NUMSA SUBMISSION ON THE 2020 FISCAL FRAMEWORK AND REVENUE PROPOSALS TO THE JOINT MEETING OF THE STANDING COMMITTEE ON FINANCE AND SELECT COMMITTEE ON FINANCE

04th March 2020

1. **Introduction**

The National Union of Metalworkers of South Africa (NUMSA) has noted Budget Speech which was presented by Tito Mboweni, the finance minister. The minister reinforced what we have always known. He did not deviate from the neo-liberal macro-economic policies which have been the cornerstone of the governing ANC's economic strategy.

The 2020 Budget proposes, over the next three years, total reductions of R261 billion. This includes a R160.2 billion reduction to the wage bill and cuts in spending on social services and infrastructure to the tune of around R100 billion. The 2020 budget is clearly an attempt to reassure the international and local finance capital, white monopoly capital and credit rating agencies, who have threatened to downgrade the South African economy to 'junk' status - by pretending that everything is under control and no radical changes are required.

Addition to this is the deliberate attempt by the Minister of Finance to saw divisions and pit workers against each another. This intention is shown in his insinuation that R 160 billion will be taken away from civil servants through wage bill reforms so that it is given to Eskom and SAA, both which have been under attack with clear intensions to retrench workers through unbundling at Eskom and through the business rescue process at SAA. The minister is indirectly telling workers in the public sector that they are worse off, because the country is trying to save jobs in the struggling SOE's. Furthermore, the government is also telling citizens that their taxes will not be increased; instead government will reform the public servants and cut salaries. Government is basically asking citizens to choose between good public services and tax relieves. This is the worst form of arrogance from a government which continues to treat its people with contempt! What become clear is that ALL workers and citizens of the country are under-siege. The government has chosen to side with capital and forgot about the developmental need of the country.

The threat of aggressive austerity measures and the steamrolling of privatisation of state-owned enterprises will worsen economic conditions and will have greater impetus under the pretext of containing an imminent recession.

1. **Fiscal Budget**

1.1. Government spending

South Africa's fiscal framework reflects very little understanding of either the depth of the crisis long experienced by poor, working class majority of South Africans or the disproportionate burden placed on the poor as a result of worsening economic conditions. The economy is confronted with the devastating quadruple crisis of unemployment, poverty and inequality, which have worsened 1994. The unemployment rate is sitting at 29.1%. Those who own the means of production have a greater bargaining power of how the economy should move. But for the rest of the country, the outlook of the economy is slowing down at unprecedented rates. The reserve bank, leading indicator has shown a downward trend of the economy of around the rate of -1.7% as at February 2020. The low to no growth scenario means fewer jobs are created in the economy and sum of goods produced in the economy is lower.

Difficult times ahead led by a government which is highly distracted by party politics internal factional battles!

1.2. On Social Welfare grants

Figure 1: Average Monthly Social grants values

Rand	2019/20	2020/21	Percentage increase
Old age	1 780	1 860	4.5%
Old age, over 75	1 800	1 880	4.4%
War veterans	1 800	1 880	4.4%
Disability	1 780	1 860	4.5%
Foster care	1 000	1 040	4.0%
Care dependency	1 780	1 860	4.5%
Child support	425	445	4.7%

Source: National Treasury

Source: OECD, International Monetary Fund

Contrary to the 'increases' stated in the Budget, in real terms, when considering the escalating cost of living with high electricity prices, increase in transportation costs, food inflation and the Rand losing its value, the nominal increase reflected as R80 increase for old age, disability and care dependency grants and R80 in war veteran grants is a mere 4.4% year-on-year increase. While the R40 increase in foster care grant and R20 increase in child support grants collectively add up to a mere increase of 4.4%. These social grants increases are way less compared to the increases in cost of living. The total number of welfare beneficiaries is expected to increase by almost 1 million, to approximately 19 million people, by 2022/23. The ever growing dependency on social welfare grants signifies that citizens are getting poorer-and-poorer and also signifies that we are without a doubt NOT growing the tax base.

1.3. Taxes and Revenue

1.3.1. Fuel Increases

Figure 3: Total combined fuel taxes on petrol and diesel

Rands/litre	2018/19 93 octane petrol	Diesel	2019/20 93 octane petrol	Diesel	2020/21 93 octane petrol	Diesel
General fuel levy	3.37	3.22	3.54	3.39	3.70	3.55
Road Accident Fund levy	1.93	1.93	1.98	1.98	2.07	2.07
Customs and excise levy	0.04	0.04	0.04	0.04	0.04	0.04
Carbon tax[1]	–	–	0.07	0.08	0.07	0.08
Total	**5.34**	**5.19**	**5.63**	**5.49**	**5.88**	**5.74**
Pump price[2]	15.30	14.20	13.86	13.14	15.71	14.57
Taxes as percentage of pump price	*34.9%*	*36.5%*	*40.6%*	*41.8%*	*37.4%*	*39.4%*

1. The carbon tax on fuel became effective from 5 June 2019
2. Average Gauteng pump price for the 2018/19 and 2019/20 years. The 2020/21 figure is the Gauteng pump price in February 2020. Diesel (0.05% sulphur) wholesale price (retail price not regulated)
Source: National Treasury

The fuel levy will increase by 25c/litre. This implies consumers will be paying R2 a litre more for petrol than last year. The total tax on 93 octane petrol in Gauteng will be increasing to R5.88 a litre and to R5.74 on diesel. Business insider South Africa, analyses this tax as 37% of the petrol price and 39% of the diesel price increases.

When the cost of fuel increases; the prices of taxis, mini buses, and all mode of transport used by the poor also increases. It is also a well-known fact that majority of workers spend 40% of their wages on transport. Again! A clear indication that the budget did not- at all take into consideration the plight of the poor and working class. Clearly the peanuts increases in the social welfare will not alleviate the burden placed on the poor. The African National Congress continues to fail the poor masses of South Africa!

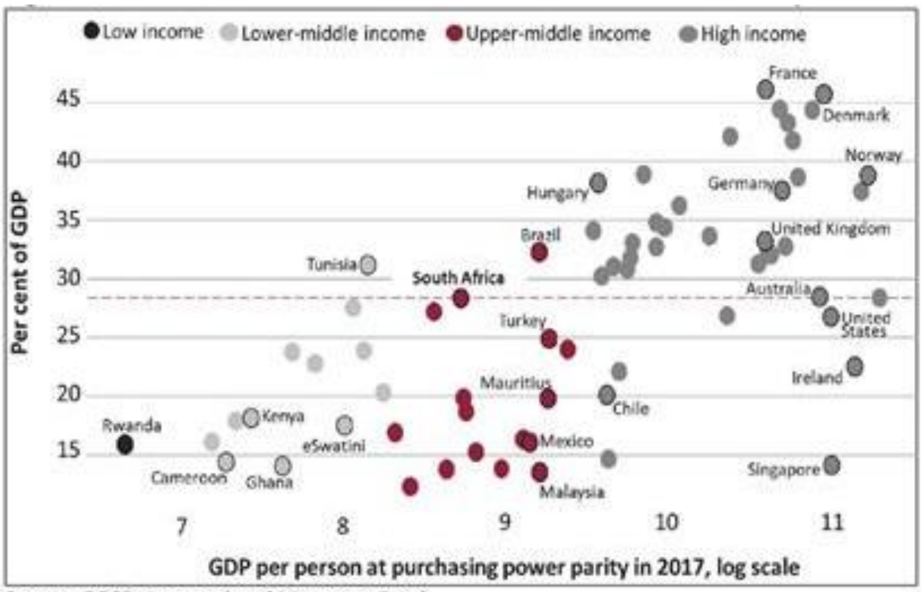
On E-tolls, this is nothing more than daylight robbery, from an already economically stressed population. The state intends to mine the working class in perpetuity for the E-tolls. There is no end to this user pay system, and yet, it is said that we are servicing a debt. Every debt has a lifespan, the E-tolls, payment process seemingly does not. We will be paying for the roads forever, and that is why it is corrupt. We reject it!

1.3.2. Tax outline

The minister has announced various permutation of tax relieves such as;

- No major increases in PAYE, and tax adjustments across different tax brackets. Lower earners will be allowed a tax relief of 0.6% on average (R1 500 for workers earning R 265 000 and R3 400 for workers earning R460 000).
- VAT was not increased for the 2020/2021 fiscal year
- Tax free investment has been increased from R30 000 to R36 000.

Figure 2: Tax burden for countries at different levels of development



Source: OECD, International Monetary Fund

Figure 2, shows that South Africa has a relatively high level of tax to GDP compared with other upper middle-income countries. The sad reality is that the South African taxes remain high even when the level of economic growth is low. Given the troubling economic situation of the country, tax relieves or any cuts in the burden placed on citizens may seem progressive, but for us we remain unconvinced. In a normal situation this was going to result in workers now being able to save more money for retirement and generally having more disposable income, however we know this is not the case. In South Africa majority of workers are confronted with high electricity costs and high transport cost. At the same time, the jobs are becoming more and more precarious. Even government workers are no longer spared from the precariousness of work, as government looks to reduce expenditure in public services.

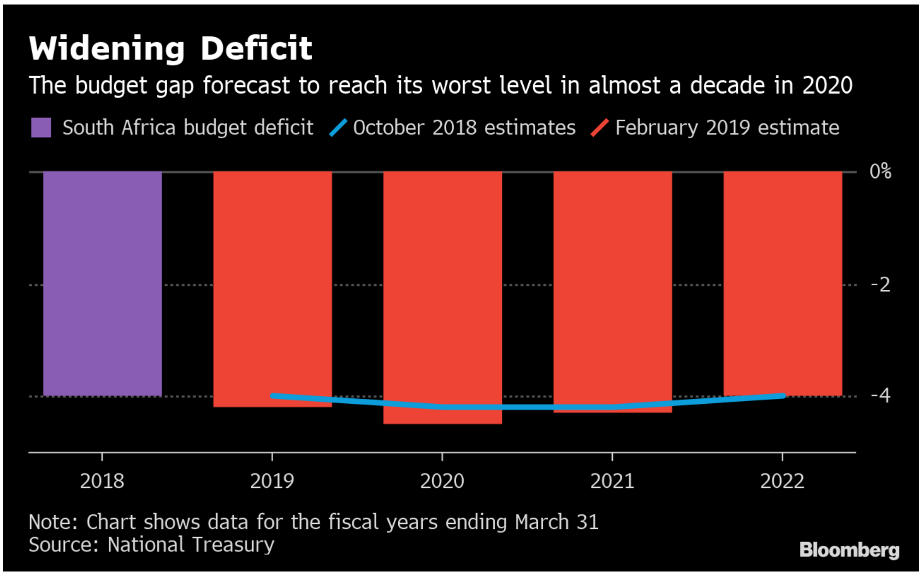
The broadening of corporate tax income base should be outlined and should NOT harm small businesses that are mostly owned by black people. Statistics have also shown that economic growth prospects and job creation will come from the development of small and medium businesses. We need small and medium businesses to absorb workers that are already being shed by big businesses and multinationals. We recommend that government should strengthen and broaden the small business preferential business tax, the VAT registration threshold as well as the turnover tax. Moreover, government should implement policies aimed at protecting small and medium businesses from the impact of the Chinese markets. We have seen the how dumping of cheap steel imports destroyed thousands of factories in our country.

1.3.3. Property tax

Government has committed to scrapping transfer duties for homeowners buying properties of R1 million and less. Our experience is that majority of workers do not afford housing, and at the same time do not qualify for RDP free housing. Government should be renegotiating with commercial banks on the stringent rules put on the application of home loans and the exorbitant interest on bonds. The average worker services this interest on bond for almost 10 years after purchasing a house. With the financial position of the country it is impractical for the hopes of majority of South Africans to own homes to only be placed on the shoulders of the State Bank that the government plans to put in place. It is important for a developmental state like South Africa to ensure that business and commercial banks play a role in the economic development agenda of the country. The profit agenda of commercial banks and companies cannot be at the expense of citizens. The role of the reserve bank should be to ensure the economic emancipation of the country.

Concrete measures to fast-track the redistribution of land should be prioritised. We reject the setting up of a commission that will look into the redistribution of land. We cannot continue engaging in fruitless negotiation on the terms of land redistribution for the entire turner of this cabinet. We demand action now!

1.4. Debt servicing and Budget deficit



2019/2020 tax revenue has been revised down by R63.3 billion. On the other hand, debt services costs accounts for about 15.2% of the budget revenue. South Africa's budget deficit as a percentage of GDP is set to widen to 6.8% in the fiscal year ending March 2021. That is the highest since 1992-93, when the gap was 7.2%, and compares with a forecast of 6.5% in October's medium-term budget policy statement (BizNews, 2020). The total government debt burden now equals almost 66% of South Africa's total economy – and repayments on this debt is growing by more than 12% a year**. This is all problems of a government that does not have a plan.** We are in this position because of corruption by ANC cadres who hide their efficiencies under the disguise of “high government wage bill”. Austerity policies have failed globally. Government can ONLY stimulate this economy by generating demand and effectively investing in the economy. To counter lower economic growth and lesson debt cost, government should strength Industrial Policy and Innovation Fund.

2. **Industrial Policy and Manufacturing priorities**.

2.1. Industrial Policy and Innovation Fund

On Industrial Policy, and Innovation Fund, government has committed R1.2bn and industrial business incentives worth R18.5bn over the next three years.

NUMSA calls for the re-industrialisation agenda to be prioritised. The manufacturing and mining sectors continue to occupy a significant share of the South Africa economy. The sectors are important for the country due to their growth enhancing properties and the fact that they can employ workers across different skill levels.

Broad based industrialisation agenda should focus on the following; (1) sustained state capacity building, (2) innovation-driven structural change, (3) industrial policy supported both foreign and domestic investment for technological catch-up, (4) beneficiation and domestic processing of our mineral wealth. All these priorities should be clearly explained in the budget framework with input from industry and labour.

The work in NEDLAC that contribute inputs to the South African Budget outline should NOT ONLY consider union federations that are linked to the governing party but should include all unions who represent workers that are key to the industrial output of the country. Currently majority of the unions are not represented in those strategic forums.

All these strategies cannot work if government do not strengthen their participation at microeconomic level. Currently the Ports that are meant to facilitate trade are in tartars! The country is losing the much needed billions a day as a result of the ports being congested with raw materials, goods, and services not being able to meet their destinations. This has a knock-on effect on Transnet one of our SOE and trickles down to small and medium transport businesses, which have been “*breathing through the wound*” because of the mismanagement and inefficiencies at the ports.

In the case of raw materials, companies normally find themselves at the receiving end and compelled to place workers on short-time until the materials, or goods arrive. Serious intervention and decisive action is needed there!

2.2. Transformation

On Transformation, direct black ownership and management of the economy remain extremely low. Employment equity remains a challenge with progress for black people and women participating at top and senior management levels, having apparently stalled. The industrial business incentives worth R18.5bn should be based on transformation imperatives and should ensure that the demographics of the country which is the black majority are represented at the top of the business food-chain.

3. Education and Health

In the light of structurally high levels of inequality, unemployment, poverty and the social reproduction crises, we note the increase in spending towards Education, Healthcare, and Social grant as stated by Government in the budget allocation 2020, as shown by the size of allocations to the learning, culture, health and social development functions over the medium term, with spending structures to the largest spending areas, equating to 936 billion combined.

In 2019 budget, emphasis was on building new schools and maintaining infrastructure and replacement of pit latrines However, the 2020 Budget has a clear indication that majority of budget especially in Education where " Underspent" with no Accountability. We find this frustrating when these areas are in crucial need of interventions. In the programme spending adjustment in 2020, it indicates that once the wage growth, corruption, and wasteful expenditure are under control, only then, will focus be given on hiring in areas such as education.

Based on existing funds available from previous year "unallocated" e.g. (from Department of Higher Education and training) we ask ourselves how can this be when there are 8.2 million young people between the ages of 15 and 34 that are not in education, employment or training , as clearly indicated in the budget statement 2020.

This in our view, even though government reiterates empathizes on Education, health and Social development, there is no concrete timeframe allocated to this commitment, and the situation remains dire. A concrete plan of action attached with measurable, achievable timelines is what is needed.

4. Carbon tax

NUMSA has accepted the reality of climate change. In the 9th National Congress in 2012, workers put a resolution for the renewable sector to be a "Socially owned renewable energy sector". A socially owned renewable sector will allow communities and workers to be the direct beneficiaries of the renewable energy. Our work is to ensure there is Just Transition from fossil energy to Renewable Energy. However, our efforts to put forward just transition alternatives have been hampered by the fast tracking of IPPs which have led to the demise of Eskom and loss of jobs in the coal industry.

The promulgation of the carbon emission tax which is set to increase government budget by R1.75 billion will come at a heavy cost to workers and industry. In a country with the infamous title of being the most unequal society on earth, with our disadvantaged geographical position we need to allow enough time for companies to migrate to more climate friendly production initiative. The government is in such a hurry to destroy lives of workers because of politically connected business interest in the renewable space.

In South Africa, the central crisis facing humanity is under-development. It is a fact that 38% of the population is unemployed with 56.4% of the youth unemployment and 47% of the African black women unemployed. Poverty afflicts 63% of the population. A move away from fossils and carbon economy that is not taking into consideration this massive development challenge will lose credibility.

Workers should not be made to make impossible choices – the choice to continue dying in poverty while the air becomes cleaner or the choice of continuing to work in mines that kills them, their families and communities slowly from respiratory from inhaling dirty air. It is for this reason that government must ensure that interventions to promote low emission development and the job resilient strategy that the Department of Environmental affairs is working on do not discourage businesses to continue operating in the South Africa.

Government carbon emission strategies and budget planning requirement should prioritise the following outlook;

- ✓ Retraining, Reskilling workers
- ✓ Real subsidisation of high emission companies to transition and adjust to the green economy.
- ✓ The transition from fossil fuels to renewables must be a transition which is sustainable and ultimately, does not impact negatively on the next generation and their ability to survive.
- ✓ The new green economy must be able to create new industries.
- ✓ There must be a proper social plan put in place to absorb thousands of workers who will be displaced by the closure of coal fired power stations.
- ✓ Sustainable development is only possible with the active engagement of the world of work. Governments, employers and workers are not passive bystanders, but rather agents of change, who are able to develop new ways of working that safeguard the environment
- ✓ Investment into renewable must be within the affordability and fiscus of the country. This has not been the case.

5. State Owned Entities

Though not written down, the ANC has not made provision for Eskom to participate in the new power generation project. As a union, the National Union of Metalworkers of South Africa has been consistently firm on the fact that Eskom must be protected as a strategic institution to deliver a competitive electricity tariff to the economy and to electrify our communities. On the other hand the current SAA business rescue plan has not allowed workers sufficient opportunity to review the plan in order that they may make submissions or propose alternatives.

Plans to unbundle Eskom into three entities are at an advanced stage. The fact of the matter is that there is no evidence anywhere in the world that the de-regulation of the electricity generation sector will lead to reduced tariffs and security of electricity supply.

South Africa's renewable energy program through independent power procurement producers (REIPPPP) has been underperforming in terms of job creation. The investment attraction of REI4P seems to ONLY benefit the renewable companies and does not trickle down to the economy, not by powering homes nor by employment creation. Even when the country is deep into loadshedding crisis, we never see REI4P companies coming forward to the rescue. We cannot see the value for money for IPP's. Their priority is profit maximisation and nothing else.

While we battle to understand developments REI4Ps, government has went ahead to announce the opening of bid window 5. The nations President has been actively campaigning for REI4P and is now actively seeking financial investment with a target of R1 trillion over the next 5 years to deliver REI4P. While this entire sonnet is happening, window 4 is not complete and has not been streamed in. No one is calling this capture or cost overruns! No one is asking about the costs associated with windows 1-4 which were at the heart of Eskom's escalating costs.

On top of paying exorbitant prices for the securing of REI4Ps, Eskom must single handily through tax payers money service the Grid! If REI4P are bringing in investment as argued by lobbyist, then why are they not donating money to Eskom to service our country's ailing Grid?

We reiterate, renewable energy should be procured at a cost that is affordable to the fiscus of the country. A government with vision would have ensured that investment in REI4Ps is attached to the creation of downstream industries and ensure that the technology used is manufactured in SA.

Until proper strategies are put in place, not even the R60 billion set aside for ESKOM and South Africa Airways will save our State Owned Entities (SOE's).

Energy Costs to Industry

Electricity costs are a significant portion of the turnover in energy-intensive sub-components of the metals and engineering (M&E) sector. According to SEIFSA's Sector Report 2020-2021, the electricity costs on turnover in steel and steel-related sub-sectors (basic iron and steel products, casting of metals, non-ferrous metal products, structural metal products and other fabricated metal products) is 15% cumulatively. At the NERSA hearings on the fourth Multi-Year Price Determination (MYPD 4) held early in 2019, the Aluminium Federation of SA (AFSA) argued that electricity was a major input cost contributing between 10% and 38% to total costs in the aluminium sub-sector. In its presentation, the steel pipe manufacturer Hall Longmore with plants in Wadeville and Vereeniging claimed that electricity made up 14.01% of its costs. Cast Products SA (the previous Foundry Division of Scaw Metals) put its electricity costs at between 10% and 17%.

Unless there is some government intervention to slow down the rate at which the price of electricity increases, South Africa's manufacturing will be wiped out.

Government should apply the consider the following;

(1) Meet with Eskom and NERSA to find out why the nine applications for electricity discounts were not successful. (2) Engage employer bodies such as SEIFSA, the Energy Intensive Users Group (EIUG) Ferro Alloy Producers Association (FAPA) and the Aluminium Federation of SA (AFSA) to find out whether there is an appetite for the scheme, together with labour unions that organise the sector. (3) Meet with the Department of Mineral Resources and Energy (DMRE) as the custodian the Framework for Short-Term Negotiated Pricing Agreements.

6. Sovereign Wealth Fund

Government has committed to creating a South Africa's Sovereign Wealth Fund (SWF) with a target capital amount of R30bn ($2bn). Possible funding sources, include proceeds of spectrum allocation, petroleum, gas or minerals rights royalties, the sale of non-core state assets, future fiscal surpluses and money we aside from future Budgets.

NUMSA notes the creation of a sovereign wealth fund. For the longest time the South African economy has depended on credit rating companies for foreign direct investment (FDI). The Moody's and Fitch rating companies have been narrating the economic trajectory of the country with very little emphasis on the developmental needs of the country. The sovereign wealth fund is supposed to counter this dependency on credit rating companies to attract FDI's. In essence the creation of a sovereign wealth fund means SA will be creating an institution which will be set in similar parameters as the PIC to invest outside the country with a view of earning foreign currency so that our country can counter its own inflationary pressures. This means even that even if South Africa is not performing well as it has been the case and we are rated Junk today, the proceeds earned from the sovereign wealth fund can alleviate pressures on our ever-increasing debt servicing costs and add money to the tax pull.

Our government will however need to be considerate of the global recession. This implies government will need to have better internal generation mechanisms put in place as opposed to the current dependency on income taxation. In this case, re-industrialisation of the economy is very important.

We note the envisaged sources of funds for the SWF, in particular, mineral rights royalties. Governments need to have a strategy in place to ensure mining companies continue mining if it is to succeed in its envisaged strategy. At the moment, the South African thermal coal mining industry is facing long term permanent decline (Institute for Energy & Financial Analysis, 2020). This means government needs to thread carefully and work with industry to ensure prosperity and success of SWF.

In conclusion, the 2020 Budget reveals a government which is in panic and does not have control over the running of the country. It reflects little understanding of either the depth of the crisis long experienced by poor, working class majority of South Africans. Government priorities need to be centred around the developmental needs of the country and not be reactionary to appease forces that have generally never cared or bothered about the conditions of the working class and the poor.

End of report!

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