



MANUFACTURING CIRCLE
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**PRELIMINARY SUBMISSION TO T
HE PARLIAMENTARY PORTFOLIO COMMITTEE ON TRADE AND INDUSTRY
COLLOQUIUM ON BENEFEICIATION
BY THE MANUFACTURING CIRCLE**

27 AUGUST 2014

Document Reference: FINAL

Date: 27 AUGUST

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BACKGROUND TO THE MANUFACTURING CIRCLE

Formed in 2008, the Manufacturing Circle interacts with government and other stakeholders in order to review, debate and help formulate policies, which will have a positive impact on South Africa's manufacturing base.

The Manufacturing Circle is made up of a number of South Africa's leading medium to large manufacturing companies from a wide range of industries. Some of the members are leading South African exporters of manufactured goods to markets around the globe; others are locally based and locally focused companies competing with the best in the world. There is one common denominator among them and that is a passion for manufacturing coupled with a fervent belief that for South Africa to be economically strong, its manufacturing sector must be strong. A strong and developing manufacturing sector will drive the creation of skilled and semi-skilled jobs in the South African economy.

1. INTRODUCTION

The Manufacturing Circle appreciates the opportunity to make a submission to the Portfolio Committee on Trade and Industry as part of its Colloquium on Beneficiation. We have pleasure in submitting this written submission, to be supplemented by a slide presentation, to be tabled on the day of our oral submission.

The Manufacturing Circle believes it should be accepted as an unquestionable truth that if localising the beneficiation of our natural, reclaimed or recycled resources and the development of our human resources was a top priority, South Africa's potential to deliver economic growth, broad-based prosperity and employment to many South Africans through manufacturing would grow – the scale-based incentives beneficiation offers would promote manufacturing competitiveness, innovation would be triggered and a culture of entrepreneurship would be fostered. For these reasons the Manufacturing Circle believes that South Africa should in the long run become a competitive beneficiary of its own resources.

2. BENEFICIATION vs MANUFACTURING

We however also believe that careful thought should be given to the term “beneficiation” and how it may be perceived as distinct from manufacturing in general. In policy terms, the term “beneficiation” is quite peculiar to South Africa and much of the discussion has been directed in terms of the mines and their supposed responsibility and direct involvement in the beneficiation of minerals, which in turn is defined as activities “the transformation of a mineral (or combination of minerals) to a higher value product, which can either be consumed locally or exported” (Department of Mineral Resources, 2011). As a result, much of the discussion has been viewed in terms of the traditional re-enforcement of mining as an enclave industry in South Africa, albeit with a substantial impact on the rest of the economy.

The Manufacturing Circle believes that a significant case exists for an increased role for manufacturing in discussions of beneficiation:

- In the first instance, there are numerous domestically based manufacturing firms located both upstream and downstream of the mining value chain. This is so as manufacturing is not only supplied by mining, but also supplies mining with mining, conveying and processing equipment.
- In the second instance, beneficiation and the role of manufacturing in beneficiation is not only limited to the beneficiation of minerals, but extends

also to the beneficiation other raw materials such as wood and agricultural products, recyclable materials such as scrap and human resources.

- In the third instance, because beneficiation involves value addition and processing, many processes of which are much more common to the activities of manufacturers rather than those of miners, farmers or other upstream activities.
- Beneficiation of recyclable materials and scrap (eg foundry activity, paper and packaging) often more job-intensive and less energy intensive than the beneficiation of ores

3. FIVE HIGH-LEVEL INTERVENTIONS THAT COULD PROMOTE LOCAL BENEFICIATION

Intervention 1: Level the playing field with regards to intellectual property rights

South Africa's current intellectual property rights regime fails to support the national system of innovation. South Africa's non-examining approach and lack of on-line patent search facilities make it harder for local inventors to research new inventions, easier for innovation grants to be wastefully disbursed and more difficult for local intellectual property to be protected abroad.

We propose that:

- the medium-term solution is to set-up an examining approach to granting patents;
- until such time as an examining system can be implemented to bring it into line with the world's leading innovating countries, grants should be directed at facilitating overseas novelty searches and examination of local inventions; and,
- a website through which all information pertaining to patent applications and their potential benefits are publicly disclosed should be set up.

Intervention 2: Make environmental measures work for sustainable beneficiation, rather than against it

In terms of environmental concerns, water licenses and Environmental Impact Assessments (EIAs) are major immediate concerns, while measures to put South Africa on a lower carbon trajectory creates concern over the medium term:

We propose:

- streamlined red-tape procedures for EIA's and water licenses
- level the playing field between public, public-private and private sector projects in respect of water licenses;
- if and when a carbon tax becomes imperative for South Africa, that it be implemented only as part of a suite of tools with the requisite equalizing

- measures at the borders; and,
- mass prior zoning of land for industrial usage.

Intervention 3: Promote investment in infrastructure and services that either directly beneficiates or indirectly promotes investment in beneficiation activities

In this regard, we believe the best approach is to:

- diversify market contestation for baseline electricity generation; and,
- clear long-term plans with respect to invitations and financial closure deadlines of renewable and nuclear energy procurement programmes to ramp-up the localisation of componentry.

Intervention 4: Identify preferential procurement opportunities for locally beneficiated products

Beneficiated products require market. Establishing a baseload demand that could be created by public procurement could provide significant impetus for investment. The

Manufacturing Circle therefore recommends:

- That studies be conducted and commitments be published on preferential procurement opportunities that could arise for products beneficiated locally.

Intervention 5: Depoliticise and promote access to land and raw materials

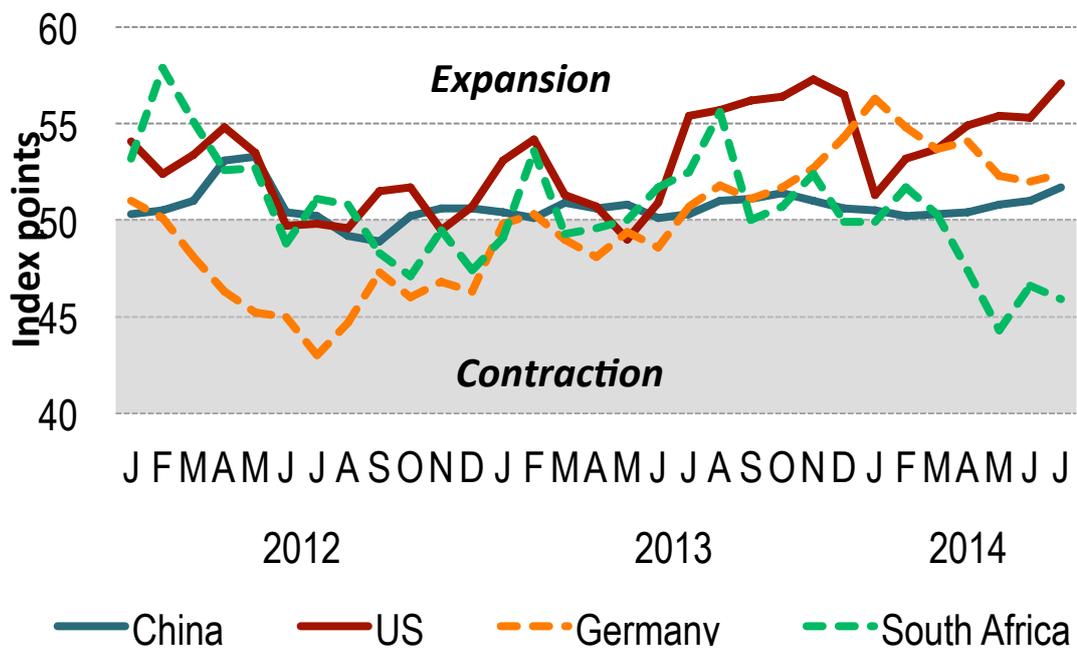
The availability of land is an essential ingredient for beneficiating our natural resources and therefore, also, for manufacturing. The Manufacturing Circle believes access to land would be significantly promoted upon:

- the conclusion of a full-scale audit of land ownership;
- the promotion of access to land for productive beneficiation enterprises through better utilisation of share-based schemes; and,
- the mass zoning of land for industrial usage.

4. BENEFICIATION AS MANUFACTURING ACTIVITY: SOUTH AFRICAN MANUFACTURING CONDITIONS – THE STATUS QUO

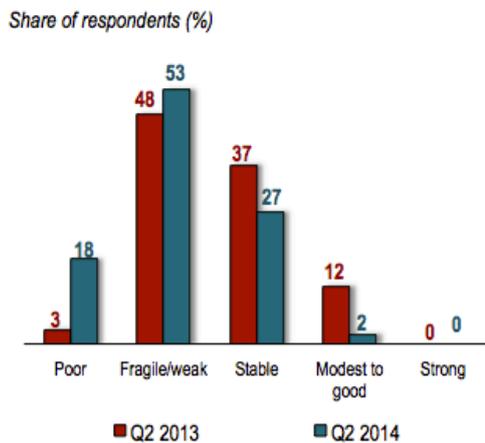
South African manufacturing conditions have deteriorated significantly compared to the conditions experienced by its counterparts in main trading partners.

Purchasing Managers' Index, SA vs. major trading partners, 2012 Jan – 2014 Jul
(50 = no change)

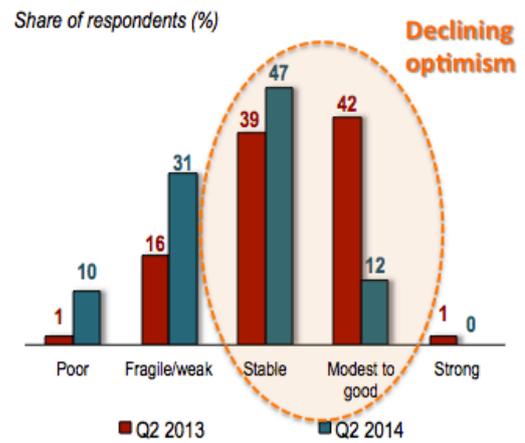


Manufacturing business conditions are expected to change from mostly “fragile/weak” conditions over the short-term to “stable” over the medium term. However, optimism has declined significantly in relation to 2013 Q2.

How do you perceive the manufacturing sector's conditions over the next *six months*?

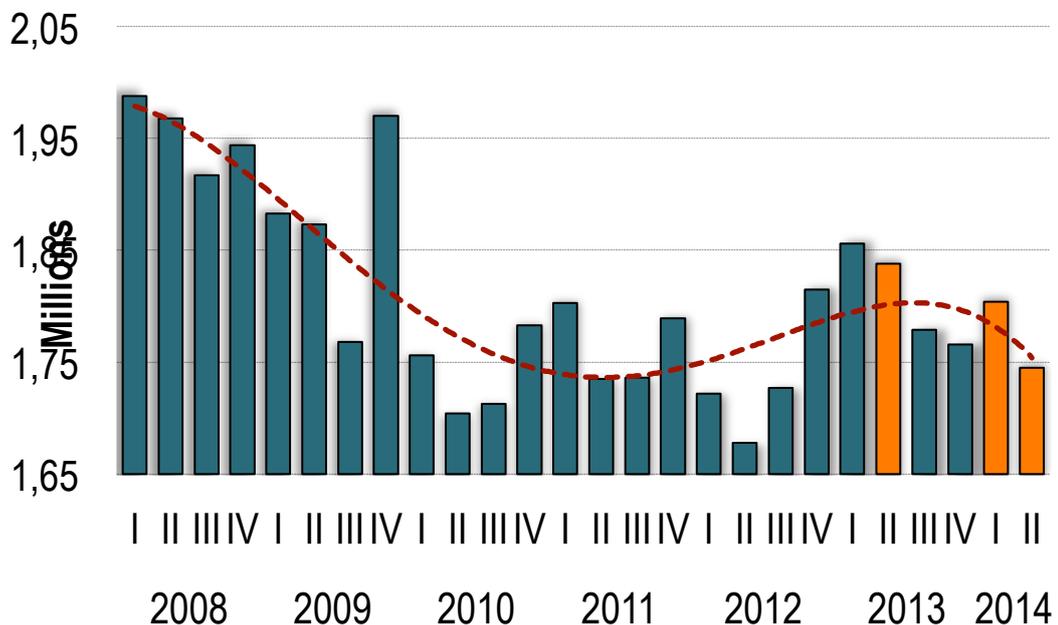


How do you perceive the manufacturing sector's conditions over the next *two years*?



Manufacturing employment has declined by 93000 over the last year, of which up to 59000 job losses were recorded between 2014 Q1 and 2014 Q2

Quarterly manufacturing employment, South Africa, Q1 2008 – Q2 2014



The challenge is for manufacturers to isolate what it is exactly that has resulted in this more negative outlook, and what may be required to address the situation. The following challenges have again been isolated in the 2014 Q2 Manufacturing Circle survey of manufacturing business conditions, and are noted here with some allusion to the policy changes they imply.

<i>Factor</i>	<i>Policy Implication</i>
1.) Labour market stability	Auditable strike balloting and zero tolerance enforcement on intimidation and strike violence
2.) Elevated wages and input costs	Better demand conditions (volumes) and reigned in administered costs to help accommodate higher wages
3.) Competition from imported goods	Import protection to promote level playing field and better local procurement
4.) Low labour productivity	Decentralised bargaining to promote bottom-up pact forming around productivity targets
5.) Lack of adequate skills	Better industry/government coordination and better and more even primary and secondary education outcomes
6.) Subdued consumer demand	Strong buy local campaign