



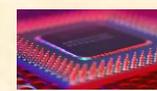
BRIEFING ON THE APP (2018/2019)

TO THE PORTFOLIO COMMITTEE ON ECONOMIC DEVELOPMENT

DATE: 27 March 2018

Chief Commissioner: Meluleki Nzimande





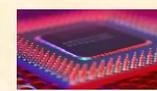
1. Introduction
2. Key Strategic Objectives & Performance Areas & Services.
3. Core Business Units
4. Tariff Investigations
5. Trade Remedies
6. Update on steel investigations
7. Update on poultry investigations
8. Import and Export Control
9. Impact Assessments
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Minister Patel in his SONA debate 2018 states:

“Industrial expansion is vital – government will launch a new auto sector scheme this year focusing on jobs and localisation of component manufacturing and greater efforts to expand labour intensive industries such as clothing and textile, agriculture and agro-processing. Trade with the rest of Africa already accounts for more than a quarter-million direct jobs in SA. We will use a combination of the proposed Free Trade Area (FTA), investment and cross-border infrastructure facilities to deepen our economic relations with neighbours”

In his foreword to ITAC’s APP, the Minister says: “Given our focus on industrialization, it is clear that we need policy space on trade matters that enables short and medium term support to be given to industries with growth potential, whilst carefully weighing the costs thereof on consumers and competitiveness.”



Minister Davies in his 2018 March briefing on the SONA debate refers to the following developments (among others) which impact trade policy:

- Disruptions caused by intensifying patterns of automation and digitalization.
- Increase in protectionist measures, especially in developed countries against a backdrop of rising nationalist and populist politics.
- Rise in trade disputes triggering adverse impacts and retaliatory moves along global value chains.
- Possible increase in imports into SA as exporting countries seek alternative markets due to rise in protectionism – need to preserve policy space to protect SA’s productive capacity.
- Institutional risk to the WTO and its ability to resolve trade disputes – Appellate body vacancies.
- The T-FTA will form the basis for an Africa-wide FTA (CFTA).

Ensure contribution to employment creating growth and development through effective delivery of international trade instruments

International Trade Instruments

What will be pivotal in improving the provision of customs tariffs, trade remedies, and import and export control will be the quality and turnaround times.

Customs Tariff Investigations
[Increasing Duties, Reducing Duties, & Creation of Rebates]

Trade Remedies Investigations
[Antidumping, Countervailing & Safeguards]

Import & Export Control
[Permits & Enforcement]

Ensure strategic alignment with and relevance to the Economic Development Department and national agenda

International Trade Technical Advice

Continue proactively making technical inputs and contributions to trade and industrial policy implementation, as well as trade negotiations at bilateral, regional and multilateral levels.

Technical Inputs on Trade and Industrial Policy Including Sector Strategies

Technical Inputs on Trade Agreements
[WTO, SADC, SACU, TFTA & CFTA] ;
Bilateral Agreements
[EU, EFTA, MERCOSUR, & INDIA]

Ensure organisational efficiency and effectiveness of ITAC

Business Support Services

The performance of the institution will be driven through appropriate business solutions, efficient and effective utilisation of material, human and information technology resources.

- Human Resources
- Finance
- Information Technology
- Legal Services
- Policy and Research
- Office of the Chief Economist

Tariff Investigation I
Rika Theart

- Agriculture & Agro-processing
- Chemicals
- Textiles
- Clothing and Footwear

Tariff Investigation II
N. Somdaka

- Motors
- Metals and Machinery
- Automotive Production Development Programme (APDP)

Trade Remedies I
Z. Xabendlini

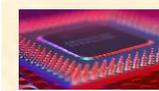
- Anti-dumping
- Countervailing
- Safeguards

Trade Remedies II
C. Van Vuuren

- Anti-dumping
- Countervailing
- Safeguards

Import and Export Control
M. Collins

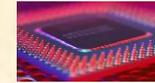
- Import Permits
- Export Permits
- Enforcement



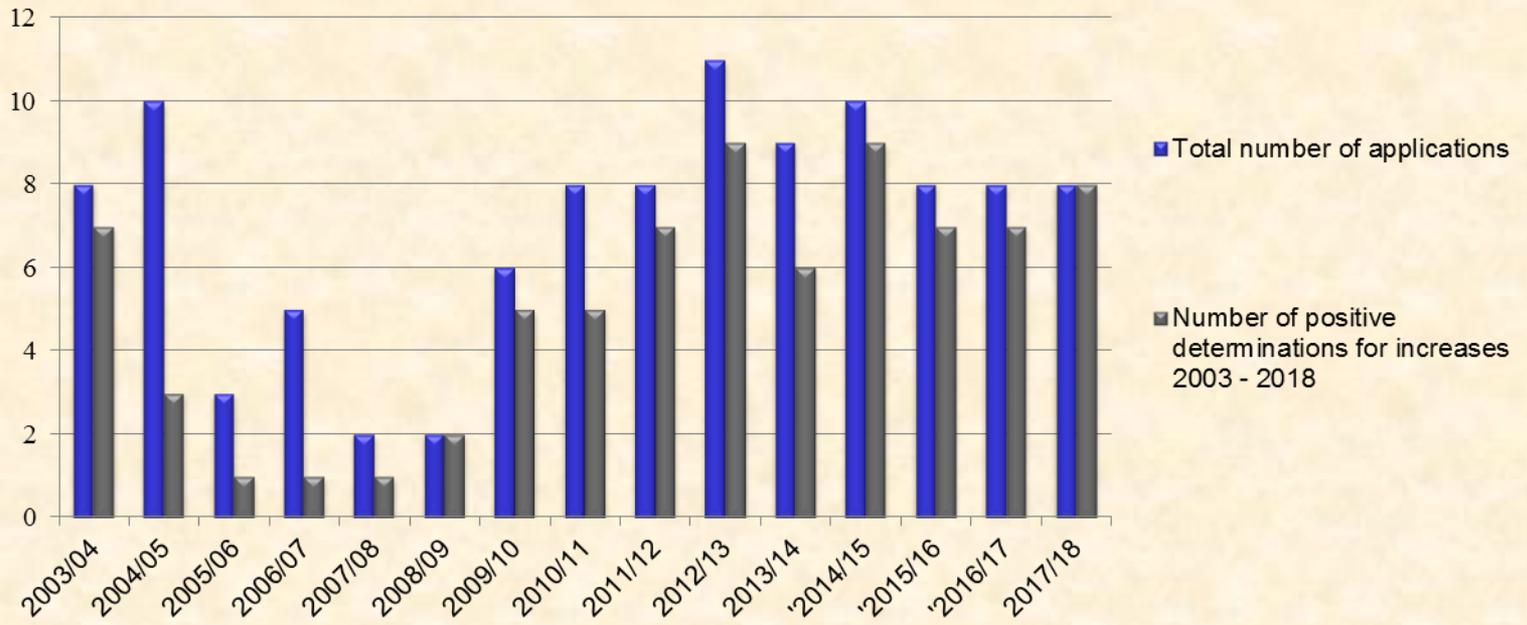
- The National Development Plan (NDP) provides the long-term vision.
- The National Growth Path (NGP), Industrial Policy Action Plan (IPAP) and the South African Trade Policy and Strategy Framework provide policy parameters within which ITAC executes its mandate.
- These documents are consistent in their call for developmental trade policies and for trade policy to contribute to structural changes in the economy.
- The NGP places employment creation at the centre of economic policy, which has meant that tariff policy has to be sensitive to employment outcomes.
- The Commission follows a developmental approach to tariff setting for both agricultural and industrial goods.

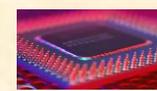


- It is neither a rigid blanket increase nor blanket reduction in tariffs. Tariffs are instruments of industrial policy. The Commission’s recommendations are evidence-based and dependent on the facts of each case. In some cases tariffs are increased, in others reduced and also rebates are created. The focus is on the outcomes: increased domestic production, investment, job retention and creation, and international competitiveness.
- The ITAC strategy also highlights the approach ITAC has taken and will take on the relevant “jobs drivers” (Infrastructure; Agriculture; Mining; Green Goods; Manufacturing)
- ITAC is placing more focus on measuring the outcomes of its interventions through impact assessments. Putting more emphasis on trade monitoring, conditionalities, proactive initiatives and coordination with relevant government agencies. Recipients of support through trade instruments will be held to their reciprocal commitments.

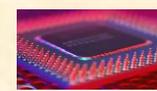


TREND ANALYSIS OF TARIFF INCREASES FOR THE PERIOD 2003 - 2018

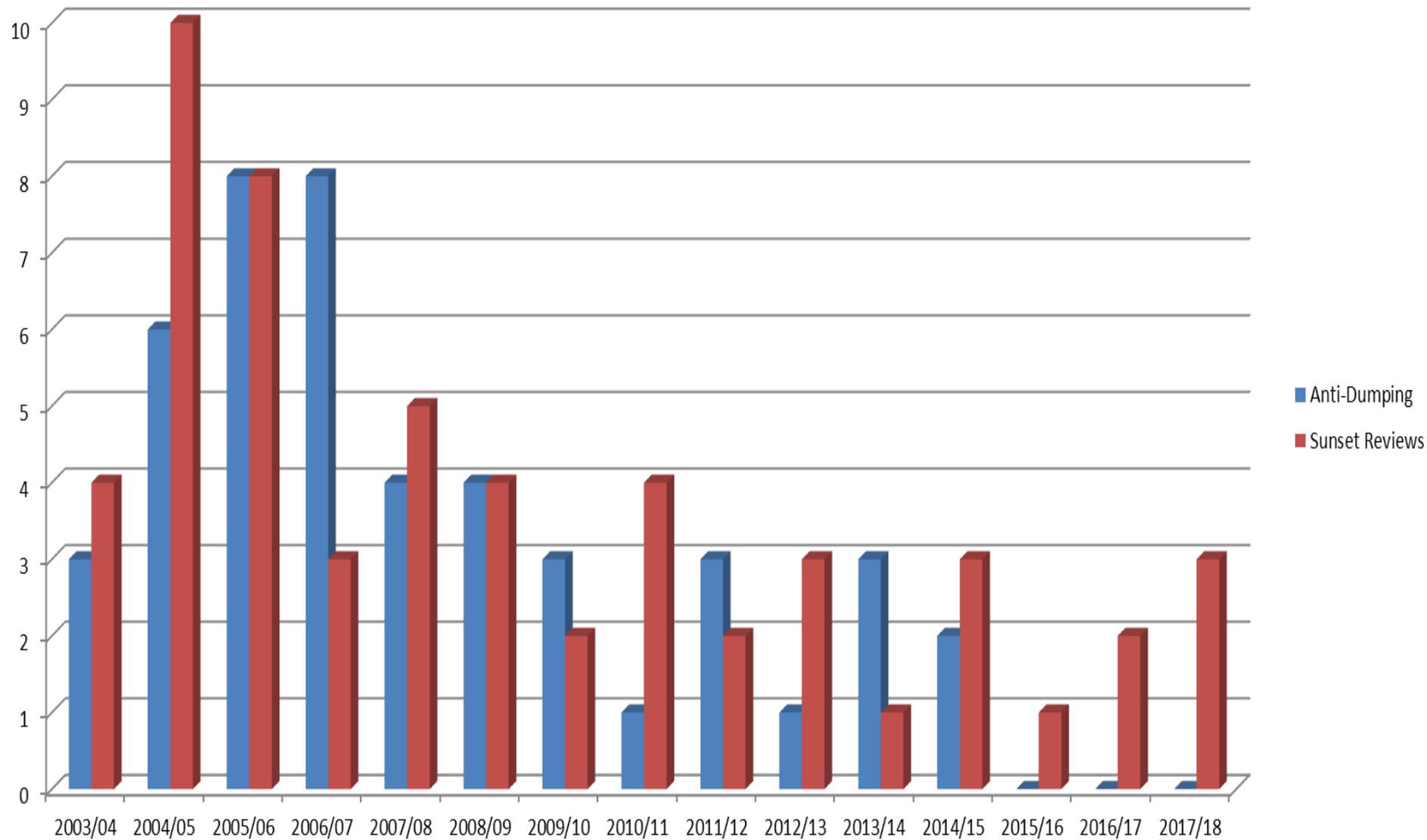




- There are three trade remedy instruments: anti-dumping duties, countervailing duties, and safeguard measures.
- Historically, anti-dumping is the most frequently invoked, both globally and in South Africa.
- In the years 1995 to 2017, the Commission initiated 13 countervailing investigations, in comparison to the 229 anti-dumping investigations initiated and in the years 2007 to 2017, the Commission initiated only two countervailing investigations.



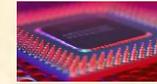
- Since ITAC's establishment in 2003, a number of safeguard investigations have been conducted.
- More interest has been shown in this instrument since 2012.
- Four safeguard investigations were conducted - lysine; frozen potato chips; hot rolled steel; cold rolled steel.
- An investigation on frozen chicken portions in terms of the TDCA/EPA was initiated in 2016 and is awaiting decision by the Minister of Trade and Industry.





- On 22 August 2016 and 23 September 2016, ITAC, of its own accord initiated an investigation to assess whether to increase MFN tariffs on a number of downstream products from applied rate to the WTO Bound rate.
- This followed concerns expressed by the SACU downstream steel industry regarding the lack of tariff protection against extremely low priced imports of finished products. Exporting countries have shifted their focus from primary products to finished goods in response to the increase in SACU import duties.
- The guiding principle in these investigations has been to ensure economic viability, sustainability of production, investment and jobs in the whole steel industry value chain. In other words SA/SACU needs both the upstream and the downstream.





- The increase on customs duty was recommended on the following:
 - steel wire products; steel fasteners (including screws, bolts nuts, screw hooks, rivets, cotters, pins and washers); welded-link chains; forged grinding balls; gabions of wire netting; prefabricated steel buildings; and stranded wire and ropes.
- The tariff review on the downstream has resulted in commitments by the relevant industries to preserve or create new jobs in the next 3 years following the increase in duties.
- A safeguard duty of 12% on the hot-rolled steel was implemented on 11 August 2017.



Duties Imposed on Downstream Steel Products

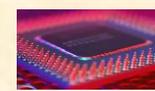


APPLICANT/S	PRODUCT	TARIFF SUBHEADINGS	STATUS
Cape Gate (Pty) Ltd	Steel wire	7217.10 and 7217.20(2 THS), from free of duty to WTO Bound rate of 10% <i>ad valorem</i> .	Implemented on 31 March 2017.
CBC Fasteners (Pty) Ltd Ebennaeser Engineering (Pty) Ltd Transvaal Pressed Nuts (Pty) Ltd Bolt and Rivets (Pty) Ltd Tel-Screw Products (Pty) Ltd	Fasteners which include screws, bolts nuts, screw hooks, rivets, cotters, pins, washers and similar articles of iron or steel	7318.15.39, 7318.15.43, 7318.16.30, 7318.15.41, 7318.11, 7318.13, 7318.15.26, 7318.15.35, 7318.15.90, 7318.16.90, 7318.19, 7318.23, 7318.24, and 7318.29 (14 THS), from free, 10% and 20% to respective WTO Bound rate 20% and 30% <i>ad valorem</i> .	Implemented on 31 March 2017.
Maccaferri (Pty) Ltd Gabion Baskets (Pty) Ltd	Gabions of wire netting	7326.20.10(1 THS), from free of duty to the WTO Bound rate of 30% <i>ad valorem</i> .	Implemented on 1 September 2017
Scaw Metals (Pty) Ltd	Grinding balls and similar articles for mills	7326.11 (1 THS), from free of duty to the WTO Bound rate of 15% <i>ad valorem</i> .	Implemented on 1 September 2017
Scaw Metals (Pty) Ltd	Welded Chain links	7315.82.01, 7315.82.03, 7315.82.05, 7315.82.07 and 7315.82.90 (5 THS) from free of duty to 15% <i>ad valorem</i>	Implemented on 1 September 2017
KwickSpace Modular Buildings (Pty) Ltd	Prefabricated steel buildings	9406.90.10 and 9406.90.90(2THS), from free of duty to the WTO Bound rate of 10% <i>ad valorem</i>	Implemented on 17 November 2017.
Scaw Metals (Pty) Ltd	Stranded wire and ropes	7312.10.20; 7312.10.25 and 7312.10.40 (3 THS), from 5% to WTO Bound rate of 15% <i>ad valorem</i>	Pending implementation

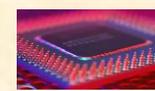


The Commission considered the following factors as justification for tariff support on the indicated downstream steel products:

- The low-priced imports have resulted in price disadvantages for the domestic firms;
- Declining domestic production and sales;
- The domestic firms market share declined and its capacity utilization has fallen below its potential;
- Declining profitability for the domestic industry in the face of escalating cost structures;
- Diminishing domestic employment and investment opportunities; and
- The downstream steel industry is relatively labour-intensive. As a result, its sustainability is crucial for both employment retention and creation.



- In 2015 the Commission had deferred the implementation of customs duty on structural steel pending the re-opening of the structural mill by Evraz. Subsequently, on April 2017 Evraz re-started the mill following the conclusion of a contract manufacturing agreement between ArceloMittal SA and EVRAZ.
- The agreement is for a period of 24 months and AMSA has the option to purchase the mill after 18 months. EVRAZ has recommenced the manufacturing of heavy structural steel with AMSA supplying primary material (blooms and slabs) to the mill.
- The recommended customs duty of 10% on structural steel was implemented on 4 August 2017.
- Benefits of restarting EVRAZ: i) re-employment of 400 previously retrenched people; ii) opportunity for import replacement resulting in improvement in the balance of payments; and iii) inclusion of main line rails which were never rolled in South Africa before.



- **There has been a concern that there are some types and grades of materials not manufactured locally, which are part of the tariff lines where duties have been imposed.**

- In this regard, on 20 October 2017 ITAC initiated an investigation into the possible creation of rebate provisions on ordinary customs and safeguard duties applicable to certain primary steel not manufactured locally.

- **Pricing methodology for re-rollers.**

- ArcelorMittal has signed a supply agreement for a period of 3 years based on fair pricing principle and methodology with Duferco Steel Processing (Pty) Ltd (26 April 2017) and Safal Steel (Pty) Ltd (16 October 2017).
- The pricing methodology only covers hot-rolled steel. The re-rollers compete directly with ArcelorMittal on the final product i.e. coated and painted flat steel.
- The objective behind the fair pricing principle and methodology is to place the re-rollers in approximately the same position they would have been had they imported the product, taking into account the advantage of local delivery and certain value added benefits like the lower capital costs in not having to hold higher levels of stock.



- On 10 June 2016 the Minister of Economic Development established the Committee of the Commission on Steel in terms of section 14 of the ITA Act. Its term is five years.
- The purpose is to monitor: the impact of changes in import tariffs; reciprocal commitments made by the applicants; jobs in the whole value chain; and import and export trends. The Committee makes recommendations to the Commission at least bi-annually.
- The Committee's membership currently constitutes the Commissioners and industry representatives. However, nominations have been requested from labour organisations - Solidarity and NUMSA. Officials from **thedti** and the Department of Economic Development attend meetings of the Committee to offer technical assistance. They are not members of the Committee.
- In the first year, the term membership to the Committee was 12 months. The Minister has been requested to approve the renewal of the term of the current members and new members to replace those who have resigned from the Committee. If approved, their term will be 24 months.





- In May 2016, the Minister of Economic Development directed the Commission in terms of section 16(1) (d)(i) of the ITA Act to evaluate and investigate a review of the Dollar-based reference price system (DBRP) and variable tariff formulae for wheat, maize, and sugar. The directive was made in view of the fact that wheat, maize, and sugar are basic necessities used by South Africans, and that the country was in the grip of a drought with large exchange rate fluctuations.
- The aim of the approved variable tariff formula is to set a fair level of protection that would encourage farmers to plant wheat, maize and sugar, and be able to compete against low priced imported products, without causing an undue adverse price raising effect downstream. Wheat, maize and sugar form part of the food security basket, however, economically wheat is not the most profitable crop, which necessitates stimulation of production. Additionally, maize, sugar and bread are staple foods for the low income segment of the population, which requires a pricing system that does not render these food items unaffordable.





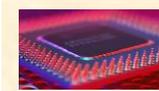
- A new variable to the Variable Tariff Formulae for wheat, maize and sugar, namely the Real Effective Exchange Rate Index (REER), was introduced in order to address the negative impact of exchange rate fluctuations. It is one of the variables used in calculating the duty to be imposed.
- This new variable is factored into the variable tariff formula to ensure that producers are protected against real cost pressures and foreign currency denominated intermediate input costs such as fertiliser and machinery parts and not benefit unduly from exchange rate fluctuations, by adjusting the duty with the Rand's Real Effective Exchange Rate Index as published by the South African Reserve Bank.
- The Real Effective Exchange Rate Index supports farmers proportionally against a depreciating or an appreciating currency by adjusting the nominal Rand exchange rate for price differentials between South Africa and its most important trading partners. This would ensure that windfall profits or unnecessary additional protection to producers due to exchange rate fluctuations do not accrue to producers at the expense of price affordability.
- **Current level of import duties:**
 - ✓ Sugar: 42%
 - ✓ Maize: 0%
 - ✓ Wheat: 24%





- On 15 February 2018, the South African Sugar Association (SASA) submitted a new application for an increase in the Dollar Based Reference Price for sugar from US\$566/ton to US\$856.32/ton.
- The main reasons forwarded are:
 - ✓ The continued influx of duty paid imports;
 - ✓ The current level is inadequate and is below cost of production; and
 - ✓ As a mitigation measure against the impending Health Promotion Levy (Sugar Tax).
- The US\$566/ton DBRP currently yields a duty of 42% against imported sugar.
- Using February 2018 pricing information, the requested level of US\$856.32, if approved would result in duties being increased to the Bound Rate of 105%.
- The application is in the preliminary stage of investigation and it is envisaged that ITAC's processes will be concluded within a period of 4 - 6 months from the date that the application is deemed duly complete.



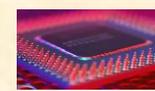


- Import Tariffs on poultry meat were increased towards the end of 2013.
- The increases were based on an application brought by the South African Poultry Association (SAPA) on behalf of the SA chicken industry. The companies which provided data were Rainbow Farms Ltd; Astral Operations Ltd; Sovereign Food Investments Ltd; AFGRI Poultry Ltd; and Supreme Poultry Ltd (Country Bird Holdings).
- The justification to increase tariffs included the rising levels of low priced imports and loss of market share by SACU producers; Decreasing profitability; price disadvantage; and increasing SACU input costs.

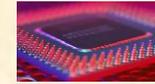


Tariff Subheading	Product	Approved Tariff Regime
0207.12.90	Whole bird	82% bound rate
0207.14.10	Boneless cuts	12%
0207.14.90	Bone-in portions	37%
0207.14.20	Offal	30%
0207.12.20	Carcasses	31%



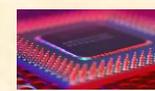


- There are anti-dumping duties on bone-in chicken meat portions originating from the USA that were imposed in 2000.
- These anti-dumping duties have been maintained through sunset reviews in 2006; 2012 and 2017.
- In December 2015 a temporary rebate was created to allow for a free anti-dumping duty importation of 65 000 tons of US bone-in chicken portions annually. This was done in the context of SA's continued participation under Africa Growth and Opportunity Act (AGOA).
- There are also anti-dumping duties on bone-in chicken portions against imports from Germany, Netherlands and the United Kingdom that were imposed in February 2015.
- ITAC has completed an investigation for safeguard measures to be imposed in terms of Article 34 of the Economic Partnership Agreement (EPA) on frozen bone-in portions of chicken originating from the EU and a final decision by the Minister of Trade and Industry is awaited.



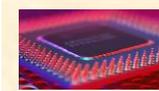
- Import and Export control measures in a globally integrated economy are limited to those allowed under the relevant World Trade Organization (WTO) Agreements.
- Import control measures are essentially for health, safety, environmental and national security reasons. With regard to control measures imposed for environmental reasons, ITAC makes a contribution to the green economy. In enforcing standards and combating illegal and fraudulent trade, ITAC plays a more strategic role with regard to import control measures and enforcement.
- Mineral beneficiation has been identified as one of the areas where jobs will be created and this has necessitated an alignment of ITAC's export control measures to give support to local mineral beneficiation.



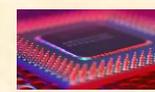


- ITAC has strengthened its export control measures on scrap metal through the introduction of a price preference system (PPS) to promote investment and employment opportunities in the domestic metals beneficiation and fabrication industries and supply to governments infrastructure programme
- Since this is the first time that ITAC administers such a system, focus was placed in ensuring its effective administration and managing litigation.
- Two court cases were successfully defended during the course of administration of the PPS, one against the MRA in the Gauteng High Court and the other against SA Metals in the Appeal and Constitutional Courts.
- The PPS will terminate in September 2018 unless it is extended.



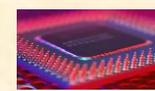


- Different and conflicting interests in the value chain of each investigation may lead to court challenges by parties that stand to lose.
- In respect of court cases, ITAC appeared in domestic courts 28 times (High, Supreme and Constitutional courts) since its establishment in 2003.
- Out of the 28 court cases instituted against ITAC to date, ITAC was successful in 20. The 8 cases lost were mostly in the early days of ITAC.
- Other jurisdictions face similar challenges, although in differing degrees.
- There is also the WTO Dispute Settlement Mechanism within which government to government disputes are addressed.



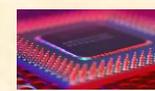
- Government's outcomes approach provides a framework for the enhanced monitoring of service delivery, including guidelines for results-driven performance.
- To ensure continued relevance and alignment to both thedti and EDD, the Commission continues to gauge the performance of the beneficiaries of its instruments against the policy objectives set out in the NGP, IPAP and TPSF.
- Whether or not ITAC's instruments have made a positive impact depends on the extent to which the support has resulted in increased domestic manufacturing, investment, employment, value addition and competitiveness after the support was given compared to the period before support was given. Firm-level data is used for such assessments.

HUMAN RESOURCES

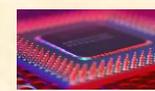


- ITAC has a total of 131 funded positions within its establishment.
- This number excludes 14 contract and internship positions categorised as follows:
 - PPS Contractors: x 8 (2 x Administrators ; 2 x Assistant Managers; 4 x Senior Investigators)
 - Internal Audit Contractors: x 3 (2 Administrators; 1 Assistant Managers)
 - Finance x 1 (Administrator)
 - HR x 1 (Administrator)
 - Trade Remedies x 1 (Administrator)
- The staff complement as at March 2018 is 119 with twelve vacant positions, excluding contract positions. Of the 119 employees, 66 are in core business; and 50 in support services. There are 3 executive management positions.
- The following is the break down in terms of the employee profile:
 - Gender: Males (43%); and Females (57%).
 - Race: African (86%); Whites(8%); Coloured (2%); and Indians (5%).

FINANCIAL RESOURCES



- ITAC's grant from National Treasury over the past 3 years increased (on average) by 4.7% annually, while employee related costs increased (on average) by 7% annually as per the previous multi-year salary adjustment agreement. Rental costs increased by 56% in 15/16, and by 10% annually from then.
- During the 2014 MTEF period, ITAC's baseline budget for 2015/16 and 2016/17 financial years was reduced by R4.8 million and R7.3 million respectively, resulting in a total reduction of R12.1 million.
- The shortfall caused by that reduction was financed from ITAC's accumulated surpluses, which are now depleted.
- ITAC's budget allocation was further reduced during the 2018 MTEF period by R8.3 million.
- The total budget for the 2018/19 financial year amounts to R104 million.
- For the 2018/19 financial year, employee related costs account for 90% of the total budget and ITAC anticipates a shortfall of R3.3m.
- Over the past years, other operating expenditure such as office rent and legal fees have increased significantly.



The following are the priority projects for the 2018/19 financial year:

- ITA Amendment Bill;
- Finalising the Review of AD Regulations;
- Strengthening Reciprocal Commitments; and
- Impact Assessments.



Thank You

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