Report to Parliament

on the 12I Tax Allowance Incentive administered by the dti
01 April 2011 to 31 March 2015
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## LIST OF ACRONYMS

Below is an alphabetical list of acronyms of bodies and terms that appear in this document, unless individually noted elsewhere:

<table>
<thead>
<tr>
<th>ABBREVIATION/ ACRONYM</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>the dti</td>
<td>Department of Trade and Industry</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>DWP</td>
<td>Dissolving Wood Pulp</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GFCF</td>
<td>Gross Fixed Capital Formation</td>
</tr>
<tr>
<td>GOS</td>
<td>Gross Operating Surplus</td>
</tr>
<tr>
<td>IDZ</td>
<td>Industrial Development Zone</td>
</tr>
<tr>
<td>IPAP</td>
<td>Industrial Policy Action Plan</td>
</tr>
<tr>
<td>M&amp;V</td>
<td>Measurement and Verification</td>
</tr>
<tr>
<td>MVA</td>
<td>Manufacturing Value Added</td>
</tr>
<tr>
<td>MVP</td>
<td>Measurement and Verification Professional</td>
</tr>
<tr>
<td>NDP</td>
<td>National Development Plan</td>
</tr>
<tr>
<td>NGP</td>
<td>New Growth Path</td>
</tr>
<tr>
<td>OEM</td>
<td>Original Equipment Manufacturer</td>
</tr>
<tr>
<td>REIPPPP</td>
<td>Renewable Energy Independent Power Producers Procurement Programme</td>
</tr>
<tr>
<td>SANEDI</td>
<td>South African National Energy Development Institute</td>
</tr>
<tr>
<td>SARB</td>
<td>South African Reserve Bank</td>
</tr>
<tr>
<td>SEZ</td>
<td>Special Economic Zone</td>
</tr>
<tr>
<td>SIC</td>
<td>Standard Industrial Classification</td>
</tr>
<tr>
<td>TAI</td>
<td>Tax Allowance Incentive</td>
</tr>
<tr>
<td>VA</td>
<td>Value Added</td>
</tr>
<tr>
<td>VT</td>
<td>Visual Testing</td>
</tr>
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</table>
Manufacturing is a wealth creating sector in an economy. Even though the tertiary sector in most global economies is currently dominant as a percentage of the economy and employment creation, most of these economies were built from a strong manufacturing base.

The link between manufacturing and economic development has been investigated in relation to a range of developing countries, including South Africa. These studies found manufacturing to be the core driver and basis for economic growth, with sector growth generally showing a positive correlation with the growth of the economy. Other sectors, especially the services sector, are likely to grow on the basis of the growing demand derived from economic growth (initially resulting from manufacturing growth). The manufacturing sector in South Africa has clearly demonstrated itself in this role as economy ‘leader’, rather than ‘follower’; the highest rates of growth recorded for the South African economy corresponded with a period when growth in the manufacturing sector was 2.6% higher than the country’s GDP growth1 and employment in the sector rose 4.2% on an average annual basis.

At the same time, manufacturing is also typically the largest and most intensive user of energy in various forms. This is particularly true in the case of South Africa. Consequently, an indiscriminate pursuit of manufacturing growth would increase the burden on finite resources. On the contrary, growing manufacturing entrenched with the principles of resource efficiency, helps drive economic productivity, strengthens energy security, creates employment and delivers positive environmental outcomes, while also helping to cut costs for businesses and households.

There is growing recognition of the need to transition towards a global green economy; an economy that results in improved human wellbeing and social equity, while significantly reducing environmental risks and ecological scarcities.

The international energy data and analysis of the United States Energy Information Administration projects that the future of global energy use and carbon emissions depends almost entirely on the growing energy demand in the developing world. While acknowledging the historical obligations of industrialised countries, the pressing challenge of finite resources and excessive consumption is one that all major economies (including developing ones like South Africa) need to engage more vigorously and boldly at both the national and international level. After all, once the resources are depleted, the argument about who used them first won’t matter much.

This emphasises the onus on South Africa to make sound, sustainable development decisions that will lead to sustainable economic transformation. We need the shift towards a green economy to achieve sustainable growth that benefits South African citizens and, recognising our interrelatedness, also secures a future for citizens and economies, both regionally and globally.

Through the introduction of the Section 12I Tax Allowance Incentive (TAI) aimed at stimulating manufacturing, the dti is combining regulatory and market instruments; that is, by offering a green tax allowance and mobilising private financial resources to invest in energy-efficient industrial development, skills and green jobs. This assistance to the manufacturing sector to enhance energy efficiency and skills is offered amid rising electricity prices, global pressure for cleaner production and threats of trade restrictions on high carbon footprint manufacturing practices and products.

We are excited about the response to the tax allowance – it has been very positive and improving, and our hope is that more South African manufacturers will take it up. The information collected demonstrates that this programme has had a positive influence on the manufacturing sector and, by extrapolation, will continue to do so. It would seem that, due to the programme, fixed investment and its related economic spin-offs have at least contributed to minimising or slowing down the negative trends observed in the productive capital formation in the manufacturing sector, which in turn will yield positive outcomes for economic production in the future.

Ultimately, the tax allowance is being offered in order to facilitate transformation of the economy and promote responsible investment, competitiveness, employment creation and skills development. We encourage the South African manufacturing sector to continue to make use of this opportunity to be part of the new industrial revolution towards a global, green economy.

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1. As recorded in the 1960s, 60s and 70s; Source: Zalk, N. 2014. What is the role of manufacturing in boosting economic growth and employment in South Africa? ECON3x3 Working Paper
FOREWORD BY THE DIRECTOR-GENERAL (the dti)

the dti is working towards the vision of a dynamic, globally competitive South African economy, characterized by inclusive growth and development, built on the full potential of all citizens. Our mandate is to stimulate and facilitate sustainable and competitive enterprises through, among others, providing effective and accessible incentives that support national priorities.

The 12I Tax Allowance Incentive (TAI) is instrumental in this regard. It is a major part of South Africa’s industrial financing mix to support investment in manufacturing. This incentive is designed to support substantively new production activities or production methods. The financing is conditional on achievement of measurable benchmarks by the recipient firm.

The process of accessing the support is transparent with no uncertainty for the applicants.

This sector remains important for the economy. It is an engine for growth and an important source of revenue. For this reason globally, we find that manufacturing continues to matter a great deal to both developing and advanced economies. Similarly, in South Africa the manufacturing sector continues to play an important role in the economy and is consuming a significant share of the available resources, including energy.

We also note that the manufacturing sector is diverse; i.e. not subject to simplistic, one-size-fits-all approaches. And that it’s evolving to include more service activities and to use more...
service inputs. Simultaneously, we recognize that the role of manufacturing in job creation changes as economies mature.

In this context, the National Development Plan (NDP) and the revised Industrial Policy Action Plan (IPAP), as set out by the dti, build on the successes of past industrial policy interventions and provide clear direction for sustainable, long-term industrialization and industrial diversification. Objectives captured in IPAP and the NDP include the promotion of employment, reduction of poverty, building of infrastructure and expansion of the economy.

The tax incentives for qualifying 12I tax allowance projects support investment in manufacturing capacity that offer employment opportunities, skills development and improved productivity (production, labour and energy productivity). Energy productivity — that is, greater economic output per unit of energy input — is a key consideration in overall productivity and economic development, and is therefore incorporated as a prerequisite for qualification. This tax incentive is thus considered to be a key contributor towards the NDP.

It has often been questioned to what extent tax incentives yield net benefits to society. South Africa's Davis Tax Committee3 (DTC) has recommended that tax incentives should be employed selectively, only after a thorough analysis of objectives and after alternatives have been explored. It furthermore recommends a thorough system for monitoring and evaluation to be designed and implemented. These principles have been central to this specific incentive programme and, with the findings of this report, we can demonstrate the benefits that have accrued, and continue to accrue, to our economy.

When comparing the overall investment already realized (in production) and planned (approved) under the Section 12I Tax Allowance Incentive (TAI) programme, relative to the investment in equipment and buildings (gross fixed capital formation) in the manufacturing industry, it is evident that on a national scale this programme is already contributing to creating additional productive capacity (gross fixed capital formation) in the sector. Investments already in production contributed 1.7%, 2.1% and 3.7% of the national manufacturing equipment and infrastructure during the last three years, respectively. Looking forward, if the same investment levels as in 2014 are achieved between 2015 and 2018 on a national level, the projected approved contribution to investment (additional) associated with the 12I TAI programme is projected to increase to approximately 5%, with a peak in 2016 of potentially up to 18% of national manufacturing investment in plant equipment and buildings.

These investments demonstrably contribute to improved economic production capacity, energy productivity and cost savings, in so doing contributing to overall policy objectives. the dti is looking forward to seeing further uptake of this programme and more facilities actively participating in the development of efficient manufacturing capacity in South Africa.

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MESSAGE FROM THE SANEDI CEO

This year saw electricity supply constraints in South Africa escalate to the point where scheduled ‘load shedding’ had to be reintroduced. These power shortages have severely constrained economic activity, for both big industry and small businesses, and is estimated to have cost the South African economy approximately R60 billion between April 2014 and March 2015 alone. How South Africans use our available energy resources has never been more relevant and is becoming a critical consideration for sustained economic and socio-economic development in our country.

The dti’s 12I Tax Allowance Incentive (TAI) was introduced in support of national economic development priorities with the particular focus on; (i) stimulating investment, growth and employment and; (ii) supporting enterprise, industrial development and export promotion in the manufacturing sector. In addition to encouraging the development of major manufacturing projects in the country, the 12I TAI aims to encourage greater energy productivity and therefore cost competitiveness within the sector. While not exclusively focused on incentivising energy efficiency, improved energy performance is incorporated as one of the key criteria on which projects are assessed. This focus on energy efficiency is of particular significance for three reasons:

- **Energy wastage and security of supply.** South African industries have a history of wasting huge amounts of energy, being among the most energy intensive in the world. Within this lies potential for energy efficiency improvements. In the context of power shortages, reducing energy wastage in major economic sectors can markedly contribute to greater security of supply.

- **Reduced operating costs.** Energy is a key input cost for most manufacturing operations. As the cost of energy, and electricity in particular, continues to rise, energy-intensive manufacturing operations will increasingly struggle to be cost competitive in the global market. Investments in cost effective energy efficiency improvements present opportunities for reduced energy costs, enhanced energy productivity, improved cost competitiveness and increased profitability. Operational costs will be further increased by the impending carbon tax that will penalise energy-inefficient operations; creating an even stronger economic motive and incentive to reduce energy use.

- **Sustainability.** As recognition regarding the importance of sustainability grows within the business community, energy efficiency and reducing energy use are no longer key priorities with respect to cost savings only, but also from an environmental and business sustainability perspective. Energy efficiency offers a strategic option for reducing emissions intensity without compromising on business objectives – enabling a more sustainable and profitable operation.

Improved energy performance uniquely offers a solution for the effective and efficient utilisation of our available power supply and the reduced energy and carbon intensity of the manufacturing sector. SANEDI is proud to have been part of an incentive programme that has effectively empowered manufacturing businesses to make energy-conscious investments. At the end of four years, 14 participating projects have successfully been implemented and have started operations at various facilities around the country. We are therefore expecting to start seeing real and measurable benefits of their efficiency gains in the next year. But already, and based on those applications assessed by SANEDI, indications are that this sector will realise a much-needed annual energy saving of approximately 1,5 TWh. This is adequate power to supply the City of Johannesburg, South Africa’s largest city, for a full month.

On seeing the benefits accruing to participating businesses, we are reminded of the vital importance of improved energy productivity for the entire business sector. For this reason, we will be putting greater emphasis in the coming years on making the benefits of energy efficiency more readily accessible, extending the reach to the small business sector, growing measurement and verification (M&V) capacity in the country and developing more streamlined M&V solutions. We are already making great strides in supporting the 12I TAI process as well as the more recent 12L TAI. Even so, we recognise the urgent need for strengthened institutional capacity to effectively facilitate energy efficiency that can bring carbon and energy levels to be consistent with South Africa’s climate change response strategy and commitments. These are ambitious, though essential goals for a sustainable future for South Africa, the region and indeed our planet.

We also take this opportunity to congratulate all participating companies in the 12I TAI process on their tremendous commitment to saving energy and for their continued confidence in growing the South African manufacturing sector. We encourage them to continue their journey towards making South Africa a model country, when it comes to sustainable manufacturing! This we believe, will put South Africa at the forefront of the ‘4th Industrial Revolution’, with a comprehensive and globally shared view of how energy efficient, modern technology is affecting our lives and reshaping our economic, social, cultural, and human environments.

**MR. KADRI NASSIEP**

**CEO, SANEDI**

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4. Colloquial terminology used for scheduled, rolling blackouts
5. Estimation for the 37 loadshedding events between April 2014 and March 2015 at a Cost of Unserved Energy (COUE) of R90/kwh (Source: IRP 2010 COUE of R70/kWh adjusted to 2015 Rand terms)
HIGHLIGHTS OF THE 12I TAX ALLOWANCE INCENTIVE (TAI)

**ATTRACTION**

R48 BILLION

TOTAL INVESTMENT IN THE MANUFACTURING SECTOR

R8.6 BILLION

FOREIGN INVESTMENT IN THE MANUFACTURING SECTOR

**APPROVAL**

52 PROJECTS

AS AT 31 MARCH 2015

R3.31

PRIVATE SECTOR INVESTMENT LEVERAGED FOR EVERY R1.00 TAX ALLOWANCE

5.5 TWh

PER ANNUM ENERGY SAVINGS TO BE REALISED BY APPROVED PROJECTS

**REALLOCATION**

R14.7 BILLION

R14.5 BILLION INVESTMENT ALLOWANCE AND R216 MILLION ADDITIONAL TRAINING ALLOWANCE

**COMPLETION**

14 PROJECTS

SUCCESSFULLY COMPLETED WITH THE ASSETS BEING UTILISED

5,130

NEW DIRECT (211) AND INDIRECT (4,919) EMPLOYMENT OPPORTUNITIES ASSOCIATED WITH 14 COMPLETED PROJECTS

SUCCESSFULLY COMPLETED WITH THE ASSETS BEING UTILISED

CURRENT PORTFOLIO OF APPROVED PROJECTS IS PROJECTED TO CONTRIBUTE 18.6% IN TERMS OF FIXED INVESTMENT IN THE MANUFACTURING SECTOR IN 2016 (AND 5.5% IN 2015, 5.4% IN 2017 AND 2.3% IN 2018)

1.5 TWh

PER ANNUM ENERGY SAVINGS TO BE REALISED BY APPROVED PROJECTS

14 COMPLETED PROJECTS

NEW DIRECT (211) AND INDIRECT (4,919) EMPLOYMENT OPPORTUNITIES ASSOCIATED WITH 14 COMPLETED PROJECTS

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OVERVIEW OF 12I TAX ALLOWANCE INCENTIVE (TAI)

LEGISLATIVE MANDATE

The 12I TAI was approved by Cabinet on 8 January 2009. It is governed by Article 12I of the Income Tax Act (Act No. 58 of 1962), supported by the regulations published in Government Gazette 33385 of 23 July 2010 and the relevant amendments to the Act, effective from January 2012 and January 2015. Amended regulations were published on 20 August 2012 in Government Gazette 35611.

The 12I TAI was promulgated under the 2008 Revenue Laws Amendment Act (No. 60 of 2008) as Section 12I of the Income Tax Act to support the expansion of energy-efficient manufacturing capabilities in South Africa.

BACKGROUND AND HISTORY TO THE TAX ALLOWANCE

South Africa has crafted a comprehensive framework of Government grant benefits, investment incentives and industrial financing mechanisms that are aimed at encouraging economic activity in the country and facilitating the delivery of national priorities as defined in the National Development Plan (NDP), New Growth Path (NGP) and Industrial Policy Action Plan (IPAP).

The dti contributes to national development objectives by stimulating investment, growth and employment; supporting enterprise and industrial development; and promoting exports. With the understanding that effective and accessible incentives can be an effective mechanism to encourage the development of competitive enterprises, the dti has structured incentive programmes for various sectors. Incentive programmes have been based on the principles of broadening participation, competitiveness, services, manufacturing and infrastructure.

The 12I TAI is offered within this context, with the aim to promote investment in manufacturing assets and to improve the productivity of the South African manufacturing sector. It is structured as a once-off allowance for capital investment in manufacturing buildings, plants or machinery and offers an additional allowance for skills development and training. This allowance provides for both greenfield (new) and brownfield (existing) projects and requires a minimum spend of R50 million for greenfields and an additional spend of R30 million for brownfields.

Informed by global experience and demonstrated linkages between energy efficiency and profitability, the dti had identified tax allowances as an effective mechanism to encourage energy-efficient, sustainable development and investment decisions. When it was introduced in 2009, it was the first income tax allowance incorporating an energy efficiency component under the Income Tax Act (Act 58 of 1962).

The 12I TAI was designed specifically to support investment in the manufacturing sectors that had been identified as having the most potential to grow rapidly and thus worthy of support.
<table>
<thead>
<tr>
<th>Description</th>
<th>R20 billion allocated in the form of a tax allowance, to stimulate the development of energy-efficient manufacturing capabilities in South Africa.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lead authority</td>
<td>The Department of Trade and Industry (the dti) with specific support relating to energy efficiency to be provided by SANEDI.</td>
</tr>
<tr>
<td>Status</td>
<td>As at July 2010: The allowance came into effect, intended to be available until 31 December 2015 or prior to this date if the available R20 billion had been fully utilised.</td>
</tr>
<tr>
<td>Energy efficiency</td>
<td>In terms of energy efficiency, the regulation sets a minimum efficiency improvement requirement of 10% relative to similar local or international benchmark applications.</td>
</tr>
<tr>
<td>Skills development</td>
<td>Investment in the training of employees is a mandatory requirement under the regulation, with a minimum of 2% of the annual wage bill to be committed to training and skills development.</td>
</tr>
<tr>
<td>Improved investment allowance percentage allocation for new projects to be established in SEZ’s</td>
<td>As at July 2010. Projects with qualifying status: 35% and projects with preferred status: 55% of qualifying manufacturing assets.</td>
</tr>
<tr>
<td>Job creation</td>
<td>As at July 2010. The creation of direct employment is one of the qualifying conditions, requiring at least one full time position to be created for every R1 million invested in qualifying manufacturing assets.</td>
</tr>
</tbody>
</table>

**OBJECTIVES**

The purpose of the 12I TAI programme is twofold:

- To support investment in manufacturing assets, with a view to improving the productivity (including energy productivity) of South Africa’s manufacturing sector; and
- To support personnel training, with a view to improving labour productivity and the skills profile of South Africa’s labour force.

**REGULATORY SCOPE OF THE INVESTMENT ALLOWANCE**

The Section 12I TAI provides for a once-off additional investment allowance and a further training allowance for approved 12I tax allowance projects. The allowance is available to greenfield (new 12I tax allowance projects that apply only to new and previously unused manufacturing assets) and brownfield projects (projects that expand or upgrade existing industrial projects) in the manufacturing sector falling under the standard industrial classification (SIC), Section C8 (excluding tobacco, alcohol, arms and ammunition as well as manufacturers of biofuels which negatively impact on food security). In addition to the stated sector and specific exclusions, a minimum project spend is stipulated for qualification with R50 million to be incurred on manufacturing assets for new (greenfield) projects, while upgrade or expansion (brownfield) projects have a minimum investment requirement of R30 million. These minimum investment thresholds were reduced with effect from 1 January 2015, thereby increasing the investment range that can be influenced by the TAI.

**REVISED MINIMUM QUALIFYING INVESTMENT THRESHOLDS:**

<table>
<thead>
<tr>
<th>INVESTMENT THRESHOLDS</th>
<th>PREVIOUS MINIMUM PROJECT INVESTMENT, JULY 2010 – DEC 2014</th>
<th>REVISED MINIMUM PROJECT INVESTMENT, JAN 2015 – CURRENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greenfields</td>
<td>R200 million</td>
<td>R50 million</td>
</tr>
<tr>
<td>Brownfields</td>
<td>R30 million; or the lesser of R200 million or 25% of expenditure on existing assets</td>
<td>R30 million; or the lesser of R50 million or 25% of expenditure on existing assets</td>
</tr>
</tbody>
</table>

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7. Over and above allowances available under Sections 12C and 13 of the Income Tax Act
8. Previously major division 3 (SIC 3): Manufacturing
9. Definitions under Section 12I (1)
Two prerequisites for qualification are incorporated under the regulations, namely that the project provides skills development and utilises new technology resulting in improved energy efficiency.

If a project meets the qualifying criteria, the evaluation is structured in terms of Government’s 12I tax allowance point system as defined in Section 12I of the Act. The scorecard covers the following: innovative manufacturing processes; improved energy efficiency; general business linkages; SMME utilisation; and skills development. At least four out of eight points in terms of these criteria are required for a project to ‘qualify’ for an additional investment allowance of 35% of the cost of the manufacturing assets, up to a maximum of R550m for a greenfield project or R350m for a brownfield project. Achieving a score of seven out of the possible eight, or better, qualifies a project as ‘preferred’, increasing the allowance to 55% and the maximum amounts claimable capped at R900 million for a greenfield project or R550m for a brownfield project. Projects located in an industrial development zone (IDZ) qualify for a further allowance of up to 100% (Table below).

<table>
<thead>
<tr>
<th></th>
<th>Projects outside an IDZ</th>
<th>Projects located in an IDZ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualifying status</td>
<td>35%</td>
<td>75%</td>
</tr>
<tr>
<td>Preferred status</td>
<td>55%</td>
<td>100%</td>
</tr>
</tbody>
</table>

12I also provides for an additional training allowance of R36,000 over a period of six years per employee, which may be deducted from taxable income, and a maximum total additional training allowance per project amounting to R20 million in the case of a qualifying project and R30 million in the case of a preferred project.

The Act does impose limits on other, concurrent benefits that companies may obtain, and a tax clearance certificate is required. Applications for this allowance are project specific and need to be submitted before manufacturing assets are contracted and acquired.

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10. Detailed in Sections 4, 5 and 6 of Regulation 639, 23 July 2010
11. Paragraphs 2 and 3 of Section 12I
12. Paragraph 4 of Section 12I
13. Paragraph 6 of Section 12I and Paragraph 3 of Regulation 639, 23 July 2010
SKILLS DEVELOPMENT FOCUS

Most analyses of economic growth highlight the importance of investing in human capital – through, among others, education and technical training – to augment labour productivity. Investment in skills development is also widely recognised as one of the key engines for economic growth in the country. The TAI provides a mechanism that supports the department’s efforts to build the productive sectors of the South African economy and to place the economy on a new, labour absorbing growth path. In support of the objectives of IPAP and the NGP, it specifically aims to accelerate job creation and to contribute towards ensuring that skills are upgraded in the workplace. Skills development is therefore a prerequisite for qualification for the allowance.

An enterprise or project can only benefit from the tax allowance if it can demonstrate its contribution to upgrade an industry by providing skills development. In terms of the 12I regulations a qualifying project therefore requires a financial commitment, equal to at least 2% of the project-related wage bill, towards training that will specifically enhance industrial skills relating to the project.

ENERGY EFFICIENCY SCOPE AND SANEDI’S ROLE

Reducing energy consumption is the most immediate and cost effective way to reduce greenhouse gas emissions and contribute to security of energy supply. Encouraging industry and consumers to use energy more efficiently can also protect businesses and consumers against rising energy costs, enhance industrial competitiveness, support sustainable economic growth and create employment.

South Africa has made energy savings a key criterion under its Section 12I TAI for major manufacturing projects, underlining the significance of energy efficiency in the national policy context. Although the tax allowance available under Section 12I has a broader industry development - and, more specifically, a manufacturing - focus, energy efficiency is pertinently included in the regulation as one of the prerequisites for qualification. Section 2.2 of the regulation stipulates the requirement for “utilising new technology that results in improved energy efficiency”.

To qualify under this criterion, projects must demonstrate a minimum of 10% energy savings sustained for a minimum of four years, as follows:

- For a brownfield project: At least 10% against a baseline determined for the 12 month period prior to the application, as certified by SANEDI;
- For a greenfield project: The project has to demonstrate that it will utilise modern, viable energy efficient equipment and processes, as compared to the industry sector relative to that industrial project, as verified by SANEDI.

The regulation establishes SANEDI’s dual role as:

- Confirming and verifying the technical evaluations and reports from Measurement and Verification Professionals (MVPs), as submitted by the respective claimants; and
- Tracking and reporting on the aggregated impact associated with the tax allowance in terms of energy efficiency.

Verification of energy efficiency is done in accordance with the national standard for Measurement and Verification in SANS 50010.

The regulation qualifies energy efficiency improvement as the ‘reported savings’, as contemplated in the South African National Standard 50010 for the Measurement and Verification of Energy Efficiency Savings. This standard is set down by the South African Bureau of Standards in terms of the Standards Act, 2008 (Act No. 8 of 2008).
THE 12I APPLICATION PROCESS

1. **Company decides to invest, expand or upgrade and access the TAI.**

2. **Confirm feasibility and high-level compliance with qualifying criteria.**

3. **When investigating an investment, upgrade or expansion of its facilities, a manufacturing company’s decision-making process should consider the 12I TAI.**

4. **Once the decision has been made to take advantage of this tax allowance, a preliminary analysis should be conducted to ensure that the proposed project complies with all the qualifying criteria. This analysis should also demonstrate that the savings impact of the intervention can be measured and verified technically and feasibly to demonstrate the required minimum 10% energy savings sustained for four years.**

5. **Applicants are required to compile the full application with all supporting documentation as prescribed by the Act and regulations.**

6. **the dti recommends meeting with applicants upon receiving project applications for a joint review of the submission. During this initial meeting it is possible to ensure all relevant documentation for the processing of the application is available. This facilitates the process, enabling a six-week turnaround time for processing of applications. Evaluation of the application entails a comprehensive review of the submitted documentation combined with a visit to the proposed project site to confirm the submission details.**

7. **Submit application and all supporting documentation for evaluation to the dti.**

8. **Accept and review application, conduct site visit and compile evaluation report.**
ENERGY EFFICIENCY SUB-PROCESS

The process of evaluation, adjudication and monitoring for the tax allowance is supported by a technical evaluation process to ensure mandatory energy savings are achieved and sustained for the duration of the allowance benefit period or when the programme objectives have been achieved. The technical evaluation and monitoring process provides critical input to the overall tax allowance process.

(1EE) A Measurement and Verification Professional (MVP) must be appointed to develop a baseline measurement and verification (M&V) report.

(2EE) This report must be submitted to SANEDI directly and to the dti for evaluation, along with the completed application form.

(3EE) The energy efficiency component of the application will be evaluated by SANEDI in consultation with a technical review committee, which comprises relevant technical experts. During the review process, the technical review committee may request further supporting information until it is satisfied that the information provided is adequate to support the assessment.

(4EE) Technical approval for the tax allowance will be given if a 10% reduction in energy use, relative to an accepted baseline, can be demonstrated. This baseline is determined by the MVP as part of the initial M&V report.

If an application is approved, the savings will be certified and a provisional two-point allocation (in terms of Government’s industrial policy project point system, as defined in section 121 of the Act) will be communicated to the dti.

SANEDI will in turn issue a certificate that the applicant must submit with his/her annual tax return. The two points provided by this certification are a prerequisite for qualification for the tax allowance.
An evaluation report, containing the evaluation findings, is submitted to an independent Adjudication Committee for review. The committee consists of representatives from the dti and National Treasury as appointed by the respective Ministers.

On review of the evaluation reports, the Adjudication Committee will submit their findings and recommendations to the Minister of Trade and Industry. The Minister, after taking into account the recommendations of the Adjudication Committee, approves or declines the application.

By law, all adjudication results must be published in the Government Gazette and approvals must be communicated to the South African Revenue Services (SARS).

Project implementation may proceed, contracts placed and assets acquired after formal approval is received. A close out report is compiled on commissioning.

Communicate adjudication result (inform client, provide SARS with list of approved allowances and publish list of adjudicated projects in Government Gazette).

Implement approved projects and produce close out report.
9. Conduct annual monitoring of project and client for the duration of the benefit period.

9. The dti is responsible for ongoing monitoring of and reporting on the project performance for the duration of the four-year benefit period or until programme objectives have been achieved.

10. In addition to project specific information required in terms of the Act, annual reports to Parliament and the Auditor-General should provide feedback on the total tax foregone and economic growth impact.

5. MVP completes and submits M&V report to SANEDI. SANEDI issues a certificate on approval.

6. Company submits certificate with their annual progress report to the dti.

7. Sustain savings, demonstrated with annual M&V reports.

8. the dti submits annual report to Parliament and Auditor General.

9. The projected energy savings must be confirmed on commissioning by a MVP and thereafter annually for a period of four successive years. These reports will be submitted to SANEDI for evaluation and certification of the savings claim.

On confirmation of the savings reports, SANEDI will issue a certificate to the claimant that should be submitted to the dti with the annual progress report (as required by Section 12I (11)).

(7EE) Energy savings should be sustained over the four-year benefit period or until the programme objectives have been achieved. A penalty will be payable in terms of the tax allowances received if the minimum energy savings are not delivered or not sustained.

** Failure to deliver the 10% saving will result in penalties

** In terms of Section 12I (19)(e)
PERFORMANCE OF THE 12I TAX ALLOWANCE

This performance review considers the complete portfolio of projects since inception of the 12I TAI, until the end of the 2015 financial year (31 March 2015).

PROJECT STATUS

By March 2015 a total of 59 applications for the 12I TAI had been received by the dti. All 59 submissions were evaluated (Figure 2) and only three applications were declined (5% of the total). All of the unsuccessful applications were rejected on the basis of non-compliance with the requirements of the Act.

STATUS OF 12I TAI APPLICATIONS

In total, 52 projects received approval and proceeded to implementation. Of these, 14 projects have been successfully completed and have claimed the qualifying tax allowance.

APPROVED PROJECT SUBMISSIONS PER YEAR

<table>
<thead>
<tr>
<th>Year</th>
<th>Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>6</td>
</tr>
<tr>
<td>2011</td>
<td>6</td>
</tr>
<tr>
<td>2012</td>
<td>12</td>
</tr>
<tr>
<td>2013</td>
<td>8</td>
</tr>
<tr>
<td>2014</td>
<td>15</td>
</tr>
<tr>
<td>2015</td>
<td>5</td>
</tr>
</tbody>
</table>

Figure 3: Project submissions per year

Four projects were cancelled after obtaining approval under the 12I TAI. The reasons for cancellation included:

- Project viability impacted by unfavourable market conditions.
- Material change to the manufactured product, causing a delay. For this specific project the scope and timing is under review.
- Lack of funding.
- Failure to obtain off-take agreement for additional production.

Growing market confidence is partly ascribed to the very efficient 12I TAI process. In the initial year the turn-around time for processing of applications averaged around 140 days, but it has improved significantly over time. Of the 52 projects that received approval, it took an average of two months for the adjudication process from submission. More impressively, for half of these projects (26 projects) the average time from submission to approval was only 28 days (less than one month).

A number of companies have accessed the 12I TAI more than once for different projects. Multiple submissions from companies suggest that the inevitable ‘hassle factor’ of the due application process is not a barrier for participation in the 12I TAI.
PROJECT QUALIFICATION

Each project submitted is evaluated against the predetermined qualifying criteria as set out in the terms of the 12I TAI (refer page 11). The quantum of the qualifying tax allowance depends on the differentiated allowance structure associated with the type of project undertaken (i.e. greenfields or brownfields) and the project qualifying status achieved (i.e. preferred or qualifying).

A total of 36 (Figure 4), more than two thirds of the approved projects, obtained a ‘qualifying’ status allowing them to claim 35% of the cost of manufacturing assets, up to a maximum of R550 million for a greenfield project or R350 million for a brownfield project. Only 16 projects accumulated sufficient points to achieve ‘preferred’ status.

SHARE OF PROJECTS ACHIEVING ‘PREFERRED’ STATUS

Projects with ‘preferred’ status can claim an increased allowance of 55% and the maximum amounts claimable of R900 million for a greenfields project or R550 million for a brownfield.

The majority of projects have been implemented in existing manufacturing facilities either as upgrades or expansions (Figure 5). Approximately 40% of the initiatives were for brand new manufacturing facilities or greenfields projects.

22
New Greenfields

6
Brownfields Upgrade

24
Brownfields Expansion

Interestingly, only 23% of new (greenfields) projects achieved preferred status compared to 38% of brownfields expansion and 33% for brownfields upgrades (Figure 6), suggesting that it may be more difficult for a new project to achieve preferred status than it is for a brownfields project.

NUMBER OF PROJECTS BY INTERVENTION TYPE AND POINTS STATUS

![Preferred](blue) | [Qualifying](yellow)
---|---
**New Greenfield**
23% (5 projects) | 77% (17 projects)
**Expansion Brownfield**
38% (9 projects) | 62% (15 projects)
**Upgrade Brownfield**
33% (2 projects) | 67% (4 projects)
Regional diversification of manufacturing industries from traditional industrial hubs to new economic regions is a recognised priority of the IPAP and the NGP. For this reason, the incentive structure has offered additional benefits for greenfields facilities located in an Industrial Development Zone (IDZ). Surprisingly, only one of the 52 approved projects accessed the 100% tax allowance available to greenfields projects by developing their facility within an IDZ. This project is located in the Dube Trade Port in KwaZulu-Natal.

Figure 7: Provincial distribution of projects (number and percentage of project submissions per province)
Considering the geographic distribution of participating projects (Figure 7), it is pleasing to see that applications have originated from eight of the nine provinces and that there are active projects (approved and in implementation or already completed and in production) in each of these provinces (Figure 8).

Most of the projects (17 – 29% of the total) are located in Gauteng, corresponding with the high economic density of the province. These, together with the Eastern Cape (10 projects) and KwaZulu-Natal (10 projects) make up 63% of all the project submissions received (59 submissions).

The distribution of active projects, both those in implementation and those that have already started production, across the respective provinces is shown below (Figure 8). In line with the number of submissions, Gauteng, KZN and the Eastern Cape also host the most active projects, with all project submissions approved and only one project in the Eastern Cape cancelled.

**North West**
- 1 declined
- 1 approved
- 2 in production
- **TOTAL 4**

**Gauteng**
- 13 approved
- 4 in production
- **TOTAL 17**

**Kwazulu-Natal**
- 6 approved
- 4 in production
- **TOTAL 10**

**Free State**
- 1 declined
- 2 approved
- 1 in production
- **TOTAL 4**

**Limpopo**
- 2 approved
- **TOTAL 2**

**Western Cape**
- 1 declined
- 1 cancelled
- 4 approved
- 2 in production
- **TOTAL 8**

**Eastern Cape**
- 1 cancelled
- 9 approved
- **TOTAL 10**

**Mpumalanga**
- 2 cancelled
- 1 approved
- 1 in production
- **TOTAL 4**
INVESTMENTS ATTRACTED

The 12I TAI is designed to encourage capital investment in the development of major manufacturing projects. The NDP Outcome 11, sets a target of a R230 billion increase in Foreign Direct Investment (FDI; facilitated by the dti) by 2019 in the medium-term strategic framework (MTSF).

A significant measure of success is therefore the extent to which investment had been leveraged by the tax allowance. To date, the programme has facilitated a commitment of R8.6 billion FDI in the manufacturing sector, contributing 4.2% towards the MTSF target for 2019.

Foreign investments originate from a variety of countries across the globe, with Nigeria and France representing the largest sources of investment finance.

<table>
<thead>
<tr>
<th>Country</th>
<th>Investment (billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigeria</td>
<td>2.70</td>
</tr>
<tr>
<td>France</td>
<td>2.38</td>
</tr>
<tr>
<td>Mauritius</td>
<td>1.25</td>
</tr>
<tr>
<td>Germany</td>
<td>0.67</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1.01</td>
</tr>
<tr>
<td>South Korea</td>
<td>0.23</td>
</tr>
<tr>
<td>Spain</td>
<td>0.24</td>
</tr>
<tr>
<td>UK</td>
<td>0.67</td>
</tr>
<tr>
<td>Denmark</td>
<td>0.03</td>
</tr>
<tr>
<td>Argentina</td>
<td>0.10</td>
</tr>
</tbody>
</table>

Total R8.61 billion

Figure 9: Sources of foreign investment (projected investment for approved projects at 31 March 2015)

The 59 project submissions represented a total planned investment of R54 billion. However, after excluding cancelled and declined projects, the remaining 52 projects has a projected investment value of R48 billion. This sizable investment in the South African manufacturing sector was leveraged with a total projected investment allowance of R14.5 billion. Considered from this perspective, it effectively translates to R3.31 invested for every R1.00 contributed from the tax allowance.

The committed R14.5 billion investment allowance represents 73% of the total earmarked allowance of R20 billion available until 2017 (Figure 10).
An analysis of the investments and tax allowance utilisation across provinces highlight a number of interesting insights.

The Eastern Cape, Free State and Gauteng provinces have attracted the largest share of the total investment.

<table>
<thead>
<tr>
<th>Province</th>
<th>Value of Investments (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Cape</td>
<td>9,822,200,215</td>
</tr>
<tr>
<td>Free State</td>
<td>10,700,211,745</td>
</tr>
<tr>
<td>Gauteng</td>
<td>10,564,120,506</td>
</tr>
<tr>
<td>KwaZulu-Natal</td>
<td>3,604,549,020</td>
</tr>
<tr>
<td>Limpopo</td>
<td>2,060,288,701</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>4,708,000,000</td>
</tr>
<tr>
<td>North West</td>
<td>4,261,135,332</td>
</tr>
<tr>
<td>Western Cape</td>
<td>2,295,045,368</td>
</tr>
</tbody>
</table>

Figure 11: Value of investments attracted per province

Despite the Free State’s significant share of the total investment, the province has captured only a small share of the investment allowance (Figure 12).

<table>
<thead>
<tr>
<th>Province</th>
<th>Share of Investment Allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>North West</td>
<td>7%</td>
</tr>
<tr>
<td>Western Cape</td>
<td>5%</td>
</tr>
<tr>
<td>Kwazulu-Natal</td>
<td>10%</td>
</tr>
<tr>
<td>Free State</td>
<td>7%</td>
</tr>
<tr>
<td>Limpopo</td>
<td>4%</td>
</tr>
<tr>
<td>Gauteng</td>
<td>26%</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>8%</td>
</tr>
<tr>
<td>Eastern Cape</td>
<td>33%</td>
</tr>
</tbody>
</table>

Figure 12: Share of investment allowance per province
The reason for this is that the investment allowance is capped (refer Overview, page 11), limiting the investment allowances that can be accessed by very high cost projects. The Free State – similar to projects in Limpopo, Mpumalanga and the North West – attracted a smaller number of high-cost projects as illustrated (Figure 13).

This is further illustrated by the investment allowance to investment ratio (Figure 14). Owing to the range of allowance percentages claimable depending on a project’s qualifying status and the applicable caps, it holds that the allocated investment allowances do not correlate directly to the total investments made. Projects in the Eastern Cape have managed to access a combined investment allowance equivalent to 49% of their total investment, whereas the Free State could only access 9% relative to investment made.

When this ratio is considered in terms of the investment amount leveraged by every Rand of investment allowance that has been approved, it is evident that on some projects, the investment allowance under the 12I TAI has leveraged significantly higher investments than on others. As an example, the portfolio of projects in the Eastern Cape is expected to collectively cost R9.8 billion. These projects qualify for a combined investment allowance of R4.9 billion, i.e. R2.02 investment for every R1.00 investment allowance approved. For the Free State this ratio is R10.58 invested in the manufacturing sector in the province for every R1.00 allowance.
With 38 of the 52 approved projects still in implementation, the total actual investment made to date against the committed investment of R48 billion is R7.3 billion (15%). Mpumalanga, with a committed investment spend of R4.7 billion, has already spent R2.9 billion – a 61% realisation of planned investments. In contrast and despite its large share of the planned investment activity, the Eastern Cape does not yet reflect any realised investment.

Likewise, the actual investment allowance utilised to date is R1.6 billion, with Gauteng claiming 47% of this total at R729 million and Mpumalanga 47% at R552 million.

**SKILLS DEVELOPMENT**

Operational excellence is increasingly key to remaining competitive in the manufacturing sector, necessitating a concerted and ongoing effort to develop skills and strengthen labour productivity. An investment in new, expanded or upgraded manufacturing facilities is also most likely associated with a changing skills requirement. In recognition of this, the 12I TAI offered an additional training allowance. This fiscal investment supports skills development at the project level, but effectively extends to sectoral and national levels. The further allocations in terms of skills development and training totals almost R216 million. At provincial level, the Eastern Cape and Gauteng are expected to benefit most from skills development initiatives secured by the programme (Figure 17).

**Figure 16: Investments realised to date (per province)**

**Figure 17: Provincial distribution of the 12I training allowance**
EMPLOYMENT CREATION

The 52 approved and non-cancelled projects are collectively committed to create 6,193 direct jobs. While the biggest contribution will be from Gauteng (2,549 jobs – 41% of the total direct jobs), it is encouraging to see the more impoverished provinces will also be benefitting from employment creation as a result of the programme. Most noteworthy is the contribution in the Eastern Cape, where 1,497 direct jobs (24% of the total direct jobs) are expected.

<table>
<thead>
<tr>
<th>Province</th>
<th>Projected</th>
<th>Realised</th>
</tr>
</thead>
<tbody>
<tr>
<td>North West</td>
<td>200</td>
<td>0</td>
</tr>
<tr>
<td>Western Cape</td>
<td>740</td>
<td>0</td>
</tr>
<tr>
<td>Kwazulu-Natal</td>
<td>568</td>
<td>36</td>
</tr>
<tr>
<td>Free State</td>
<td>298</td>
<td>53</td>
</tr>
<tr>
<td>Gauteng</td>
<td>2549</td>
<td>54</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>78</td>
<td>68</td>
</tr>
<tr>
<td>Eastern Cape</td>
<td>1497</td>
<td>0</td>
</tr>
</tbody>
</table>

The number of actual, direct jobs created to date are lagging behind the projected numbers. Approximately 78% of the direct employment opportunities that were initially projected have been realised for those projects that have already started production and for which reports have been received (Figure 18). This is not unexpected. For greenfields projects and expansions to existing facilities, new plant and machinery are generally more automated with fewer opportunities for creating direct jobs. Similarly, where existing facilities are upgraded, the requirement is generally for existing staff to be upskilled rather than new jobs being created.

Although more difficult to quantify, it appears that a significant number of indirect employment opportunities are being realised, with more than 4,900 indirect jobs associated with the 14 projects that have started commercial operation.

ENERGY EFFICIENCY IMPROVEMENTS

All approved projects could convincingly demonstrate a 10% efficiency gain relative to an acceptable baseline. For some projects the expected efficiency improvement was as high as 40% and an average efficiency gain in excess of 10% is expected across the 52 projects.

For several of the submissions, efficiency improvement was determined and demonstrated in terms of energy per unit production. It will therefore only be possible to report on the total energy savings impact once full production capacity is reached.

With 14 participating projects successfully implemented and having started operations at various facilities around the country, we are expecting to start seeing real and measurable benefits of their efficiency gains in the next year. But, already, and based on those applications assessed by SANEDI, indications are that this sector will realise a much-needed annual energy saving of approximately 1.5 TWh.
Projects from a number of industry sub-sectors have participated in the programme over the four years since introduction of the 12TAI. By far the largest interest has been from the Chemicals, Plastics and Biofuels sector with 21 (40%) out of the 52 approved projects. The Metals sector and Agro/Food & Beverage sector are also well represented with 10 and 8 projects, respectively.

The value of the investment per sub-sector varies significantly (Figure 20). Commensurate with the large share of projects, the Chemicals, Plastics and Biofuels sector also attracted the largest investment with R25.4 billion across the 21 projects. This represents 53% of the total investment and equates to an average investment of R1.2 billion per project. In comparison, the investment in the Recycling sub-sector was only R350 million for one project – approximately third of the Chemicals, Plastics and Biofuels sector projects.

**PROJECT DISTRIBUTION ACROSS SUB-SECTORS**

![Number of approved projects per industry sub-sectors](image)

**PROJECTED INVESTMENT**

<table>
<thead>
<tr>
<th>Industry Sub-sector</th>
<th>Investment Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recycling</td>
<td>R350 000 000</td>
</tr>
<tr>
<td>Railway / Shipping</td>
<td>R1 073 727 247</td>
</tr>
<tr>
<td>Electronics</td>
<td>R1 868 179 915</td>
</tr>
<tr>
<td>Metals</td>
<td>R4 657 201 507</td>
</tr>
<tr>
<td>Cement &amp; Ceramics</td>
<td>R8 430 003 056</td>
</tr>
<tr>
<td>Chemicals, Plastics, Biofuels</td>
<td>R25 351 842 956</td>
</tr>
<tr>
<td>Pulp &amp; Paper</td>
<td>R3 102 272 000</td>
</tr>
<tr>
<td>Agro/Food &amp; Bev Processing</td>
<td>R3 182 324 206</td>
</tr>
</tbody>
</table>

![Investment share per industry sub-sectors](image)
Accordingly, the investment allowance has mobilised much larger investments in some sub-sectors. As can be expected, the allowance to investment ratio for the Chemicals, Plastics and Biofuels sector is low, with the investment allowance accessed by the sector only 25% of the investment attracted in the sector ratio (Figure 21). This translates to R3.96 invested in assets for every R1.00 investment allowance granted (Figure 22).

The Electronics sub-sector realised the lowest allowance to investment ratio, with a 60% ratio (Figure 21) or only R1.66 capital investment in the sector for every R1.00 investment allowance (Figure 22). This is partly because one of the projects in the sub-sector is located in an IDZ, thereby qualifying for a much higher allowance percentage compared to other projects.

---

**PROJECTED INVESTMENT**

Investment amount per industry sub-sectors

- Recycling: R3,50
- Railway / Shipping: R2,21
- Electronics: R1,66
- Metals: R3,21
- Cement & Ceramics: R2,99
- Chemicals, Plastics, Biofuels: R3,96
- Pulp & Paper: R3,19
- Agro/Food & Bev Processing: R2,79

**PROJECTS IN PRODUCTION**

A growing number of the new, extended or upgraded manufacturing facilities have been completed (i.e. started production) with the assets being utilised. The first project started production in the first quarter of 2012. By 31 March 2015, 14 of the participating projects had started production (Figure 23). Nine of these became operational in the preceding 12 month period, representing a significant contribution to the manufacturing sector during the 2015 financial year.

A few projects have a phased implementation approach with assets being commissioned over time. This will result in staggered production start dates for components within an individual project. Where this has been the case, the date at which the first assets were commissioned is reflected as the completion date.

---

**PROJECTS IN PRODUCTION**

- 2012_Q1: 1
- 2012_Q2: 2
- 2012_Q4: 3
- 2013_Q3: 4
- 2013_Q4: 5
- 2014_Q3: 9
- 2014_Q4: 12
- 2015_Q1: 14

**PROJECTS IN PRODUCTION**

These operational manufacturing assets are located across most of the country and represent a variety of the manufacturing sub-sectors (Figure 24).
### Completed projects by sub-sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Projects</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronics</td>
<td>1</td>
<td>9%</td>
</tr>
<tr>
<td>Metals</td>
<td>2</td>
<td>18%</td>
</tr>
<tr>
<td>Pulp &amp; Paper</td>
<td>1</td>
<td>9%</td>
</tr>
<tr>
<td>Agro/Food &amp; Bev Processing</td>
<td>3</td>
<td>28%</td>
</tr>
<tr>
<td>Cement &amp; Ceramics</td>
<td>2</td>
<td>18%</td>
</tr>
<tr>
<td>Chemicals, Plastics, Biofuels</td>
<td>2</td>
<td>18%</td>
</tr>
</tbody>
</table>

### Gauteng
- **Projects**: 2
- **Investment Allowance**: R0,61
- **Total Investment**: R2,85

### North West
- **Projects**: 4
- **Investment Allowance**: R0,93
- **Total Investment**: R2,43

### Mpumalanga
- **Project**: 1
- **Investment Allowance**: R0,55
- **Total Investment**: R2,33

### Western Cape
- **Projects**: 2
- **Investment Allowance**: R0,15, R0,57
- **Total Investment**: R0,57, R0,57

### Kwazulu-Natal
- **Project**: 1
- **Investment Allowance**: R0,51
- **Total Investment**: R0,91

### Free State
- **Project**: 4
- **Investment Allowance**: R0,23
- **Total Investment**: R1,45

The commissioned facilities represent a combined investment of R9.65 billion in the manufacturing sector. These investments benefitted from R2.7 billion investment allowance (i.e. 21% of the total committed allowance) and an additional training allowance of R54.9 million. The 14 projects are expected to create 1,216 new employment opportunities, to be confirmed with the submission of annual progress reports.

The remaining 38 projects that had obtained approval under the 121 TAI are expected to be completed over the next four years, with the last two due for completion in 2018.
Spain’s Gestamp Renewable Industries (GRI) develops, constructs and operates wind farms throughout the world. It is also a manufacturer of wind towers for major Original Equipment Manufacturers (OEMs) in the wind energy market. From its 10 wind tower factories worldwide, GRI builds and supplies 1,200 towers per year to all wind technology OEMs in the market, among others Siemens, Vestas, Nordex and General Electric.

GRI’s investment of R237 million to establish a new wind tower mast manufacturing facility in South Africa represents a significant Foreign Direct Investment (FDI) in the South African manufacturing sector as well as the green economy. The facility can produce 150 wind towers annually, increasing GRI’s global manufacturing capacity by 11%.

This investment in the South African manufacturing sector reflects the vibrant local renewable energy market that has been created by the successful Renewable Energy Independent Power Producers Procurement Programme (REIPPPP). It is also responding to the growing demand for locally produced renewable energy components, stimulated by the local content requirements imposed by this Government procurement programme. The investment decision was further facilitated by the tax allowance incentive offered by the 12I TAI.

The facility was developed to the highest quality and sustainability standards. It incorporates the latest energy efficient technologies; its power consumption is well below that of similar factories. In contrast to other steel fabricators, it also employs an almost dry process, requiring very low water usage.

Informed by the practices of its holding company, production at the GRI facility is compliant with EU standards and represents the first EN1090 manufacturing concern in South Africa. Despite its short period of commercial operation, the plant has already obtained ISO 9000 certification and is in the process of applying for ISO 14001 certification. Tandem wire welding is used in the manufacturing process, a specialised welding technique allowing higher productivity at lower costs than the more conventional submerged arc welding process. This welding process is suited to a variety of automated arc welding applications, particularly in the automotive industry.

Consequently, the GRI facility offers an extraordinary training opportunity to the 230 people from the local community who have found employment at the plant. With the exception of four people previously employed in the automotive industry, most recruits had no prior experience in steel manufacturing. Training has been offered in rare and sought after skills, generically relevant to the manufacturing and particularly the automotive industry. In addition to specialised welding skills, training is being done in workshop supervision and management to the same level as required in the automotive industry. The GRI plant also boasts the first certified ISO Visual Testing (VT) Level II quality inspectors in the country, a globally recognised competency.

The new tower manufacturing facility was established in Atlantis, a previously developed, but underutilised industrial centre approximately 40km north of Cape Town. This is of particular significance, as the Atlantis community has long struggled with high levels of unemployment. Besides the obvious benefits of permanent employment, the skills and experience gained in these exceptional conditions are empowering each individual for a future of opportunity. In doing so, the GRI project contributes to key objectives of both the 12I TAI and the REIPPPP programme, which includes establishing local manufacturing facilities, job creation and transfer of skills in South Africa.

The potential for wind power, and therefore the market for wind towers, is concentrated in the Eastern, Northern and Western Cape provinces. The proximity to potential clients, ports and road infrastructure were all considerations in the selection of a preferred site – and Atlantis was not the only location considered for this investment. Its selection was largely informed by the enabling environment that had been created to establish Atlantis as a green economic hub.

The green economy is a key element of South Africa’s New Growth Path (NGP) that has been incorporated in the Industrial Policy Action Plan (IPAP), where it includes a focus on green jobs. The green economy is characterised by substantially increased investment in green industrial sectors, supported by enabling policy reforms. Taking its cue from this national policy context, GreenCape, a not-for-profit organisation, was established in
2010 by the Western Cape Government and the City of Cape Town (the City) to support the accelerated development of the green economy. In 2011 the City established the greentech manufacturing hub in Atlantis in an effort to grow the Western Cape’s green technology sector and the community’s manufacturing potential. This hub has been an important focus of GreenCape, with numerous measures applied in creating a very compelling, development-ready location. Among the most attractive of these for GRI were the accelerated land disposal process and prior Environmental Impact Assessment (EIA) approvals that reduced the plant’s development lead time by 24 months. Combined with the efficient 12l TAI application process that took less than 40 days to process from receipt of the GRI application, the wind tower facility could be developed in record time: from first engagement late in 2013 to starting construction in February 2014 and implementation of commercial operations in November 2014. The financial and economic benefits of this accelerated process are immeasurable - as much to GRI as the development goals of the province and to South Africa’s localisation objectives.

By attracting the GRI manufacturing facility, Atlantis and the local community have also gained extensive benefits. Local suppliers are being used by GRI for security, maintenance, cleaning and gardening services, among others. Suppliers of internal parts and components for the towers are seeking to move to Atlantis; the first indications that a green manufacturing cluster is beginning to form. GRI is also actively participating in a broad range of economic, infrastructure and socio-economic development initiatives and programmes involving the Atlantis community.

Industrial policy instruments are important tools for economic development in South Africa, particularly for development at the regional and sub-national level. This project demonstrates the significant benefits that can be realised when industrial policy and policy tools are aligned across all tiers of Government. The project is lauded for attracting manufacturing investments, promoting more (and higher-skilled) job creation and shifting the economy towards a low-carbon, resource-efficient and socially-inclusive basis.

SAPPI SHOWS THE WAY

SAPPI SOUTHERN AFRICA LTD - CHEMICAL CELLULOSE FACILITY (GOCELL PROJECT), SAPPI NGODWANA MILL, N4, MPUMALANGA. PAPER AND PULP SUB-SECTOR- R2.85 BILLION15 INVESTMENT.

After half a century of steady growth in the global production volumes of paper and paperboard – with volumes increasing fivefold between 1960 and 2010 – production leveled off in 2008 following the global economic crisis. Since 2012 global production levels have shown a slight decline16. Although paper remains an integral part of everyday life, even in this digital age, this trend has significant bearing on the future of the paper and pulp industry, globally and in South Africa – who is among the top 20 producers in the world17.

At the same time, the demand for chemical cellulose (dissolving wood pulp) is showing an increase as supplies of global cotton production flatten and fail to match growing demand. This is creating a gap for natural fibres in the textile market, which chemical cellulose can fill.

SAPPI’s R2.85 billion investment in the Mpumalanga-based, Ngodwana GoCell project, converting a declining, low margin paper line to produce dissolving wood pulp (DWP), is therefore
an important strategic one, expanding its market and placing the company on a new growth trajectory.

The additional DWP production capacity increased SAPPi South Africa’s global market share from 15% to an estimated 18%. All the cellulose from the new GoCell facility has been for export purposes, with export sales for the 2015 financial year securing R1.73 billion in foreign exchange for South Africa. The investment has strengthened the southern African contribution (25% of sales) to the global SAPPi business. At the same time, it contributes to the expansion of South Africa’s manufacturing sector and the paper and pulp sector in particular.

In line with SAPPi’s long-standing commitment to doing ‘better business’, with corporate social responsibility projects dating as far back as 1983, the benefits of this investment are far-reaching, much broader than only that of the refurbished production line. Consequently, and commensurate with the requirements of the 12I TAI, this investment was structured to create jobs and support local economic development. A few of the highlights made possible by the GoCell project include:

- Because it is an upgrade of an existing facility, the expectation for new job opportunities was limited, targeting only 62 new positions and delivering 69. The project did, however, require a significant investment to develop the required skillset for operation of the new facility. Rather than general labourers, the new facility required technicians, operators and maintenance personnel. The training programme that was introduced for the GoCell project received two BHP Billiton Achievers Awards in the ‘Re-skill and Empower’ and ‘Best Training Programme’ categories. The second was awarded for the construction skills training offered to the Ngodwana surrounding community to enable participation in unskilled and semi-skilled contractor positions during the construction phase of the project. The 22-days, civil-orientated training is generically relevant, providing useful skills within the community and creating opportunities for future employment.

- The project is further benefitting subsistence farmers in the local community. DWP is made from hardwood (rather than the softwood used for paper production), thus requiring an alternative timber supply. New supply agreements and arrangements have been based on SAPPi’s ‘Project Grow’ blueprint, a tree-farming scheme established in partnership with subsistence farmers from the local community. Under this programme, interested local community members, including women who have a piece of land and whose acreage falls within the area of operation, are supported to become timber farmers. Participants are provided with saplings from the SAPPi nursery, training, ongoing support as well as milestone payments and advances on the timber crops. This initiative contributes to the development and well-being of the local community, enabling a mutually beneficial and sustainable collaboration in recognition of the business’ interconnectedness with the community within which it operates.

- Cognisant of the importance of energy efficiency and South Africa’s severe energy constraints, the GoCell project makes a marked contribution to power supply. Energy use at the Ngodwana site was reduced by 15% during 2014. The production of DWP cellulose removes significantly more biomass from the wood cellulose, creating a liquor with a much higher energy content than traditional paper production. With an additional investment, a recovery furnace was incorporated during the refurbishment that processes the liquor, enabling the chemicals used during production to be recovered and power to be generated through the use of steam. Power production is adequate to supply the needs of the Ngodwana plant plus a surplus that is sold to Eskom, significantly alleviating the pressure on the constrained national electricity grid.

The extensive benefits of the GoCell project, relevant to the company, the community and the country, were facilitated by the 12I TAI - in terms of the financial stimulus provided by the tax allowance as well as the developmental considerations incorporated in the qualification requirement.

The GoCell project clearly demonstrates that inclusive growth is possible with effective partnership between Government and the private sector.

15. Source: U.N. Food and Agriculture Organization (FAO), published by the Worldwatch Institute, 20 January 2015
16. Source: Paper Manufacturer’s Association of South Africa (PAMSA), 12 February 2015
17. http://www.forestry.co.za/sappi-faqs-project-grow/
18. It is noted that as a member of the Forestry Stewardship Council, SAPPi is committed to responsible afforestation. All SAPPi plantations have established policies and procedures to maintain the health of river and water systems. All operations incorporate practices focused on responsible water-use, recycling and re-use and cleanup of effluent. SAPPi has further committed to reduce water usage by 15% by 2015 in its South African supply chain against the 2007 base year. The resulting impact of the new facility with respect to water use is limited and compliant with all obligations as a Designated Streamflow Reduction Activity under the National Water Act (Act No 34 of 1998).
The purpose of this section is to provide a high-level look into the performance of the South African manufacturing sector post-implementation of Government’s various tax allowance programmes through an analysis of existing data and documentation. Such analysis may assist to establish if there has been cohesion between Government’s various incentive programmes and the performance of related manufacturing sub-sectors, as well as manufacturing in general. It should, however, be kept in mind that it is challenging to prove causality at such an aggregate level (i.e. where firm-level data are not available) and that the analysis to follow merely serves to illustrate whether there has been an improvement (or not) in the different dimensions of manufacturing, which may (or may not) be as a result of the various incentive programmes used by Government.

**PERFORMANCE OF THE SOUTH AFRICAN MANUFACTURING SECTOR**

![Figure 26: Manufacturing and GDP growth in South Africa and selected countries](source: World Bank)

In an analysis of countries that have achieved high and sustained levels of economic growth since WW II, the World Bank (2008) found that these growth levels, in 10 of the 13 identified cases, could be attributed to manufacturing-led growth. These countries include: Brazil, China, Indonesia, Japan, South Korea, Malaysia, Singapore, Thailand, Taiwan and Hong Kong. The types of policy support provided by these countries included protection from foreign competition, export incentives, skills and infrastructure development, exchange rate setting and concessional finance (Amsden, 2003, Reinert, 2008, Studwell, 2013). Figure 26 shows the economic growth levels in these countries, as well as for South Africa, in relation to their respective share of Manufacturing Value Added (MVA) in Gross Domestic Product (GDP) for the period from 1994 to 2014. The figure clearly shows that South Africa is lagging behind these benchmark nations, and in more recent times has lost even more ground (ZAF2014). Its MVA share in GDP declined from 21% to 13% during the last two decades.

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19 ZAF, South Africa; CHN, China; THA, Thailand; KOR, South Korea; MYS, Malaysia; IDN, Indonesia; SGP, Singapore; JPN, Japan; BRA, Brazil. Source: Authors’ own calculations based on World Bank (2015) data
20 No data were available for Taiwan and Hong Kong
The South African manufacturing sector experienced a severe contraction during the international financial crisis, leading to the implementation of various incentive programmes by Government. The manufacturing sector, according to data from Stats SA, contracted by 10.2% in 2009, shedding almost R52 billion in GDP contributions (measured in 2014 constant prices, or 3.4%, and R12.2 billion at current prices). The manufacturing sector also lost more than 200,000 job opportunities (both formal and informal) during the crisis.

The manufacturing sector decreased from R487,492 million in 2004 (at constant 2014 prices) to R450,340 million in 2014, and its contribution to GDP decreased from 18.6% to 13.3% during the last 10 years.
Figure 27 shows the manufacturing sector as a percentage of the total industries at basic prices. It clearly reflects how the tertiary sectors, including electricity, construction, trade, finance, and community services, increased as a percentage of GDP, whereas the manufacturing sector’s share has markedly decreased. Although this movement from primary and secondary to the tertiary sectors is part of economic evolution as shown by, among others, Rostow (1962), the manufacturing sector remains a very prominent and valuable industry. It can contribute immensely to economic growth, job creation and export earnings (also the opposite, since decline can negatively impact on these key variables). This is recognised in numerous economic and industry growth strategies.

The declining share of manufacturing contribution in national economic output during the last 10 years (from a high of nearly 20% to approximately 13%) is even starker, as is evident in Figure 28. Evident also is the slowdown of national economic growth (top axis) during the same period (from highs of approximately 5% in 2006 to around 1.5% in 2014). However, it appears as though the declining trend in manufacturing contribution may have been halted (at least temporarily) from 2012 onwards.

In terms of employment in the manufacturing sector, there have been losses as a result of the declining role of manufacturing in the economy. The share of formal employment in the manufacturing sector has declined from 14.6% in 2004 to 11.9% by 2014 (evident from Figure 30). The manufacturing sector formal employment rate has been contracting and growing at a much slower pace than that of the national economy. While total formal employment in the national economy has grown during the period 2004 to 2007, the share of manufacturing employment has decreased, and continue to do so, even after national employment growth have slightly picked up again since 2012. There are various reasons for this decline in manufacturing employment, one of which is the continued labour market challenges in South Africa.

Figure 29: Major economic sector share in formal employment in South Africa (2004 & 2014)
Profitability at constant prices in the manufacturing sector also decreased from 2004 to 2014 (as shown in Figure 31), mainly driven by increases in the compensation of employees, while economic output of the sector declined. The relative higher labour cost increase is also shown in Figure 32 when compared to productivity of labour in the manufacturing sector. Labour productivity increased by 40% between 2000 and 2011, compared to nominal unit labour cost that increased by 84.9%, with a large divergence occurring after the international financial crisis in 2009. Going forward, labour prices in the manufacturing industry will either have to increase at a much lower pace, or productivity will have to increase much faster to enable an environment where manufacturing enterprises can be profitable again, which has not been the case since 2010.
Utilisation of production capacity in the manufacturing sector also confirms the gap that opened up between unit labour cost and productivity shown in Figure 33 (between 2010 and 2014). According to this measure, the percentage utilisation of production capacity in the manufacturing industry for durable and non-durable goods decreased on average from around 87.4% and 84.4%, respectively, to below 80% during the international financial crisis – and is struggling to regain lost ground.

MANUFACTURING LABOUR PRODUCTIVITY AND NOMINAL UNIT LABOUR COST (2004 TO 2014)

![Graph showing manufacturing labour productivity and nominal unit labour cost from 2004 to 2014.](Source: SARB (2015) QB data)

Figure 33: Percentage utilisation of production capacity in the manufacturing sector (Source: SARB (2015) QB data)

![Bar chart showing gross fixed capital formation in the manufacturing sector from 2004 to 2015.](Source: SARB (2015) QB data)

Figure 34: Gross fixed capital formation in the manufacturing sector (2004 to 2015, constant 2010 prices)

Source: SARB (2015) QB data
Gross fixed capital formation (GFCF) as an indicator is used to measure the net additions to (physical) capital stock (production capability) of an economy. Capital is needed in any industry to improve productivity and increase competitiveness. It is also an indicator of long-term commitment and a supply-driven component in the economy to secure long-term economic growth.

Figure 34 illustrates that the GFCF for the manufacturing industry in South Africa in constant 2010 prices (at an annualised rate) increased from approximately R70.6 billion in 2004 to approximately R111.9 billion in 2014, an average increase of less than 1.5% per year over the period. Although the manufacturing GFCF increased at a low rate in Rand terms, it decreased as a percentage of total GFCF in the national economy (from 19.8% in 2004 Q1 to 18.1% in 2015 Q2). During the last five years GFCF recovered slightly, from a low of 13% at the height of the global financial crisis in 2009 Q4.

Overall, all the key indicators relative to the manufacturing sector in the South African economy highlight the fact that the sector is losing ground in the broader context. And, while not only losing ground, most of the sector’s indicators are only marginally recovering, or are continuing to deteriorate, supporting the case for focused Government interventions to assist manufacturing industries to become more efficient, productive and competitive.

Focus Sectors Linked to the 12I TAI of the dti

The details of projects and the associated investment values for this programme are explained in more detail in the preceding performance analysis of the 12I TAI and Annexure A. When comparing the overall investment already realised (in production) and planned (approved) relative to the GFCF in the manufacturing industry, it is evident that on a national scale this programme will help contribute (although initially it remains relatively small) to GFCF in the manufacturing sector. Evident from Figure 35 is that the investments already in production contributed 1.7%, 2.1% and 3.7% of the national manufacturing gross fixed investment during the last three years (adjusted to constant 2010 price levels). Illustratively, if the same investment levels as in 2014 are achieved between 2015 and 2018 on a national level, the projected approved contribution to (additional) investment associated with the 12I programme will increase its contribution to around 5%, with a peak in 2016 of around 18.6% of national manufacturing gross fixed investment.

12I Tax Allowance Associated Gross Fixed Capital Formation in the Manufacturing Sector

![Chart: 12I tax allowance associated gross fixed capital formation in the manufacturing sector (constant 2010 prices)](chart-source: SARB and the dti)
The argument can be made that the gross fixed investment in the manufacturing sector over the period 2012 to 2014 would have been lower by these percentages, with the resulting decline in economic activity. At the minimum, in terms of fixed investment, the impact of the programme was positive in the sense that it helped ‘arrest’ the declining trend in manufacturing investment. In turn, it should yield positive outcomes for economic production in the future.

The sectors where these investments are taking place are:

- Agro/Food & Beverage Processing in SIC21 30 (Food, beverages and tobacco products)
- Cement & Ceramics in SIC34 (Other non-metallic mineral products)
- Chemicals, Plastics, Biofuels in SIC33 (Fuel, petroleum, chemical and rubber products)
- Electronics in SIC37 (Electronic, sound/vision, medical & other appliances)
- Metals in SIC35 (Metal products, machinery and household appliances)
- Pulp & Paper in SIC32 (Wood and wood products)
- Railway/Shipping in SIC38 (Transport equipment)
- Recycling in SIC39 (Furniture and other items NEC and recycling)

**IN SUMMARY**

The preceding analysis of the key indicators related to the manufacturing sector and its contribution to the South African economy supports the case for focused Government interventions to assist manufacturing industries to become more energy efficient, productive and competitive.

While these investments under the programme are focused on energy efficiency and skills development, they also demonstrably contribute to improved economic production capacity and cost savings. A major challenge, however, that remains for the manufacturing sector, relates to wage costs and productivity. Consideration should be given to ways of improving this element of the economic production cost function to help South Africa’s manufacturing sector become more competitive and enable it to expand again.

**LOOKING AHEAD**

The broad scope of the qualifying projects and the significant capital investments attracted from both local and foreign investors, demonstrate the significant potential that remains within the manufacturing sector. The 12I TAI is contributing to unlocking this potential in a way that leverages broader, sustainable benefits – including employment creation, skills development and improved resource efficiency.

With consideration of the expected contribution until 2018 by projects already approved (Figure 35), the 12I TAI projects will have a marked impact on South Africa’s manufacturing sector. By further refining the 12I TAI offer, more of the sector’s latent potential can be unlocked and momentum created towards the desired economic output from manufacturing. To maximise the impact and reach of the tax allowance, a few refinements will be incorporated in the 12I TAI during the remaining eligibility period:

- In line with the NGP and the IPAP, the dti has recognised the need to regionally diversify manufacturing industries from traditional industrial hubs to new economic regions.

The existing industrial development zone (IDZ) scheme will be expanded into a Special Economic Zones (SEZ) programme that will comprise IDZs and other types of specialised zones. Accordingly, the highest allowance percentages (75% for projects with a qualifying status and 100% for preferred status) available under the 12I TAI will extend to projects located in SEZs.

The Act has been amended to allow a qualifying improvement (new installation, upgrade or expansion) that consists of machinery or plant to be eligible for the allowance even if the land on which it is implemented is not owned by the applicant. For example, if the land on which the improvement is done is leased. The inclusion of this clarification under the Act is expected to open the tax allowance for broader participation.

By the end of the reporting period (31 March 2015) indications were that approximately 27 new applications are in the pipeline for the next nine months, with an expected investment value of R10 billion.

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21. Codes refer to the Standard Industrial Classification (SIC) codes for the manufacturing sector and related sub-sectors as listed.
In compliance with subsection (19) paragraph (e) of Section 12I of the Income Tax Act (Act 58 of 1962), the Minister of Trade and Industry must submit an annual report to Parliament reflecting the following detail in respect of each company that received approval for the tax allowance:

(i) Name of each company;
(ii) Description of each industrial policy project;
(iii) The potential national revenue forgone by virtue of the deductions allowable the 12I TAI in respect of that industrial policy project;
(iv) The annual progress relating to the direct benefits contributed by the industrial policy project in terms of economic growth or employment (refer review of the ‘Relative context of programme investments for the manufacturing sector in the South African economy’ chapter of this report).
(v) Any decision to withdraw the approval of an industrial policy project; and
(vi) Any decision not to withdraw the approval of an industrial policy project, despite any material change in facts.

A copy of this report must also be submitted to the Auditor-General.

This report and the relative context of programme investments for the manufacturing sector in particular, provide an overview of the progress towards the direct benefits as required for (iv) above. The required information for each industrial policy project is included in the tables below.

### 1.1 PROJECTS IN PRODUCTION

<table>
<thead>
<tr>
<th>Company name and project</th>
<th>Project description</th>
<th>Qualifying (projected) investment</th>
<th>Qualifying tax allowance</th>
<th>Potential revenue forgone</th>
<th>Actual investment realised</th>
<th>Actual employment achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fine Chemicals Corporation (Pty) Ltd - Merck Transfer Project</strong></td>
<td>This brownfield project plans to manufacture Pharmaceutical products: Rocuronium and Etonogestrel</td>
<td>205 622 307</td>
<td>75 164 470</td>
<td>21 046 052</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Mpact Brits Plastic Containers (Pty) Ltd - Brits Project 2017</strong></td>
<td>This brownfield project plans to manufacture Plastic Products such as Dry Racks, Fish Boxes, Automotive Stack Boxes, Freezer Crates, Foldable Lid Containers</td>
<td>157 371 400</td>
<td>57 096 729</td>
<td>15 987 084</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Nampak Products Ltd - Furnace 3 Expansion Project</strong></td>
<td>This brownfield project plans to manufacture Glass Bottles For Beer, Wine, Spirits, Drink And Food Market</td>
<td>1 004 865 536</td>
<td>561 548 000</td>
<td>154 433 440</td>
<td>198 000 000</td>
<td>54</td>
</tr>
<tr>
<td><strong>Nampak Products Ltd - Project Aluminium Conversion (Springs)</strong></td>
<td>This brownfield project plans to manufacture Aluminium Beverage Cans</td>
<td>411 206 812</td>
<td>150 870 384</td>
<td>42 243 708</td>
<td>414 793 766</td>
<td>-</td>
</tr>
<tr>
<td><strong>Nestlé (South Africa) (Pty) Ltd - Cereals Partners South Africa</strong></td>
<td>This greenfield project plans to manufacture Breakfast Cereals</td>
<td>467 003 899</td>
<td>168 455 365</td>
<td>47 167 502</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Ommia Group (Pty) Ltd - Fertilizer Division</strong></td>
<td>This brownfield project plans to manufacture Nitric Acid</td>
<td>664 796 837</td>
<td>236 602 893</td>
<td>66 248 810</td>
<td>1 359 479 862</td>
<td>53</td>
</tr>
<tr>
<td><strong>Red Planet Horizon Trading (Pty) Ltd t/a GRI Wind Steel South Africa (Wind Tower Mast Manufacturing Facility)</strong></td>
<td>This greenfield project plans to manufacture Wind Tower Masts (complete with commercial internals)</td>
<td>228 515 001</td>
<td>85 740 250</td>
<td>24 007 270</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>SA Calcium Carbide (Pty) Ltd - SACC Expansion</strong></td>
<td>This brownfield project plans to manufacture Calcium Carbide &amp; Carbon Dioxide</td>
<td>104 971 550</td>
<td>57 950 353</td>
<td>16 226 099</td>
<td>112 255 736</td>
<td>5</td>
</tr>
<tr>
<td><strong>Samsung Electronics South Africa Production (Pty) Ltd</strong></td>
<td>This greenfield project plans to manufacture Samsung LED TV and LCD display monitors</td>
<td>228 230 915</td>
<td>235 502 912</td>
<td>65 940 815</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sappi Southern Africa (Pty) Ltd - GoCell Project</strong></td>
<td>This brownfield project plans to manufacture Chemical Cellulose (Viscose Staple Fibre Grade)</td>
<td>2 247 243 275</td>
<td>562 232 000</td>
<td>154 624 960</td>
<td>2 850 718 084</td>
<td>68</td>
</tr>
<tr>
<td><strong>Sephaku Cement (Pty) Ltd - Aganang Cement Project</strong></td>
<td>This greenfield project plans to manufacture Cement &amp; Clinker</td>
<td>1 749 252 808</td>
<td>567 200 000</td>
<td>156 016 000</td>
<td>1 442 570 823</td>
<td>-</td>
</tr>
<tr>
<td><strong>Tiger Consumer Brands Ltd - Gums &amp; Jellies Expansion Project</strong></td>
<td>This brownfield project plans to manufacture Sugar Confectionery</td>
<td>163 668 602</td>
<td>91 853 731</td>
<td>26 719 045</td>
<td>167 943 258</td>
<td>31</td>
</tr>
<tr>
<td><strong>Tiger Consumer Brands Ltd - Mayonnaise Expansion Project</strong></td>
<td>This brownfield project plans to manufacture Mayonnaise Based Products</td>
<td>220 218 366</td>
<td>80 532 428</td>
<td>22 549 080</td>
<td>240 066 566</td>
<td>-</td>
</tr>
<tr>
<td><strong>Unilever South Africa (Pty) Ltd - Project Maydon Wharf</strong></td>
<td>This brownfield project plans to manufacture Deodorants, Skin &amp; Hair Care and Laundry Products</td>
<td>386 903 000</td>
<td>139 736 050</td>
<td>39 126 094</td>
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</tbody>
</table>

| Total | 8 239 870 308 | 3 040 485 566 | 881 335 958 | 6 785 828 095 | 211 |
## 1.2 APPROVED PROJECTS

<table>
<thead>
<tr>
<th>Company name and project</th>
<th>Project description</th>
<th>Qualifying (projected) investment</th>
<th>Qualifying tax allowance</th>
<th>Potential revenue forgone</th>
<th>Actual investment realised</th>
</tr>
</thead>
<tbody>
<tr>
<td>African Oxygen Ltd</td>
<td>This greenfield project plans to manufacture Liquefied Nitrogen (LN), Liquefied Oxygen (LOX), Liquefied Argon (LAR)</td>
<td>319 741 060</td>
<td>240 552 795</td>
<td>67 347 223</td>
<td>-</td>
</tr>
<tr>
<td>African Oxygen Ltd - Durban Expansion Project</td>
<td>This brownfield project plans to manufacture Dissolved Acetylene, Surenmix, Argon &amp; Argon Mixtures, Medical Oxygen, Nitrogen</td>
<td>222 037 211</td>
<td>79 626 859</td>
<td>22 295 620</td>
<td>-</td>
</tr>
<tr>
<td>AfriSam (South Africa) (Pty) Ltd</td>
<td>This greenfield project plans to manufacture All Purpose Cement (56.25%), Granulated Blast Furnace Slag (37.50%), and High Strength Cement (6.25%)</td>
<td>314 503 813</td>
<td>236 597 860</td>
<td>66 247 401</td>
<td>-</td>
</tr>
<tr>
<td>Air Liquide (Pty) Ltd - Sasol T17 Project (2015-03-06: Name to change to Opal Ruby Holdings 18 (Pty) Ltd and then renamed to Air Liquide Large Industries)</td>
<td>This greenfield project plans to manufacture Glassous Oxygen &amp; Nitrogen, Liquid Oxygen and instrument Air</td>
<td>2 201 000 000</td>
<td>550 576 000</td>
<td>154 161 280</td>
<td>-</td>
</tr>
<tr>
<td>Amka Products (Pty) Ltd - Sunderland Ridge Extension 13 Factory &amp; Warehouse</td>
<td>This brownfield project plans to manufacture Hair Care, Skin Care, Fragrances &amp; Household Cleaning Products</td>
<td>370 802 003</td>
<td>211 177 102</td>
<td>59 129 588</td>
<td>-</td>
</tr>
<tr>
<td>Arengo 316 (Pty) Ltd</td>
<td>This greenfield project plans to manufacture Fermentable Fuel Grade Ethanol &amp; Animal Feed</td>
<td>1 777 130 000</td>
<td>554 152 151</td>
<td>155 162 602</td>
<td>-</td>
</tr>
<tr>
<td>Bakhaesa SA (Pty) Ltd</td>
<td>This greenfield project plans to manufacture White &amp; Brown Bread Flour, Cake &amp; Biscuit Flour and Wheat Bran</td>
<td>365 875 000</td>
<td>130 576 250</td>
<td>36 661 350</td>
<td>-</td>
</tr>
<tr>
<td>Black Lite Solar (Pty) Ltd</td>
<td>This greenfield project plans to manufacture CGIS Solar Panels (Copper Indium Gallium &amp; diSelenide)</td>
<td>1 633 920 000</td>
<td>909 303 420</td>
<td>254 604 958</td>
<td>-</td>
</tr>
<tr>
<td>DHT Holding Africa (Pty) Ltd (Cisco)</td>
<td>This brownfield project plans to manufacture Reinforcing Bar and Wire Rod in different diameters</td>
<td>220 000 000</td>
<td>123 520 000</td>
<td>34 585 600</td>
<td>151 626 885</td>
</tr>
<tr>
<td>Gibela Rail Transportation Consortium (Pty) Ltd</td>
<td>This greenfield project plans to manufacture Railway Trains</td>
<td>884 518 021</td>
<td>496 636 912</td>
<td>139 058 335</td>
<td>-</td>
</tr>
<tr>
<td>Ironveld Smelting (Pty) Ltd</td>
<td>This greenfield project plans to manufacture High Purity Pig Iron, Vanadium &amp; Titanium</td>
<td>548 912 735</td>
<td>195 071 457</td>
<td>54 620 008</td>
<td>-</td>
</tr>
<tr>
<td>Lomotek Polymers (Pty) Ltd - Lomold Pallets</td>
<td>This brownfield project plans to manufacture Composite Plastic Pallets</td>
<td>121 770 000</td>
<td>68 161 700</td>
<td>19 085 276</td>
<td>-</td>
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<tr>
<td>Mabele Fuels (Pty) Ltd</td>
<td>This greenfield project plans to manufacture Bio- Ethanol, Animal Feed, Dried Grains</td>
<td>1 226 022 344</td>
<td>430 403 820</td>
<td>120 513 070</td>
<td>-</td>
</tr>
<tr>
<td>Moxsign (Pty) Ltd - Vantage Health / Moxsign API Project</td>
<td>This greenfield project plans to manufacture Active Pharmaceutical Ingredients (API) &amp; Biological Peptides</td>
<td>842 708 548</td>
<td>853 364 548</td>
<td>238 942 073</td>
<td>-</td>
</tr>
<tr>
<td>Mpact Ltd - Project Khulisa 2.15</td>
<td>This brownfield project plans to manufacture Containerboard or “Bayflute” in different grades</td>
<td>770 272 000</td>
<td>426 925 600</td>
<td>119 539 168</td>
<td>-</td>
</tr>
<tr>
<td>Mpact Plastic Containers (Pty) Ltd - Atlantis Project 2017</td>
<td>This brownfield project plans to manufacture Plastic Containers, Agri-Crates, Jumbo Bins</td>
<td>50 500 000</td>
<td>19 383 324</td>
<td>5 427 331</td>
<td>-</td>
</tr>
<tr>
<td>Mpact Polymers (Pty) Ltd - rPET Project</td>
<td>This greenfield project plans to manufacture Pelletised recycled PET (bottle-to-bottle and bottle-to-fibre grades)</td>
<td>285 564 992</td>
<td>102 797 747</td>
<td>28 783 369</td>
<td>-</td>
</tr>
<tr>
<td>Nampak Products Ltd - Beverage Can Ends (Springs)</td>
<td>This brownfield project plans to manufacture Beverage Can Ends</td>
<td>440 846 570</td>
<td>156 420 300</td>
<td>43 797 684</td>
<td>-</td>
</tr>
<tr>
<td>Nampak Products Ltd - Nampak DivFood Vanderbijlpark - Food Can Project</td>
<td>This brownfield project plans to manufacture Consumer Food Cans</td>
<td>119 622 024</td>
<td>42 623 708</td>
<td>11 934 638</td>
<td>-</td>
</tr>
<tr>
<td>Nampak Products Ltd - Rosalyn Alu Line Project</td>
<td>This brownfield project plans to manufacture Aluminium Beverage Cans</td>
<td>569 030 448</td>
<td>203 084 657</td>
<td>56 863 704</td>
<td>114 856 185</td>
</tr>
<tr>
<td>Nampak Products Ltd - Rosalyn Aluminium Line 2</td>
<td>This brownfield project plans to manufacture Aluminium Beverage Cans</td>
<td>705 234 000</td>
<td>153 431 343</td>
<td>42 960 776</td>
<td>-</td>
</tr>
<tr>
<td>National Ceramic Industries South Africa (Pty) Ltd - Project Gryphon</td>
<td>This greenfield project plans to manufacture Porcelain Ceramic Tiles</td>
<td>532 000 000</td>
<td>190 700 000</td>
<td>53 396 000</td>
<td>362 923</td>
</tr>
<tr>
<td>Nestle SA (Pty) Ltd - Coffee Egon 5 Estcourt</td>
<td>This brownfield project plans to manufacture Agglomerated Coffee Powder</td>
<td>458 190 993</td>
<td>162 886 848</td>
<td>45 608 317</td>
<td>-</td>
</tr>
<tr>
<td>Osho Cement (Pty) Ltd</td>
<td>This greenfield project plans to manufacture Cement</td>
<td>675 814 858</td>
<td>509 633 144</td>
<td>142 697 280</td>
<td>-</td>
</tr>
<tr>
<td>Pharmacare Limited t/a Aspen Pharmacare - SVF2 Facility</td>
<td>This greenfield project plans to manufacture Anticoagulant Pre-Filled Syringes</td>
<td>1 349 507 225</td>
<td>480 629 029</td>
<td>134 576 128</td>
<td>-</td>
</tr>
<tr>
<td>Pharmacare Ltd t/a Aspen Pharmacare - High Containment Suite</td>
<td>This greenfield project plans to manufacture Oral Solid Dosage Products (tablets)</td>
<td>580 950 000</td>
<td>209 020 500</td>
<td>58 525 740</td>
<td>-</td>
</tr>
</tbody>
</table>

...continue on page 42
### 1.3 PROJECTS WHERE APPROVAL WAS WITHDRAWN / PROJECTS CANCELLED

<table>
<thead>
<tr>
<th>Company name and project</th>
<th>Project description</th>
<th>Qualifying (projected) investment</th>
<th>Qualifying tax allowance</th>
<th>Reason for cancellation or withdrawal of approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Liquide (Pty) Ltd</td>
<td>This brownfield project plans to manufacture Liquid Oxygen, Nitrogen &amp; Argon and Oxygen, &amp; Nitrogen</td>
<td>547 295 438</td>
<td>192 093 403</td>
<td>The company could not reach a mutual agreement with their main client and requested the Minister to withdraw the approval</td>
</tr>
<tr>
<td>Parmalat South Africa (Pty) Ltd - Bonnenvale Expansion Project</td>
<td>This brownfield project plans to manufacture Speciality and Processed Cheese</td>
<td>137 174 062</td>
<td>80 534 384</td>
<td>The company revised the projected timelines stipulated in their application as well as the scope and quantum of the investment and therefore requested the Minister to withdraw the approval</td>
</tr>
<tr>
<td>PG Bison (Pty) Ltd - Medium Density Fibreboard Manufacturing (MDF)</td>
<td>This greenfield project plans to manufacture Medium Density Fibreboard</td>
<td>685 000 000</td>
<td>242 198 000</td>
<td>Due to current conditions in their markets and those of the country as a whole at the time, the company decided not to proceed with the project and therefore requested the Minister to withdraw the approval</td>
</tr>
<tr>
<td>PhytoAmandla (Pty) Ltd</td>
<td>This greenfield project plans to manufacture Biofuel (Biodiesel), Glycerine &amp; Animal Feed</td>
<td>2 256 660 000</td>
<td>909 504 000</td>
<td>No further equity shareholders could be obtained to reach financial close. The applicant decided to finally close down the project due to no further available funds and therefore requested the Minister to withdraw the approval</td>
</tr>
</tbody>
</table>

### 1.4 DECLINED PROJECT APPLICATIONS

<table>
<thead>
<tr>
<th>Company name and project</th>
<th>Qualifying (projected) investment</th>
<th>Reason for decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nestle SA (Pty) Ltd - Filing &amp; Packaging</td>
<td>94 000 000</td>
<td>Applicant did not meet qualifying criteria</td>
</tr>
<tr>
<td>Pioneer Foods (Pty) Ltd - Sasko Pasta</td>
<td>72 988 514</td>
<td>Applicant did not meet qualifying criteria</td>
</tr>
<tr>
<td>Sasol Chemical Industries Ltd (Sasol Polymers Division) - EPU-5</td>
<td>1 347 426 400</td>
<td>Applicant did not meet qualifying criteria</td>
</tr>
<tr>
<td></td>
<td>1 514 414 914</td>
<td></td>
</tr>
</tbody>
</table>