

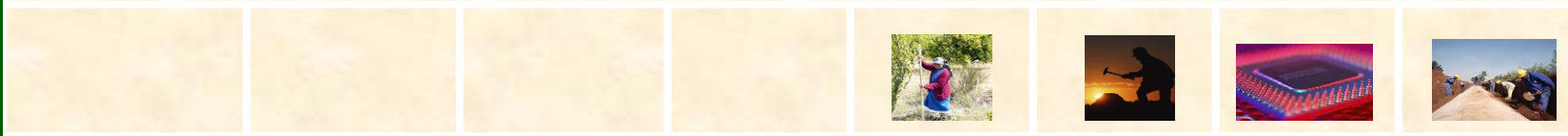
Annual Report (2016/2017) Presentation to the Select Committee on Economic and Business Development

28 November 2017

Siyabulela Tsengiwe
Chief Commissioner

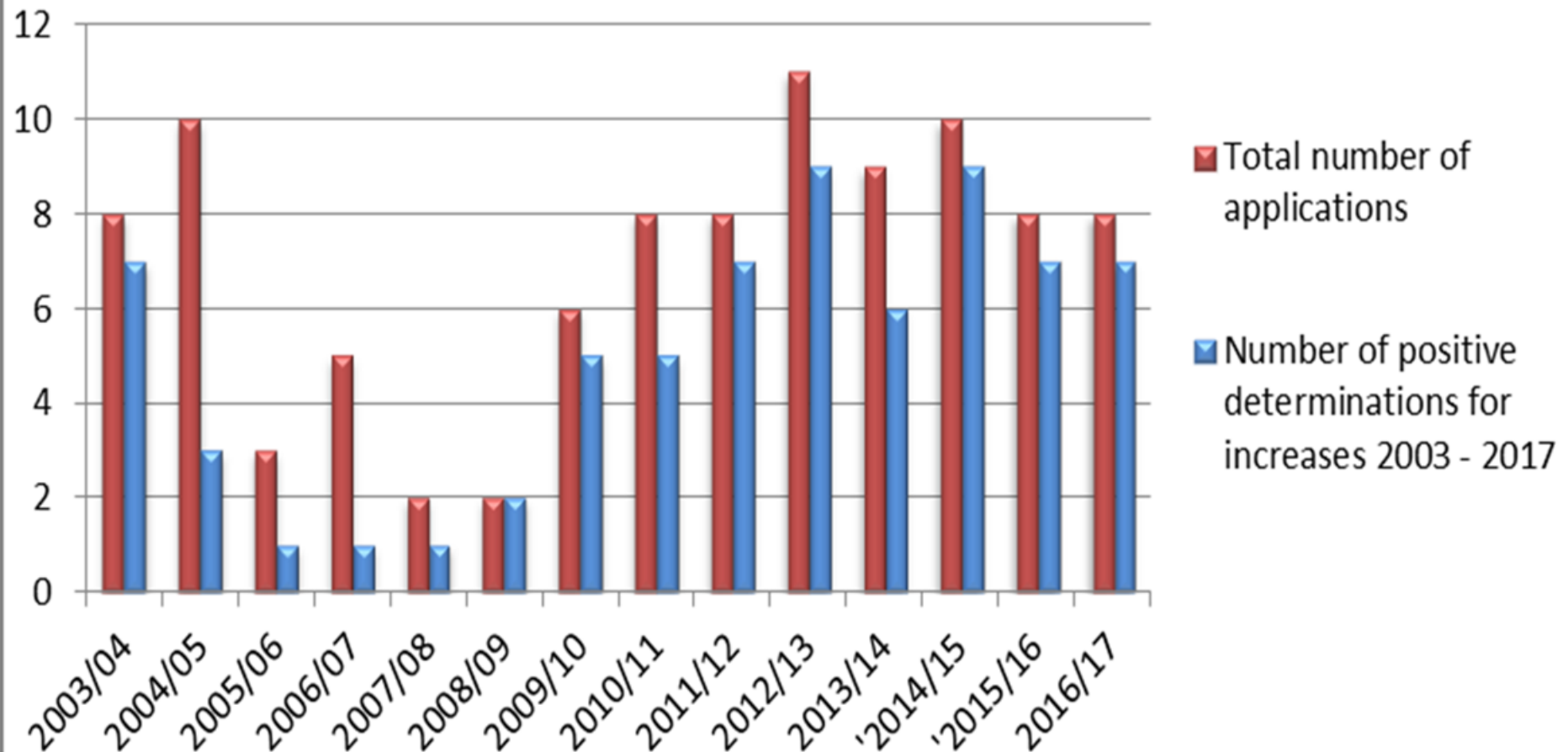


1. Introduction.
2. Tariff Investigations.
4. Trade Remedies.
5. Import and Export Control.
6. Economic Impact Assessments.
7. Achievements.
8. Update on support for the Steel and Poultry industries.
9. Human Resources Management.
10. Corporate Governance.
11. Auditor General's Report.
12. Financial Performance.



- The Minister of Trade and Industry, Dr Rob Davies, in the February 2017 SONA debate, provides a glimpse to changes in the global trade policy landscape. On how South Africa should respond, the Minister states, among others, that: “As a small economy accounting for only 0.5% of world trade if we become overly protectionist, we risk being denied access to other markets on whom jobs and productive sectors in our country depend. If we break trade rules there will be consequences and we risk retaliation. But within these constraints, the emerging new circumstances call on us to be more resolute, and indeed smart in advancing and defending our own national interests. This will include defending our right to take tariff decisions based on our own needs and to deploy appropriate trade remedies...The Trade Policy adopted in 2012 identified tariffs as tools of industrial development. It said trade policy is subordinate to industrial policy and must be informed by the needs of industrial development. It says we must not hesitate to defend and use trade remedies and access dispute bodies when we are being unfairly treated”.
- In the context of a new era in international trade relations this certainly provides ITAC with a vision on how to approach the administration of its trade instruments into the future.
- Government is increasingly taking a holistic approach in its policy response to sectors in distress. This has been evident in the case of steel in which government co-ordinated a package of measures in response to challenges faced by the domestic steel industry due to changed global market conditions. We are currently seeing the same approach in the case of poultry, which really maximises value for the attainment of government’s policy objectives.

TREND ANALYSIS OF TARIFF INCREASES FOR THE PERIOD 2003 - 2017



APPLICANT	PRODUCT	APPROVED AMENDMENT	TYPE OF AMENDMENT
ArcelorMittal South Africa Limited (AMSA)	Hot-rolled steel	Free – 10%	Increase
ArcelorMittal South Africa Limited (AMSA)	Other bars, rods and forges	Free – 10%	Increase
Columbus Stainless (Pty) Ltd	Flat-rolled stainless steel	Free – 5%	Increase
ITAC	Steel wire products	Free – 10%	Increase
ITAC	Steel fasteners	Free, 10% & 20% – Respective WTO bound rates of 15% & 30%	Increase
Libra Bathrooms (Pty) Ltd	Acrylic sanitaryware	20% – 30%	Increase
BSN Medical (Pty) Ltd	Adhesive bandages	Free – 10%	Increase
HOSAF	Polyethylene terephthalate	Declined	Increase
ArcelorMittal South Africa Limited (AMSA)	Tinplate	Terminated	Increase

APPLICANT	PRODUCT	APPROVED AMENDMENT	TYPE OF AMENDMENT
Pep Clothing, Division of Pepkor Retail (Pty) Ltd.	Woven fabrics used in the manufacture of shirts	Approved	Rebate
Defy Appliances (Pty) Ltd	Flat-rolled products of iron or non-alloy steel	Approved	Rebate
Stingray Accessory Manufacturers (Pty) Ltd	Switches and wire used for electric blankets	Approved	Rebate
Libra Bathrooms (Pty) Ltd	Acrylic sheet for plastic sanitary ware	Approved	Rebate
EDD	APDP review	Approved amendment	Rebate
Deslee Mattex (Pty) Ltd	Yarn of polyester staple fibres for knitted fabrics	Declined	Rebate
Kaymac (Pty) Ltd t/a Kaytech	Woven fabrics of synthetic filament yarn for fabrics interlayered or otherwise combined with Bentonite Clay	Declined	Rebate
Entyce Beverages– A division of National Brands Ltd	Black tea	Declined	Rebate
SS Profiling (Pty) Ltd	Flat rolled steel for corrugated roofing	Declined	Rebate
Ekamant SA (Pty) Ltd	Abrasive powder or grain on a base of paper or paperboard for the cutting of sheets and Velcro disks	Declined	Rebate

APPLICANT	PRODUCT	APPROVED AMENDMENT	TYPE OF AMENDMENT
ITAC	Diesel goods vehicles not exceeding 1100kg, petrol and electric passenger vehicles not exceeding 800kg and electric goods vehicles not exceeding 800kg	25% - Free	Reduction
Arysta LifeScience SA (Pty) Ltd	Atrazine	10% - Free	Reduction
Masterparts (Pty) Ltd	Inlet and exhaust valves	Declined	Reduction
Standerton Mills (Pty) Ltd	Polyester synthetic staple fibres	Declined	Reduction
Rutherford Engineering CC	Blind rivets	Declined	Reduction
Cathay Industries (Africa) (Pty) Ltd	Titanium dioxide	Declined	Reduction
Cathay Industries (Africa) (Pty) Ltd	Chrome oxide green	Declined	Reduction



Tariff Increases:

AMSA & Libra Bathrooms (Pty) Ltd are situated in **Gauteng**, Columbus Stainless (Pty) Ltd in **Mpumalanga** & BZN Medical (Pty) Ltd & HOSAF in **Kwa-Zulu Natal**.

Tariff Rebates:

Libra Bathrooms (Pty) Ltd is situated in **Gauteng**, Pep Clothing (Pty) Ltd, Stingray Accessories Manufacturers (Pty) Ltd, Deslee Mattex (Pty) Ltd and Ekamant SA (Pty) Ltd in **Western Cape**, & Defy Appliances (Pty) Ltd, Kaymac (Pty) Ltd and Entyce Beverages in **Kwa-Zulu Natal**.

Tariff Reductions:

Standerton Mills (Pty) Ltd is situated in **Gauteng**, Masterparts (Pty) Ltd in **Western Cape**, Cathay Industries (Africa) (Pty) Ltd in **Eastern Cape** & Arysta LifeScience SA (Pty) Ltd in **Kwa-Zulu Natal**. Rutherford Engineering CC is situated in **KZN, Western Cape & Gauteng**.

AUTOMOTIVE PRODUCTION AND DEVELOPMENT PROGRAM (APDP)

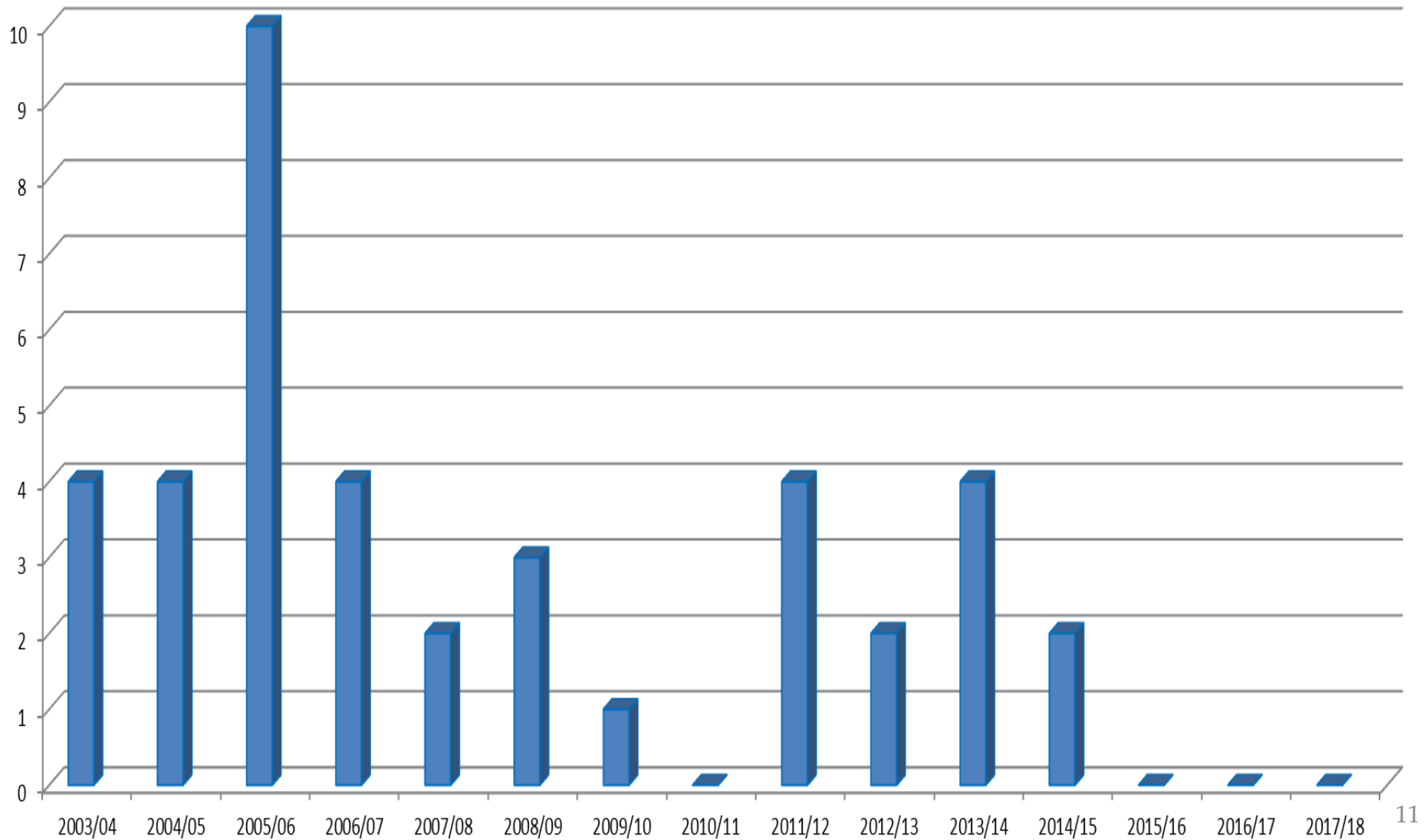
- On 01 January 2013 the APDP replaced the then Motor Industry Development Program (MIDP). The APDP is a customs-based programme comprising a tariff component, production incentive (PI), volume assembly allowance (VAA) and automotive investment scheme (AIS). The AIS is administered by **thedti**. The objective of the APDP is to create an enabling environment for the domestic industry to significantly grow production volumes and local value addition, leading to the creation of additional employment opportunities across the value chain. Whereas the MIDP was export-oriented, the APDP is based on production.
- **thedti** is the policy making authority for the APDP & ITAC administers the program.
- Certificates issued under the APDP:
 - Eligible Production Certificates (EPCs) – 94% of the EPC certificates within the set timeframe.
 - Production Rebate Credit Certificates (PRCCs) - 99% of the certificates within the set timeframe.
- Verifications conducted under the APDP:
 - 99% of the verifications conducted within the set timeframe.
- In terms of the Automotive Production and Development Programme (APDP), as per the policy directive, ITAC amended the administrative framework to reduce the minimum annual plant volume threshold for participation in the APDP from 50 000 to 10 000 units with effect from January 2016; the volume assembly allowance to commence at 10% for 10 000 units, increasing by one percentage point for every 5 000 units up to 18% at 50 000 units; and the production incentive for catalytic converters to remain at 2017 levels of 65% until 2020.

Location of Original Equipment Manufacturers (OEM) participating under the APDP

<u>OEM</u>	<u>TOWN</u>	<u>PROVINCE</u>
BMW	Rosslyn	Gauteng
VWSA	Uitenhage	Eastern Cape
Toyota SA	Durban	Kwa-Zulu Natal
MBSA	East London	Eastern Cape
Nissan	Rosslyn	Gauteng
Ford	Rosslyn	Gauteng
GMSA	Port Elizabeth	Eastern Cape

Trade Remedies

(Trend in Anti-Dumping initiations)



REVIEWS

Product	Country	Applicant	Type	Status and Duties initiated
Unframed glass mirrors	Indonesia	PFG	Sunset Review	In progress –at final stage
Chicken meat portions	USA	SAPA	Sunset Review	In progress – at final stage
Polyethylene Terephthalate (PET)	Chinese Taipei, India and Korea	Hosaf	Sunset Review	Duties maintained
Unframed glass mirrors	India	PFG	Sunset Review	Duties maintained

SUNSET REVIEW INVESTIGATIONS CARRIED FROM PREVIOUS YEAR

Product	Country	Applicant	Type	Initiation date	Status and Duties
Polyethylene Terephthalate (PET)	Chinese Taipei, India and Korea	Hosaf	Sunset Review	29/01/16	Finalised
Unframed glass mirrors	India	PFG	Sunset Review	19/02/16	Finalised

SAFEGUARD INVESTIGATIONS

Product	Country	Applicant	Initiation date	Status
Frozen bone in – portions of fowls (Chickens): TDCA	EU	SAPA	29/07/16	Provisional measures taken on 15/12/16
Hot rolled flat products	All countries	SAISI/AMSA		Preliminary determination published on 22/07/16
Cold rolled products	All countries	SAISI/AMSA		Preliminary determination published on 04/11/16

IMPORT PERMITS ISSUED

- During 2016/2017 import permits issued amounted to 18 660. The target was 16 000.
- Majority of the permits were for the following imported products:
 - Marine Resources
 - Mineral fuels and oils
 - Chemicals
 - Rubber and tyres
 - Metals
 - Capital Goods and Mechanical Appliances
 - Automotive

EXPORT PERMITS ISSUED FOR 1 APRIL 2016 TO 31 MARCH 2017

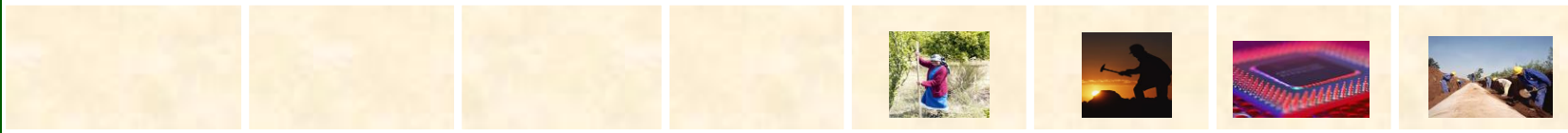
- Export permits issued in 2016/2017 amounted to 12 828. The target was 12 000.

Chapter	Description	Permits Issued	Chapter	Description	Permits Issued
26	Ore, slag and ash	6	75	Nickel waste and scrap	13
27	Mineral fuels	496	76	Aluminium waste and scrap	1 472
29	Hydrocarbons	744	78	Lead waste and scrap	NIL
30	Human blood	3	79	Zinc waste and scrap	21
47	Paper waste	106	80	Tin waste and scrap	NIL
72	Ferrous waste and scrap	2 248	81	Other base metal waste and scrap	59
74	Copper waste and scrap	76	87	Used motor vehicles	6 800



PRICE PREFERENCE SYSTEM FOR SCRAP METAL EXPORTS (PPS)

- During 2013 the Minister of Economic Development issued a policy directive in terms of Section 5 of the International Trade Administration Act, directing ITAC to:-
 - regulate the exportation of ferrous and non-ferrous waste and scrap;
 - not allowing ferrous and non-ferrous waste and scrap to be exported unless first offered to the domestic consumers of scrap metal for a period determined by ITAC and at a price preference determined by ITAC.
- The policy intent being:
 - to promote scrap metal beneficiation and to reverse the decline in the metal fabricating consuming industries.
 - to allow the domestic industry to have access to affordable quality scrap and to supply inputs into governments infrastructure programme.
- The PPS was set for a period of 5 years, which ends in September 2018.
- An impact study has been finalised and will be forwarded to EDD.



- Over the past three years impact studies were carried out pertaining to support for:
 - parts for passenger aeroplanes;
 - fabrics for the manufacture of home-textiles;
 - television assembly;
 - Poultry industry;
 - pasta;
 - tower and lattice masts;
 - Blanket industry;
 - and glass.
- Overall, the results show considerable gains in output, value addition, price competitiveness, investment and jobs.



TARIFF INVESTIGATIONS

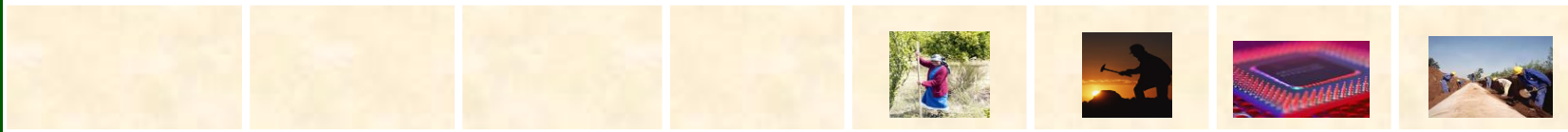
	Targets/outputs (2016/17)	Annual performance
Customs Tariff Reductions	80% of the final decisions must be made within 6 months	80% of the final decisions were made within 6 months.
Customs Tariff Increases	80% of the final decisions must be made within 6 months	50% of the final decisions were made within 6 months.
Customs Tariff Rebates	80% of the final decisions must be made within 6 months	70% of the final decisions were made within 6 months.
Rebate and Drawback permits	80% of the permits issued within 2 weeks.	99% of the permits were issued within 2 weeks.
Automotive Production Development Programme (APDP)	EPC: 80% issued within 10 days after TWG or factory visit. PAA: 80% issued within 10 days after notification from AIDC. PRCC: 80% issued within 30 days.	EPC: 94% were issued within timeframes. PRCC: 99% were issued within timeframes. Verifications: 99% completed within timeframes

TRADE REMEDIES

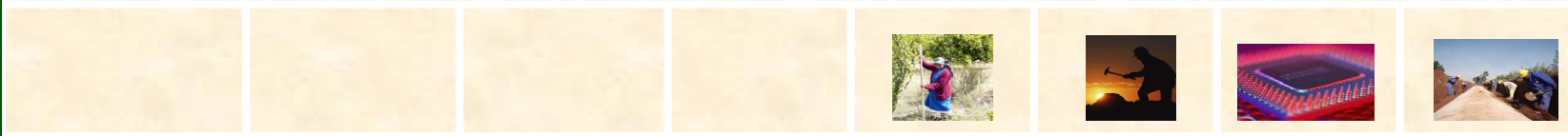
	Targets/outputs (2016/17)	Annual performance
Anti-Dumping Investigations:	<ul style="list-style-type: none"> 80% of Preliminary determination within 6 months of initiation. 80% of Final determination within 10 months of initiation. 	<ul style="list-style-type: none"> No preliminary determination/final determinations No new investigations were initiated during this period
Sunset Review Investigations:	<ul style="list-style-type: none"> 80% of Final determinations within 10 months of initiation. 80% of properly documented application, initiated in 2mnths. 	<ul style="list-style-type: none"> 100% of final determinations made within timeframes. 100% of new Sunset reviews initiated within 2 months.
Safeguard Investigations:	80% of properly documented application, initiated in 2 months.	<ul style="list-style-type: none"> 100% of preliminary determinations within 6 months No final determinations were made

IMPORT AND EXPORT

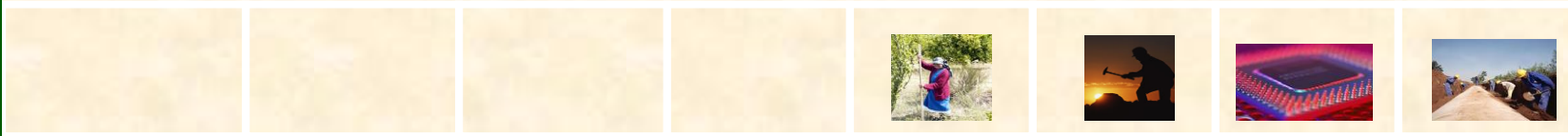
	Targets/outputs (2016/17)	Annual performance
Import Control Permits	<ul style="list-style-type: none"> 16 000 	<ul style="list-style-type: none"> 18 660
Export Control Permits	<ul style="list-style-type: none"> 12 000 	<ul style="list-style-type: none"> 12 828
Inspections and Investigations	<ul style="list-style-type: none"> 500 Scheduled 500 Unscheduled 20 Investigations 	<ul style="list-style-type: none"> 505 2 866 13



- In 2015 and early 2016 import tariffs were increased from zero to 10% on a wide range of primary steel products, following rigorous investigations by ITAC.
- The justification for this support to the domestic industry was the change in global market conditions that saw the oversupply of steel, resulting in low prices and increased imports into SA that local producers could not compete with. The difficulties faced by AMSA and the closure of Evraz resulting in job losses are well known.
- AMSA is situated in Gauteng & Kwa-Zulu Natal and Evraz in Mpumalanga.
- As we were conducting these investigations it became apparent that these increases upstream would put pressure on the competitiveness position of the downstream manufactures.
- The Commission attached conditions to the tariff support for the primary steel industry in which commitments were made by AMSA on fair pricing that would exclude duties. AMSA also made commitments on production, investment and jobs.



- These commitments were to be monitored by a Committee of the Commission established by the Minister of Economic Development in June 2016. The Committee produced its first report in December 2016 and a second report is due in October 2017. The reports are for internal purposes - to evaluate the performance of the beneficiaries against their commitments and decide accordingly. Of course monitoring the performance of the beneficiaries poses challenges including the fact that the market conditions are not static.
- Last year we self-initiated investigations to look at increasing tariffs for the downstream that faces stiff competition from imports of their finished products. To date tariffs have been increased on products such as wire, fasteners, wire netting, welded link chains, grinding balls with some increases in the pipeline. All this intended to give support to the downstream.
- Rebates are also being created for the downstream in the case of specific products that cannot be manufactured domestically. An example is a rebate for certain hot-rolled steel for the manufacture of appliances. There are some in the pipeline including a rebate on certain structural steel.

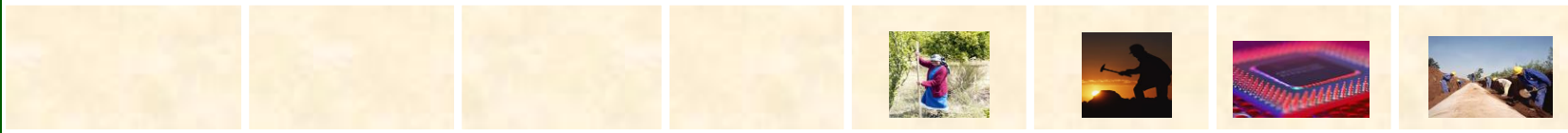


- Recently safeguard duties, a different instrument from the ordinary customs duties have been imposed on Hot-rolled steel to be phased down over a period of three years from 12%, 10% to 8%. This followed a complex and protracted investigation by ITAC, which was highly contested by interested parties downstream. In relation to this safeguard duty a commitment has been made by AMSA not to include the duty in the determination of price. We have also seen AMSA making progress with re-rollers on pricing agreements.
- Following these trade measures we have witnessed a decline in imports of primary steel and increasing orders for the domestically manufactured steel. The structural business at Evraz has been re-opened and people re-employed. Jobs have been retained although with some outstanding challenges of rising input costs; electricity; transport; not so strong domestic demand and low growth rates.
- The difficulty in coming up with trade measures for the steel industry has been the need to balance the interests in the whole value-chain. Government's vision is to have the whole value-chain economically viable and sustainable as against a simplistic approach of: it's either the primary steel industry or the downstream. It's therefore a complex matter and requires flexibility and creativity. The integrated approach that EDD and **thedti** have taken in response to the steel industry crisis is highly commendable. It maximises value for the attainment of government's policy objectives.

- Import Tariffs on poultry meat were increased towards the end of 2013.
- The increases were based on an application brought by SAPA on behalf of: Rainbow Farms Ltd; Astral Operations Ltd; Sovereign Food Investments Ltd; AFGRI Poultry Ltd; and Supreme Poultry Ltd (Country Bird Holdings).
- Rainbow is situated in Durban (Kwa-Zulu Natal), Astral in Midrand (Gauteng), Cape Town (Western Cape) & Standerton (Mpumalanga), Sovereign in Uitenhage (Eastern Cape), AFGRI in Johannesburg (Gauteng) and Supreme in Potchefstroom (North West).
- The justification to increase tariffs included the rising levels of imports and loss of market share by domestic producers; Decreasing profitability in the face of low priced imports; price disadvantages; and input cost pressures.
- There are anti-dumping duties on bone-in chicken meat portions originating from the USA that were imposed in 2000.
- These anti-dumping duties have been maintained through sunset reviews in 2006 and 2012.
- In December 2015 a temporary rebate was created to allow for a free anti-dumping duty importation of 65 000 tons of US bone-in chicken portions annually. This was done in the context of SA's continued participation under AGOA.
- There are also anti-dumping duties on bone-in chicken portions against imports from Germany, Netherlands and the UK that were imposed in February 2015.
- ITAC has finalised the investigation for a safeguard measure in terms of the EPA on frozen bone-in portions of chicken originating from the EU.



- The Human Resources (HR) unit aims to create and maintain an environment which supports and develops the well-being and professional skills of ITAC's employees by providing quality service in the following areas:
 - **Health and Wellness:** ITAC has procured the services of Careways (Pty) Ltd. Through Careways, a number of health and wellness programmes in the form of professional or clinical counselling for employees as well as other wellness interventions in order to advance a good organisational culture are conducted on an on-going basis.
 - **Training, Development and Performance:**
 - ITAC has provided 16 training programmes in line with its Workplace Skills Plan in compliance with the Skills Development Act. This was aimed at addressing the skills gap and to further develop the existing talent.
 - Employees have been awarded bursaries to further their studies in different disciplines, and they have also attended workshops and conferences to acquaint themselves with recent developments which are taking place in various professional environments.
 - In addition to economic rewards for performance which is above expectations, ITAC has non-economic awards in recognition of excellence for its employees.



- **Internship Programme:** ITAC appointed 4 interns to its internship programme in the period under review and 2 interns were subsequently retained as permanent employees of ITAC.

- ITAC's workforce as at 31 March 2017 was 126, Core business: 70; and Support services: 56. In addition, there were 16 contract employees in the period under review.
- Below is the employee profile breakdown:
 - Gender: Males (44%); and Females (56%).
 - Race: African (83%); Whites(10%); Coloured (2%); and Indians (5%).
- The vacancy rate for the period under review was 3.8%.

COMPLIANCE & INTERNAL CONTROLS

- ITAC as a public entity, is required to comply with all applicable legislation and regulations relevant to the public sector. The policies of the entity have been developed after taking into account the relevant and applicable legislation and regulations such as PFMA; ITA Act; Treasury Regulations; PPPFA and relevant SCM regulations; among others. The checklists have been developed to assist in enhancing compliance and any identified non-compliances are addressed.
- ITAC maintains effective internal controls which are designed to ensure that risks are reduced or managed, and that the organisation is able to meet its objectives. ITAC's internal control measures include amongst others the risk management activities, internal audit activities, the relevant committees (Audit and Risk) and other internal governance structures.
- The internal controls are continuously monitored throughout the year by Management, Internal Audit and by other relevant Committees. All identified gaps are corrected.

AUDIT COMMITTEE REPORT

- The Audit Committee (AC) held four regular meetings during the year under review.
- According to the Audit Committee report:
 - The system of internal control applied by ITAC over financial risk and risk management is effective, efficient and transparent.
 - The AC is satisfied with the content and quality of monthly and quarterly reports prepared by ITAC management.
 - The AC is satisfied that the internal audit function is operating effectively, and that it has addressed the risks pertinent to ITAC with the support of the co-sourced Internal Audit function.
 - The AC has met with the AGSA to ensure that there are no unresolved issues. Management has taken note of the findings from the AGSA and has put in place an action plan, not only to address the findings but also to strengthen controls for the future.

RISK MANAGEMENT

- ITAC has a risk management unit which conducts risk assessment continuously and also present the risk register to the Risk Management Committee (RMC) for review.
- The RMC is a subcommittee of the Audit Committee (AC) which monitors risk management activities and present its operations to the AC.
- The Internal Auditors assist the RMC by reviewing the risk register for any update.
- The RMC then makes recommendations to the Chief Commissioner (CC) to approve the reviewed risk register.
- ITAC Executive Committee monitored the internal controls and relevant risk management processes for 2016/2017 financial year and is satisfied with their effectiveness.
- According to the National Treasury's Risk Management Capability Maturity Assessment, ITAC is at level 5 (pertinent risks are well managed).

OPINION OF AUDITOR GENERAL

- ITAC obtained an unqualified opinion in 2016/2017 financial year.

IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

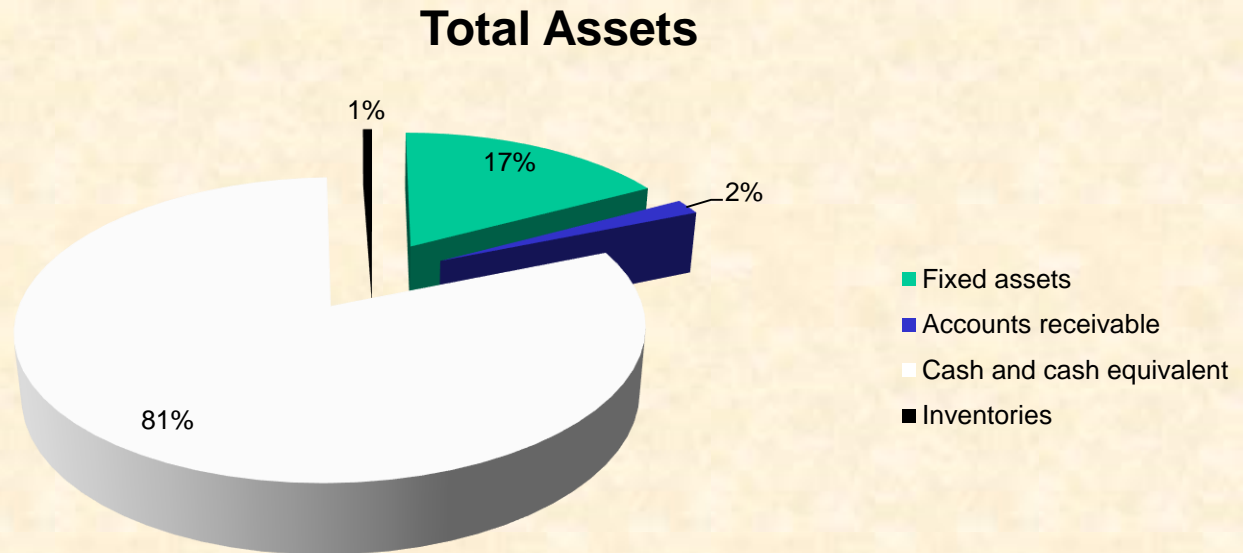
- According to the AGSA audit report, ITAC did not incur irregular expenditure in the 2016/2017 financial year.
- There was also no fruitless and wasteful expenditure incurred in the 2016/2017 financial year.

IMPLEMENTATION OF AUDIT RECOMMENDATIONS

- ITAC has developed an Audit Action Plan template with actions to be taken in order to address the audit findings relating to compliance, as identified by the AGSA.
- Some of the weaknesses identified during the audit have been addressed and there is constant monitoring of the activities which are still in progress.
- The Internal Audit's three year rolling plan include following up on the audit findings of the AGSA.
- The Executive Committee also plays a role of monitoring the implementation of the action plan through a report presented on implementation.

OPERATING RESULTS – TOTAL ASSETS FOR 2016/2017

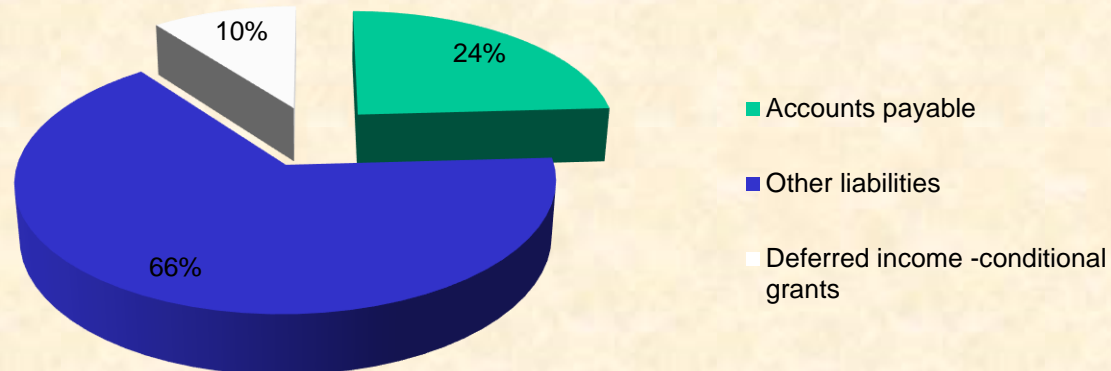
- ITAC is in a sound financial position as assets are more than its liabilities. Total assets amounted to R23 million while total liabilities amounted to R15.3 million.



OPERATING RESULTS – TOTAL LIABILITIES 2016/2017

- Below is a graphic representation of ITAC's total liabilities (R15.3 million)

Total Liabilities

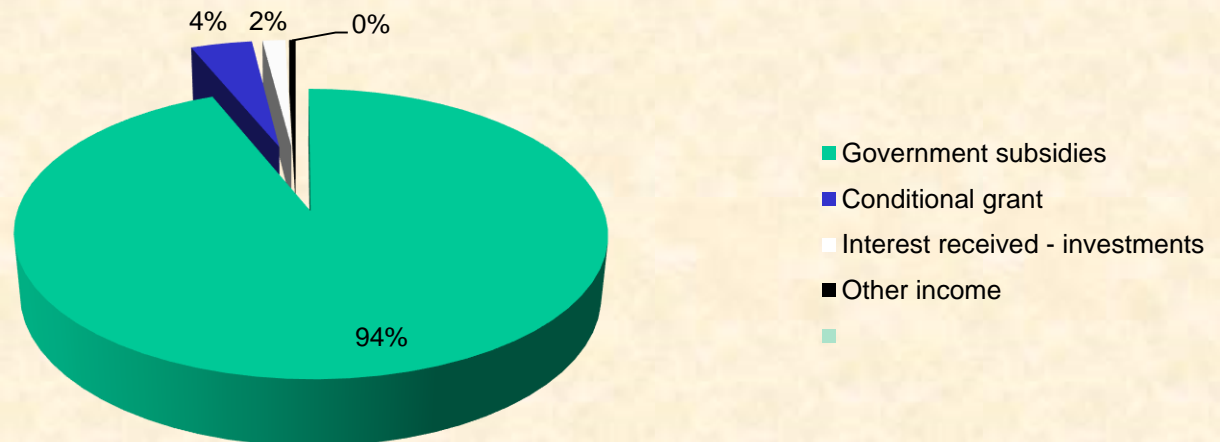




OPERATING RESULTS – REVENUE 2016/2017

- ITAC's total revenue amounted to R92.7 million.

Revenue

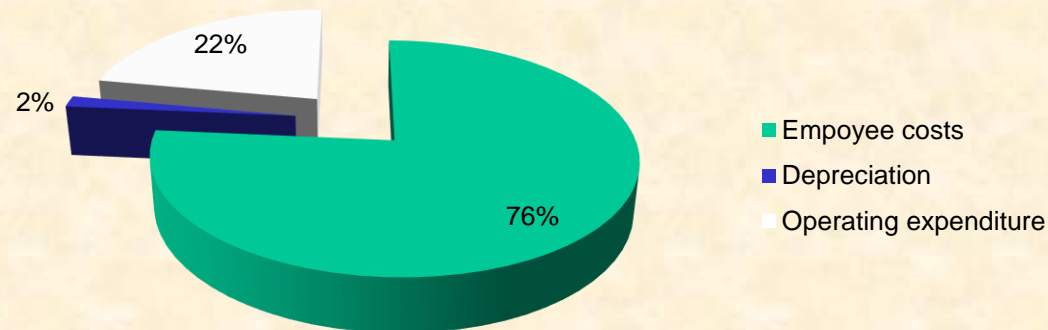


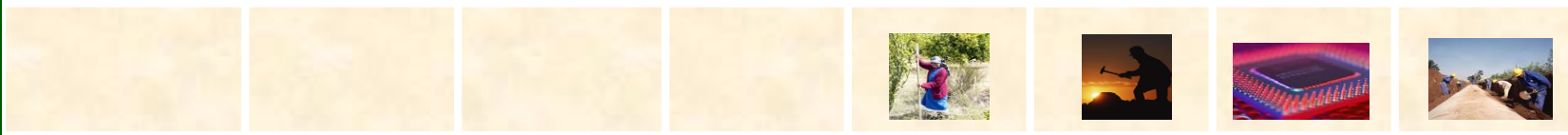


OPERATING RESULTS – EXPENSES 2016-2017

- ITAC's total expenditure amounted to R104,2 million and the deficit per GRAP reporting amounted to R11.5 million for 2016/2017. This deficit is largely funded from previously accumulated surplus.
- Contributors to the deficit include the following:
 - Increase in lease expenditure; salaries of contract employees for scrap metal; and interns. However, the EDD made additional allocation for conditional grants to cover salaries of scrap metal contractors. The remaining expenditure is funded from surplus as stated above.

Total Expenditure



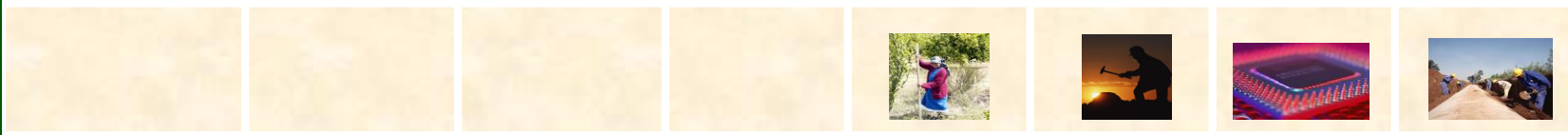


OPERATING RESULTS – COST CONTAINMENT MEASURES

- In light of the fiscal constraints, ITAC has managed to contain costs on some of the cost items without undermining the quantity and quality of its basic services as exemplified below:

COST ITEMS	2013/2014	2014/2015	2015/2016	2016/2017
International Travel and Subsistence	1,700,642	914 973	829 818	162 545
Conferences and Workshops	515 593	52 226	7 900	83 649*

* Trade Remedies Public hearing; Commission Meeting (InvestSA); NAACAM (Automotive cluster conference)



- ITAC made a request for additional funding to the National Treasury via EDD in May 2017.
- The basis for this request is the following:
 - During the 2014 MTEF allocations, ITAC's baseline budget for the 2015/16 and 2016/17 financial years was reduced by R4.8 million and R7.3 million respectively, a total reduction amounting to R12.1 million.
 - **Major cost items where funding is needed are:**
 - Rental: In the 2015/16 financial year, **thedti** increased the rental amount from R186/m2 to R290/m2, which is effectively a 56% increase.
 - PPS Project
 - Legal Fees (Litigation)
- According to the financial situation depicted above, ITAC recorded surpluses in 2012/13 and 2014/15, and deficits were recorded in 2013/14, 2015/16, and 2016/17. The deficits have been financed from the accumulated surplus. It is also anticipated that a deficit will be reported in 2017/18 as the accumulated surplus is expected to have been fully utilised.



Thank You

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