SUBMISSION TO THE STANDING AND SELECT COMMITTEES ON FINANCE

ON THE FISCAL AND REVENUE PROPOSALS AND DOCUMENTATION RELATED TO THE 2013/2014 BUDGET

BY THE MANUFACTURING CIRCLE

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BACKGROUND TO
THE MANUFACTURING CIRCLE

Formed in 2008, the Manufacturing Circle interacts with government and other stakeholders in order to review, debate and help formulate policies which will have a positive impact on South Africa's manufacturing base.

The Manufacturing Circle is made up of a number of South Africa's leading medium to large manufacturing companies from a wide range of industries. Some of the members are leading South African exporters of manufactured goods to markets around the globe, others are locally based and locally focused companies competing with the best in the world. There is one common denominator among them and that is a passion for manufacturing coupled with a fervent belief that for South Africa to be economically strong, its manufacturing sector must be strong. A strong and developing manufacturing sector will drive the creation of skilled and semi-skilled

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1. INTRODUCTION

The Manufacturing Circle welcomes this opportunity to make a submission on the fiscal and revenue proposals and documentation related to the 2012/2013 National Budget as tabled in Parliament by the Minister of Finance, the Hon Pravin Gordhan on 27 February 2012. However we may differ on dealing with the challenges underpinning South Africa's economic prospects, we believe that an accurate assessment of South Africa's position was offered by the Minister, both in terms of our domestic situation, as well as relative to the global economy.

As was the case with previous budget speeches, strong emphasis was placed on the social partners working together when the Minister stated that dealing with our many challenges "is going to take a special effort from all of us in Government, assisted by people in business and broader society".

Whereas the Manufacturing Circle sees its role as supplementary to formal social dialogue as it takes place at the National Economic Development and Labour Council, it's approach is nonetheless one of forming partnerships with government and labour in addressing priority issues. Our commitment to partnership with labour and government in reaching a common understanding on what actions need to be taken to move the economy and job creation forward, and our readiness to take those actions is unwavering. This is done either through direct consultations and partnerships with government departments such as National Treasury and the Department of Trade and Industry, with labour unions, or via submissions to Parliament or other regulatory institutions and partnerships with state entities, such as Proudly South African, etc. And while we agree that full recovery and the promotion of sustainable job-creating growth will require long-term commitment, we also believe there are clear steps that can be taken to address the obstacles we face over the short to medium term.

In terms of its contribution to the economy, manufacturing may have been in decline since 1981, but it still remains one of the top three contributing sectors to the economy. It is a high-multiplier sector, with great potential to grow the economy in a way that will create jobs. The inputs contained in this document speak to the budget from the priority issues that challenge the growth and job-creating power of manufacturing in South Africa today and are, amongst other, informed by direct member inputs made at our most recent plenary meeting of 12 February 2013.

The Manufacturing Circle appreciates the Minister of Finance's recognition of the importance of growing the manufacturing sector for South Africa to create jobs, that it will require greater overall investments in competitiveness and that private sector investment need to be stimulated. We recall the Minister's assertion in his 2012 Budget Speech of the World Bank's contention that 85 million manufacturing jobs may shift from China to other countries in the coming years, and therefore appreciate that in spite of this manufacturing is still seen as having a role to play with respect to expanding trade, investment and job creation.

2. MACROECONOMIC POLICY

The Manufacturing Circle appreciates that Treasury has established a solid practise around fiscal forecasting erring on the conservative side, often being much closer to actual outcomes than many estimates from non-government organisations and the private sector. While South Africa's economic momentum was admittedly modest prior to the crisis, Treasury's disciplined stance has undoubtedly yielded pay-offs in the degree to which we were able to whether the storms of 2008 and 2009 and in terms of what fall-out there has been subsequently.

We are however concerned about the lower than expected revenue (by R16.3bn), which was indeed due to lower than expected growth in the second half of 2012 on the back of disruptions in the mining sector, lower commodity prices and weak demand. It raises concern especially with respect to any need for the impending tax review to improve revenue income, vis-à-vis the prospects for faster growth. We do however appreciate that the positive approach of the Budget, in providing for "continued real growth in spending to support service delivery, and to expand investment in infrastructure". We know that from this point of view Treasury is aware of the implementation challenges and doing what it can to ensure the necessary improvements.

We are however dismayed that the Budget speech did not continue the almost traditional focus on shifting to more productive spending that we have seen in recent years, which we see as especially important in light of increased fiscal challenges.
We are aware that to achieve it will require courage and will exact immense skill and discipline in maintaining the right fiscal and monetary policy balance. In this regard, we would like to offer select comments with respect to our overall macroeconomic position.

2.1. FISCAL POLICY

The Manufacturing Circle supports the counter-cyclical stance adopted by Treasury some years before the 2008/09 global financial. Whereas worrying spending inefficiencies may have persisted, it has allowed South Africa to maintain allocations to public works programmes, infrastructure and support schemes for companies in distress and workers who became unemployed.

The rand has weakened significantly since the R8.83/$1 that we saw it at just before the budget speech on the back of lowered growth forecasts and weak demand in our domestic and traditional export markets (EU and the US). Overall, we also believe that while the positive tone in respect of encouraging investment and competitiveness and maintaining fiscal discipline may have supported investor confidence in the South African economy, the many assumptions that the budget predicates savings and moderation in spending growth may encourage a "wait-and-see" approach. We

continue to believe that in order to grow and consolidate trust in South Africa's capital markets, it will be important to prove our ability to focus state involvement in the economy ever more constructively, and to keep spending directed ever more firmly to productive activities that are supportive of economic growth and job creation. Reductions in spending of R10,4bn proposed by the Budget over the medium term as a result of savings and draw-downs on the contingency reserve should further support positive market sentiment as far as South Africa's fiscal position is concerned.

It is encouraging that the 2013 MTEF proposes allocations of R16.6bn to support key investments in infrastructure and development for roads, rail, electricity, water and regional bulk infrastructure and that there will be an additional R450m made available to the Small Enterprise Finance Aagency. Public spending is still on a moderation path, but lower growth has significantly deteriorated the outlook (deficits now projected to reach 3.9% of GDP in 2014/15 instead of the 3.0% predicted a year ago), with net debt now topping out just above 40% of GDP in 2015/16, encouraging net debt servicing costs to retreat somewhat to 2.8% of GDP in the same year.

We believe that greater clarity in respect of government's long-term fiscal position is becoming increasingly necessary, not only with respect to external perceptions, but also with regard to domestic price trajectories for administered services and infrastructure. In this regard we were greatly encouraged in 2011 when the Minister of Finance stated that that Treasury would, in the following year, "publish a long term outlook for the public finances…[to] explore the implications for government finance of major long term priorities, including improved infrastructure investment and maintenance, social security and retirement reform, the establishment of national health insurance, the role of development finance institutions and the strengthening of our municipal finances.

To achieve these objectives any pending fiscal review need to focus on the tax-side with the purpose of broadening the tax-base, rather than increasing the burden on existing private-sector taxpayers. We are encouraged by media reports on Minister Gordhan's post-budget engagements that Treasury is also prioritising a review to increase the efficiency of spending and eliminate waste. However, we believe that any pending a fiscal review should in particular target facilitating ever greater levels of competitiveness for the private sector in general, and reducing business costs for high-multiplier industries such as manufacturing, mining and agro-processing. In view of the strong cost-push of steep, bunched-up, administered price increses over the last decades, we believe the Minister gestured at something very important when he in his 2011 MTBPS speech he also stated, "It is important to find the right balance between cost recovery from users of services, and general tax-funding." While we do not suggest that users should not pay for the services they receive, the knock-on effects of administered prices set by a range of state entities without consideration to our national job creation goals, taking for granted the timing of other administered cost increases, is increasingly undermining the ability of our firms to compete. It is worth noting that there are numerous reports of municipalities engaging in the same behaviour, employing highly marked-up electricity charges and a preferring a

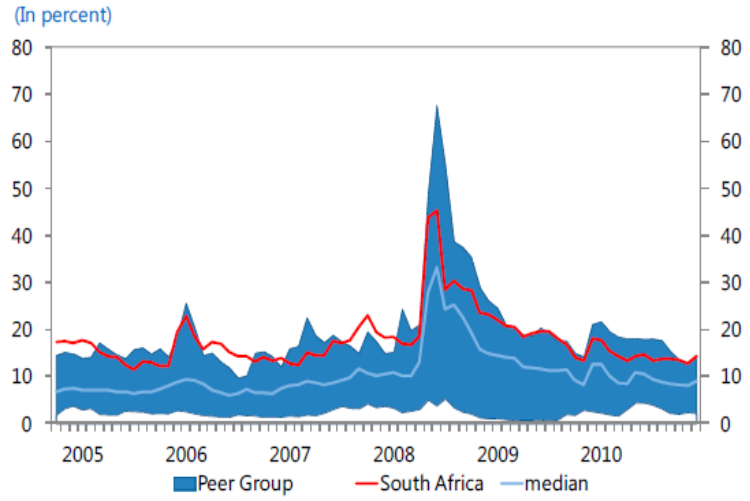
municipal tax on business. This situation needs to be addressed at an overall policy level as a matter of urgency.

2.2. MONETARY POLICY

According to the 2011-2012 World Economic Forum (WEF) Global Competitiveness Report, South Africa has lost competitiveness in comparison with its BRIC (Brazil, Russia, India and China) partners following the 2008 financial crisis. In this regard, the exchange rate of the rand has often been cited as a key factor that has contributed to the deterioration in South Africa's competitiveness. In the same vein, according to the WEF, strong currencies have eroded manufacturing competitiveness in other countries. For instance, a strong Australian dollar has been blamed for the recent shutting of steel mills in Australia. Also, a strong yen has forced Honda and Nissan to consider shifting production away from Japan.

On the other hand, episodes of a weakening in the rand exchange rate have largely coincided with an improved trend in manufacturing performance recently. Based on estimates by the South African Reserve Bank (SARB), the rand to US dollar exchange rate weakened during Q3 and Q4-2011 as well as between April and May 2012. On the other hand, the rand exchange rate strengthened during Q1-2012 whereas in Q2-2012 the currency depreciated due to growing global geopolitical risks. A positive correlation between a weaker rand exchange rate and the trend in the performance of manufacturing output in South Africa can be established in Q3 and Q4-2011, as well as in April and May 2012.

Figure 1: Implied exchange rate Volatility, SOUTH AFRICA and Peer group, 2005 - 2010



It is a fact that the rand is one of the most volatile currencies among the group of emerging markets economies (EME) (Figure 1). Together with its appreciation tendency, the rand's exchange rate volatility makes it hard for firms to design proper medium term strategies and budgets.

In a report on the future of manufacturing, the WEF states that recessions are likely to be more frequent in the future compared to the 25 years before the 2008 global financial crisis. Echoing this is the widely acknowledged fact that the recent financial crisis has coincided with a structural break in the global economy. The new regime has been characterised by bouts of erratic patterns of capital flows to EME largely on the back of global investors' risk appetite. Consequently, EME have experienced increased currency volatility.

It is safe to assume that the global economy is set to remain on the trajectory of major structural adjustments for the foreseeable future- possibly stretching over a decade or so. Hence, the volatility of EME currencies is likely to prevail if and for as long as these currencies remain within a freely floating regime. Therefore, the structural nature of the change in the global economy implies that economic policy mix in general has to be reconfigured. Monetary and exchange rate policy, in particular, should be revisited accordingly to address actual and expected imbalances.

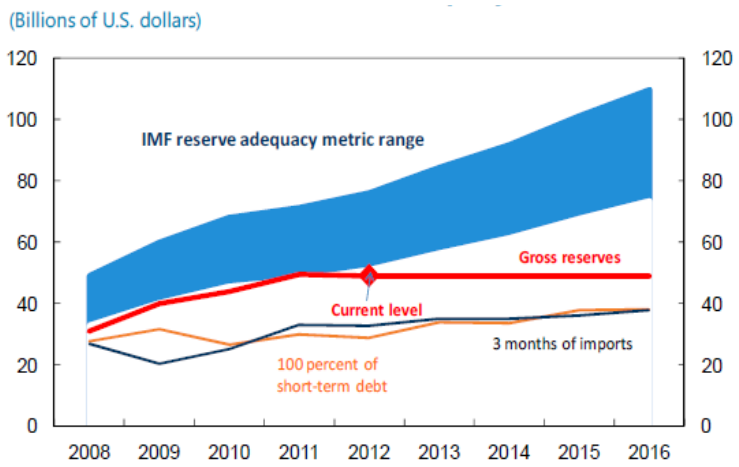
There is a new debate on the role of monetary policy. The discussion revolves around the issue of an additional mandate for monetary policy. It is being argued that monetary authorities should also target asset prices in addition to consumer prices in advanced economies while in EME the exchange rate has been identified as an additional target for monetary policy alongside price stability.

According to a recent IMF publication (http://www.imf.org/external/pubs/ft/sdn/2012/sdn1201.pdf), EME have become more vulnerable to currency volatility because: (a) they are generally not well-hedged against a currency risk; and, (b) a strengthening of the exchange rate may result in the loss of competitiveness of the traded goods sector and the ensuing effect could become permanent, even if the exchange rate subsequently returns to its previous level.

Economic problems should be addressed using a broad array of tools. Following the financial crisis, the view that delivering stable prices is the only credible and appropriate target for monetary policy in EME constitutes a narrow perspective. The case for the coexistence of two targets for monetary policy is supported by the fact that it can be costly to ignore the effects of considerable fluctuations in the exchange rate. Intervening in the foreign exchange market is a more relevant monetary policy tool for inflation-targeting EME relative to inflation-targeting advanced economies, mainly because of EME's susceptibility to currency shocks (see http://www.voxeu.org/article/inflation-targeting-and-forex-intervention-are-two-targets-better-one).

Policymakers should therefore use a battery of tools such as macro-prudential regulation, appropriate capital controls, exchange rate bands, etc in pursuit of macro-financial stability. In view of this imperative, the National Treasury and SARB should consider adding to the monetary policy's mandate of maintaining low inflation a new measure in the foreign exchange market to minimize the volatility of the rand exchange rate. More specifically, the SARB should be mandated to adopt an explicit "currency band" between 8.20 and 8.60 per US$ as a "working guide" for the conduct of monetary and exchange rate policies. To this end, South Africa will be required to maintain an adequate stock of safe and liquid foreign assets. At present, the actual and projected gross reserves fall below "the adequacy range" as defined by the IMF (Figure 2). This reinforces the fact that South Africa should strengthen its foreign reserve position going forward.

FIGURE 2: GROSS RESERVES VS. MEASURES OF ADEQUACY, SOUTH AFRICA, 2008 - 2016



Source: IMF (2012)

It is common knowledge that, in economics there is no free lunch! The existing policy has exacted considerable costs on the economic structure- numerous industries have closed down, and thousands of jobs lost. And, for the new policy, costs will have to be incurred too. Clearly, this will be a new policy paradigm for the SARB with considerable learning challenges as was the case when inflation targeting was introduced. Yet, empirical global and national lessons show that refraining from using the broader array of available foreign exchange policy tools would prove to be detrimental for economic activity, job creation and growth sustainability.

3. SUPPORTING MANUFACTURING GROWTH AND JOB CREATION

The Manufacturing Circle believes that the overall focus of the budget should be on supporting higher levels of sustained, job-creating growth. While we do not doubt the intention of government to deliver on these objectives, the capacity of the state to execute the measures announced is not only an acknowledged general concern, but an overriding cause for unease amongst manufacturers.

A broad-ranging package of measures was announced, on which we would like to make select comments:

3.1. INFRASTRUCTURE

We welcome the spending plans in respect of improving rail and general transport infrastructure which, although focussed on supporting the primary sector, will provide spin-offs for manufacturing. We are also happy to mention reports from our members that there has been marked improvements in respect of progress with local procurement in this regard. These improvements will definitely address long-held concerns relating to:

- general inefficiencies, service predictability and equipment availability of the rail network;
- upgrading Transnet's rail and port infrastructure in order to boost capacity on the rail lines that transport coal and iron ore to export terminals;
- relieving congestion and damage on our road network system by shifting other goods from road back onto rail;
- providing appropriate inter-modal facilities that would facilitate seamless movement of cargo; and,
- enhancing competition amongst and within ports.

However we must caution that cost recovery for such expansions must at all times be prioritised to be done as equitably, cost effectively and gradually as possible as to avoid unnecessary cost shocks. This is particularly necessary in an environment where administered prices both drives inflation and undermines our competitiveness.

We further caution that if these infrastructure projects are to impact job creation positively and expeditiously, steady delivery momentum must be achieved and maintained. This has not been the case in previous years. In this regard, we believe the Minister struck the correct tone in noting "there are parts of government that struggle to spend their full infrastructure budgets". This has a direct impact on local manufacturers, as the lack of consistent infrastructure spend prohibits local contractors from investing in equipment to "gear up" their capacity.

3.2. ADMINISTERED PRICES

Administered prices still remain a significant problem. South African cargo owners carried the majority of the burden of port infrastructure costs, while foreign cargo owners and vessels received globally competitive rates or discounts, the Ports Regulator of South Africa's yearly Global Port Pricing Comparator Study (GPPCS), has recently shown. Nersa was about to make an announcement a day after the budget on yet another potentially devastating round of electricity price increases, while an application from Sasol on piped gas prices are also currently in the offing. Business-at-large and manufacturers in particular are of the viewpoint that cost-push due to administered prices increases are out of kilter with our competitor markets and are severely undermining their ability to compete. The preference would clearly have been that it should have been addressed in the budget.

In this regard the Manufacturing Circle reiterates its support for a full-scale fiscal review. We also support recommendations such as those contained in *A Study to Collate all Research Done on Administered Prices* concluded under the Fund for Research into Industrial Development and Equity (FRIDGE) in 2011 as a good starting point to address administered prices *per se*. The study proposed that:

- New, up-to-date studies on the regulatory frameworks and processes underpinning the determination of administered prices be commissioned,
- Greater attention is focused on the economic impacts of administered pricing decisions,
- The effectiveness of administered pricing in terms of its contribution to national objectives is assessed,
- The capacity and resources of independent regulators is improved,
- Benchmarking analyses are undertaken,
- Greater attention to alternative approaches for administering prices are given.

3.3. ELECTRICITY

Energy remains a key cost-push competitiveness factor as a result of rapidly increasing electricity prices over the last decade (in excess of 200%). South African manufacturers have found it a great challenge to bear the steep and remain competitive, while bearing the bunched-up increases in electricity prices in a context where administered prices have been brought down in numerous competitor-markets. In addition, South African manufacturers are also hamstrung by numerous other domestic inefficiencies, and our unequal trade position. The resultant margin squeeze as well as concerns re future developments in this regard is retarding investment and causing business failure.

There are direct effects insofar as it raises the baseline cost structure for the local manufacturers, hence reducing their global competitiveness. There are also indirect

effects come through the negative effects the shortage of energy has on the mining sector, which is a key source of demand for the local manufacturing activities.

While it is still higher than inflation, NERSA granting Eskom 8% electricity tariff increases over the MYPD3 period has come as a tremendous relief to manufacturers. It is a good decision that will support the maintenance of the manufacturing base, that will contain inflation and ensure a better future for South Africa. It represents a longer term and more gradual cost increase trajectory. We believe NERSA, this time around, proved its metal in interrogating Eskom's proposed price increases, and it (NERSA) was sensitised to the economic growth and job creation imperatives and its important role in helping to exercise them in South Africa.

It is important to note that while Eskom was granted annual increases of 8%, the delta proposed by Eskom suggests increases for manufacturers are likely to be closer to 10% or 11%. While this is better than the 19% it would have been had Eskom's proposal succeeded, the significant mark-ups charged by municipalities for electricity they sell to industrial customers still remain a grave concern. It not only adds to the costs of large industry, it severely squeezes the margins of smaller manufacturers and hampers their ability to mitigate risk and retain staff.

While manufacturers in certain municipalities have taken legal recourse on what they regard as unprocedural electricity tariff setting, we have also received reports of local authorities arbitrarily demanding massive increases in the electricity deposits of industrial customers. We are currently working with Eskom and other stakeholders to get this addressed as a matter of urgency.

Finally, the Manufacturing Circle will continue to advocate for an industrial policy measure to help off-set the electricity price increases, which individual accounts show have rocketed by more than 230% since 2003, while electricity tariffs in BRICS countries and other peer economies have declined. It will be key for South African manufacturers to remain competitive in an environment where a country such as Brazil has just cut electricity tariffs for industrial users by 30%.

In the medium-term significant work needs to be done to ensure that an independent grid becomes a reality. Whilst much has happened to diversify generation capacity from Eskom, the fact is that very little market contestation is introduced with regard to baseline generation capacity. As such the basic unit cost is still driven by Eskom's cost structure. Unless and until the baseline generation capacity is diversified and a competitive framework is put in place, it is unlikely that the generation cost will drop meaningfully.

Significant concern also exists over margins charged by municipalities to municipal electricity customers. In addition to reports of excessive mark-ups in numerous municipalities, there are now also cases where long-standing manufacturing clients are receiving arbitrary demands for huge electricity deposit increases, and where manufacturers are taking legal recourse in instances where municipal electricity tariffs are believed to have been unprocedurally increased. We believe this underlines the

importance of a fiscal overview to ensure revenue accrues to municipalities as a result of developmental successes, rather than through strangling manufacturing growth and job creation through high electricity margins.

3.4. JOB SUPPORT SCHEMES

The Manufacturing Circle welcomes the allocations for schemes such as the Special Economic Zones and industrial development (R2.9bn) and the Competitiveness Enhancement Programme (R5.3bn). The response to the Manufacturing Competitiveness Enhancement Programme (MCEP) has been very positive, with manufacturers seeing it as a flexible programme that tries to address competitiveness issues sincerely, rather than trying to pick winners. Manufacturing Circle members are still in the differing stages of applications to the Manufacturing Competitiveness Enhancement Programme. While members have indicated that there has been cause to ask for clarification on rules and guidelines for incentives and that there have been some glitches with on-line application forms, assurances of 60-day turnaround times have been cause for much confidence. The Manufacturing Circle will in this regard be forwarding proposals to the relevant line department in respect of one-on-one facilitation for larger applications to ensure their success in support of employment maintenance and growth.

Special mention also needs to be made of the employment incentives announced in respect of the youth and special economic zones as initiatives favoured by manufacturers.

3.5. LOCAL PROCUREMENT

The Manufacturing Circle believes that part of ensuring the productive spending of our public funds, is to ensure that it prioritises local procurement to the degree that the price differentials incurred make for economic outcomes insofar supporting economic growth, job creation and sustaining our national revenue base is concerned.

The Manufacturing Circle welcomed the Department of Trade and Industry's recent announcement yesterday of further designations for the public sector procurement system and called on all departments and entities in the national, local and provincial government spheres, as well as the private sector to immediately align their tenders and procurement with this step.

The Department of Trade and Industry yesterday announced the designation of valves, manual and pneumatic actuators, electrical and telecommunication cables as well as components of solar water heaters for local production and content in the public sector procurement system. This is in addition to designations announced on 7 December 2011, which extended to Power Pylons; Rolling Stock; Buses; Canned

Vegetables; Clothing, Textiles, Footwear and Leather products; Oral Solid Medicines and Set Top Boxes.

It will be important that the instruction notes on the latest designations are signed off and distributed government-wide as quickly as possible – a step which has lagged with previous designations. However, all entities and departments across government spheres should align themselves with this step as soon as possible out of acknowledgement for the importance of national goals of achieving sustainable economic growth and shared prosperity through employment. Line departments in national government and local authorities have been found particularly wanting in this regard in the past.

Reporting toward the end of last year has also showed business has yet to take meaningful steps towards aligning with the drive for local procurement as agreed to under the New Growth Path. This is essential if the Business is to make good on the position of the BUSA-led contingent during the New Growth Path discussions of 2011, that concerted efforts in terms of local procurement between government and the private sector was essential to allow for the necessary economies of scale to promote the competitiveness of local manufacturing. The Manufacturing Circle has recently engaged with Business Leadership South Africa on this topic.

Domestic demand for locally manufactured goods are under severe pressure as a result of the proliferation of unfairly incentivised and illegal imports. This has lead to the consistent deterioration of South African manufacturing, which is under the top three multiplier sectors in terms of job creation over the last two decades. Supporting local procurement in so far it can encourage competitiveness is an important step in creating many more good jobs and reclaiming our position as a top producer of international quality goods.

A vigorous campaign to promote local procurement by both public and the private sector, but the private sector in particular, is also required. This is needed specifically, as the influx of subsidized imports is having an extremely negative effect on South African manufacturing, costing thousands of jobs. It is putting many companies under stress, ultimately resulting in business failures. Concerted action from both the public and private sectors are required to ensure volumes can be increased in the domestic market.

We are currently in the process of motivating for such a campaign and the pro-active involvement of broader organised business, labour and government in it. The Manufacturing Circle has initiated a joint statement on the importance of buying local, which has received the buy-in of treasury, EDD, DTI Cosatu, Fedusa, Nactu, BLSA and ProudlySA. The intention is that the joint statement will kick off a broader campaign. A creative concept for the campaign has been developed and funding and execution arrangements are now in the process of being negotiated.

4. TAX POLICY AND TRADE ADMINISTRATION

The Manufacturing Circle believes that tax policy should be used to stimulate investment in the South African economy. This approach will ensure that there is higher growth in the long run, and can so be useful in assisting government to generate higher revenues, by broadening the tax base. The excessive use of additional taxes and special levies as revenue generating instruments can be counter-productive, as it invariably reduces South Africa's competitiveness, by raising the costs of doing business. Further, we believe that they can distort economic activity leading to sub-optimal outcomes in the economy. It is in this light that view the higher than expected capital gains tax, withholding tax on companies and fuel levy increase introductions with concern, especially in terms of what it will mean for savings promotion and business costs.

We would like to make specific comments in respect of the proposed carbon tax on industry emissions and tax and trade administration:

4.1. CARBON TAX

The Manufacturing Circle shares the views of other stakeholders that climate change poses a substantial long term risk and that it is therefore essential to move towards a low carbon economy. Due to the complexities of designing the least cost trajectory towards a sustainable future and the potential negative impact on the economy, it is essential to undertake a careful and detailed analysis of the risks, costs and opportunities inherent in this new policy direction.

We note the proposals in the budget for a Carbon Tax on industry emissions and welcome further opportunities to engage on it. At present we are still firm in our believe that the introduction of such an instrument, especially if not part of a suite of tools to put South Africa on a lower carbons emissions trajectory sustainably, will hurt manufacturing and jobs.

4.2. TRADE ADMINISTRATION

South African manufacturers face huge challenges because of imports from amongst other China, India and Vietnam coming into the South African market at prices that are in certain instances below the prices for which the raw materials can be sourced locally. Manufacturers believe this is so because these imports benefit from:

- Not complying with regulations standards authorities;
- Using incorrect tariff headings to avoid paying duties;
- Under-invoicing, whereby the buyer would pay a portion of the cost in cash; in the country of origin, thereby being invoiced a lower amount when exported;
- Dumping due to lower global demand;

- Different rules for imported products (e.g. “old battery deposit” / scrap deposits for car batteries);
- Subsidies in countries of origin that lower price of imports below what local manufacturers are able to match;
- Lack of transparency due to out-dated provisions in the Customs Act, which makes it difficult to trace imports back to importers; and,
- Stage consignments (project codes) granted by SARS, which allows for unchecked duty-free imports to support infrastructure roll-out
- Fixed currency levels for Chinese imports

Manufacturers also report customs tariffs on raw materials, when end product finished goods enter the country duty free from some countries. In turn, South African exports also face discriminatory import duty structures in the some key markets that we export to, as well as many non-tariff barriers, few of which we apply ourselves. The influx of cheap imports has aggravated this margin squeeze.

Labour intensive, added value products find it difficult to compete in the domestic market in the face of such unfair competition. It reduces the economies of scale, which results in destructive marginal squeeze. This makes it difficult for local manufacturers to maintain their labour forces. It also impacts on their ability to contract out to smaller suppliers, which in turn impact negatively on small business growth. Ultimately, this situation has in numerous instances lead to business failure.

In addition, where abuses occur, the lack of transparency caused by out-dated provisions in the Customs Act makes it difficult to trace problem products back to importers. Where stage consignments are granted, the degree to which imports under such provisions enter the country unchecked has yielded massive opportunities for goods that find their way onto the domestic market without attracting import tariffs.

In terms of discriminatory tariff and non-tariff barriers, the impact is obviously negative on the ability of South African manufacturers to leverage demand in export markets.

The Manufacturing Circle is currently engaged with SARS, ITAC and the dti in this regard. Notwithstanding significant initiatives under way, the Manufacturing Circle in general believes there should be a much greater degree of co-operation between our trade administration, trade policy, standards and customs authorities to facilitate the following:

- Tighter monitoring and control, with regular random sampling to ensure that all imports comply with the necessary quality and safety standards;
- Amending section 4 of the Customs Act to bring it into line with global practise on transparency of imports;
- Rolling out price referencing systems to key/problem industries;
- Reviewing and benchmarking tariff and non-tariff barriers for products being imported to and exported from South Africa on a regular basis to ensure a level

playing and the appropriate apportionment of human and other resources in terms of the operations at our border posts and otherwise;

- A more assertive and bold stance in our trade negotiations with major trading partners that leverages our strategic advantages in raw materials and otherwise to ensure a level playing field for South Africa as a small, open economy, who would like to grow it's domestic manufacturing industry by competing with fair imports in it's domestic market, as well as competing through fair exports in foreign markets; and,
- The entrenchment of the promotion of domestic manufacturing, growth and job creation through the implementation of trade policy, trade administration, standards and customs provisions as a key concern of the institutions that are responsible for their implementation. In this regard, the Manufacturing Circle would like to see the willingness of these institutions to provide clarity and a willingness to assist with quick turnaround times in situations where unfair competition.