasta industry (figure 7), it is not easy to determine the extent to which employment could have been increased had the post-support domestic volumes of 350 595kg not been lost.

Figure 7: Correlation output and employment



Value addition

Value added by manufacture indicates the approximate value created in the process of production, that is, the contribution of manufacturing establishments to the value of finished manufactured products. Value added is computed by subtracting the sum of the cost of material inputs (excluding duties) from the total value of products, which can be expressed as:

$$VA = \frac{\text{Ex} - \text{factory selling price} - \text{material cost}}{\text{Ex} - \text{factory selling price}} * 100$$

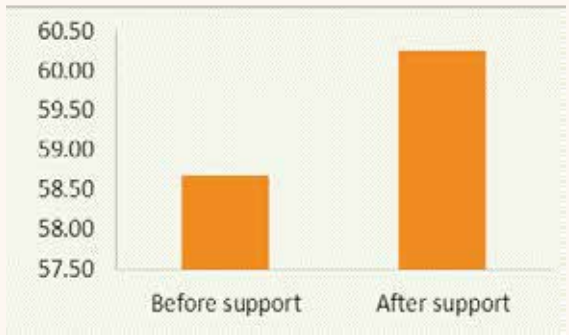
Beneficiation in pasta production is associated with the following conversion in terms of efficiency in the production process, measured as follows:

Figure 8 indicates that there has been a marginal improvement in domestic value addition since the imposition of customs duties. The domestic value addition increased from an average of 58.7 per cent in 2011q4-2012q4 (before the support) to 60.3 per cent in 2013q1-2014q4 (after the support), equivalent to a 1.6 per cent increase.

Although total material costs (particularly wheat) were 0.18 per cent higher compared to before the support, at 0.96 per cent the average ex-factory price was much higher.

South Africa is not self-sufficient in durum wheat production and hence relies on imports to satisfy demand. On the other hand, domestic farmers are risk-averse when it comes to planting durum wheat due to the unfavourable weather conditions in South Africa.

Figure 8: Domestic value addition

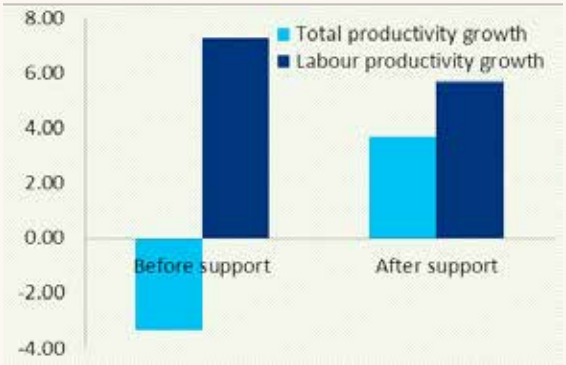


Competitiveness

Total factor productivity growth means that an industry is improving its competitiveness whilst growing its output. Productivity is therefore one of the measures of competitiveness. It demonstrates how efficiently (or inefficiently) an industry is using its resources to produce quality products, and is expressed as the ratio of production output to total inputs.

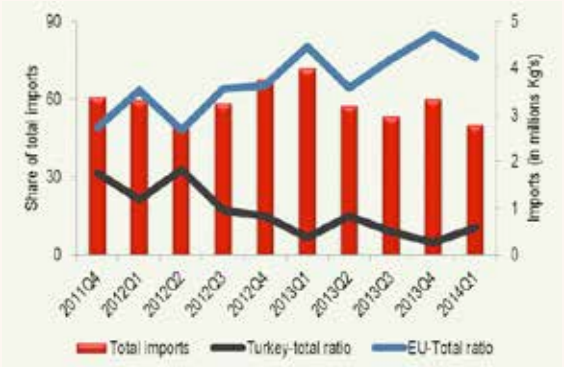
The ability of the industry to increase overall competitiveness was undermined by the decline in labour productivity after the support despite a significant improvement in total factor productivity. Figure 9 shows that total factor productivity growth increased from negative 3.34 per cent before the support to 3.70 per cent after the support. At the same time, labour productivity growth declined from 7.26 per cent to 5.70 per cent.

Figure 9: Total factor and labour productivity



It should be noted that while the imposition of customs duties has reduced the level of imports (particularly from Turkey), the flow of import origin has been re-directed to the EU. Figure 10 suggests that on average, the share of imports from Turkey declined from 16.1 per cent (before support) to 1.1 per cent (after support) while the share of EU imports increased from 57.9 per cent to 76.3 per cent. South Africa's trade agreement with the EU (i.e. Trade, Development and Cooperation Agreement) partly explains the increase in the share of imports from EU as they enter duty free. Had it not been for the EU-Turkey import-switch, total imports could have declined by more than 1.1 per cent after the support.

Figure 10: Total imports and import shift



A further inspection of data shows that the increase in imports from the EU was largely driven by Lithuania. In addition, despite the recent depreciation of the rand currency, imports from Lithuania are landed on South African market at prices below domestic ex-factory prices (see table below).

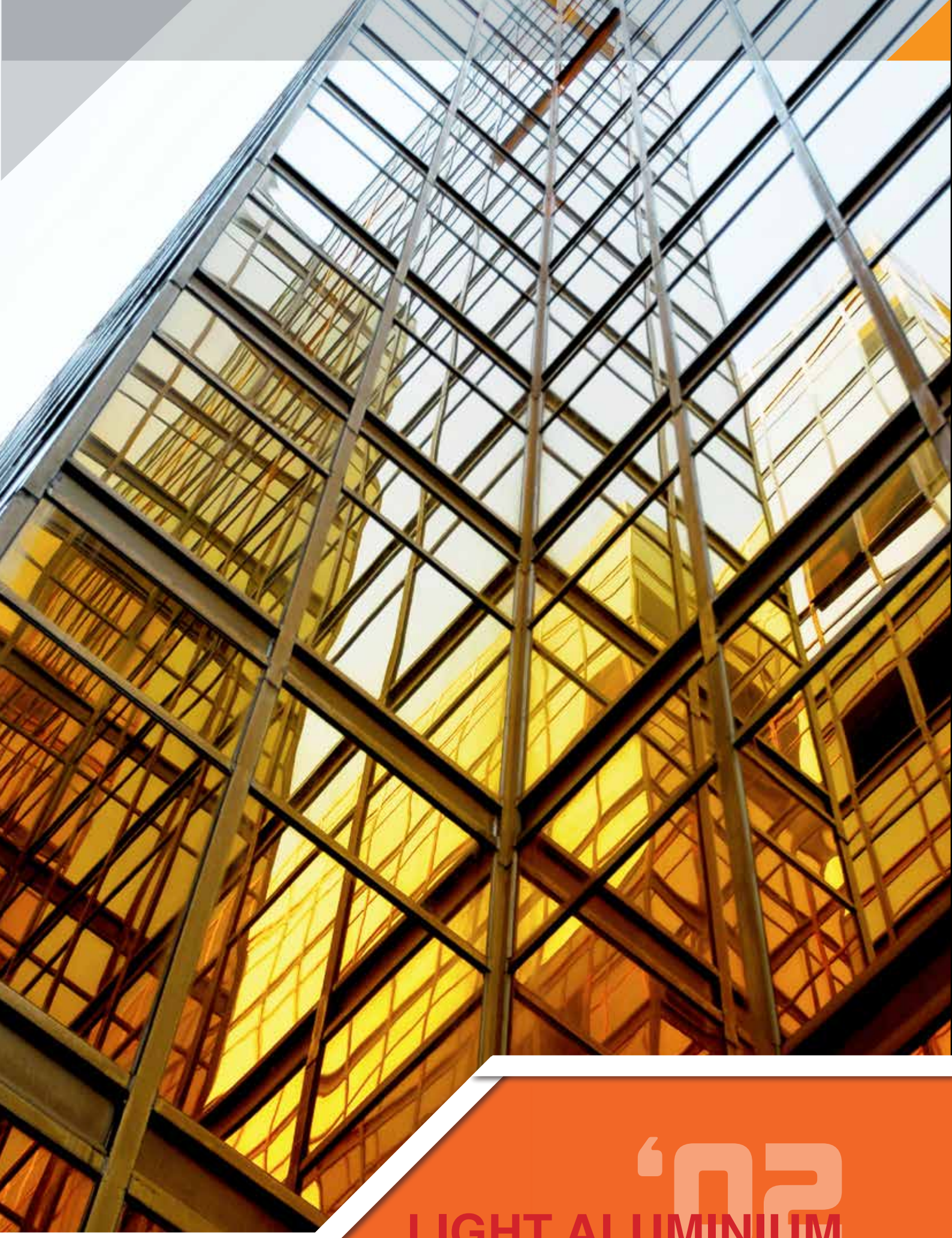
Country of origin	Price per Kg		
	2012	2013	2014Q1
Italy	R 10.68	R 12.69	R 14.92
Turkey	R 5.17	R 6.98	R 4.40
Lithuania	R 6.14	R 7.61	R 8.28
Greece	R 8.46	R 8.72	R 11.38
Rest of the world	R 7.32	R 8.81	R 9.82
Pioneer Foods	R 10.72	R 11.83	R 11.78

Conclusion

The two major firms, controlling about 55 per cent of the pasta market, contribute more than half of South Africa's total exports of pasta. Taking advantage of the rapidly growing exports to address underutilisation in this industry is essential for expanding and sustaining domestic production and employment

With the planned rollout of new technology in machinery and equipment, and operation running under four shifts thereafter, the industry is expected to grow and sustain output as well as employment in subsequent years

The industry plans to consolidate and increase its export base through a brand awareness marketing campaign, as South African retailers take advantage of the growing African markets.



'02 LIGHT ALUMINIUM

B

The impact of a rebate provision on the manufacture of light aluminium and composite parts for passenger aeroplanes: The Case of Aerosud

Introduction

The National Development Plan (NDP), consistent with the New Growth Path (NGP) and Industrial Policy Action Plan (IPAP), identifies the export sector as a key driver for faster, more inclusive and job-intensive growth.

Access to raw materials and other inputs at world prices is essential for stimulating exports, and in view thereof provisions such as rebate item 470.03 made available to South African firms by the International Trade Administration Commission of South Africa (ITAC) is critical to facilitating imports of raw materials and components at world market prices. The rebate support assists exporters in avoiding the strain imposed on their liquidity by the outlay of capital in respect of customs and other applicable duties payable on the raw materials or components at the time of importation.

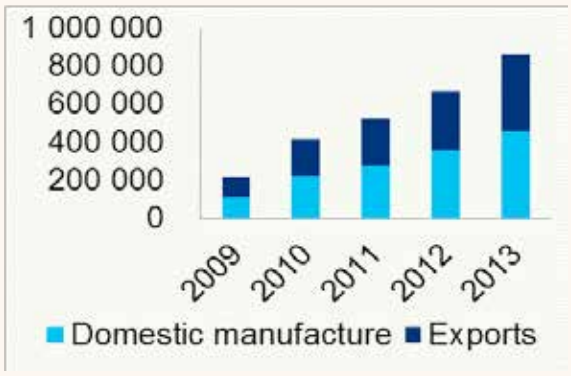
Aerosud Aviation, a manufacturer and exporter of light aluminium and composite parts for passenger aeroplanes, has been the sole user of rebate item 470.03 for the past five years. The estimated customs duties rebated and therefore saved by Aerosud is about R84.7 million over the past 5 years (or R16.9 million each year on average). The support is expected to enable Aerosud to increase domestic manufactures and become internationally competitive, increase its investment and create jobs.

Using firm-level data, this study gauges performance with respect to progress made on the utilisation of the rebate provision against the above-mentioned policy objectives by Aerosud for the period 2009-2013. The effectiveness of a trade instrument provides an indication of the extent to which the stated objectives have been or can be expected to be fulfilled during the defined period.

Domestic manufacture for exports

At an average output-export ratio of 87 per cent, Aerosud focused largely on the international market. Over the past five years, the continued provision of the rebate support to the firm has seen a steady and significant improvement in its domestic manufacture and exports of light aluminium and composite parts for passenger aeroplanes. Exports increased almost 4-fold from 100 513kg in 2009 to 400 208kg in 2013, an average growth rate of 43.7 per cent (figure 1). Export destinations are France, Germany, UK, India, Hungary, Morocco, Poland, Spain, Switzerland and USA.

Figure 1: Domestic output and exports



When compared to the country's total exports of light aluminium and composite parts for passenger aeroplanes, figure 2 shows that the firm's exports accounted for 43 per cent (26 per cent) in 2012 (2013) up from 12 per cent in 2009.

Nonetheless, there is room for improvement given that the firm's production capacity was still underutilised by more than 60 000kg in volumes of production in 2013 compared to 15 000kg in 2009 (figure 3). Production utilisation capacity has remained unchanged at 88.5 per cent over the past five years.

Figure 2: Share in SA's total exports

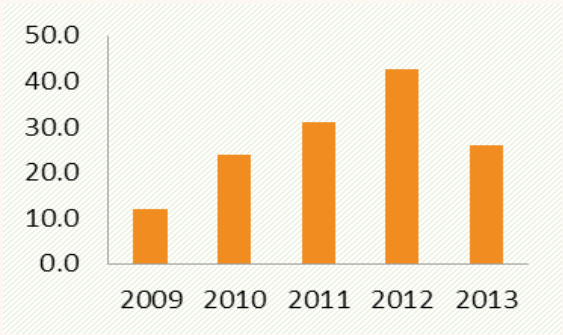
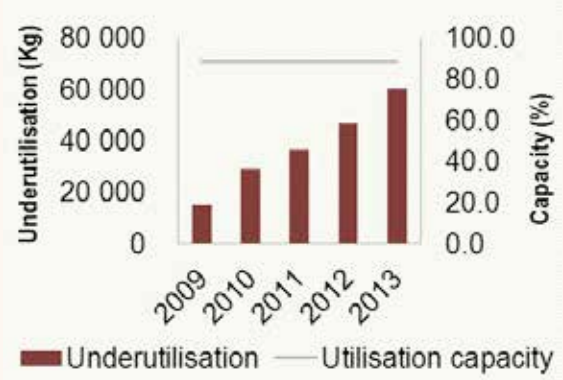


Figure 3: Capacity utilization

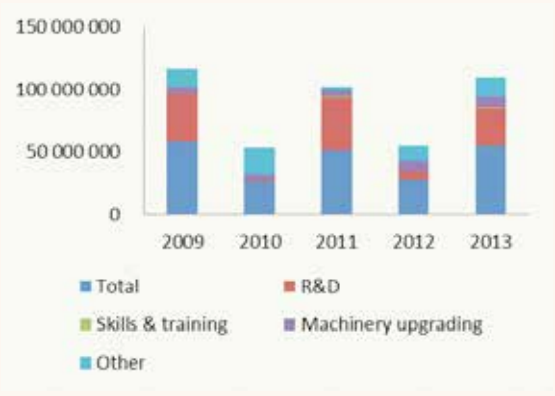


Investment

We observe that real total investment is driven by Research and Development (R&D) while machinery and equipment upgrading remain largely unchanged since 2009 (Figure 4). R&D is driven by international knowledge trends.

This includes Titanium beneficiation through machining, forming and additive manufacturing. Continuous fibre reinforced thermo-formed plastic is another focus technology and has already lead to new supply contracts being placed with Aerosud. Continued R&D focus will ensure that Aerosud stays relevant in the international knowledge economy.

Figure 4: Real investment



Employment

The provision of the rebate support has contributed to the employment of 33 additional people in Aerosud Aviation from 485 in 2009 to 518 in 2013 (Figure 5). In addition, significant growth in indirect employment outside of Aerosud has been achieved in 2013. Sub tier suppliers and service industries (Logistics service provider) have increased employment as a result of business gained from Aerosud (see Table 1).

Figure 5: Total number of employees

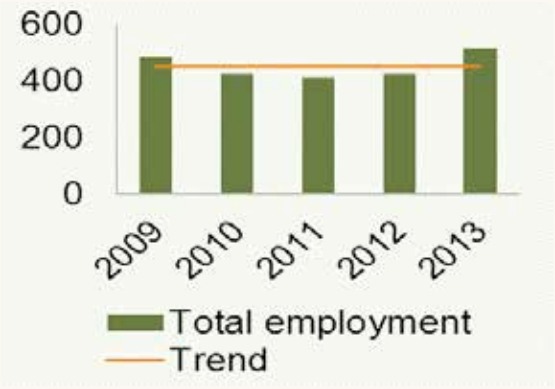


Table 1: Total number of indirect employment

SUPPLIER	INDIRECT EMPLOYMENT
Daliff Precision Engineering	15
UTI Worldwide Logistics	7
Compumach Engineering	17
Ti-tamed	6
West Engineering	8
African NDT Centre	18

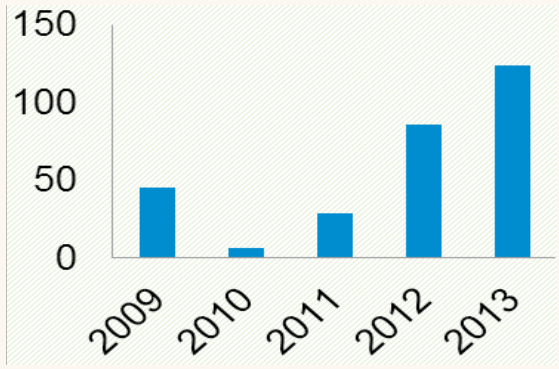
Meanwhile, the 63:37 employment ratio of skilled versus unskilled explains the capital-intensive nature of production (which requires high-tech machinery and skilled labour) in Aerosud.

Value addition

Again as discussed in the previous section, value added is computed by subtracting the sum of the cost of material inputs from the total value of products.

There has been a significant improvement in the domestic value addition over the past five years of continued rebate support. The domestic value addition increased from 44.5 per cent in 2009 to 123 per cent in 2013 (Figure 7).

Figure 6: Domestic value addition

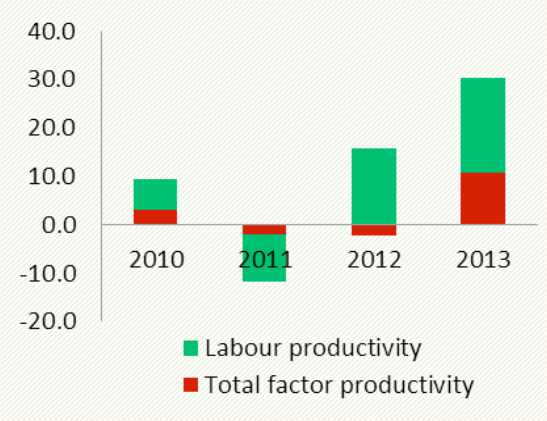


Competitiveness

Total factor productivity growth means that Aerosud is improving its competitiveness whilst growing its output. Productivity demonstrates how efficiently (or inefficiently) the firm is using its resources to produce quality products, and is expressed as the ratio of production output to total inputs.

Figure 8 shows that the competitiveness of the firm has improved in 2013 compared to the previous years. Total factor productivity growth (labour productivity growth) increased sharply from 3.0 per cent (6.3 per cent) in 2010 to 10.7 per cent (19.6 per cent) in 2013

Figure 7: Total factor and labour productivity



Conclusion

Aerosud contributes more than one-fourth of South Africa's total exports of light aluminium and composite parts for passenger aeroplanes. The volume of exports increased 4-fold more over the past five years. The strategic partnership with the Industrial Development Corporation (IDC), who has now acquired a 26 per cent equity stake in Aerosud's commercial aviation manufacturing business, is expected to support future growth.

Having said that, to maximise opportunities inherent in this sector, Aerosud needs to improve and sustain its global competitiveness. To achieve this, the co-location of all supplier tiers as well as new entrant SMME's becomes imperative. It offers opportunities for incubation, technology localisation and innovation, tooling engineering, skills training, supply chain competitiveness enhancement and access to the sharing of costly capital equipment and infrastructure.

Government has initiated the Centurion Aerospace Village (CAV) in 2009 as a way of clustering of high-tech new manufacturing enterprises in this sector. An MOU between Aerosud and the dti is effectively in place. However, there has been delay in implementation.

'03 ACRYLIC BLANKETS

C

The impact of the anti-dumping duties on acrylic blankets originating in or imported from China and Turkey

Introduction

The textiles sector has been identified in the Industrial Policy Action Plan (IPAP) as one of the key interventions in supporting industrialisation, economic growth and employment.

Consistent with this, in December 2010 ITAC conducted a sunset review and maintained the anti-dumping duties on acrylic blankets originating in or imported from the People's Republic of China (PRC) for tariff heading 6301.40 and 6301.90 at R28.34/kg and, originating in or imported from Turkey under tariff heading 6301.40 at R6.91/kg.[2]

The anti-dumping duties were maintained in order to avoid a possible reoccurrence of dumping and material injury. The support is expected to enable the industry to remain competitive, retain and create jobs, recapture the domestic market and increase its investment.

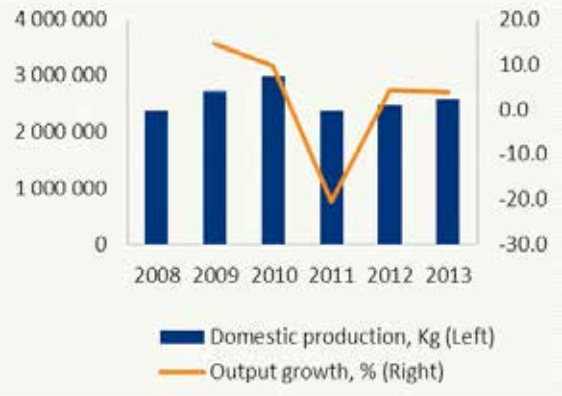
This study gauges performance with respect to progress made on the utilisation of the continued anti-dumping support against the above-mentioned policy objectives. Whether or not the continued anti-dumping support to this industry has made a positive impact depends on the extent to which the support has resulted in increased domestic manufacturing, investment, employment, value addition and competitiveness after the duties were maintained compared to the period before, using industry-level data.

Domestic Production

The continuation of the anti-dumping support has seen a gradual improvement in domestic production of acrylic blankets following a sharp contraction in 2011. After losing 613 808 kg in 2011, the firm immediately recovered 194 213 kg (or 68 per cent) between 2012 and 2013, leaving a total of 131 000 (or 32 per cent) yet to be recovered (Figure 1).

[2]*It should be noted that the anti-dumping duties were first imposed in June 1999. The first sunset review on acrylic blankets was conducted in 2004 following which the duties on acrylic blankets from PRC were increased and that from Turkey maintained.*

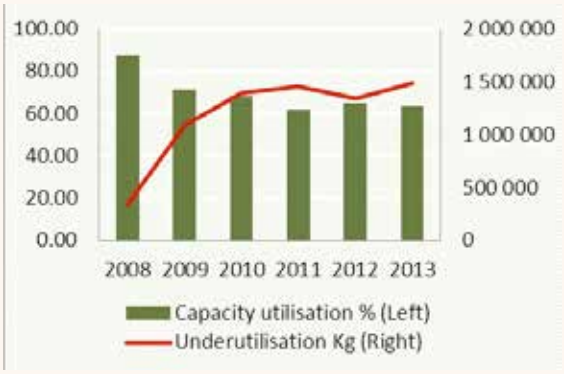
Figure 1: Domestic production



Overall, the industry is producing 8 per cent (or 220 406kg) less in volumes following the continuation of the support. Nonetheless, had it not been for the continued support, the impact of the contraction in 2011 could have carried through to 2012 and 2013.

Following loss in volumes after the continuation of the anti-dumping support, the industry has reduced its capacity utilisation by 12.3 per cent between 2011 and 2013 (Figure 2). In 2013 alone, the firm's capacity is underutilised by 123 896kg per month, compared to 28 648kg in 2008.

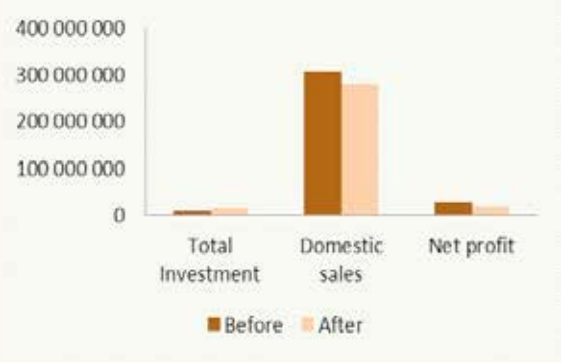
Figure 2: Capacity utilisation



Investment

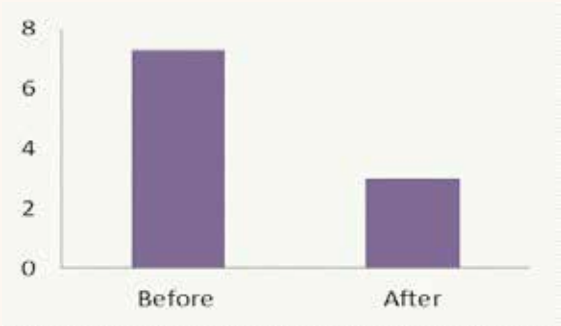
Following the continuation of the anti-dumping support, the industry has invested an additional R8 million in real terms, particularly in machinery and equipment upgrading. This occurred despite a loss of R26 million in sales and a corresponding loss in net profit of about R10 million.

Figure 3: Real investment, sales and profit



Further investment by the industry could be driven by the low level of volatility in sales experienced after the continuation of the support compared to before, which is an indication that the market may not take long to return (Figure 4).[3]

Figure 4: Volatility in sales



Employment

The industry has shelved almost 159 jobs since the anti-dumping duties were continued, with total jobs declining from 973 in 2008-2010 to 814 in 2011-2013 Figure 5). Total employment as from 2011 was below the average of 894 between 2008 and 2013. According to the industry, this is almost equivalent to one shift of one of the dominant firm's workforce which became redeployed following a reduction in its production unit from a 3 shift (132 hour week) to a 2 shift (96 hour week).

Figure 5: Total employment

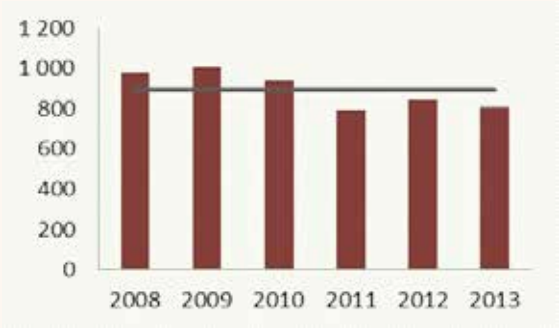
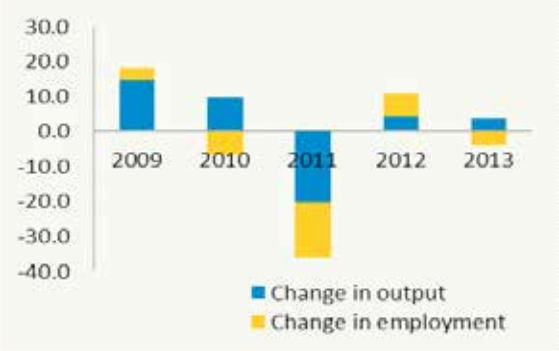


Figure 6 shows that employment almost always responds positively to changes in domestic production. The implication is that any improvement in the current level of employment would need to address the current problem of underutilisation and sustain an increase in volumes.

Figure 6: Change in output and employment



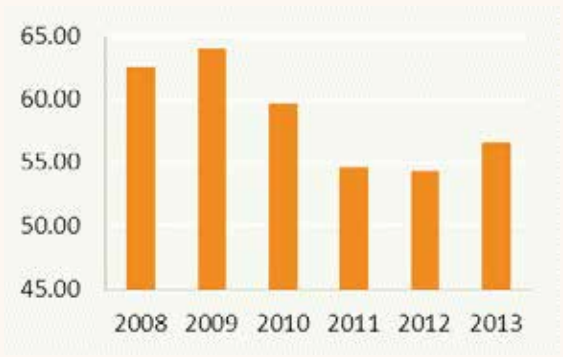
Value addition

Again as discussed in the previous section, value added is computed by subtracting the sum of the cost of material inputs from the total value of products.

Figure 7 indicates that there has been a decline in value addition since the anti-dumping support was continued. The value addition decreased from 62.1 per cent in 2008-2010 to 55.2 per cent in 2011-2013.

[3] *Volatility is measured by standard deviation divided by mean, σ/u.*

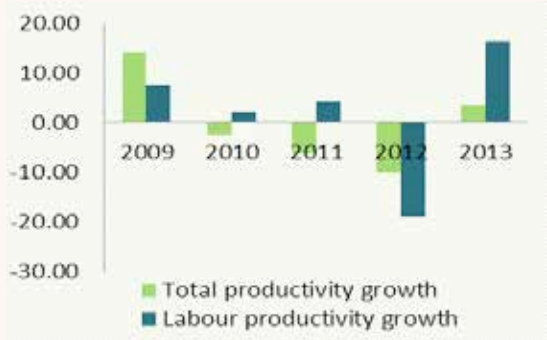
Figure 7: Value addition



Competitiveness

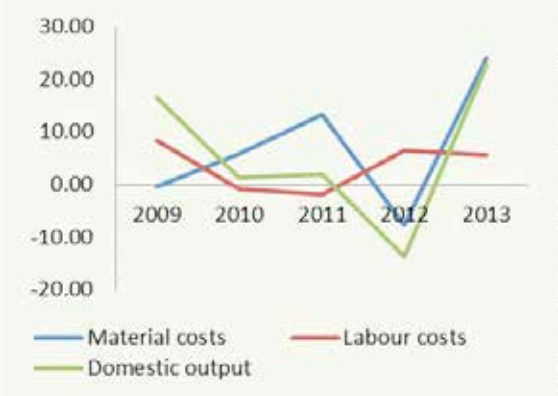
The ability of the industry to increase overall competitiveness was undermined by the decline in total factor productivity after the continuation of support despite the recent improvement in labour productivity. Total factor productivity growth contracted from 14.0 per cent in 2009 to negative 3.5 per cent in 2013. At the same time, labour productivity increased from 7.5 per cent to 16.4 per cent (Figure 8).

Figure 8: Total factor and labour productivity



The decline in total factor may partly be explained by the fact that material costs (at 24 per cent) grew faster than production volume (23 per cent) in 2013 (Figure 9). The weaker and volatile rand was among the main driving factors.

Figure 9: Growth in production costs and output



Conclusion

To date, the continuation of anti-dumping duties in 2011 has not helped to curb the exponential growth of Chinese imports. Since 2011, excess cheap imports from China – in this case, of knitted polyester blankets and no longer the acrylic blankets for which the duties were imposed – have continued to grow. The industry has indicated that a new development has just emerged in that most of the imports are now directed through Lesotho to take advantage of the customs union between both countries.

The negative effect of the excess imports from China on domestic production has undermined the ability of the industry to operate at full capacity and avoid unemployment.

The industry has indicated that should the anti-dumping duties be re-adjusted to include all finished blankets made of polyester, it would increase its capacity and double the current production and employment. ITAC is currently assessing the situation.

'04 HOME TEXTILES

D

The Impact of Rebate Provision on Certain Fabrics for the Manufacture of Home Textiles in South Africa

Introduction

As one of the key interventions in supporting industrialisation, economic growth and employment, ITAC amended rebate item 311.42 in April 2010 on woven fabrics of cotton, synthetic and synthetic staple fibres; filament yarn; synthetic stable fibres; textiles fabrics; and looped pile fabrics, which are used, inter alia, in the manufacture of linens interior blinds, mattress support and articles of bedding.

The aim of the rebate support is to enable the home textile industry to retain and create jobs, recapture the domestic market, increase its investment and competitiveness, as well as stimulate production down the value chain.

The effectiveness of a trade instrument provides an indication of the extent to which the stated objectives have been or can be expected to be fulfilled during the defined period. This study is an opportunity to examine the effectiveness of the rebate facility provided to the Home Textile industry, aimed at ensuring greater domestic output, investment, employment, value addition and competitiveness. The analysis covers about 60 per cent of the total market between 2007 and 2010.

Domestic production

The creation of the rebate has seen the production of items covered by rebate overtaking the total production of other items. The share of production of items covered by the rebate to total production increased from 44 per cent in 2007 to 64 per cent in 2010 when the rebate was created. This has even increased further to 68 per cent in 2012 (Figure 1).

Figure 1: Domestic and imported output

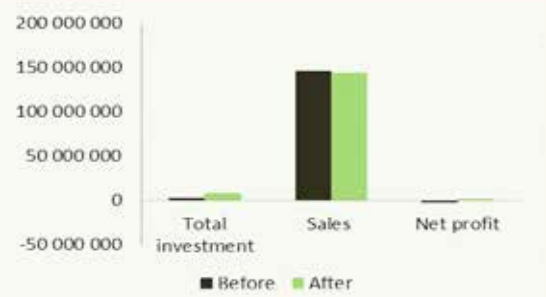
At the same time, the total production volume for rebated items increased in 2010 (at 27 per cent) compared to 2008 and 2009 (negative 18 per cent and 14 per cent, respectively). However, at 4.2 per cent, there was a significant decline in output in 2011 albeit with signs of recovery in 2012 at 9.2 per cent.

Amid the foregoing, about 15.3 per cent of the rebated items are still imported to complement the finished goods produced locally (compared to 15.1 per cent experienced before support). In 2012 alone, imported finished items grew by 28 per cent after declining by negative 4.6 per cent in the previous period. In fact, the imported finished items in 2012 contributed about 43 per cent in that year's output recovery. This raises concern given that about 68 per cent of the industry's production covered in this study has been dominated by rebated items in 2012.

Investment

Figure 2 shows that real total investment has more than doubled, despite decreases in sales since 2010, thanks to the production incentive programme by the Department of Trade and Industry (DTI).

Figure 2: Real investment, sales and profit



The industry (as comprised of only 60 per cent of the total market covered in this study) has invested an additional R3.3 million (or 40 per cent of the total investment) since the period of the support. Had it not been for a decline in sales, total investment would have continued to grow.

Employment

On average, the creation of the rebate facility has contributed to the employment of approximately 35 additional direct people from a total of 556 employees in 2007-2009 to 601 in 2010-2012 (Figure 3).

Figure 3: Total employment

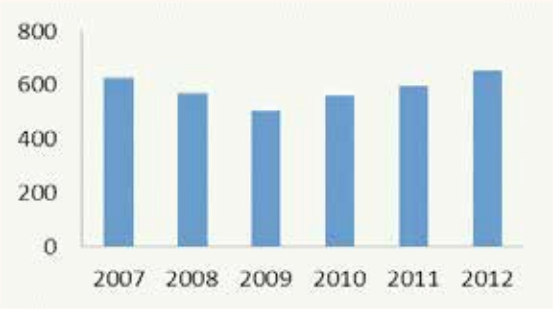
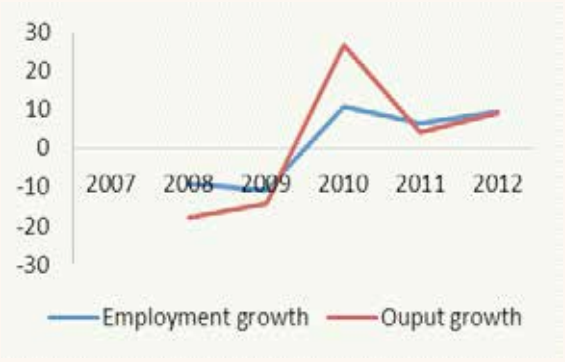


Figure 4: Change in employment and output



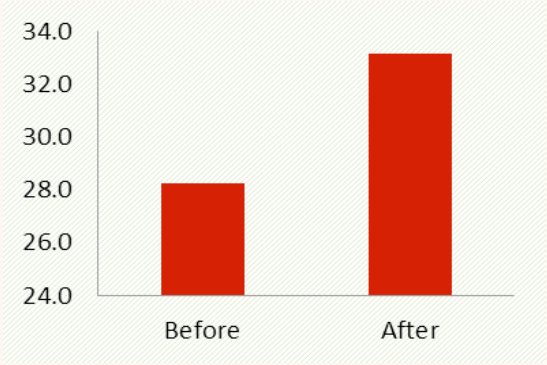
Had the increase in the volume of production recovered in 2010 been sustained, Sheraton Textiles would have increased its employment by an additional 36 people, as employment responds positively to changes in output (Figure 4).

Value addition

Again as expressed above, value added is computed by subtracting the sum of the cost of material inputs from the total value of products.

Figure 5 shows that there has been an improvement in domestic value addition since the rebate facility was created. The domestic value addition increased from 28.3 per cent in 2007-2009 (before the support) to 33.1 per cent in 2010-2012 (after the support).

Figure 5: Domestic value addition



The creation of the rebate support, together with the provision of machines through the production incentive programme by DTI, enabled the industry to re-strategize and introduce newly designed products into the market.

Competitiveness

Again, as expressed above, competitiveness is the ratio of production output to total inputs.

Total factor productivity growth increased from 4.5 per cent in 2010 to 10.9 per cent in 2011 before contracted by negative 7.7 per cent in 2012. On the other hand, labour productivity growth increased by 3.2 per cent following a decrease of 1.1 per cent and 7.9 per cent in 2010 and 2011, respectively (Figure 7).

Figure 6: Total factor and labour productivity

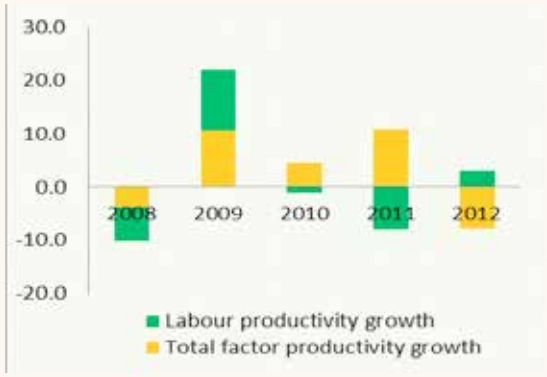
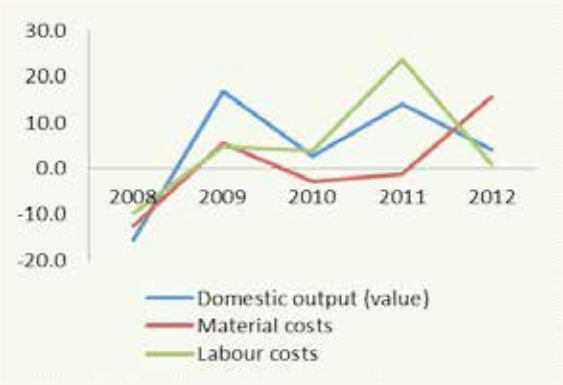


Figure 7: Growth in production costs and output



The decline in competitiveness may be partly explained by the fact that production cost (driven by material costs) increased faster than the value of domestic output in 2012 (Figure 8).

Conclusion

The provision of rebate support, together with the availability of machines through the production incentive programme of the dti enabled the industry to do what it has never done before, replacing imports with locally made products and sustaining production and jobs during difficult times.

To improve on the current performance, a more coordinated sectoral policy is required to ensure that while the rebate support by ITAC provides for cheaper imports of raw materials, and the production incentive programme of the dti supports the manufacture of new products through the availability of new machines; illegal imports and shortage of skills in design stand against the long term benefits of the government interventions (of growing production and jobs).

'05 ALUMINIUM

E

The Impact of the customs duty increase on aluminium extrusions in South Africa: The Case of Hulamin

Introduction

The closure of the BHP Billiton Bayside Cast House in Richards Bay during October 2009 deprived extruders of a competitive source of billet (an important input into the aluminium extrusion industry) which resulted in an increase in the manufacturing costs of extrusions. It was estimated that the re-establishing of local billet production would take approximately 2 years to complete depending on the negotiations with the government.

Meanwhile, the extrusion sector is one of the critical sectors identified in IPAP. For instance, in addition to 1 500 jobs created in the manufacturing of extrusions (or in the semi-fabrication sector), about 30 000 more jobs are generated downstream by the medium sized final product manufacturers.

In light of this, ITAC increased the general rate of customs duty on aluminium extrusions (bars, rods and profiles), classifiable under tariff subheading 7604.10.35, 7604.10.65, 7604.21.15, 7604.29.15 and 7604.29.65, from free of duty to 5 per cent ad valorem, which was effected in March 2011. The Commission also reinstated the rebate item 316.01/7604.01.04 that covered profiles of aluminium alloys for the motor vehicle original equipment manufacturers.

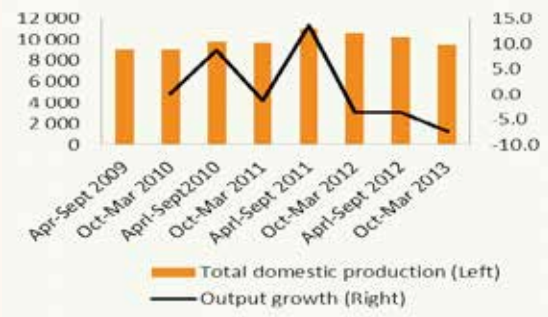
Hulamin Extrusions, formerly known as Hullet-Hydro Extrusions, is one of the beneficiaries of the support. Operating out of three plants in Johannesburg, Pietermaritzburg and Cape Town, the company is one of the leading firms in South Africa, controlling about 35-40 per cent of the extrusion market. The aim of the support is to enable Hulamin to retain and create jobs, increase its investments and competitiveness, as well as stimulate production down the value chain in the wake of the closure of the local billet casting facility.

This study gauges performance with respect to progress made in the utilisation of the tariff provision against the above-mentioned policy objectives, using firm-level production data between 2009 and 2012.

Domestic production

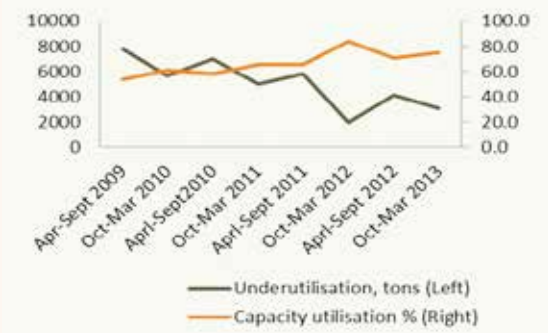
There has been a moderate increase in domestic production by Hulamin, due to the provision of tariff support. Total production volume increased by 930 tons from 9 409 tons before the support to 10 339 tons after the support. This could have been greater had, the moderate growth in output realised in April-Sept 2011 been sustained in the subsequent quarters.

Figure 1: Domestic production



Consistent with Table 1, there was a gradual increase in production capacity utilisation during the period of support than before the support, the average capacity utilisation after the support was 74 per cent compared to 60 per cent before the support (Figure 2). This implies that the firm's production capacity is still underutilised by 629 tons per month.

Figure 2: Capacity utilisation



Investment

Despite an increase in sales, real total investment declined by an additional R38 million (or 12 per cent of the total investment) since the period of the support (Figure 3).

Figure 3: Real investment and sales

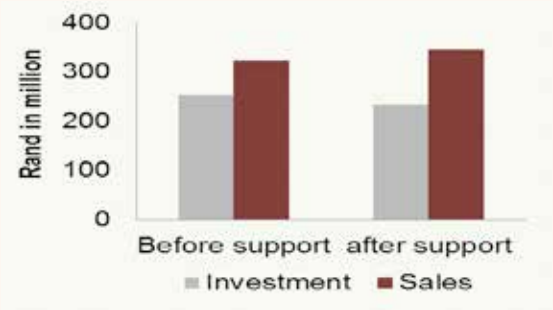
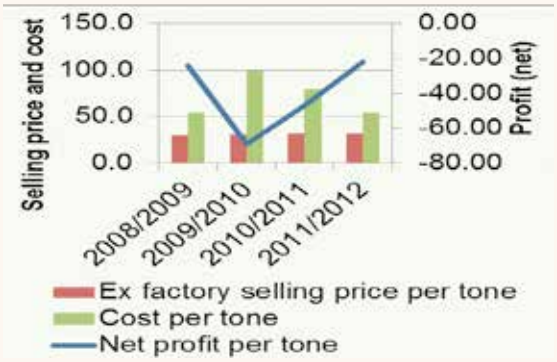


Figure 4: Selling price, cost and net profit



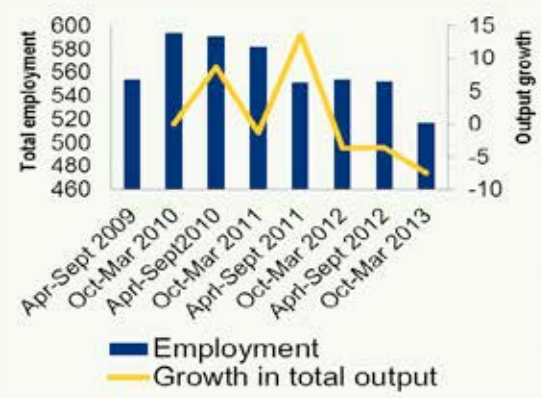
The decline in investment may partly be explained by the fact that moderate growth in sales was not accompanied by desirable increases in profit to incentivise further investment. Figure 4 suggests that the inability of Hulamin to charge a profitable price following the provision of tariff support could be the reason behind the decline in investment over the same period. It could then be deduced that the majority of the growth in sales went towards recovering the firm's costs.

Employment

Hulamin has shelved almost 37 jobs since the provision of the tariff support from 580 employees in 2009/10-2010/11 to 544 employees in 2011/12-2012/13. The firm has not been able to sustain the moderate growth in output realised following the provision of the support in April-Sept 2011. Instead there has been continuous loss of volumes since the support was given.

In fact, while a 1 percentage decline in output has reduced employment by 0.05 per cent in April-Sept 2012, this has increased to a nearly 1 per cent in Oct-Mar 2013.

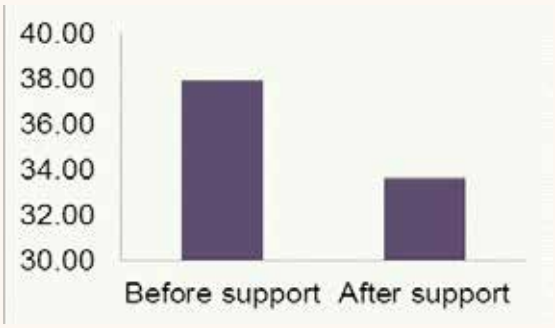
Figure 5: Employment and output



Value addition

For a variety of reasons, greater domestic value addition has not been realised since the provision of the tariff support. The domestic value addition decreased from 38 per cent in 2009/10-2010/11 (before support) to 34 per cent in 20111/12-2012/13 (after support) (Figure 6).

Figure 6: Domestic value addition



Competitiveness

Hulamin's competitiveness improved marginally following the provision of the tariff support. On average, total factor productivity growth and labour productivity growth increased from negative 2.0 per cent and 1.7 per cent respectively before support to negative 1.4 per cent and 7.6 per cent after the support (Figure 7).

Figure 7: Factor and labour productivity

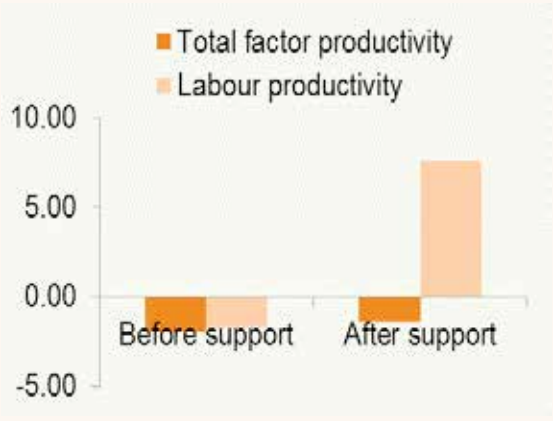
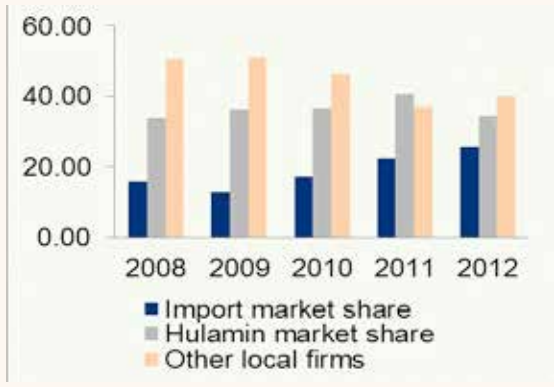


Figure 8: Import, Hulamin and other shares



Meanwhile since the provision of the support, import volumes (mainly from China) have continued to grow, raising the import market share from 16 per cent in 2008 to 26 per cent in 2012 (Figure 8).

As at 2012, China captured 50 per cent of the world's production in aluminium. Information gathered reveals that China does not base billet prices on the LME, but rather on the Shanghai index, which offers competitive market prices. Yet, the country does not allow the export of billet to other countries at competitive prices, as the export of this product is relatively restricted. The country will only allow the export of finished products.

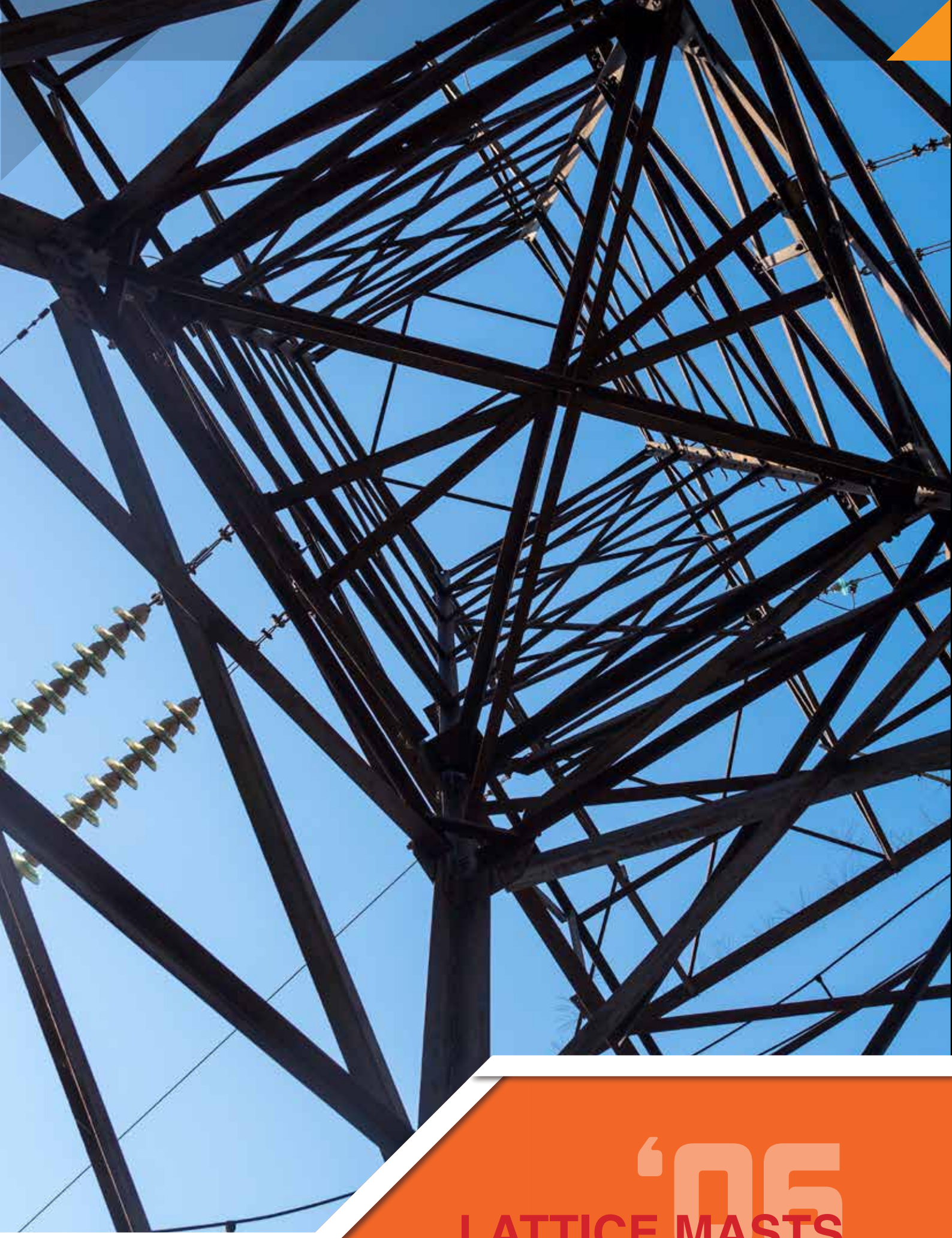
To date, an import duty of 5 per cent on extrusions, which was implemented in 2011 has not helped to curb the exponential growth of Chinese imports.

Conclusion

The closure of the BHP Billiton Bayside Cast House in Richards Bay during October 2009 has continued to deprive extruders of a competitive source of billet (an important input into the aluminium extrusion industry), resulting in an increase in the manufacturing costs of extrusions. This in turn has neutralised the gains that could have been realised from the provision of the tariff support and undermined the firm's ability to progress in the areas of domestic investment, employment, value addition and competitiveness.

The re-establishment of the local billet production remains critical for the survival of this sector. In the absence of this, the firm will have to create greater remelt capacity to deal with the growing imported input costs.

Despite the provision of a 5 per cent duty on extrusions, import volumes have continued to grow exponentially. In this circumstance, one can expect application for additional protection by the industry.



'06 LATTICE MASTS

F

The Impact of the customs duty increase on a tower and lattice masts manufacturing firm in South Africa: The Case of TRICOM

Introduction

ITAC increased the general rate of customs duty on towers and lattice masts for telegraph lines and electric power lines, classifiable under tariff subheading 7308.20.10, from free of duty to 15 per cent ad valorem in December 2010. One of the beneficiaries, the TRICOM manufacturing firm which operates in Pretoria, has boosted its capacity and global presence through its strong presence across the African continent and has been commended for its impressive past production history.

The firm's products are power pylons and cellular communication masts. These are manufactured using steel angles, sections, plates, bolts, and nuts, which are sourced locally by labour-intensive metals fabrication firms. The materials are then assembled using structural steel fabrication equipment such as Computer Numerically Controlled (CNC) machine tools and labour. Hence, the firm is well-placed to significantly contribute to the government policy objectives of domestic value addition, competitiveness, investment and employment, as set out in the New Growth Path (NGP) as well as the Trade Policy and Strategy Framework.

This study gauges performance with respect to progress made on the utilisation of the tariff support against the above-mentioned policy objectives, using firm-level production data. The realisation of these policy objectives remains critical in ensuring that ITAC's trade instruments are efficiently and effectively utilised.

Domestic production

Despite gradual improvement in production after the provision of the tariff support in 2010, output is still below the pre-support period (Figure 1). The sharp contraction in output in 2009 and 2010 was an indication that ITAC's intervention became necessary.

Figure 1: Domestic production

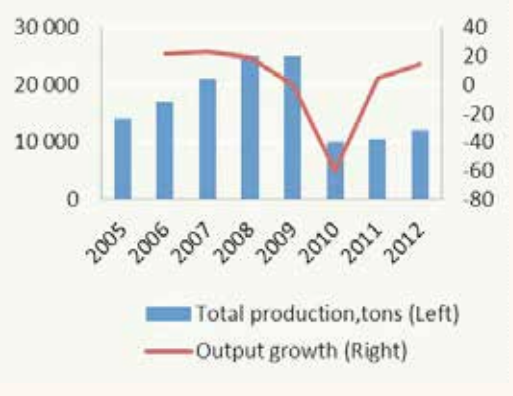


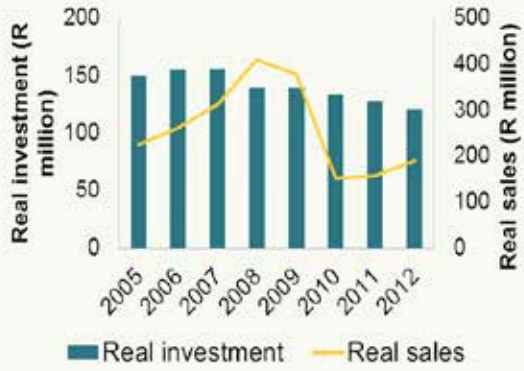
Figure 2: Capacity Utalisation

In line with the slower growth in production volume, there was a decrease in production capacity utilisation during the period of support (Figure 2). The firm has accumulated an additional 1 917 tons per month in capacity utilisation after the support. The production lines are operating below full capacity.

Investment

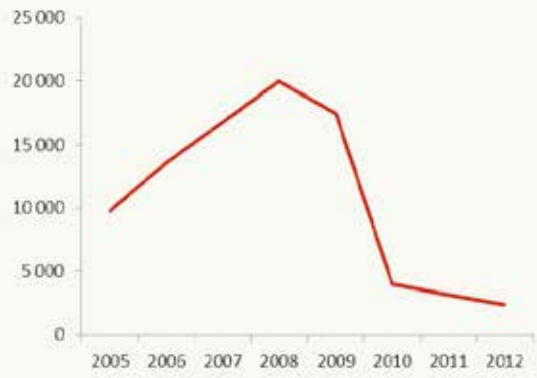
Comparing the position of the firm before and after the support, Figure 3 shows that real total investment has not increased from what it was before the support, following a sharp decline in real total sales value in 2011-2012.

Figure 3: Real total investment and sales



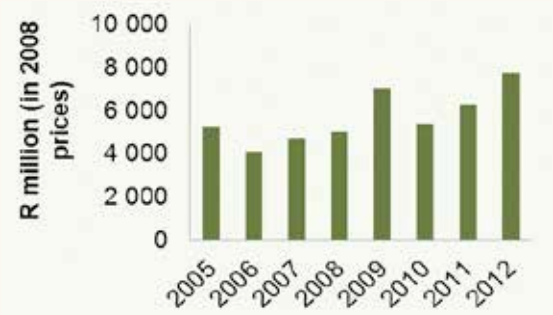
Given that exports made up more than 50 per cent of total TRICOM sales on average between 2006 and 2012, the decline in export growth in Figure 4 undermined the firm's ability to grow its total sales, and this affected investment.

Figure 4: Total exports (tonnes)



It should however be noted that although the total sales value has declined, the tariff support has helped the firm to increase its local sales on average from R6 billion before the support to R7 billion after the support (Figure 5). This therefore suggests that the total sales value might have worsened had it not been for the support.

Figure 5: Local sales



Employment

The creation of the tariff support has enabled TRICOM to retain some jobs, due to a recovery in domestic production. Despite losses in output in 2010 of 60 per cent (or 15 000 tonnes), the firm managed to retain 50 per cent of total pre-support jobs in 2011-2012 (Figure 6).

Had the tariff support not been provided in 2010, domestic production would not have recovered in 2011-2012 and unemployment could have worsened (Figure 7).

Figure 6: Total employment

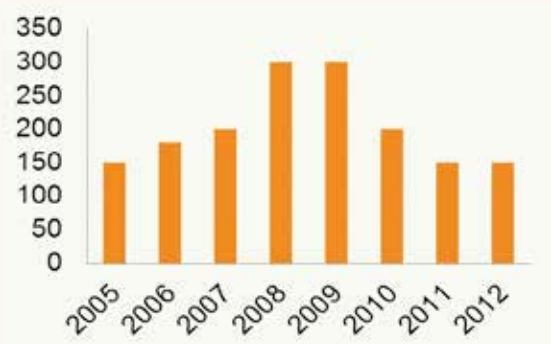
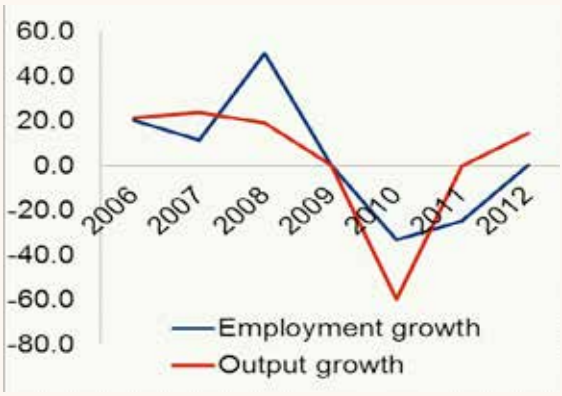


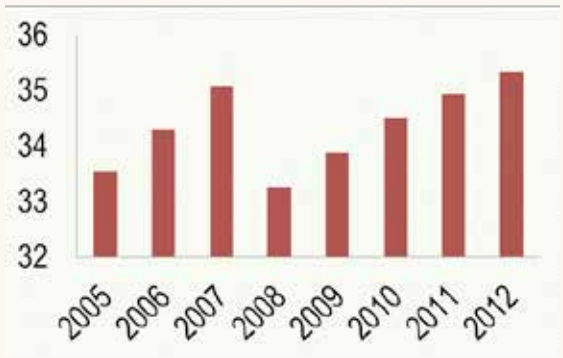
Figure 7: Growth in employment and output



Value addition

TRICOM recorded a marginal increase in domestic value addition from 34 per cent in 2008-2009 (before the support) to 35 per cent in 2011-2012 (after the support). Moreover, this firm sourced all its inputs locally (Figure 8).

Figure 8: Domestic value addition



Competitiveness

Figure 9 shows that the competitiveness of the firm declined after the support. On average, while total factor productivity growth of TRICOM grew by only 0.1 per cent, labour productivity growth decreased by more than 3 per cent after the period of support.

The marginal increase in total factor productivity may be explained by the fact that production cost reduced by almost half as the firm shifted its focus to the local market and produced less highly expensive export products after the period of support (Figure 10).

Figure 8: Factor and labour productivity

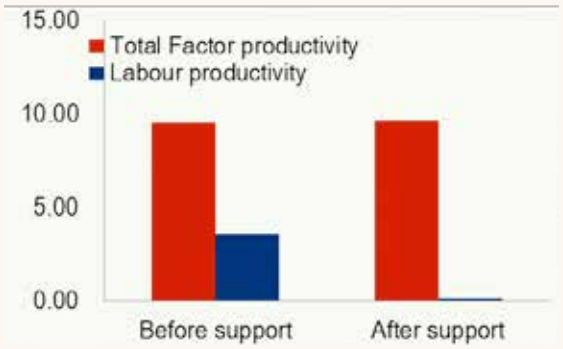
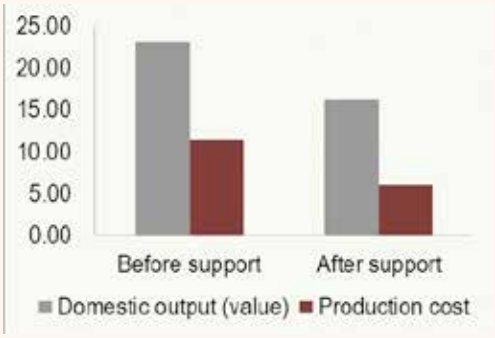


Figure 10: Growth in output value and costs



As indicated earlier, TRICOM has recently lost its international competitiveness to China, India and Turkey, owing to international pricing factors.

At an average output-export ratio of 76 per cent, TRICOM focused largely on the international market between 2005 and 2009. However, over the period of support beginning in 2011 to 2012, the output-export ratio declined by more than half to 25 per cent, following a sharp decline in export growth (mainly to African markets) from 39 per cent in 2005 to -24 per cent in 2012 (figure 11).

Considering that China gets a 9 per cent rebate on exports per tonne (or US$99), TRICOM is almost undercut by more than 70 per cent (or US$709) and therefore cannot compete effectively in the international market (table 1). Even if the firm were to utilise the existing rebate item 470.03 for exports, it would remain uncompetitive in the export market.

Figure 11: Output-export ratio and export growth

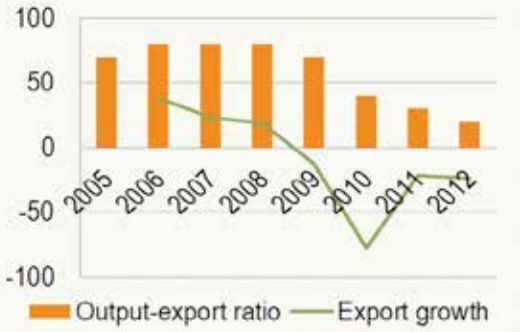


Table 1: Average export cost for SA and China

Cost breakdown (US$ per tonne)	South Africa	China
Steel	900	650
Zinc	350	220
Labour	200	100
Transportation	260	130
Total	1 710	1 100
Less 9% rebate for China		1 001

Source: TRICOM

Conclusion

The firm would have taken advantage of the recent weaker rand had it not been for the uncompetitive international pricing of its products.

To improve on current performance, the firm intends to explore other markets for exports, namely, Yemen and South America, among others. This will enable it address the current problem of underutilisation. It also plans to diversify its production toward "value" production of service, in order to create more jobs and increase domestic value addition and competitiveness in subsequent years.

It should be noted however that a branch of the company has now been established in China in order to deal with persistent high cost of producing the product in South Africa relative to China. Should this continue, it would undermine government's effort to promote industrialisation and accelerate growth as well as employment in South Africa.

'07 CONCLUSION

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Conclusion and policy recommendations

South Africa is now widely seen as a gateway to other African countries. It is another target market for countries producing enormous volumes and the extent of government subsidisation and support in some of these countries poses threat to local export industries. Without some guarantee of demand for their exports, total production will reduce (low production volumes), this will increase unit costs and lower the productivity of currently employed assets and discourage producers from investing further. South Africa's industrialisation cannot survive without some smart government interventions.[1]

There is an assertion that the recent weaker rand will raise exports and improve the trade balance. However, faced with the current reality of a globalised economy, industries are vertically integrated and exported products can contain a large proportion of more costly imported components that are not necessarily substitutable with domestically-produced products. At the same time, low level of competitiveness among firms (due to structural impediments) has prevented the recent exchange rate depreciation from generating an increase in exports.

To address the rising input costs and cross-subsidise the resultant growing production costs, some of the firms whose main focus is on the international market, have now established their branches outside the country where they can take advantage of low production costs. On the other hand, some of the firms whose focus is on the local market, have now adopted an "import strategy" aimed at complementing domestic production with more imported finished products. Should this continue, it would undermine government's efforts to promote industrialisation and accelerate growth as well as employment.

Some recommendations:

The success of most industries and/or firms has revealed how co-operation between government institutions could help promote industrialisation in South Africa: ITAC's supports alone are not sufficient to turn an industry and/or firm around. There is need for synergies among the government institutions responsible for implementing industrialisation strategies.

For some sectors, the co-location of all supplier tiers as well as new entrant SMME's becomes imperative. It offers opportunities for incubation, technology localisation and innovation, tooling engineering, skills training, supply chain competitiveness enhancement and access to the sharing of costly capital equipment and infrastructure.

Economies of scale also become more and more important, a lack thereof which tends to reduce the competitiveness of firms operating in South Africa. African regional economic integration is therefore particularly vital in order to create larger markets for the domestic firms. This calls for a greater emphasis on regional infrastructure projects, harmonisation of industrial policy and national economic goals as well as reforms to reduce other costs of trading across borders and enable domestic firms to produce quality products at a competitive price. It will also ensure that countries do not enter into bilateral trade agreements with developed economies at the expense of their neighbours.

1 One of the key strategies behind the success of East Asia is that the government of the region used import substitution and export promotion simultaneously, combining them in the most efficient way to secure the industrialisation objectives.

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