

PRESENTATION TO THE PORTFOLIO COMMITTEE ON TRADE AND INDUSTRY

the dti's FIRST QUARTER REPORT 2018-19

**13 September 2018
Director-General
Lionel October**



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA



Presentation Outline

- Economic Context**
- Strategic Goals and objectives**
- First Quarter Key Achievements**
- Financial Management**

Domestic Economic Context



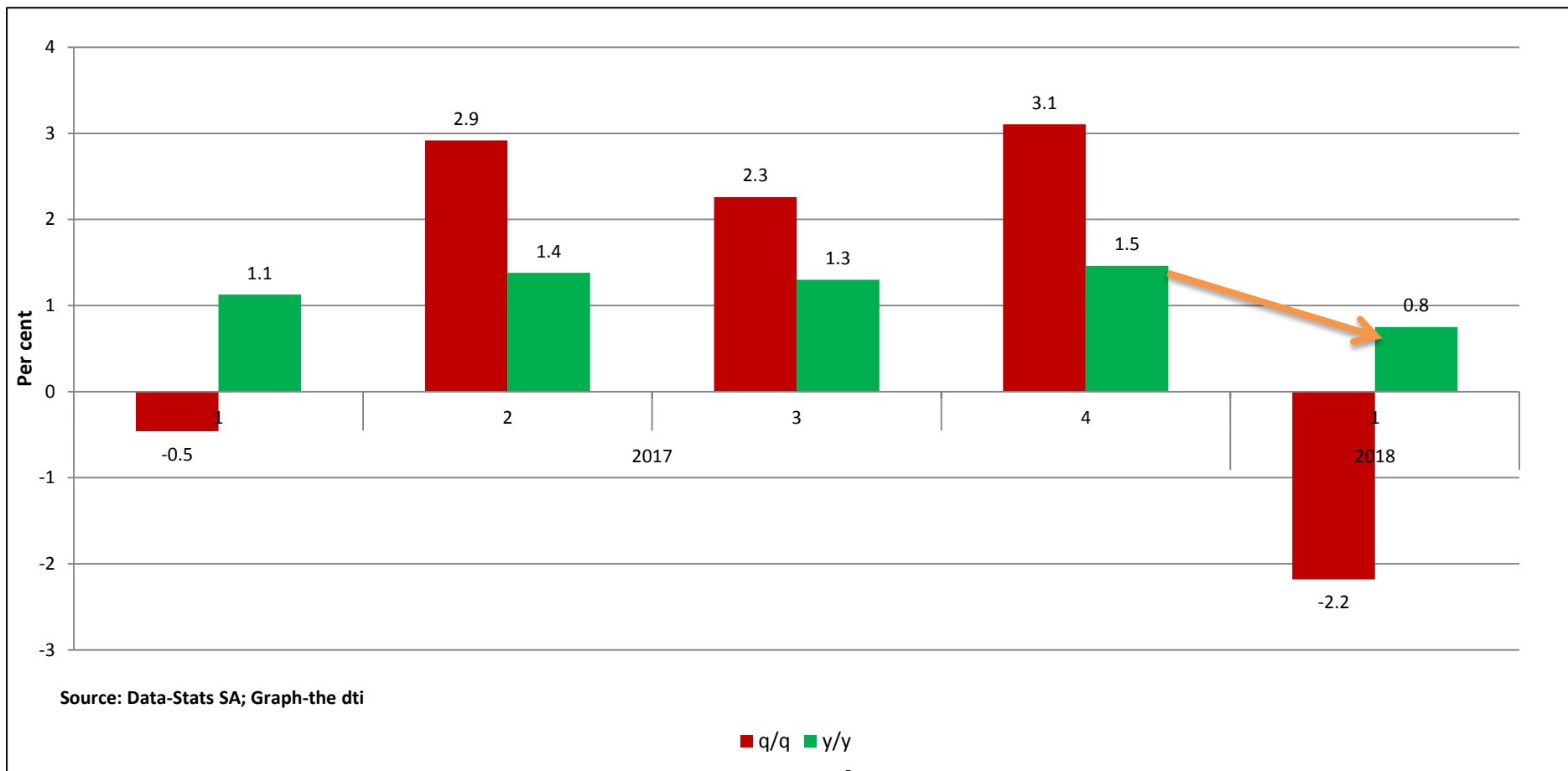
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GDP Q-o-Q and Y-o-Y (seasonally adjusted & annualised)

- Q-o-Q economic activities contracted by 2.2 % in Q1 of 2018 compared to 3.1 % in Q4 of 2017. However, Y-o-Y data show that the economy was 0.8% bigger in Q1 2018 compared to Q1 2017.



Behind Quarter One 2018 GDP results

- The data is influenced by base effects, essentially the fact that the economy grew strongly in Q4 2017.
- But Q4 2017 growth was unusual in at least 3 ways.
 - the *Black Friday* sales phenomenon stretched consumer spending across 3 months rather than the traditional spike in Christmas spending mainly in December.
 - the export data shows a significant jump in oil exports which was once-off, probably the SFF oil.
 - bumper agricultural harvests.
- None of these factors were available to boost Q1 growth;
- Important to note that the market consensus was for GDP to contract by about **0.5%**.
- On the other hand Y-o-Y data show that the economy was 0.8% bigger in Q1 2018 compared to Q1 2017. However this rate of growth is beginning to slow (+1.5% in Q4 2017). Which is of course also of concern.

GDP Negative Growth Drivers

- ❑ The negative Q-o-Q growth was driven largely by these four sectors:
 - Agriculture, forestry and fishing – fell by 24.2%;
 - Mining – dipped by 9.9%;
 - Manufacturing – contracted by 6.4%; and
 - Trade, catering and accommodation industry shrank by 3.1%.



Agriculture, Forestry and Fishing Underperformance

- ❑ **Was as a result of**
 - Drop in the production of field crops and horticultural products.
 - Very high base established in the last quarter of 2017, caused by a record summer crop;
- ❑ Thus, decline mainly reflects the impact of this year's lower, albeit more normal, field crop as well as a drop in horticultural production (as a result of the drought);
- ❑ In addition, crop prices remain low, hence much of last year's crops are currently being stored as farmers wait for prices to rise; and
- ❑ The Crop Estimate Committed (CEC) of DAFF projects lower crop production in 2018 – the 2018Q1 figure for agriculture sector are therefore signalling the beginning of a lower production phase.

Mining Underperformance

Was as a result of:

- ❑ Decreased production of gold and 'other' metal ores, predominantly the platinum group metals and iron ore.
- ❑ Even though global conditions have improved in the past two years – increasing global demand and international commodity prices – there is still no convincing evidence of a sustainable recovery in the local mining sector.
- ❑ Underperformance could be a reflection of:
 - ❑ the impact of persistent legislative uncertainty, given the long delays in resolving issues around the mining charter; and
 - ❑ The continued erosion of profit margins due to escalating production costs including administered prices.

Mineral group and mineral	% change between 2017Q4 and 2018Q1	Weights (2015=100)	Contribution (% points to the total % change)
Copper	-32.5	1.24	-0.4
Nickel	-22.0	1.85	-0.3
Other metallic minerals	-11.5	2.57	-0.3
Other non-metallic minerals	-6.8	5.35	-0.4
Iron ore	-2.9	13.61	-0.4
PGM's	-2.9	23.27	-0.6
Diamonds	-1.3	3.89	-0.1
Gold	-1.1	15.49	-0.2

Manufacturing Underperformance

Was largely due to:

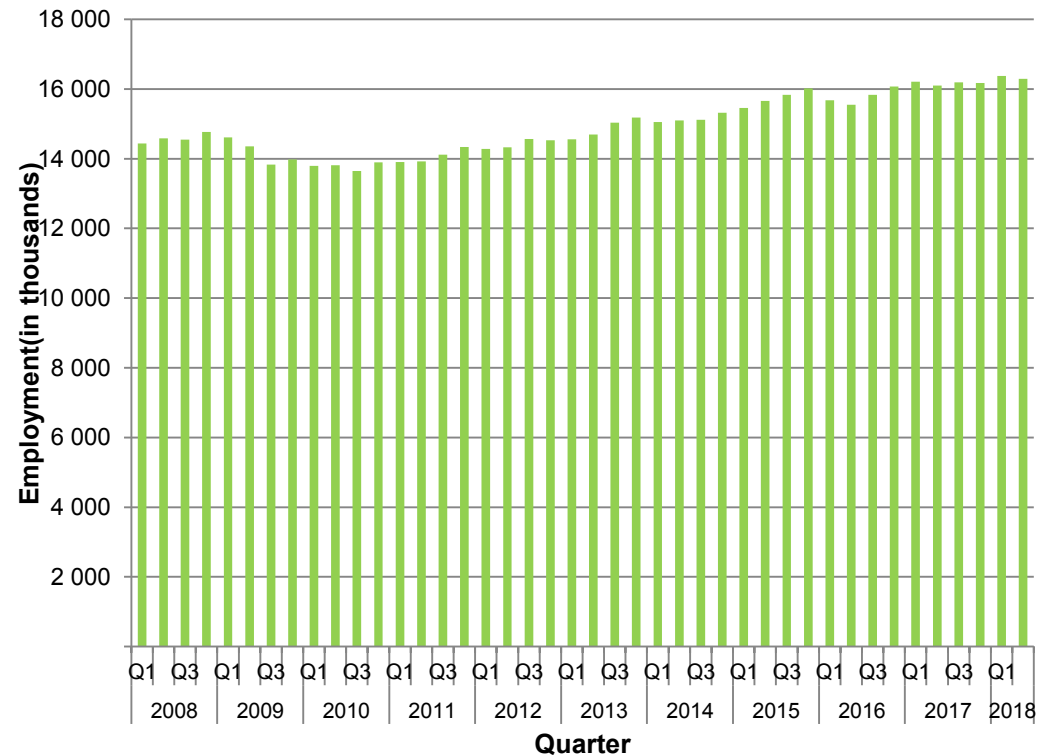
- ❑ The fall in output of the basic iron and steel, non-ferrous metal products, metal products and machinery division and the petroleum, chemical products, rubber and plastic products division;
- ❑ The fall in basic iron and steel was expected due to the continued impact of the global steel glut; and
- ❑ The fall in petroleum refining was primarily due to the Engen refinery shutdown on 5 Feb 2018.
- ❑ Essentially what we have seen is a few sectors struggling and because of their sheer size pulling down manufacturing output as a whole.
- ❑ Points to why we have been stressing the need for structural change and diversification.

Manufacturing division and major group	% change between 2017Q4 and 2018Q1	Weights (2015=100)	Contribution (% points to the total % change)
Petroleum, chemical products, rubber and plastic products	-8.3	24.01	-2.0
Textiles, clothing, leather and footwear	-3.3	3.28	-0.1
Basic iron and steel, non-ferrous metal products, metal and machinery	-2.1	18.72	-0.4
Radio, television and communication apparatus and professional equipment	-2.1	1.61	0.0
Wood and wood products, paper, publishing and printing	-1.9	11.62	-0.2
Electrical machinery	-1.3	1.65	0.0

Unemployment rate increases

- ❑ According to Stats SA's latest QLFS, the unemployment rate increase by 0.5 of a percentage point to 27.2 % in Q2 of 2018 compared to 26.7% in Q1 of 2018.
- ❑ The industries that contributed to job losses:
 - Manufacturing (108 000);
 - Community and social services (96 000),
 - Trade (58 000)
- ❑ However some industries recorded job increases & includes:
 - Transport (54 000),
 - Construction (45 000),
 - Mining (38 000),
 - Private households (22 000)
 - Utilities (18 000).
- ❑ Total employment declined from 16.4m in Q1 of 2018 to 16.3m in Q2 of 2018.

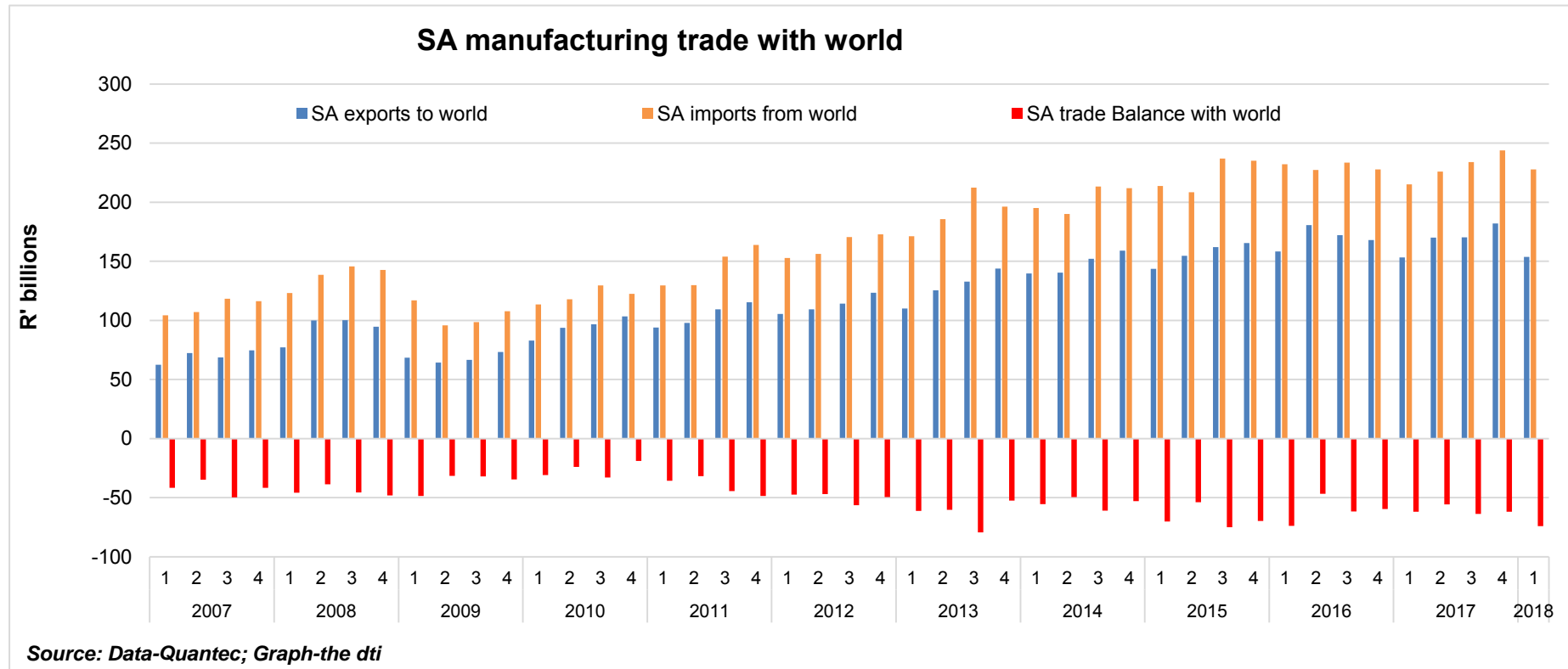
Total employment:QLFS



Source: Data-Stats SA, Graph-the dti

Manufacturing Trade Deficit Increased Sharply

- Manufacturing trade deficit with the rest of the world increased sharply by R12 billion in Q1 of 2018 to reach –R74 billion from -R62 billion in Q4 of 2017.

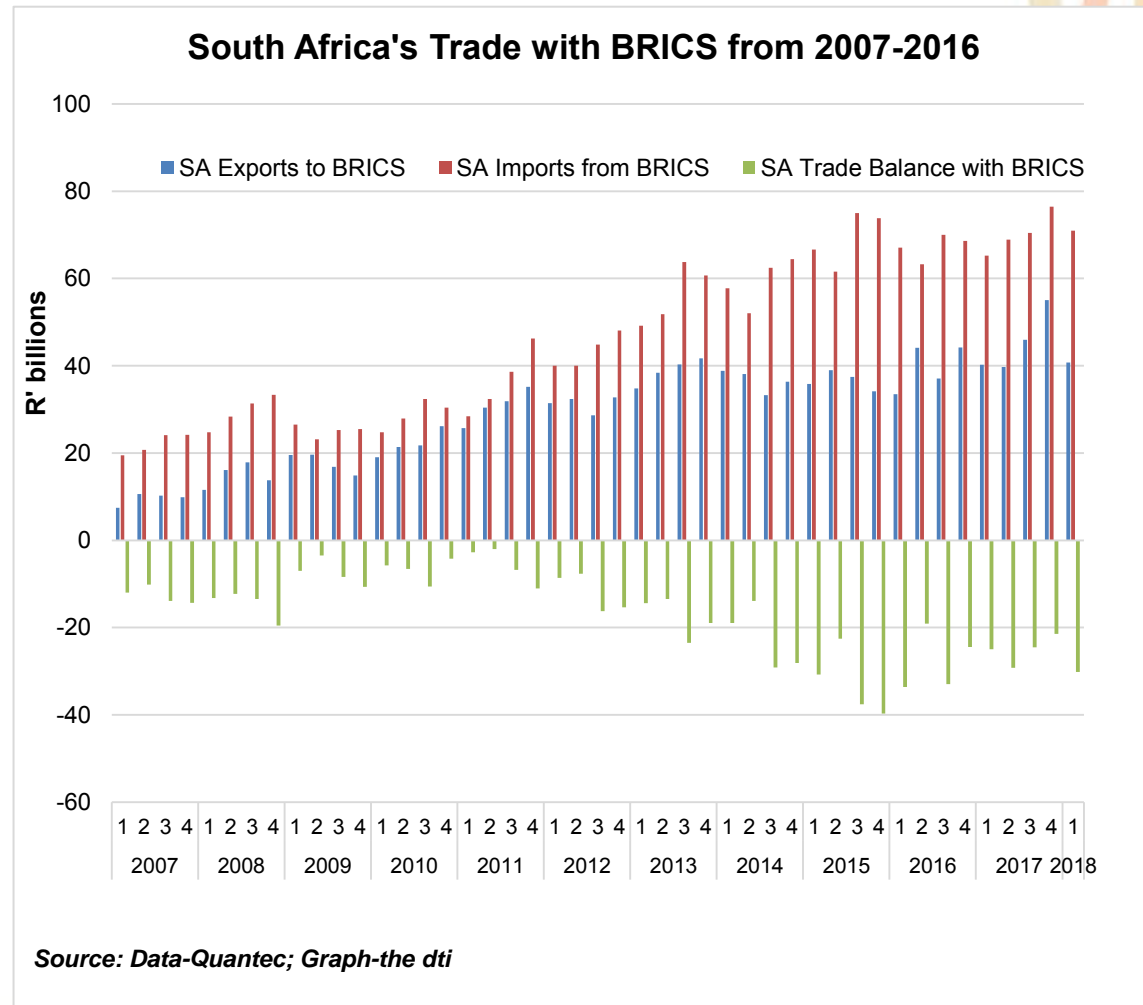


SA trade deficit with BRICS widened

- ❑ In terms of our current trade patterns, South Africa's exports with its BRICS counterparts has decreased by R15 billion to reach R40 billion in Q1 of 2018 from R55 billion in Q4 of 2017;
- ❑ Total imports decreased by R6 billion in Q1 of 2018 to reach R70 billion from R76 billion in Q4 of 2017 while trade balance widened by R9 billion to reach R30 billion in Q1 of 2018 from R21 billion at the end of Q4 2017.

In the recent BRICS Summit held in SA, Ministers of Trade raised the issue the current trade imbalances within the BRICS nations. As a result the summit adopted measures that will support greater participation, rebalancing of trade, value addition and upward mobility of countries in the Global Value Chains amongst other.

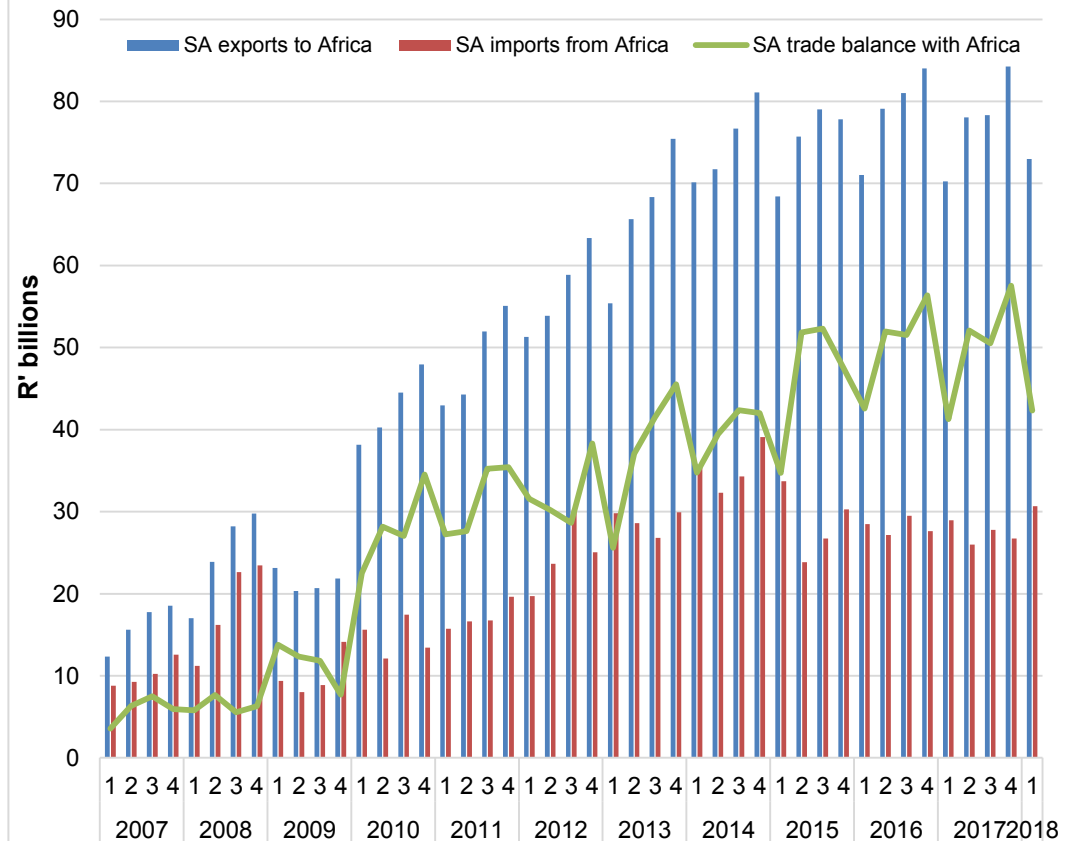
Countries such as SA & Russia stand to benefit in rebalancing of trade initiatives within BRICS.



South Africa's Trade with Africa

- ❑ South Africa's trade balance with the rest of Africa is positive.
- ❑ Total exports to Africa decreased by R11 billion to reach R73 in Q1 of 2018 from R84 billion in Q4 of 2017. While imports increased from R27 billion in Q4 of 2017 to R31 billion in Q1 of 2018; and
- ❑ Decline in exports to Africa could be partly attributed to the outbreak of listeriosis which resulted in number of African countries imposing a ban on SA ready to eat meat.
- ❑ Regional integration has become more relevant in the face of unilateralism and threatening trade wars.
- ❑ As a result South Africa has acceded to the African Continental Free Trade Area agreement with the African Union.

SA trade with Africa from 2007 to 2017



Source: Data-Quantec; Graph-the dti

**KEY ACHIEVEMENTS: FIRST QUARTER 1
APRIL– 30 JUNE 2018**

INDUSTRIAL DEVELOPMENT

SG 1: Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation

Pharma and Medical Devices

- ❑ Implementation of medical device regulations with respect to specific products.
- ❑ Biovac, SA's vaccine manufacturer received their Good Manufacturing Practice (GMP) license from SAHPRA.



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SG 1: Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation

Industrial Participation

- ❑ As a result of the contracts with National Treasury on the RT57 (supply and delivery of motor vehicles) and Armscor project Biro, five (5) NIPP obligation agreements were negotiated and signed with Ford Motor Company (2), Volkswagen SA, Mercedes Benz SA and Damen Shipyards.

Primary Minerals Processing and Construction

- ❑ The Mining Charter 3 was gazetted by the DMR in June 2018. Comment by all stakeholders closed on the 15th of July 2018.
- ❑ LPG Industrialization Strategy has been shared with industry and implementation has commenced.

SG 1: Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation

Business Process Services and Electro-Technical

- ❑ Yekani Manufacturing unveiled its 28,000 m² facility, with an investment of R1 billion in East London Industrial Development Zone (IDZ) with an estimated 1,000 job opportunities. The company will be manufacturing a variety of electronic products, including education 2-in-1 tablets and laptops to consumer products, such as mobile handsets and laptops.

SG 1: Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation

Agro Processing and Resource Based Industries

- ❑ Thandi wines secured a one-year contract with a Chinese distributor to export their range of premium wines to China. This momentous contract was agreed upon on the margins of the 19th SIAL China International Trade Fair for Food that took place on the 16-18 May 2018, where twenty-three South African agro-processing companies were showcasing local products and services.
- ❑ During the Fire and Feast event, Sediba Beverages secured a contract to supply its Loud beverage to a leading retailer in Botswana.

SG 1: Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation

Metals Fabrication, Rail and Transport Equipment

- ❑ Competition Commission approved the acquisition of DCD Ringrollers by Naledi Inhlanganiso (one (1) of **the dti** supported Black Industrialist). The facility is currently being upgraded to produce among others forged railway wheels.
- ❑ Transmash Holding (TMH) – a Russian based OEM – acquired DCD rolling stock for R500m resulting in a major shareholding of 70% and 30% held by Mjisa Investment (an empowerment partner).
- ❑ An interdepartmental (DoE, DPE, **the dti**) Workshop on Electricity Pricing Framework made progress towards a special electricity pricing framework which was signed off by DoE and submitted to NERSA for implementation consideration.

SG 1: Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation

Incentives Administration

- ❑ In line with MoU signed with Smart Procurement, had engagements with a number of large businesses, which have shown interest in partnering with **the dti** for implementation of the Strategic Partnership Programme (SPP);
- ❑ An awareness campaign throughout the provinces has been on-going for the Agro-Processing Support Scheme (APSS), which has yielded positive results i.e. approval of some of the businesses we have engaged with;

TRADE, INVESTMENT & EXPORTS

SG 2: Build mutually beneficial regional & global relations to advance South Africa's trade, industrial policy & economic development objective

- ❑ SA signs the African Continental Free Trade Area (AfCFTA) following finalisation of negotiations and the launch of the AfCFTA through conclusion of the legal framework establishing the AfCFTA. As well as, finalisation and adoption of the Annexes by the African Union Ministers of Trade (AMOT) and thereafter by the African Union Ministers of Justice in early June 2018.
- ❑ SA position approved on the review of the 2002 Southern African Customs Union (SACU) Agreement.
- ❑ Protection of Investment Act was signed by the President.
- ❑ Parameters for the conclusion of the Southern African Customs Union- East African Community (SACU-EAC) tariff negotiations agreed upon.
- ❑ Phase down on the poultry safeguard adopted by SACU.

SG 2: Build mutually beneficial regional & global relations to advance South Africa's trade, industrial policy & economic development objective

- ❑ SA position developed for the African Growth and Opportunity Act (AGOA) Forum.
- ❑ Agreement reached with China to terminate the Bilateral Investment Treaty (BIT) and consider negotiating a new one on the basis of the Model BIT to be developed.
- ❑ Two (2) BRICS Contact Group on Economic Issues (CGETI) meetings successfully hosted providing a good basis for the adoption of clear outcomes for SA.
- ❑ Successful Mission to Qatar and Iran
- ❑ Engaged Iranians towards finding an amicable response to the US response to sanctions. A task team was appointed to manage this process.

SG 2: Build mutually beneficial regional & global relations to advance South Africa's trade, industrial policy & economic development objective

- ❑ Achieved investment pipeline of R27, 65 billion.
- ❑ Launched the InvestSA Gauteng One Stop Shop in April 2018.
- ❑ Participated in Commonwealth Summit from in April 2018.
- ❑ Presidential announcement of new investment target of R1,2 billion over the next five (5) years in April 2018.
- ❑ InvestSA and India Invest MoU signed in April 2018.

SG 2: Build mutually beneficial regional & global relations to advance South Africa's trade, industrial policy & economic development objective

- ❑ Completion of World Bank ISA Institutional assessment in May 2018.
- ❑ Participation in Japan – Africa Summit from 2-3 May 2018.
- ❑ Investment of R10 billion by Mercedes Benz for C-Class platform in East London.
- ❑ Investment announcement by Nissan of R1 billion for Navara platform
- ❑ Investment announcement of R13 billion from Vendata Resources for Zinc mines in Northern Cape.
- ❑ **the dti** visited India on Pharmaceuticals in June 2018.
- ❑ Launch of Mahindra CKD Plant at Dube Trade Port.

SEZ & ECONOMIC TRANSFORMATION

SG3: Facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth

- ❑ Developed regulations on the composition of Special Economic Zone (SEZ) entities and operators, enabling state owned entities to function as operators and entities.
- ❑ Atlantis SEZ designated and announced by Cabinet.
- ❑ Application for the proposed Nkomazi SEZ has been approved and published for public comments. Three Public consultations were held, with community, business and stakeholders.
- ❑ A successful investment road-show led by **the dti** was held in Shanghai China in partnership with Bank of China.

SG3: Facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth

- ❑ **the dti** facilitated and witnessed a signing of MoU between Musina-Makhado SEZ and 10 potential investors from China with a value of \$10 Billion.
- ❑ 50 officials from three spheres of government were trained in China on the planning, development and management of SEZs.
- ❑ The re-opening of the Broad- Based Black Economic empowerment (B-BBEE) Management Development Programme for SANAS Technical Signatories took place in June 2018.

SG3: Facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth

- ❑ The intention by the Minister of Trade and Industry to grant Small Enterprise Finance Agency a B-BBEE Facilitator Status in terms of paragraph 3.6 of the Amended Statement 100 of the Codes has been gazetted for 30 days public commentary period. The commentary period commenced in June 2018 to July 2018.
- ❑ Twelve applications have been received from Multinational companies applying for exemption from compliance with the requirement of the B-BBEE Ownership element and instead participate in the Equity Equivalent Investment Programme.

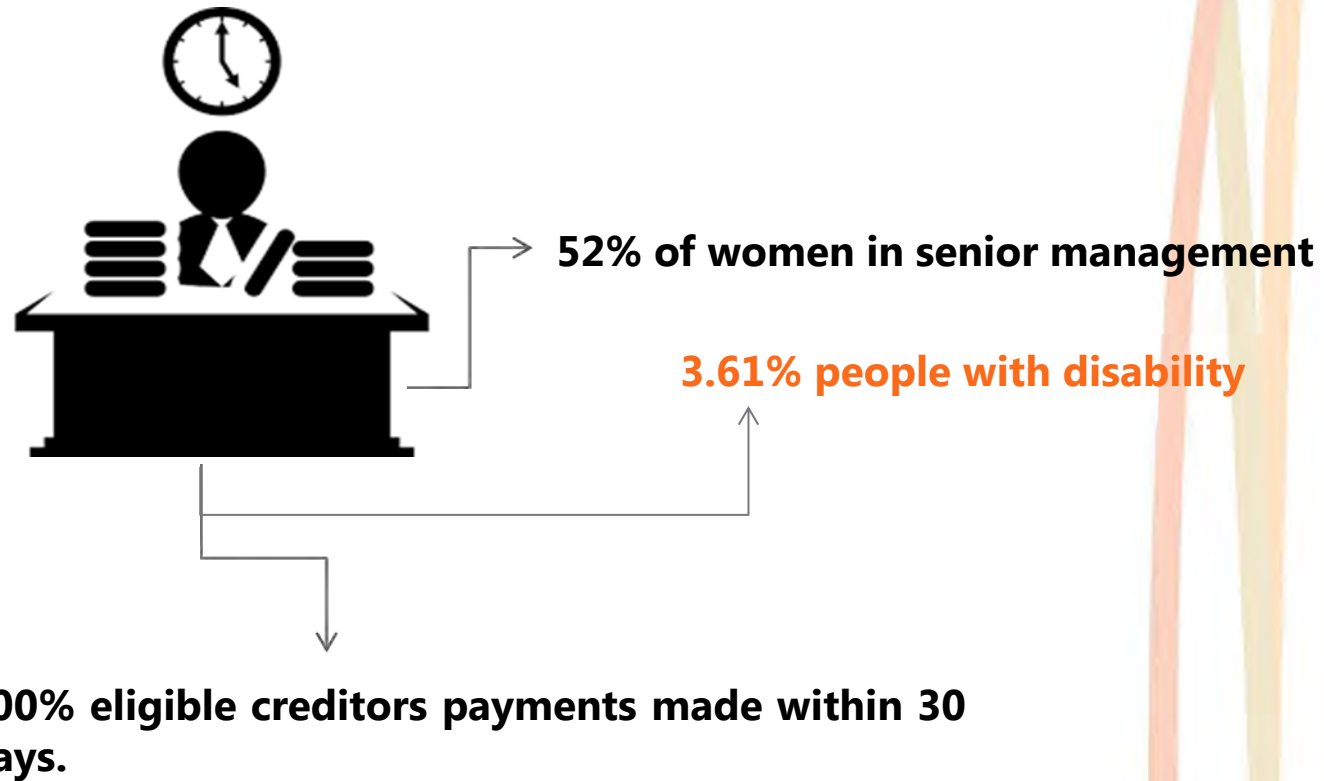
REGULATION

SG 4: Create a fair regulatory environment that enables investment, trade and enterprise development in an equitable and socially responsible manner

- ❑ Liquor abuse community awareness session was conducted in Mpumalanga(Moloto) on 16th June. 300 people targeted and attended the session.
- ❑ The National Liquor Authority (NLA) successfully launched the online Case Management System (Renewal Module) on 18 May 2018 that will ensure that registrants and consultants enhance their ability to make use of the system for liquor license applications and renewals.
- ❑ Three (3) training session on the online renewal conducted in GP (18), KZN (10) and EC (13). A total of 41 consultants and registrants attended the sessions.

ADMINISTRATION

SG 5: Promote a professional, ethical, dynamic and competitive and customer-focused working environment that ensures effective and efficient services delivery



FINANCIAL PERFORMANCE

FINANCIAL PERFORMANCE – 30 JUNE 2018

□ Total DTI

R9,4 billion allocated budget

R2,1 billion YTD budget

R1,7 billion or 81,4% YTD spent against the YTD budget

R395,7 million or 18,6% available budget

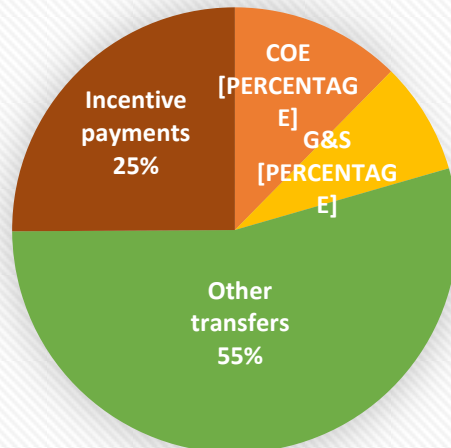
Distribution of the spending per economic classification



This includes amongst others, the Manufacturing Development Incentives, which contribute to the development of manufacturing industries and the Special Economic Zones investment incentives which attract investments to further the objectives of the Industrial Development Action Plan.



Distribution of spending per economic classification



■ Compensation of employees (COE) ■ Goods and services (G&S)
■ Other transfers ■ Incentive payments



Of the R1,7 billion spent by the department, transfers to incentives accounted for 25%, followed by other transfers at 55%. Compensation of employees as well as Goods and Services were at 12% and 8% respectively.

FINANCIAL PERFORMANCE CONT...

Table 1: Per programme

Programme	Original Budget 2018/19	Year-to-date (YTD)				Available budget	% budget available
		YTD Cash flow projections	YTD Expenditure	Variance (Budget less expenditure)	% variance		
	R'000	R'000	R'000	R'000	%	R'000	%
Administration	760 643	185 140	176 998	8 142	4,40%	583 645	76,73%
International Trade and Economic Development	124 936	24 100	22 953	1 147	4,76%	101 983	81,63%
Special Economic Zones and Economic Transformation	165 412	61 641	24 292	37 349	60,59%	141 120	85,31%
Industrial Development	1 622 568	585 307	640 572	(55 265)	(9,44%)	981 996	60,52%
Consumer and Corporate Regulation	314 588	155 495	154 690	805	0,52%	159 898	50,83%
Incentive Development Administration	6 009 016	859 562	470 366	389 196	45,28%	5 538 650	92,17%
Trade and Investment South Africa	411 602	239 423	227 228	12 195	5,09%	184 374	44,79%
Investment South Africa	53 846	13 669	11 535	2 134	15,61%	42 311	78,58%
Total	9 462 611	2 124 337	1 728 634	395 703	18,63%	7 733 977	81,73%

Table 2: Per economic classification

Economic classification	Original Budget 2018/1	Year-to-date (YTD)				Available budget	% budget available
		YTD Cash flow projections	YTD Expenditure	Variance (Budget less expenditure)	% variance		
	R'000	R'000	R'000	R'000	%	R'000	%
Compensation of employees	987 518	239 081	213 995	25 086	10,49%	773 523	78,33%
Goods and services	615 983	153 095	140 844	12 251	8,00%	475 139	77,14%
Transfer and subsidies, of which	7 829 388	1 732 161	1 373 696	358 465	20,69%	6 455 692	82,45%
Incentives	5 819 538	814 281	433 690	380 591	46,74%	5 385 848	92,55%
Other transfer payments	2 009 850	917 880	940 006	(22 126)	(2,41%)	1 069 844	53,23%
Payments for capital and financial assets	29 722	0	99	(99)	0,00%	29 623	99,67%
Total	9 462 611	2 124 337	1 728 634	395 703	18,63%	7 733 977	81,73%

Compensation of employees

- ❑ As at 30 June 2018, the department's expenditure on Compensation of Employees was R213.9 million or 89.5% of the YTD projections of R239.1 million. It is anticipated that spending and projections will break-even in the next quarter, as the annual cost of living adjustment is being implemented.

Goods and services

- ❑ As at 30 June 2018, expenditure on Goods and Services, compared to the YTD projections of R153 million was 92% or R140,8 million.
- ❑ A lag in the projections of 8% is mainly due to invoices for services rendered not yet received from the service providers.

Transfers and subsidies - Incentives

- ❑ In pursuit of the department's mandate to facilitate the transformation of the economy to promote industrial development, investment, competitiveness and employment creation - an amount of R433,6 million or 53,2% of the projected R814,3 million was disbursed to companies.

- ❑ The variance of 46,8% is mainly due to:
 - ❑ Incentive claims are payable once all performance criteria agreed at application stage are met and verified - this results in a disjuncture between projections and actual expenditure, which will be normalised as the year progresses;
 - ❑ Outstanding compliance documentation e.g BBBEE certificate, tax clearance certificate etc;

Transfers and subsidies – other transfers

- ❑ Included under other transfers are funds disbursed to public corporations, departmental agencies, non-profit organisations as well as foreign governments and international organisations. For the reporting period, an amount of R940 million or 102,4% against the YTD projections of R917,8 million was disbursed.

Payments for capital assets

- ❑ As at 30 June 2018, computer equipment ordered during the 2017/18 financial year was received and paid for in the 2018/19 financial year.

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Ke a leboha
Ke a leboga
Ngiyabonga
Ndiyabulela
Ngiyathokoza
Ngiyabonga
Inkomu
Ndi khou livhuha
Dankie
Thank you***