# Report of the Portfolio Committee on Trade and Industry on Budget Vote 39: Trade, Industry and Competition, dated 28 May 2020

The Portfolio Committee having considered Budget Vote 39: Trade, Industryand Competition, reports as follows**(11 May 2020):**

1. **Introduction**

In his State of the Nation Address on 13 February 2020, Mr M C Ramaphosa highlighted the importance of or the need for a collaborative approach among all spheres of society, namely government, business, labour, and civil society, to address the challenges of unemployment; gender-based violence; and slow economic growth. Only through building social compacts can South Africa achieve its social and economic objectives that would address the challenges facing them.

In his 2020 Budget, the Minister of Finance, Mr T Mboweni, once again highlighted, among others, the pillars underpinning South Africa’s economic strategy as it relates to Trade and Industry, which are the following:

* Opening markets to trade with the rest of the continent;
* Implementing a re-imagined industrial strategy; and
* Lowering the cost of doing business.

The African Continental Free Trade Area (AfCFTA)would come into effect on 1 July 2020. This would provide the foundation for African economic integration and increased intra-African trade that would benefit the South African economy. The conclusion and implementation of this agreement was fundamental to South Africa’s growth strategy as it would create additional market access for its goods and services.

In line with a re-imagined industrial strategy, underpinned by a strong social compact, sectoral master plans were being developed and implemented. Thus far, the Master Plans for the automotive, retail clothing and textile, as well as the poultry industries had been concluded. This would result in securing further employment within the automotive sector, which expanded production and the local manufacturing of components. The retail clothing and textile master plan aimed to create 120 000 jobs over the next ten years, while securing commitments from local retailers to buy locally. Other master plans would be concluded in this financial year and would reinforce government’s commitment to social and economic transformation.

Government recognised the challenges associated with the opening of businesses and the concomitant red tape. The Department of Trade, Industry and Competition (DTIC) would initiate measures to further reduce the administrative burden on business and improve the ease of doing business to create an enabling environment for investment and improve global competitiveness.

It should be noted that the consideration of the Strategic and Annual Performance Plans (APP) were taking place within the context of the novel coronavirus(COVID-19) pandemic that started affecting South Africa at the beginning of March 2020. The pandemic and the resultant lockdown was expected to have a significantimpact on the broader economy. However, the Strategic Plan, inclusive of theAPP, that were served before the National Assembly in terms of the Money Bills Amendment Procedure and Related Matters Act (Act No. 9 of 2009) and the Public Finance Management Act (Act No. 1 of 1999) pertain to the Appropriation Bill [B4-2020], that was currently before the National Assembly and its committees. These must be read together and the plans were there to facilitate the passing of the Appropriation Bill. In terms of the provisions of the Money Bills Act, the Committee must report on the strategic plan and budget vote that was referred to it.For that reason, the Appropriation Bill, the Strategic Plan, inclusive of the APP, must thus be reported on and the Budget Vote must be adopted; notwithstanding that there would be an adjustment to the budget at a later stage.

In alignment with the president’s announcement of the restructuring of government Departments on 14 June 2019, the new DTIC was formed on 1 April 2020. It is the amalgamation of the mandates, legislation, financial resources, human resources, and entities of the former Departments of Trade and Industry and of Economic Development. The DTIC is responsible for administering 45 pieces of legislation; and overseeing 17 entities (excluding the Broad-based Black Economic Empowerment (B-BBEE) Commission, which is a trading entity within the administration of the DTIC) which contribute towards fulfilling the mandate of the department.

* 1. **Constitutional Mandate of the Committee**

Portfolio Committees exercise oversight over their respective departments and agencies in line with their Constitutional mandate set out in section 55(2) of the Constitution of the Republic of South Africa, 1996 and section 27(4) of the Public Finance Management Act (No. 1 of 1999). In addition, the Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009) also requires committees to consider and report on their department and entities’ strategic and APPs. Portfolio committees may also advise the Standing Committee on Appropriations in the National Assembly regarding possible amendments, within a budget vote, for its consideration.

* 1. **Purpose**

The purpose of this report is for the Portfolio Committee on Trade and Industry to report on its deliberations and considerationof the DTIC’s strategic plan, APP and budget vote. Furthermore, to make recommendations regarding the approval, amendment or rejection of Budget Vote 39, as well as any other recommendation regarding the implementation of the strategic and APPs of the DTIC.

* 1. **Process**

The Committee’s consideration of Vote 39involved an engagement with Mr E Patel,the Minister of Trade and Industry, andMr L October,the Director-General of Trade, Industryand Competition, on 3 March and 11 May 2020.Mr Patel engaged the Committee on the implications of the 2020 State of the Nation Address in relation to the mandate of the DTICand provided an overview of the mergedDepartment, as well as the economic context of the country given the advent of the COVID-19 pandemic. The Director-General then presented the DTIC’s Strategic and APPs and an overview of Budget Vote 39.

1. **Policy priorities for the 2020/21 financial year**
   1. **State of the Nation Address**

On 13 February 2020, the President, Mr M Ramaphosa made his State of the Nation Address. In terms of the mandate of the DTIC, he noted that the economy had grown slowly and that while jobswerebeing created, the rate of unemployment was still deepening.While he acknowledged the challenges that had contributed to this such as persistent energy shortages and the fiscal constraint, healso reminded the country of its potential and the progress that had been made. He emphasised the need for social compacting between business labour, civil society and government to build consensus around the economic recovery plan.

The President focused on the following areas for the DTIC’s implementation:

* *The development and implementation of Master Plans*:Government had made progress in finalising and implementing master plans in vital parts of the economy. These master plans sought to bring government, labour and business together to develop practical measures to spur growth at sector level and for each partner to make commitments to achieve this. Thus far, the Automotive, RetailClothing and Textiles and Poultry Master Plans had been finalised. The DTIC was the lead in drafting the Sugar and Steel Industry Master Plans, among others that were expected to be finalised during the 2020/21 financial year.
* *Investment*: There was a project pipeline of over R700 billion worth of potential public and private investments over the next ten years.Government intended to intensify its investment drive through the establishment of an integrated investment promotion and facilitation capability coordinated from The Presidency. It would also hold its third South Africa Investment Conference in November 2020 to review the implementation of previous commitments and to generate new investment into the economy. Of the R664 billion in private sector investment commitments during the first two years, projects with an investment value of R9 billion have been completed and 27 projects worth just over R250 billion were already in implementation phases. The DTIC contributed to this through its Inward Investment Attraction, Facilitation and Aftercare, and Industrial Financing Programmes. This included facilitating the establishment and operation of One-Stop Shops to assist investors to address red-tape challenges.
* *Improving the ease of doing business*:There was a need to address obstacles to reform and improve government delivery. In this regard, the DTIC and InvestSA (One-Stop Shops) were working closely with the presidential Project Management Office, the Infrastructure and Investment Unit and the Policy and Research Services to address these obstacles. Furthermore, the DTIC formed part of the Ease of Doing Business Task Team to remove impediments to investment and growth and ensure that government demonstrates visible progress quickly.
* *Competition policy*: The DTIC had published new regulations for the Competition Amendment Act (Act No. 18 of 2018) that enabled investigation and action against abuse of buyer power and price discrimination. This will help even the playing field for small businesses and emerging entrepreneurs. The Competition Commission’s market inquiries have yielded results in the grocery and data services industries and is expected to carry more weight going forward.
* *Finalisation of the modalities related to the AfCFTA*:South Africa had assumed the Chairpersonship of the African Union (AU) for 2020. One of the focus areas was to finalise the modalities of the AfCFTA by 1 July 2020, so that the trade provisions can come into effect. The Minister of Trade and Industry and the DTIC’s Trade Policy, Negotiations and Cooperation Programme play critical roles in this regard, as they would be responsible for the finalisation of these negotiations.
* *Inclusive growth*: Youth and women empowerment was a key theme. In terms of youth employment, he referred to the scaling up of the Youth Employment Service, which the former DTIC had assisted by linking companies to youth employees. Furthermore, the DTIC has targeted to expand its youth internships to assist in improving the employability of youth. The Industrial Development Corporation (IDC) is targeting R10 billion of its own and partner funding for women-empowered businesses over the next five years.Furthermore, as the AU Chair, South Africa, hasprioritised the economic empowerment of Africa’s women during its term. This involved working with all member states on measures to promote financial inclusion, preferential procurement and preferential trade arrangements for women.The DTIC’s Trade Policy, Negotiations and Cooperation Programme would play a critical role in this regard.
  1. **Medium-term Strategic Framework**

The Minister of Trade and Industry tabled the Strategic Plan for 2020 – 2025 and the APP for 2020/21 for the DTIC. The Strategic Plan outlines strategic priorities for the DTIC, which are aligned to the Medium-Term Strategic Framework (MTSF) for 2019 – 2024. It also reflects national priorities, including the commitment to implement the National Development Plan (NDP). The MTSF outlines seven priorities of government over the next five years which are anchored in three pillars, namely; “driving a strong and inclusive economy, building and strengthening capabilities of South Africans, and achieving a more capable state”.

The MTSF 2019-2024 priorities are as follows:

* Priority 1: Economic Transformation and Job Creation
* Priority 2: Education and Skills Development
* Priority 3: Consolidating the Social Wage through reliable and Quality Basic Service
* Priority 4: Spatial Integration, Human Settlements and Local Government
* Priority 5: Social Cohesion and Safe Communities
* Priority 6: Building a capable, ethical and Developmental State
* Priority 7: A better Africa and World

The DTIC is the lead department in the implementation of interventions in Priorities 1 and 7. The DTIC’s mandate in this regard would include facilitating the creation of an inclusive economy, broadening economic participation, contributing to regional integration, and creating a fair regulatory environment that enables investment, trade, enterprise development, and competition.

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* 1. **Sustainable Development Goals (SDGs)**

The DTIC would be primarily responsible for the second target of SDG 9,“*Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation*”, namely to “promote inclusive and sustainable industrialization and, by 2030, significantly raise industry’s share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries”[[1]](#footnote-2). In this regard, one of the DTIC’s core mandatesis to facilitate structural transformation of the economy to promote dynamic industrial development, investment, competitiveness and employment creation. It develops industrial strategies and provides incentives to improve the competitiveness of the manufacturing sector and increase market access and demands for locally manufactured goods.

Furthermore, in terms of SDG 8, “*Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all*”[[2]](#footnote-3), the DTIC can supportthe improved access of black women and youth to employment and entrepreneurship opportunities. In addition, in terms of SDG 10, “*Reduce inequality within and among countries*”[[3]](#footnote-4), the DTIC through its trade negotiations, initiatives to promote and facilitate investment, and the role of the International Trade Administration Commission of South Africa’s tariff line investigations and determinations plays a critical role to achieve this goal.

* 1. **Agenda 2063**

The work of the DTIC is aligned to aspiration 1 of Agenda 2063: “*A prosperous Africa based on inclusive growth and sustainable development”[[4]](#footnote-5).* In line with this aspiration, the African continent committed to "eradicating poverty in one generation and build shared prosperity through social and economic transformation….”[[5]](#footnote-6). One of the DTIC’s mandates is to facilitatestructural transformation through broad-based economic participation and spatial industrial development. It implements this mainly through Programme 3: Spatial Industrial Development and Economic Transformation and Programme 6: Industrial Financing.Programme 3 has been allocated a budget of R171,9 million. Incentives have also been allocated towards this for the development of special economic zones (SEZs) and for black participation. However, the DTIC’s incentives also have transformation criteria, which further facilitates this at a broader level.

* 1. **Reimagined Industrial Strategy (RIS) and the Southern African Development Community (SADC) Industrialisation Strategy**

The SADCRegional Infrastructure Development Master Plan (RIDMP) aims to “catalyze industrial development and reduce current high costs of doing business, including those related to Non-Tariff Barriers and local procurement of inputs for infrastructure development”[[6]](#footnote-7). As a Member of SADC, South Africa has to align its national policies and strategies to complement that of the regional community. The NDP 2030 and the RIS therefore are broadly complementary policies to the SADC industrialisation strategy. The RIS is the country’s plan involving the development of Master Plans for 12 priority sectors. This sets out commitments and actions by government, organised business and organised labour in these sectors. Similar to the SADC-RIDMP, the RIS aims to ensure industrialisation through its interventions, one of which is developmental tariff reform. In the current budget, the DTIC provides for the development and implementation of seven Master Plans that it is the lead on, as well as participation in the development of other Master Plans.

1. **Department of Trade, Industryand Competition’s Strategic Plan, Annual Performance Plan and Budget**

The DTIC is mandated to create a diverse and globally competitive economy through industrialisation which is characterised by inclusive growth and development, decent employment and equity for all South Africans. To implement its mandate, the DTI provides a policy and regulatory framework to promote the development of industries and the participation of black people in economic activities and to attract and facilitate private investments;as well as to promote international and regional trade; which is supported by various incentives.

The DTIC’smission is to[[7]](#footnote-8):

* Promote structural transformation, towards a dynamic industrial and globallycompetitive economy;
* Provide a predictable, competitive, equitable and socially responsible environment,conducive to investment, trade and enterprise development;
* Broaden participation in the economy to strengthen economic development;
* Continually improve the skills and capabilities of the DTIC to effectively deliver on itsmandate and respond to the needs of South Africa’s economic citizens;
* Co-ordinate the contributions of government departments, state entities and civilsociety to effect economic development; and
* Improve alignment between economic policies, plans of the state, its agencies,government’s political and economic objectives and mandate.

For the financial year, the DTIC’s work and budget will be divided among its ten (10) programmes. These programmes are in line with the DTIC’s mandate and strategic areas, namely; “providing industrial finance, developing industrial infrastructure, strengthening export capabilities and enhancing competition regulation”[[8]](#footnote-9). The programmes are as follows[[9]](#footnote-10):

* *Programme 1: Administration*: Responsible for providing strategic leadership, support and management to the Department and its entities. It is focused on achieving the following key outcomes, namely: (i) implementation of transformation through employment equity and B-BBEE; (ii) youth empowerment through internships; and (iii) promotion of a professional, ethical, dynamic, competitive and customer-focused working environment that ensures effective and efficient service delivery.
* *Programme 2: Trade Policy, Negotiations and Cooperation*: Responsible for facilitating the building of an equitable global trading system by strengthening trading and investment relations with key markets globally. Furthermore, in line with the Africa Union Agenda 2063,developing and promoting regional and continental integration and development co-operation.It is focused on achieving increased intra-African trade to support Africa regional development.
* *Programme 3: Spatial Industrial Development and Economic Transformation*: Responsible for promoting inclusive economic transformation and increasing industrial participation through development and funding of SEZs, revitalisation of Industrial Parks and support for Black Industrialists. It is focused on achieving the following key outcomes, namely: (i)increased and enhanced instruments for spatial development of targeted regions and economic transformation in SEZs and industrial parks; (ii) industrialisation, localisation and exports through the revitalisation of industrial parks; and (iii) investing for accelerated inclusive growth through the mainstreaming of black-owned businesses and participation of black people in the formal economy.
* *Programme 4: Industrial Competitiveness and Growth*: Responsible for designing and implementing policies, strategies and programmes to develop the manufacturing and related sectors of the economy with the aim of contributing to the creation of decent jobs, adding value to manufactured products and enhancing competitiveness in the domestic and export markets. It is focused on achieving the following key outcomes, namely: (i)increased industrialisation through the development of Master Plans in National Priority sectors; and (ii) increased localisation through the designation of products.
* *Programme 5: Consumer and Corporate Regulation*: Responsible fordeveloping and implementing coherent, predictable and transparent regulatory solutions that facilitate easy access to redress and efficient regulation for economic citizens. It is focused on achieving an improved regulatory environment conducive for consumers and companies as well as providing access to redress.
* *Programme 6: Industrial Financing*: Responsible for stimulating and facilitating the development of sustainable and competitive enterprises, through the efficient provision of effective and accessible incentive measures that support national priorities. It is focused on achieving more accessible industrial finance measures to support investment in priority sectors in line with approved masterplans.
* *Programme 7: Export Development, Promotion and Outward Investments*: Responsible forincreasing export capacity and supporting direct investment flows, through targeted. strategies, and an effectively managed network of foreign trade office. It is focused on achieving the following key outcomes, namely: (i)promoting the growth of exports in the economy as a generator of jobs and contributor to gross domestic product growth; and (ii) diversifying the export bundle, by promoting export growth in priority sectors.
* *Programme 8: Inward Investment Attraction, Facilitation and Aftercare*: Responsible forsupporting foreign direct investment flows and domestic investment by providing a one-stop shop for investment promotion, investor facilitation and aftercare support for investors.It is focused on achieving increased strategic investment.
* *Programme 9: Competition Policy and Economic Planning*: Responsible fordeveloping and implementing policy interventions that promote competition. It is focused on achieving policy tools and implementation strategies which contribute to an efficient, competitive economic environment, balancing the interests of workers, owners and consumers and focused on economic development.
* *Programme 10: Economic Research and Coordination*: Responsible for socio-economic research, assessing policy options and engaging stakeholders to facilitate inclusive economic growth. It is focused on achieving the following key outcomes, namely: (i)socio-, macro- and microeconomic policy options developed and assessed to promote inclusive growth; and (ii) policymakers and stakeholders have access to policy-relevant, high quality economic analysis.
  1. **Budget Vote 39: Analysis of the 2020/21 – 2022/23 financial period**

The Department’s budget has increasedfrom R11,01 billion in 2019/20 to R11,08 billion in the 2020/21 financial year. In real terms[[10]](#footnote-11), the budget is R10,6 billion. In nominal terms, the budget increased by R67,8 million; however, the budget in real terms significantly decreased by R399 million. Given the inflation estimates of 4,6% and 4,6% for the next two years respectively, the budget is expected to decrease to R9,2 billion in 2021/22 then decline to R9,18 billion in 2022/23 in real terms.

* + 1. **Programme Analysis**

For the 2020/21to 2022/23 financial years, the DTIC’s budget allocation per programme is as follows:

**Table 1: Budget Allocation by Programme for the 2020/21 – 2022/23 financial years**

| **Programme**  **(R million)** | **Adjusted appropriation**  **(2019/20)** | **Budget** | | | **Share of budget**  **(2020/21)** | **Real % change**  **(2019/20-2020/21)** |
| --- | --- | --- | --- | --- | --- | --- |
| **2020/21** | **2021/22** | **2022/23** |
| Administration | 924,1 | 873,6 | 927,2 | 970,3 | 7,9% | -9,45 % |
| Trade Policy, Negotiations and Cooperation | 130,4 | 134,0 | 142,2 | 148,6 | 1,2% | -1,63% |
| Spatial Industrial Development and Economic Transformation | 160,0 | 171,9 | 184,3 | 190,1 | 1,6% | 2,93% |
| Industrial Competitiveness and Growth | 2 100,8 | 1 992,1 | 1 810,7 | 1 875,4 | 18,0% | -9,17% |
| Consumer and Corporate Regulation | 339,8 | 342,3 | 363,9 | 378,8 | 3,1% | -3,49% |
| Industrial Financing | 5 953,6 | 6 059,1 | 5 074,9 | 5 270,6 | 54,7% | -2,52% |
| Export Development, Promotion and Outward Investments | 440,7 | 456,7 | 486,6 | 502,4 | 4,1% | -0,75% |
| Inward Investment Attraction, Facilitation and Aftercare | 68,7 | 58,3 | 63,0 | 66,6 | 0,5% | -18,72% |
| Competition Policy and Economic Planning | 815,8 | 908,4 | 955,5 | 991,9 | 8,2% | 6,66% |
| Economic Research and Coordination | 80,5 | 85,7 | 89,9 | 94,4 | 0,8% | 1,97% |
| **TOTAL** | **11 014,4** | **11 082,1** | **10 098,3** | **10 489,1** | **100%** | **-3,63%** |

Source: National Treasury (2020a: 642)

The two largest programmes in terms of the share of the budget are IndustrialFinancing, at approximately 55% and the Industrial Competitiveness and Growth with an 18%share of the 2020/21 budget. A more detailed breakdown per programme is provided below.

* + - 1. **Administration**

The Administration programme is the fourthlargest programme by budget allocation accounting for 7,9% of the total budget for the 2020/21 financial year. For the financial year, R873,6 million has been set aside for this programme; however, this is a decrease of R87,3 million in real terms (or a decrease of by 9,45%) from the previous financial year.

The sub-programmes of the Administration programme are the Ministry, Office of the Director-General, Corporate Management Services, Office Accommodation, Financial Management Services, and the Marketing Communication and Media Relations.

* + - 1. **Trade Policy, Negotiations and Cooperation**

The Trade Policy, Negotiations and Cooperation programme is one of the smaller programmes accounting for 1,2% of the DTIC’s total budget. The programme’sappropriation is R134,0 million for the 2020/21 financial year. The programme’s budget increased byR3,5 million in nominal terms; however, in real terms, the budget decreased by R2,1 million compared to the 2019/20 financial year. The sub-programmes of this programme are International Trade Development, and African Multilateral Economic Development.

* + - 1. **Spatial Industrial Development and Economic Transformation**

The budget of the programme has been reduced from a budget of R2,1 million in the 2019/20 financial year to R1,9 million for the 2020/21 financial year. The budgetallocation for this programme is expected to further reduce in the 2022/23 financial year by7,9% in real terms over the three years between the 2020/21 and 2022/23 financial years.

Within this programme, the sub-programmes are Enterprise Competitiveness, Equity and Empowerment, and Regional Industrial Development.

* + - 1. **Industrial Competitiveness and Growth**

Industrial development forms the core of the DTIC’s work as outlined in its strategic objectives. This is evident by this programme’s share of the total budget, which is approximately 18% making it the second largest programme by budget allocation. This budget funds two significant sub-programmes, namely:the Industrial Competitiveness and the Customised Sector Programmes.

The programme’s budget has been decreased from R2,1 billion in the 2019/20 financial year to R1,99 billion in the 2020/21 financial year, adecrease of 5,2%; however, in real terms, a decrease 9,2%.

* + - 1. **Consumer and Corporate Regulation**

The programme’s budget for the 2020/21 financial year is R342,3 million. The budget increased by 0,8% in nominal terms; however, in real terms, it decreasedby 3,5%.Within this programme, there are three sub-programmes, namely: Policy and Legislative Development; Enforcement and Compliance; and Regulatory Services.

The Regulatory Services sub-programme is the largest of the three sub-programmes in terms of budget allocation as it comprised transfers to the regulatory entities. The Consumer and Corporate Regulation Programme is supported and partly implemented through the Department’s regulatory entities, namely:the National Credit Regulator (NCR), the National Gambling Board, the National Lotteries Commission (NLC),the National Consumer Tribunal, the National Consumer Commission (NCC), the Companies and Intellectual Property Commission (CIPC) and the Companies Tribunal (CT).

* + - 1. **Industrial Financing**

This programme, along with the Industrial Competitiveness and Growth Programme captures the core mandate of the DTIC. This is the largest programme, which accounts for approximately 55% of the total budget. For the 2020/21 financial year, the Industrial Financing Programme’s total budget allocation is R6,06 billion. This is a 1,78% increase in nominal terms and a 2,52% decrease in real terms. Over the next three financial years, the budget allocation for this programme will decrease by an average of 8,1%. This is of concern particularly as the economy is expected to have sluggish growth over the same period. In the absence of robust growth, incentives act as a tool or a catalyst to attract investment that retains and creates jobs.

The sub-programmes of the Industrial Financing Programme are Broadening Participation and Industrial Incentives; Manufacturing Incentives; Services Investment Incentives; Infrastructure Investment Support;Product and Systems Development; and Strategic Partnership and Customer Care.

* + - 1. **Export Development, Promotion and Outward Investments**

With a programme budget of R456,7 million for the 2020/21 financial year, the programme accountsfor 4,1% of the total budget. In real terms, the budget increased by 0,75% fromR440,7 million in the previous financial year. This programme’s sub-programmes are Trade Invest Africa; Export Promotion and Marketing; Trade and Investment; Foreign Services Management Unit; and Export Development and Support.

* + - 1. **Inward Investment Attraction, Facilitation and Aftercare**

This is the smallest of the DTIC’s programmes, it has been allocated R58,3 million for the 2020/21 financial year, translating to 0,53% of the total budget. The Investment Promotion sub-programme deals with the activities of the One Stop Shops and takes up R48,4 million of the budget.

* + - 1. **Competition Policy and Economic Planning**

The programme is the third largest programme accounting for 8,2% of the total budget. A budget of R908,4 million is allocated for the financial year. This allocation is 6,6% more than in the previous financial year when the allocation for this programme was R815,8 million. Theprogramme’s budget is expected to increase by an average of 2,1% in real terms to reach R991,9 million by the 2022/23 financial year.

* + - 1. **Economic Research and Coordination**

This is the second smallest programme accounting for 0,77% of the totalbudget. The budget allocation is R85,7 million in the 2020/21 financial year. It was R80,5 million in the 2019/20 financial year.

* + 1. **Economic classification**

Of the total budget of R11,08billion, R1,98 billion (17,8% of the total budget allocation) is for current payments, R34,1million (0,3% of the total budget allocation) is allocated to payments for capital assets and R9,07billion (81,9% of the total budget allocation) is allocated to transfers and subsidies to departmental entities and private enterprises, among others. A large proportion of the current payments is for compensation of employees (R1,17 billion or 59,3% of the allocation to current payments). The remainder of this allocation is for goods and services (R805,2 million).[[11]](#footnote-12)

In terms of goods and services, the largest allocations for the 2020/21 financial year are to: operating leases (R291,7 million or 36,2%); travel and subsistence (R147,9 million or 18,4%); consultants for business and advisory services (R70,8 million or 8,8%); legal services (R37,5 million or 4,7%); and computer services (R35,5 million or 4,4%).

The DTIC’s transfers and subsidies are mainly distributed to public corporations and private enterprises (84,8% of transfers and subsidies or R7,7 billion). In addition, it will distribute R1,18 billion to departmental agencies and accounts (12,9% of transfers and subsidies); R156,5 million (or 1,7% of transfers and subsidies) to non-profit institutions; R42,8 million (or 0,5% of transfers and subsidies) to international institutions for membership fees; and R0,9 million (or 0,01% of transfers and subsidies) to households for employee social benefits. Transfers to the DTIC entities are discussed in further detail below.

**Table 2: Budget Allocation: 2019/20 – 2022/23 by Economic Classification**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **R million** | **Revised estimate**  **(2019/20)** | **Medium-term expenditure estimate** | | | **Average growth rate** | **Share of total budget** |
| **2020/21** | **2021/22** | **2022/23** | **2019/20 - 2022/23** | |
| **Current payments** | | | | | | |
| Compensation of employees | 1 142,7 | 1 171,4 | 1 247,6 | 1 301,8 | 4,4% | 11,4% |
| Goods and services | 817,8 | 805,2 | 857,8 | 891,9 | 2,9% | 7,9% |
| **Transfers and subsidies** | | | | | | |
| Departmental agencies and accounts | 1 144,3 | 1 175,9 | 1 240,0 | 1 288,4 | 4,0% | 11,4% |
| Foreign governments and international organisations | 37,3 | 42,8 | 45,2 | 46,8 | 7,9% | 0,4% |
| Public corporations and private enterprises | 7 673,9 | 7 695,1 | 6 502,1 | 6 751,5 | -4,2% | 67,1% |
| Non-profit institutions | 178,9 | 156,5 | 168,3 | 169,5 | -1,8% | 1,6% |
| Households | 1,4 | 0,9 | 1,0 | 1,0 | -8,6% | 0,0% |
| **Payments for capital assets** | | | | | | |
| Machinery and equipment | 15,4 | 18,6 | 20,0 | 21,2 | 11,2% | 0,2% |
| Software and other intangible assets | 2,8 | 15,5 | 16,3 | 16,9 | 82,4% | 0,1% |
| **Total** | **11 014,4** | **11 082,1** | **10 098,3** | **10 489,1** | **-1,6%** | **100,0%** |

Source: National Treasury (2020a: 642)

* + - 1. **Transfers to Entities**

The DTIC is responsible for overseeing 17 entities. Of the 14 entities, three are self-funded, these are the CIPC, the National Empowerment Fund and the NLC. While the IDC is not funded by the DTIC per se, it receives transfers for off-budget incentive programmes that it administers on behalf of the DTIC. Transfers to the DTIC’s entities are as follows:

**Table 3: Transfers to entities**

| **R thousand** | **Adjusted appropriation**  **2019/20)** | **Medium-term expenditure estimate** | | | **Average growth rate** | **Average: Expenditure/ Total** |
| --- | --- | --- | --- | --- | --- | --- |
| **2020/21** | **2021/22** | **2022/23** | **2019/20 - 2022/23** | |
| Companies Tribunal | 17 352 | 18 227 | 19 233 | 19 952 | 4,8% | 0,2% |
| Competition Commission | 295 438 | 331 559 | 348 695 | 360 915 | 6,9% | 3,9% |
| Competition Tribunal | 36 172 | 37 403 | 39 460 | 45 927 | 8,3% | 0,5% |
| Export Credit Insurance Corporation of South Africa | 193 511 | 204 153 | 215 381 | 223 387 | 4,9% | 2,4% |
| Industrial Development Corporation | 942 149 | 953 862 | 740 780 | 771 653 | -6,4% | 9,9% |
| International Trade Administration Commission | 111 428 | 112 384 | 118 597 | 123 027 | 3,4% | 1,4% |
| National Consumer Commission | 58 304 | 61 270 | 64 649 | 67 069 | 4,8% | 0,7% |
| National Consumer Tribunal | 56 639 | 54 948 | 56 982 | 59 100 | 1,4% | 0,7% |
| National Credit Regulator | 86 580 | 82 278 | 86 803 | 90 030 | 1,3% | 1,0% |
| National Gambling Board | 33 797 | 35 051 | 37 265 | 38 217 | 4,2% | 0,4% |
| National Metrology Institute of South Africa: Operations | 115 057 | 119 384 | 126 922 | 130 165 | 4,2% | 1,4% |
| National Regulator for Compulsory Specifications | 139 501 | 144 230 | 152 163 | 157 818 | 4,2% | 1,7% |
| Small Enterprise Finance Agency | 241 453 | 246 908 | 260 541 | 270 164 | 3,8% | 3,0% |
| South African Bureau of Standards | 420 384 | 319 411 | 336 319 | 348 375 | -6,1% | 4,2% |
| South African National Accreditation System | 31 669 | 32 731 | 34 532 | 35 816 | 4,2% | 0,4% |
|  |  |  |  |  |  |  |
| **Capital** | **129 979** | **134 995** | **142 465** | **147 867** | **4,4%** | **1,6%** |
| National Metrology Institute of South Africa | 129 979 | 134 995 | 142 465 | 147 867 | 4,4% | 1,6% |

Source: National Treasury (2020a: 643)

Most of the entities will experience decreases between 1%and 8% in real terms compared to the previous financial year. One of the entities whose budget will significantly decrease is the NCR, the transfer will decrease by 8% (approximately R7,7 million) in real terms. Additionally, the transfer to the South African Bureau of Standards will decrease by 27,7%. Only four entities (the CT, the Competition Commission, the Export Credit Insurance Corporation of South Africa, and the NCC) will get an increase in their transfers. However, the increases are not significant except for the increase of the Competition Commission, which is 7,5%.

In the Committee’s 2018 Budget Vote Report, the former DTI had indicated that it wouldcommit to extending the annual grant to National Metrology Institute of South Africa (NMISA)over the next 25 years from the baseline at the time by an amount of R130 million annually.[[12]](#footnote-13) This was to support the NMISA’s infrastructure recapitalisation project. This project was considered critical as the NMISA underpinned the country’s metrology standards. The NMISA will continue to receive thisfunding for its capital expenditure related to the requisite infrastructure and equipment upgrades andwill be receiving R425,3 million over the MTEF period to enable it to upgrade its critical infrastructure.

1. **Key issues raised by the Committee during its deliberations**

The Committee raised a number of concerns during its deliberations, including:

* 1. ***Contraction of the South African economy:***The Committee noted that the impact of COVID-19 on the economy should not be underestimated, asa global economic contraction would require that South Africa revisits its economic projections in light of the impact of the pandemic. Thus far, the International Monetary Fund and the South African Reserve Bank have predicted that the South African economy would contract in 2020 by -5,8% and -6,1% respectively[[13]](#footnote-14). The Committee enquired whether the DTIC shared the view that the South African economy would contract by about -6%. The phenomenon of country level ‘lockdowns’ was unprecedented in recent economic history. The DTIC acknowledged that although many analysts have provided forecasts of the potential damage to the global and South African economy, the reality was that all these forecasts contained a significant margin of error. However, the DTICwas of the view that the South African economy would experience a substantial contraction in 2020 and that it would continue to monitor and assess the forecasts from a wide range of economic analysts. Therefore, it would caution against focusing on any one specific forecast until such time Statistics South Africa published actual data reflecting the key economic indicators such as the Manufacturing Sales and Production, Employment, Investment, Exports and Imports data.
  2. ***Invoking section 11 of the National Credit Act (Act No. 34 of 2005) (NCA):***A view was expressed in the Committee that section 11 of the NCA(Act No. 34 of 2005), which deals with public interest credit agreements should be invoked during the COVID-19 pandemic. This provision allows the Minister to declare specific credit agreements under grave public interest circumstances to be extended to the public with specific conditions and without being considered reckless credit lending. This may assist individualsand small businesses to access credit, which they would under normal circumstances not be able to access due to unavoidable temporary loss of income as a result of the lockdown. The Committee enquired whether the DTIC had considered invoking section 11 of the NCA to provide affordable credit to such consumers or small businesses. The DTIC informed the Committee that it was in receipt of the proposal for the public interest credit agreements. However, the proposal was still under consideration and undergoing internal consultations.
  3. ***Compliance with the B-BBEE provisions:***Recently AfriForum and the trade union movement, Solidarity, challenged the decision by the Minister of Tourism to apply B-BBEE codes when providing relief to distressed businesses in the tourism sector. The Committee implored the DTIC to ensure that all provisions of the B-BBEE Act (Act No. 53 of 2003) were complied with and whether it was considering measures to strengthen the Act during the COVID-19 pandemic. The DTIC informed the Committee that it would ensure compliance to the B-BBEE Act and its Codes of Good Practice during the COVID-19 pandemic. Measures to strengthen compliance and redirect resources to where the greatest needs are had been considered.
  4. ***Broader production of medical equipment****:*Ensuring the continued supply of medical equipment and products is critical during the COVID-19 pandemic. The Committee enquired whether any of the production of medical supplies and of personal protective equipment (PPE) had been given to companies located in provinces other than Gauteng, KwaZulu-Natal and the Western Cape and whether small, medium and micro enterprises (SMMEs), especially women in rural areas would be prioritised to produce these products. The DTIC informed the Committee that there had been a huge effort from Government and Private Sector to support legitimate and compliant South African manufacturers from all provinces. Also, the DTIChad enabled support for COVID-19 essential products including PPE through the IDC. All companies that met the criteria (as stipulated in the guidelines) were eligible for support irrespective of their location. For example, in the Clothing and Textile sector, the procurement of consumer masks for public entities had specifically been opened up further to SMMEs to produce fabric face masks in addition to the already existing requirement of 100% designation.
  5. ***Exports of raw materials:***While the Committee welcomed the promotion of exports and of outward investment through its foreign trade offices; it remained concerned that the majority of South Africa’s raw materials were still being exported and that no or little economic value was being extracted in the process. It enquired whether the DTIC would be developing measures that would limit the export of raw materials to ensure that beneficiation takes place in South Africa. The DTIC informed the Committee that the RIS identified mineral beneficiation as a priority outlining:
* the use of export taxes;
* development of local fuel cells and battery manufacturing industries; and
* the rejuvenation of the iron-ore and steel value chain.

The current situation characterised by the weak rand and the capability of South African manufacturers to supply domestic demand during the COVID-19 pandemic presented an opportunity to ramp up production. A number of beneficiation initiatives that were being pursued by government, inclusive of the IDC, and industry to increase the production of value-added products from South Africa’s raw materials for the domestic and export market, included:

* In the steel sector, the DTICwas leading the development of the Masterplan with industry and labour to develop and implement measures that could support the growth and development of the sector. Parliament would be updatedonce the Masterplan was signed off by all social partners.
* In the Energy Storage and Fuel Cells sub-sectors, there were interventions being put in place to leverage the resource endowment of vanadium, lithium, cobalt, manganese, nickel and rare-earths. These were sought after metals in the battery materials market, while the platinum group metals were used in fuel cell applications.
  1. ***Amalgamation of the DTI and EDD:*** With the sixth administration. the President of South Africa had announced the amalgamation of the Department of Trade and Industry with the Economic Development Department to establish the DTIC. This required the reconfiguration of the organisational structures to effectively support and implement the mandate of the new department. In phase 2 of this process, the DTIC alluded to the fact that “a robust rotation programme will also be introduced to deepen the skills and capability at senior management level”. The Committee enquired how the DTIC would implement the rotation programme and ensure that it retained and deepened the skills and capability of its senior management. The DTIC informed the Committee that the principles that would underpin the job rotation programme were that:
* The approach to be adopted would be approved by the DTIC’s Executive Board.
* The programme would be rolled out incrementally to assess its efficacy and manage emerging risks.
* Senior managers whose areas of work were similar would be identified.
* Senior managers with similar skills and competency profiles would be identified.
* There should be buy-in from those targeted and therefore job rotation cannot be coerced.

The benefits to be derived would be:

* The broader development of the leadership capability.
* Leadership succession and continuity of operations.
* Improved job engagement and satisfaction, particularlyfor those who had been inthe same posts for numerousyears.

It should be noted that the implementation of Phase 2 of the National Macro Organisation of Government would be delayed due to the prioritisation of response measures toCOVID-19.

* 1. ***Ease of doing business:***The Committee enquired what measures the DTIC would initiate to further reduce the administrative burden on business and improve the ease of doing business to create an enabling environment for investment and improve global competitiveness. The DTIC informed the Committee that the measures being considered for implementation were the following:
* Enhancement of BizPortal and rolling out to SMMEs through local banks;
* Improving transparency of information at Deeds Office onits website and indicating itsturnaround times;
* Automation of Construction Permits at the City ofJohannesburg (CoJ);
* Automation of e-Rates Clearance at CoJ; and
* Improving efficiencies at Ports.
  1. ***Support offered to communities by the SEZs during the COVID-19 pandemic:*** The Committee asked whether the SEZs had initiated any programmes to support the surrounding communities during the lockdown period. The DTIC informed the Committee that the COVID-19 pandemic has had devastating effects on the management accounts of the various SEZ Operators, as most tenants had been unable to honour their rental obligations. As a result, some of the tenants had submitted requests for a 3-months rental holiday from their respective SEZ Operators. As a direct consequence of the pandemic, different SEZs are currently under serious financial strain. Furthermore, most of the SEZs efforts to effectively fulfil some of the planned construction activities for investments, had been hampered as a result of the restrictions placed by the Lockdown Regulations under Level 4. This impacted negatively on the income opportunities of all the affected community workers. As a result of the currently challenges posed by the COVID-19 pandemic, the SEZs indicated that they were planning various activities to alleviate the plight of their communities through:
* The acceleration of construction of projects relating to infrastructure, internal roads and security features. This would create and sustain a sizeable number of construction jobs - with an immediate boost to the livelihoods of the surrounding communities.
* Ensuring that the under-utilised supply-chains/logistics infrastructure (owned by some of the tenants) were leveraged towards the distribution of emergency relief goods and services (e.g. the distribution of food parcels; and the manufacturing of COVID-19 related protective gear or medical equipment, etc.).
* Distribution of food hampers to various Provincial COVID- 19 Command Centres.
* Prioritising high-impact community projects, where possible.
  1. ***Statement issued by the World Trade Organization (WTO):***The WTO had released a statement on COVID-19 and the multilateral trading system to secure and ensure the continued flow of medical supplies and other essential goods and services including maintaining the agricultural supply chain and securing food security of its Members, among others, during the pandemic. It would appear that South Africa was not a signatory to this statement despite many of its leading trading partners doing so. If so, the Committee enquired what the rationale was for South Africa not being a signatory to this statement as its aims were to ensure sustainability and stability within the trading system during the pandemic*.*The DTIC informed the Committee that the Joint Statement referred to in the question was signed by only 21 of 165 Members of the WTO. In referring to measures that have already been put in place on exports of medical supplies and other essential goods and services, the Statement makes a pledge to lift them as soon as possible. It also contains a commitment “Not to impose agriculture export restrictions and refrain from implementing unjustified trade barriers on agriculture and agri-food products and key agricultural production inputs.” It is noteworthy that 141 countries have implemented trade measures overall. According to the DTIC, 12 of the sponsors of the Statement implemented export restrictions on medical products; with two implementing export restrictions on agricultural products. It should also be noted that trade, in general, had been interrupted in many countries not by trade measures *per se* but by lockdowns, disruption to logistics and transport, and by border closures all of which were the result of measures to address the COVID-19 pandemic. The DTIC informed the Committee that South Africa, along with most other Members, did not sponsor the Joint Statement as it was an undertaking inconsistent with existing WTO rules. Article XI of the General Agreement on Tariffs and Trade on ‘Export Restrictions’ provides for the application of export prohibitions to prevent or relieve critical shortages of foodstuffs or other essentialproducts. It should be recalled that the current proposal contained in the Joint Statement was the latest of ongoing efforts by many of the same WTO Members to completely prohibit export restrictions even for developmental objectives. The DTIC was of the view that many of the same Members continue to distort agricultural trade in more significant ways through the provision of massive domestic support that undermines prospects for agricultural development in many developing countries, including in Africa. According to the DTIC, it was important to leave the possibility of resorting to export restrictions opento promote food security or manage shortages of foodstuffs and other essential products.
  2. ***Discontinuation of 12i tax allowance:***A concern for the Committee was that in its presentation, the DTIC projected that the number of enterprises/projects to be approved for financial support across all incentives would only be 600 for the 2020/21 financial year. This reduction, according to the DTIC, was due to the discontinuation of the 12i tax allowance and the economic impact of the COVID-19 pandemic. The Committee enquired, notwithstanding the economic impact of COVID-19, what informed the decision to discontinue the 12i tax allowance designed to support greenfield investments and whether alternative financial support measures would be considered. The DTIC informed the Committee that the 12i tax allowance programme was legislated under Section 12i of the Income Tax Act, 1962 (Act No. 58 of 1962), which incorporated the termination date of the 12i tax allowance programme. This was based on a budget allocation which was aligned to the termination date. However, an amendment of the termination date would not be allowed unless supported by an allocated budget in order to allow for the receipt and the processing of applications. According to the DTIC, alternative support measures may be considered via a Generic Manufacturing Support Programme should an additional budget be allocated.
  3. ***Decline in allocation of incentive funding for public corporations and private enterprises:***The DTIC incentive allocation to public corporations and private enterprises would decline by more than R1,2 billionfrom the 2020/21 financial year to the 2021/22 financial year. The Committee enquired what informed the continued decline in providing incentive funding for public corporations and private enterprises. The DTIC informed the Committee that the reduction of incentive allocations was due to budget constraints as indicated by National Treasury that led to the discontinuation of the economic competitiveness support package.
  4. ***Application of B-BBEE levels when allocatingrelief funds:***Financial support to stimulate and support the industrial drive in line with national priorities should not be underestimated. However, the Committee enquired that with the allocation of relief funds whether the DTIC would strictly apply B-BBEE levels when providing relief or consider the needs of companies given the impact of COVID-19 pandemic on the economy. The DTIC informed the Committee that the current B-BBEE levels within the incentives programmes were between Level 4 and Level 8. These levels were determined after consultation with industry on what should ideally be the B-BBEE level that companies applying for incentives should adhere to, based on the transformation imperatives of the country. The DTIC,as custodian of the B-BBEE legislation, informed the Committee that it remained committed to adhere to the application of B-BBEE levels when providing funding to companies given the impact of COVID-19 pandemic on the economy. This was to ensure that during and after the pandemic the country had an economy that reflects economic inclusion.
  5. ***Automotive industry:***The Committee acknowledged the contribution of the automotive industry to the broader economy and job creation. It recognised the need to support national priority sectors, such as the automotive sector, to stimulate industrialisation and foster the deepening of localisation to enhance economic transformation and job creation. It enquired about the measures being considered by the DTIC to continue to support the industry given the impact of the COVID-19 pandemic and its contribution to the broader economy and job creation.The DTIC informed the Committee that the impact of COVID-19 would manifest through reductions in Sales and Production volumes leading to job losses all due to shrinking demand as global economies continue to struggle. As a result of this, itwas reviewing the Automotive Production Development Programme with the purpose of accommodating the industry following COVID-19. Some of the issues under consideration included the relaxation of production volume requirements and extending submission timelines for Automotive Investment Scheme applications and claims. Therefore, the Department was in constant engagement with the industry in efforts to understand the COVID-19 impact as it unfoldsand also to formulate appropriate responses.
  6. ***Alignment of the RIS with previous policies:***Collaboration among industry, labour and government would be critical to develop an effective RISensuring a partnership with the private sector that would release job-creating investment. The Committee welcomed the approach to operationalise the RISthrough Master Plans in the National Key Priority sectors. However, it enquired whether the RISwould align with the objectives of the New Growth Path (NGP) and the Industrial Policy Action Plan (IPAP). According to the DTIC, the Government policy set out in the NGP, the IPAP and the RIS seeks to ensure a restructuring of the economy to set it on a more value-adding, labour-intensive and environmentally sustainable growth path. The RIS provides a new integrated approach to economic development underpinned by five growth engines which are industrialisation through the Masterplans; leveraging private investment and infrastructure; innovation through strengthening the digital economy; regional integration through the AfCFTA to promote exports; and inclusion through the revitalisation of rural and township economies, boosting SMMES, and creation of jobs for youth and women. In essence, the RIS is aligned to and reinforces the objectives of preceding policies such as IPAP and NGP and further places greater emphasis on collaboration and partnerships with the private sector and labour in developing and implementing programmes to reposition the sectors.
  7. ***Industrial Park Revitalisation Programme:***The continued support for Industrial Parks through the Industrial Park Revitalisation Programme contributes to the stimulation of rural and township economies and acts as a critical vehicle to promote industrialisation and manufacturing. The Committee enquired whether the DTIC would consider increasing its incentive support for industrial parks thereby stimulating rural and township economies. The DTIC informed the Committee that the Industrial Parks Revitalisation Programme was implemented under the Infrastructure Development Programme which includes the SEZs and the Critical Infrastructure Programmes. Discussions were under way with National Treasury for a possible increase of the current funding support for industrial parks to stimulate investment in rural and township areas. The DTIC had also been engaging other partners, including other departments, such as the Department of Cooperative Governance and Traditional Affairs; the Provincial Governments; and the Municipalities, to participate and contribute towards the Industrial Parks Revitalisation Programme.
  8. ***Reviewing of the B-BBEE Act:***The primary purpose of B-BBEE is to address the legacy of Apartheid and to ensure the economic participation of previously disadvantaged individuals in the South African economy. Given the current economic environment caused by the COVID-19 pandemic, the Committee enquired whether government would be considering reviewing the Act for a more inclusive approach. Currently, the DTIC is reviewing the B-BBEE Act as part of the MTSF which started during the 2020/21 financial year to, amongst others, strengthen participation of marginalised groups (women, youth, workers etc.) in the mainstream economy.
  9. ***Trade deficit with Brazil, Russia, India and China (BRIC countries):***A major concern for the Committee was the significant increase in South Africa’s trade deficit with the BRIC countries valued at R26 billion. The Committee enquired what measures were being considered in order to reduce the trade deficit with its BRIC trading partners. According to the DTIC, South Africa has trade deficits with many trading partners but also surpluses with many others. Over the last three years the aggregate trade balance has been in surplus: R88.1 billion, R15.2 billion, and R24.7 billion respectively. With respect to the BRIC countries, the overall trade deficit narrowed over the period 2015 to 2019, from R130 billion to R112 billion. With China, it narrowed from R105,5 billion to R95,7 billion. With India, it narrowed from R12,2 billion to R2,9 billion and with Russia it narrowed from R2,5 billion to R2,2 billion. However, the DTIC acknowledged that with Brazil, the deficit widened from R10,02 billion to R10,97 billion.

Beyond trade balances, the basket of products traded was of greater strategic importance. In general, while 55,3% of South African exports were manufactured products, South African imports of manufactured products were 92,9% of its total imports. This indicated that South Africa was not exporting a large proportion of value-added products. With a significant decline in global commodity prices, the terms of trade moved against economies that were heavily dependent on commodities in their export basket. This underlined the importance of industrial development and value-addition in South Africa to diversify the export basket to include a greater share of higher value-added manufactured products.

The WTO rules govern the measures South Africa may take on trade. The rules prohibit the imposition of import restrictions or quotas against other WTO members. South Africa was able to increase tariff duties up to the legal bound levels set out in its WTO commitments, in general, or to limits agreed with specific trading partners in bilateral and regional agreements (SADC or European Union (EU) for example). In general, proposals to raise tariffs came from industries and firms. Such proposals were assessed in light of their possible impact on broader industrial development objectives and employment effects in the relevant value chain. The procedures and criteria are set out in the International Trade and Administration (ITA) Act. Similarly, in cases of unfair trade, trade remedies (e.g. safeguards, anti-dumping, and countervailing duties) could be used if affected industries follow the process and criteria set out in the ITA Act.

The DTIC informed the Committee that trade imbalances were also being addressed through the DTIC’s export promotion initiatives. Support was being provided to outward selling missions to the BRIC countries, via the Export Marketing and Investment Assistance incentive. The DTIC’s Foreign Economic Representatives and Marketing Officers stationed at South African embassies in the BRIC countries provide ongoing in-country support. The DTIC also collaborates with the South African chapter of the BRICS[[14]](#footnote-15) Business Council, in facilitating manufactured exports to BRIC countries and improving awareness of trade opportunities in BRIC markets. Finally, it runs the Export Barriers Monitoring Mechanism, which supports businesses in resolving barriers to exports for BRIC markets.

* 1. ***Implementation of Trade Agreements:*** At the end of 2019, the WTO had revised its global merchandise trade volumes estimate downwards for 2019, which indicated a slowdown in global trade due to trade tensions and uncertainty around the withdrawal of the United Kingdom (UK) from the EU (Brexit) negotiations, among others. The outbreak of the COVID-19 pandemic would further slowdown world trade and disrupt global supply chains. The Committee enquired what would the impact of the COVID-19 pandemic be on the implementation of the AfCFTA and on the out-of-cycle review of South Africa’s continued participation in the United States’ (US) African Growth and Opportunity Act (AGOA).

In terms of the AfCFTA, the DTIC responded that while Africa had so far avoided the worst of the health crisis (as compared to Europe and North America), the economic impact had been devastating. Large parts of African economies were closed, exports have ceased, and there has been capital flight and currency depreciation. Intra-African trade had been hit hard too with border closures and other lockdown measures being implemented across the continent.

The DTIC informed the Committee that African countries were far more vulnerable to the economic impact of the crisis, had less financial resources and fiscal space to respond, and these already distressed economies were set to confront elevated debt levels. While the trade response was important, it would be dependent on a broader agenda for financial support and debt relief across Africa. The large gap between the international support currently on offer and financing needs would not only weaken the effectiveness of developing countries’ responses to the crisis, but it would also delay the economic recovery and dampen prospects for trade.

According to the DTIC, the COVID-19 pandemic also compelled the AU Commission (AUC) to suspend all meetings in March 2020. This meant that the negotiating process had to be delayed and the 13th Extra-Ordinary Summit that had been proposed for 30 May 2020, to adopt the outcomes of the work, had to be postponed.

The DTIC informed the Committee that President M Ramaphosa, as Chair of the AU, was conducting consultations to consider options for convening the Extra-Ordinary Summit, while AU Ministers of Trade were engaging with the AUC to consider alternate ways to make progress in the negotiations including through virtual meetings. There were many practical constraints to this option considering the negotiations required the participation of 55 AU Members.

Currently, the negotiations were at a critical phase. Further negotiations on tariff concessions and accompanying rules of origin must be concluded to establish the technical and legal prerequisites for preferential trade under the AfCFTA. On trade in services, many Members were still to make offers that would be the starting point for those negotiations.

In terms of AGOA, the DTIC noted that while the possibility for an out-of-cycle review continues to apply, South Africa remains eligible for tariff preferences under AGOA. The out-of-cycle provision allows any US lawmaker, at any time, to raise concerns on whether SouthAfrica meets AGOA eligibility requirements. At this stage, no such concerns have been raised. It should be noted that, on 13 May 2020, the US Government initiated an overall review of sub-Saharan African countries’ eligibility for AGOA preferences.

Two-way trade between the US and South Africa had been severely impaired by the border measures taken by both sides to address the health crisis brought on by COVID-19. These measures include lockdowns in many sectors of the economy, restrictions on logistics and transport and border closures. Of course, this was a global phenomenon and the DTIC expected that trade would re-start as production and transport restarted and as border measures and closures were scaled back.

On a related matter, South Africa had been part of a US country review process under the US Generalised System of Preferences (GSP) since October 2019. That review was initiated by a petition from US stakeholders in respect to concerns they have had with South Africa’s pending Copyright Amendment and the Performers’ Protection Amendment Bills.

The South African Government had participated in the review process and was in ongoing discussions with the United States Trade Representative (USTR) on the matter. South Africa had argued that the review was mistimed and misdirected as these Bills were not yet law in South Africa and were being assessed for their constitutionality by the President. To date, he hadnot yet made a determination. The DTIC informed the Committee that it had clarified that the Bills would be the subject of further consideration if the President signs them into law or if he decides to return them to Parliament for further work. If they were to be signed into law, it would become operational only through secondary legislation/regulations which required further consultations with stakeholders. If the Bills were to be referred back to Parliament, Parliament would be limited to only consider and respond to matters the President highlighted in terms of the procedures followed or other constitutional concerns.

The South African and US Government would continue to engage on these matters,as the process on South Africa’s copyright law unfolds and would engage on the GSP country review. The DTIC informed the Committee that a decision on the country review may be made by the USTR in November 2020. These were important matters as eligibility for trade preferences under AGOA were predicated on continued eligibility for preferences under the GSP.

4.19 ***Additional relief funding:***Given the negative impact of the COVID-19 pandemic on the broader South African economy, the Committee enquired whether the DTIC would consider additional relief funding for companies in distress, especially companies that are labour-intensive to reduce the negative impact on the labour market. The DTIC informed the Committee that it wasconsidering additional relief support to companies in distress in the productive sector of the economy to sustain existing jobs and productive capacity. It had proposed that support provided would be based on companies having a business case/turnaround strategy that demonstrates that the entity could prove that it could be viable with support and lead to future sustainability within a period of 18-24 months. Specific conditionalities would be considered with regards to support given, such as the safe-guarding of employment. The package would be implemented once National Treasury allocated those funds.

1. **Conclusions**

Having considered the information shared and reports from the Department of Trade, Industry and Competition with respect to its strategic and annual performance plans, the Committee has reached the following conclusions:

5.1 The Committee welcomed the amalgamation of the two departments and appreciated the merged mandate that led to the rearrangement of programmes that complements/improves co-ordination and enhances the former roles of the two departments.

5.2 Industrial financing remains a critical vehicle for the development of sustainable enterprises through the provision of incentives in support of national priorities. Given the importance of industrial financing (therefore, it receives the bulk of the budget allocation), especially in a contracting economy, the Committee noted with concern that the budget allocation for this programme will decrease significantly in the outer years of the Medium-Term Expenditure Framework.

5.3 The Committee noted the discontinuation of the 12i tax allowance, as the DTIC indicated that this was related to a legislated termination date, and that an amendment to the termination date would only be possible if an additional budget was allocated by National Treasury. However, the Committee welcomed the undertaking of the DTIC to source alternative support measures that may be considered via a Generic Manufacturing Support Programme should an additional budget be allocated.

5.4 The Committee welcomed continued efforts by the DTIC and the CIPC to ensure improved ease of doing business through business registration through the BizPortal. It also noted collaboration with the City of Johannesburg to improve other processes such as getting construction permits. In this regard, the Committee called on the DTIC to extend its efforts to other government departments and across all spheres of government to ensure ease of doing business.

5.5 Reducing the administrative burden on business and improving the ease of doing business to create an enabling environment for investment and improve global competitiveness had been a major concern for this Committee. The Committee welcomed the initiatives by the DTIC, among others, to enhance the digital platform that would enable small, medium and micro enterprises to access the BizPortal through local banks.

5.6 The Committee welcomed the collaborative approach in developing the Master Plans as part of the Reimagined Industrial Strategy, as only through a partnership with industry, labour and government could an environment be established to facilitate investment that leads to job-creation.

5.7 The Committee urged the DTIC to finalise the negotiations on the modalities for the African Continental Free Trade to enable the implementation of the trade agreement, which is expected to increase intra-African trade.

5.8 The Committee welcomed the DTIC's commitment to multilateralism and efforts to ensure that the developmental agenda remains a priority and in cases where the developmental agenda is compromised, South Africa should be guided by principles of regional economic integration and national security during the pandemic.

5.9 Notwithstanding the clear objectives of section 11 of the National Credit Act, the Committee welcomed the cautionary approach the DTIC had taken in this regard.

5.10 The Committee welcomed the DTIC’s commitment that it would ensure compliance to the Broad-based Black Economic Empowerment Act and its Codes of Good Practice during the COVID-19 pandemic. It notedthe fact that the DTIC is considering further measures to strengthen compliance and to redirect resources where necessary.

5.11 Notwithstanding the approval of the budget and Annual Performance Plan as tabled, the Committee noted that an adjustment appropriation budget would be tabled to factor in the interventions to mitigate the impact of the COVID-19 pandemic. This may lead to a revision of the DTIC and its entities’ Annual Performance Plans. It looked forward to engaging the DTIC on the new Annual Performance Plans once tabled.

1. **Acknowledgements**

The Committee would like to thank Mr E Patel, the Minister of Trade and Industry, and Mr L October,the Director-General of the Department of Trade, Industryand Competition, for their cooperation and transparency during this process. The Chairperson wishes to thank all Members of the Committee for their active participation during the process of engagement and deliberations and their constructive recommendations reflected in this report. The Committee also wishes to thank its support staff, in particular Mr A Hermans, the Committee Secretary, Ms M Sheldon, the Content Advisor, Ms Z Madalane, the Researcher, Ms Y Manakaza,the Committee Assistant, and Ms T Macanda, the Executive Secretary, for their professional support.

1. **Recommendations**

The Portfolio Committee on Trade and Industry, having considered the 2020 proposed Budget Vote 39: Trade, Industry and Competition, recommends that the House adopts Budget Vote 39: Trade, Industry and Competition.

The Committee further recommends that the House request that the Minister of Trade and Industry should consider engaging the Minister of Finance to enhance industrial and developmental financing to stimulate the economy in support of the Reimagined Industrial Strategy as implemented through the Master Plans.

Report to be considered.

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5. Ibid [↑](#footnote-ref-6)
6. SADC (2015) [↑](#footnote-ref-7)
7. DTIC (2020: 20) [↑](#footnote-ref-8)
8. National Treasury (2020a: 640) [↑](#footnote-ref-9)
9. DTIC(2020: 37, 40, 41, 43, 45, 46, 47, 49, 50 and 52) [↑](#footnote-ref-10)
10. Real terms refer to the inflation-adjusted figures. Inflation estimates were 4,4%, 4,6% and 4,6% respectively for the next three years from 2020/21 to 2022/23 (National Treasury 2020b:23). [↑](#footnote-ref-11)
11. National Treasury (2020a: 642) [↑](#footnote-ref-12)
12. Portfolio Committee on Trade and Industry (2018: 412) [↑](#footnote-ref-13)
13. South African Reserve Bank (2020) [↑](#footnote-ref-14)
14. BRIC countries and South Africa [↑](#footnote-ref-15)