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Speech by Minister of economic Development, Ebrahim Patel, at the Budget Vote of Economic Development, 21 April 2016. Draft.

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Honourable Speaker

Honourable members

Heads of competition and trade agencies and the IDC

Fellow South Africans

And a special welcome to members of the public who are present here today.

During 2015, the economy for the first time crossed the R4 trillion GDP mark and total employment levels reached, also for the first time, 16 million jobs.

Economies are about people, not simply numbers and policies.

I am therefore today separately releasing the first of a series of Profiles that tell the stories of a number of South Africans who are involved in projects that have been enabled or are supported by government. These include Mike Msizi a shareholder in Tsitsikamma Windfarm, Annemarie Brunswick a pensioner from Tshwane who uses public transport and Grade 11 student Sophy Baloyi who is in a new school that opened last year.

We have also put together an exhibition here at parliament, of local entrepreneurs who have been partnered by government, for MPs and members of the public to visit after the debate today.

You will meet entrepreneurs such as Sibusiso Maphatiane who runs a tooling plant in Gauteng, Meintjie Mouton who manufactures rooibos tea in Citrusdal and Dr Kit Vaughan, an innovator of a state-of-the art breast cancer machine.

I want to focus today on four key elements of our economic strategy, namely competition policy, trade, industrial funding and infrastructure, because our joint efforts in these areas, when they are successful, resonate powerfully with South Africans who are our partners to create jobs in the economy. And they help to achieve the goals set out in the NDP.

First, competition.

To power up the economy, we need improved competition with increased jobs, small business opportunities and industrialisation as the targeted outcomes.

In the past year, we focused attention on three competition channels: cartels and abuse of market dominance; regulations of mergers & acquisitions; and competition market inquiries.

Cartels and abuse of market dominance results in high prices to the disadvantage of ordinary citizens and of economic efficiency and they create quasi-monopoly practices in the economy.

Over the past twelve months, the competition authorities investigated cartels in a number of industries, including steel, auto components, glass products and in the farm supply-chains. We are taking firm steps to end cartels.

Honourable Members will recall the R1,4 billion fine previously imposed on companies in the construction industry for acting as a cartel and fixing prices.

Since then, Government engaged the companies concerned in a broader reparation package to financially compensate the state, transform the sector and sign Integrity Commitments to ensure that there is no collusion or corruption in their dealings with government, with each other and towards other private sector clients.

Our actions against cartels have begun to have an impact but more needs to be done.

A recent World Bank study on competition in South Africa noted the following:

“In the case of four cartels in maize, wheat, poultry and pharmaceuticals – products which make up 15.6% of the consumption basket of the poorest 10 percent – conservative estimates indicate that around 200 000 people stood to be lifted above the poverty line by tackling cartel overcharges”.

We are confident that because our work on cartels over the past five years has given clarity in the market on what collusion entails and what kind of acts falls within prohibited practices, we can now step up our efforts to the next level in our endeavor to combat corruption, cartels and anti-competitive conduct that raise prices and keep businesses and new entrants out of local markets.

Accordingly, government will tomorrow gazette a Presidential Proclamation that brings into effect certain sections of the Competition Amendment Act, with effect from 1 May 2016, which make it a criminal offence for directors or managers of a firm to collude with their competitors to fix prices, divide markets among themselves or collude in tenders or to acquiesce in collusion and they expose themselves to time in jail if convicted.

Let me turn next to mergers and acquisitions.

The Competition Commission considered 408 company mergers and acquisitions in the past year and of these, 98% were approved. In 35 cases, competition or public interest conditions were set.

Recently, two proposed large mergers in the beverages sector attracted public comment. The first involves the R1,5 trillion global takeover of SAB Miller by AB InBev and the second is a Coca-Cola/SAB Miller merger of three large South African soft-drinks bottlers.

Last Thursday I announced an agreed approach with AB InBev to the competition authorities on the takeover of SAB Miller. Today I am releasing additional details on the agreement as it affects South Africa. These include the following:

AB InBev committed R1 billion to a localization effort for farmers and other suppliers of inputs. This is the largest financial commitment yet by a company in merger proceedings and is about four times larger than the financial commitments imposed on Walmart by the Competition Appeal Court.

R610 million of this will be used to support the development of 800 new emerging farmers and 20 new commercial farmers to produce more local barley, hops, maize and malt, with the strategic intent to create at least 2 600 new jobs in agriculture. The company is looking to turn South Africa from a net importer of hops from other countries, to a net exporter of hops and value-added malt

In a groundbreaking commitment on jobs, the company agreed that it will not retrench any worker involuntarily as a result of the merger, now or at any point in future. In addition to this commitment, the company also agreed to maintain their workforce in the beer and cider divisions - roughly 5 900 permanent employees - at current levels for the next five years.

Other terms dealt with economic empowerment, keeping their African HQ in Johannesburg, access for small brewers to fridges and cooler space and promoting alcohol-free and low-alcohol products in the SA market.

An Implementation Board will monitor the progress with the R1 billion commitment, with equal representation from the company and government.

This is the most comprehensive agreement of its type yet that has been placed before the competition authorities for consideration.

We are still in dispute with Coca-Cola and its partners SAB Miller on the combination of three existing soft-drink bottlers. While we have made progress with some areas of localization and also on keeping at least 20% of the equity of Appletiser in South African hands, there are still serious challenges. Government is concerned at two critical matters: very substantial job losses that may result from the transaction over the next few years; and practices by Coca-Cola that closes the market to smaller soft-drink producers through refusing access to fridge or cooler space to rival brands.

These competition interventions are not isolated actions but are part of a coherent strategy by government to ensure a better fit between the legitimate interests of shareholders in mergers and acquisitions, and the public interest on jobs, industrialisation, empowerment and small business development.

The competition authorities have widened the scope of their examination of potential anti-competitive structures and conduct through the use of market inquiries, looking particularly at the level of concentration or exclusionary conduct at the distribution stage of value-chains, in how cooking and heating gas is distributed to consumers, the costs of private hospitals where medical services are distributed to patients, beverage companies tight control over cooler boxes and fridges in spaza shops and taverns and access to shopping malls for smaller retailers.

The Competition Act has been a cornerstone of our efforts to promote a more inclusive economy. Based on our experience with the Competition Act and court rulings, a number of gaps and weaknesses as well as possible solutions have been identified. This will include changes to the legislation to address matters relating to excessive pricing, abuse of market dominance, guidelines for competition leniency applications and procedures for the work of the competition authorities, including on information claimed as confidential.

We are consulting further within government and with the competition authorities and expect to release details of the proposals for wider public consultations in the course of the year.

Second, trade.

South Africa exported R1 trillion of goods and services last year, equal to 31% of our GDP.

Trade policy can play a key role to promote industrialisation, innovation and investment.

Our top five export markets are China, the United States, Germany, Namibia and Botswana.

Last year, Africa overtook Asia to become the biggest single regional market for South African manufactured products. We sold just over R300 billion of products and services to the rest of the continent. Our Africa-centred strategy also includes deepening the flow of outward-investment to other African countries. For example, the IDC approved a tin-mining and smelter transaction in the DRC. The supply of construction services and equipment to the mine will come from South Africa, with a value of between $20m and $40 million dollars per annum spent here.

The current top five exports to other countries are platinum, cars, gold, iron-ore and coal. We need to do more to export labour-intensive, manufactured products and move away from being simply a supplier of raw materials.

We have made some advances on this issue.

Trade with the rest of the continent is more value-adding and indeed, we sell more manufactured articles, including cars, trucks and construction machinery to our neigbours, creating close to a quarter million jobs in South Africa.

I issued regulations last year that addresses the procedures to be followed and the criteria to be considered when evaluating tariff applications.

This morning, I issued a Trade Directive, published today in the Government Gazette, that requires ITAC to consider the commitments companies make on investment, jobs and industrial output, when making its findings on tariff increases or rebates of duty.

This is done to ensure that companies do not rely simply on tariff protection or rebates but invest heavily on new technologies, training of workers and product innovation to maintain and increase their market share. It is also to ensure that any costs to connected industries are at least accompanied by increases in jobs.

This is an example of leveraging more in the society to ensure we achieve the goals of our trade legislation and our national policy objectives.

In the past 12 months, we reduced tariffs through rebates on duties where it helped to bring down input costs and create local jobs: examples are the fabric used in upholstered furniture, components for electric water meters and panels for flooring systems.

Anti-dumping duties were implemented on cement from Pakistan and wheelbarrows from China.

Additional protection was granted primarily to steel products including for steel tubes and pipes.

The steel industry has been through a particularly difficult time, with a big surplus of steel in global markets. This has resulted in fierce price-cutting and pressure on steel-plants to close. In South Africa, we felt the effect of these global storms through a surge of imports. We consulted both primary steel makers and their customers to determine the best way forward.

In the past six months, government introduced tariff support on 8 steel products.

Last week ITAC recommended a tariff duty of 10% on two additional steel products: hot rolled coil and certain steel bars and rods. The recommendation is now being processed within government.

In order to stop this facility from being abused, ITAC will be putting measures in place to track prices in the industry and it will review the tariffs annually. The clear understanding between the main steel-maker and government is that they will invest at least R4,6 billion to improve their plant competitiveness, will not close any steel plants and will not cut jobs beyond what had previously been announced.

Third, industrial funding and investment

Industrial funding is the fuel that drives the expansion of factories, mines, farms, economic infrastructure and tourist facilities.

The Department itself helped to unblock a number of investment projects:

- One example is a local noodle factory who received grant funding to improve their competitiveness and now supplies Massmart.
- A new film studio was supported in Joburg to strengthen the country appeal as a film-making location of choice.
- A tender in the Northern Cape for water pipes was rewritten to ensure tender specifications were aligned with local industrial capacity.
- A fruit canning operation in the Western Cape was supported to obtain electricity during power shortages, which saved their crops and 2000 seasonal jobs.

I have reported on a number of additional examples like these to parliament over the past twelve months.

Supporting the efforts of EDD, the IDC itself continues to play a quite extraordinary role as a catalyst for new investment and innovation in the economy.

In the period since 1994, the IDC has invested R166 billion in the economy, with R70 billion of that directed at black-empowered companies.

In the past 12 months, preliminary figures show the IDC approved R13,6 billion of new funding and disbursed R11,5 billion to partner companies. These are significant levels of new investment that in turn attracts more private sector capital and in this way the IDC investment will create 12 200 new jobs and save 4 700 jobs.

A particular focus is on the development of black industrialists and female and male youth entrepreneurs. IDC investments include support for a young entrepreneur Masana Makhetha who manufactures and installs ventilation systems in the mines and Manana Bogatsu who is in partnership with a foreign investor to set up a factory to manufacture gas cylinders.

In the next 18 months, 25 factories or investment projects of the IDC will open for business, employing thousands of people, including

- A coal cogen plant in KZN will open May

- A cable manufacturer in Gauteng will open in August
- A new hotel in Limpopo will open in September
- A pet-food factory in the Western Cape will open November
- A car-parts factory in the Eastern Cape will open June 2017
- A wind-farm in the Northern Cape will open October 2017

Four months ago, the IDC signed two important agreements during the Chinese President's State Visit to South Africa.

The first was for a joint Investment Fund with a R10 billion pledge by the China Construction Bank.

The second was an agreement with BAIC (Beijing Automotive International Group) to consider establishing an automobile plant in SA – which if it meets the feasibility study criteria, will be the first new light passenger assembly plant to be built in more than 40 years - with an initial capacity to produce about 50 000 cars, trucks and SUVs.

This Sunday, 24 April, the IDC will sign a Joint Development Agreement in Beijing that earmarks the Eastern Cape as the proposed location for the plant. The IDC and the company are optimistic and hope to finalise the feasibility studies to enable the plant to complete construction by 2018.

Honourable Members

There are a few key trends to note about the performance of the economy:

Global growth levels remain largely subdued. Over the weekend, the IMF again reduced its forecasts of global and Africa growth. South African growth rates are very modest and below the levels required to achieve our national goals.

Jobs numbers have however, grown in the past calendar year, by some 700 000 new jobs, but there are new pressures particularly in mining and related sectors that are of concern to us. The data gleaned from the CCMA indicates many more companies are considering retrenchments to address the drop in demand for their products. Continuing pressures in the mining sector means we will not see a mineral-led economic recovery. Unemployment numbers remain high with many millions of young people looking for work.

We need a social pact on a package of measures and commitments that we must all make – government, business and workers – to pull the economy through these difficult times.

I have asked the Industrial Development Corporation therefore to adjust its strategy to the new market conditions.

The IDC will aim to disburse R96 billion to partner projects over the next five years, with a target of 66 000 new or saved jobs over the next three years.

It is also developing support measures to companies in distress due to the drought and these new market conditions.

It will restructure current facilities, where needed, to enable partner companies under pressure to stretch out their repayments periods and will make available fresh capital to modernize and expand company operations and save jobs.

It will partner with the UIF and PIC to make resources available.

We estimate the value of these interventions will be about R20 billion over the next few years, with R4,7 billion for immediate intervention funding and R8,9 billion for medium-term funding while loans to the value of R7,1 billion will be restructured.

Fourth, infrastructure.

Complementing our efforts on industrial funding, we are investing heavily in new infrastructure.

Let me share a few figures that sum up how we are improving the lives of ordinary people like Charles Zitha from Soweto and Nomawethu Mvambo from Buffalo City.

We are now investing more than R1 billion per working day in infrastructure

The money helped us to:

- Build 160 new schools
- Build about 100 000 new houses
- Connect 245 000 houses to electricity, equal to 1 000 houses connected every day to the grid, Monday to Friday, 52 weeks a year
- Bring 1 700 megawatts of new electricity onto the national grid, equal to the household needs of Nelson Mandela Bay, Emalahleni, Polokwane, Mangaung, Buffalo City and Rustenburg.

The R1 billion a day enabled us to

- Lay 100 kms of large water pipelines that can convey billions of litres of water a week to communities and businesses
- Build 29 new clinics and one new hospital
- Complete three buildings of Mpumalanga University and new student accommodation for 4 210 student country-wide

We made similar progress with manufacture of buses, taxis and trains; roads that were refurbished, new bus-lanes built and new wifi sites in urban and rural areas.

The direct employment created through infrastructure investment is estimated at 291 000 and with indirect and induced employment, there were 715 000 jobs supported by the state's infrastructure programme.

The Presidential Infrastructure Coordinating Commission (or PICC) drives and coordinates the public infrastructure programme. EDD support to it in the past year included technical work on legislation to combat cable and metal theft from public infrastructure, unblocking build-projects and addressing funding gaps.

A few days ago, the BRICS New Development Bank approved a loan in record time of R2,6 billion (US$180m) to South Africa to lay transmission lines for the renewable energy plants. I acknowledge the work of the PICC Technical unit and Eskom in making this possible.

New mega-projects that will be brought into construction include the Mzimvubu Dam, two massive bridges as part of the N2 Wildcoast road from East London to eThekwini, the Moloto Road, raising of the ClanWilliam Dam and the large water pipeline from the Mokolo and Crocodile rivers to Lephalale in the Waterberg area.

Concluding

Honourable Members

I have shared progress made in the past year with this august House. I also outlined a series of actions we are taking:

- To bring new infrastructure mega-projects into construction.
- To improve the investment and employment impact of trade decisions
- To increase and support productive investment through the IDC
- To strengthen our actions against cartels and large companies who exclude smaller entrepreneurs

They are part of the wider 9-point Plan announced in SONA last year.

We are going through tough times in the global economy.

We must build on our strengths as South Africans and use the social dialogue experience to forge a strong partnership between business and labour on the shop-floor, use the competitively-priced currency to export more aggressively, claw back our domestic market and improve the quality of life for workers, their families and communities.

Inclusive growth requires firm action against corruption in the public and private sectors and integrity in our dealings in the economy, with state-procurement and in the services that public servants and public representatives render to communities.

Finally, I wish to pay tribute to the memory of the acting Director General of Economic Development, Mr Kumaran Naidoo, who passed away two weeks ago and who was a person of integrity, a pillar of strength and a fine example of what a public servant should be.

Honourable members, it is an election year, yet we still hope we can have a constructive debate today and it is my pleasure therefore to table the Economic Development Budget, covering the Department and its agencies.

Thank you.