



**MINISTRY
ECONOMIC DEVELOPMENT
REPUBLIC OF SOUTH AFRICA**

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The Future of South African Economy from the mirror of 2016

A Review of Economic Development in 2016

2016 was a challenging year for economic development globally and domestically but significant progress was also registered in South Africa. The economy avoided going into a recession in part through the collective action of business, labour and communities working with government, though growth remained very modest.

It was a year when all rating agencies were focusing on South Africa, with prospects of a downgrade that would have increased the cost of borrowing. By year-end, the country maintained its investment-grade rating.

The Economic Development Department played a major role in ensuring a co-ordinated infrastructure investment programme and in expanding the levels of development finance in the economy, rallying stakeholders around certain policy and programmes that will have major impact on our economy, as well as ensuring that government respond in an informed and more aligned manner across the three spheres to the challenges of the economy.

A mid-term review of the New Growth Path jobs drivers was completed for Parliament's Portfolio Committee on Economic Development, which indicated that more than 2 million new jobs had been created in the period since the adoption of the NGP in 2010.

Key highlights in the work of the Ministry included the innovative and extensive public interest conditions attached to a number of mergers including AB InBev's takeover of SAB Miller, Coca-Cola and Edcon; the actions in the steel industry including the tough competition settlement with Arcelor Mittal and the reparation agreement with the seven largest construction companies; the expansion of investment by the Industrial Development Corporation and the agreement to co-invest in a new auto plant in Nelson Mandela Bay; and the increased investment in the National Infrastructure Plan, projected at R987 billion over the next three years.

Economic transformation was a key theme in 2016 and we made significant strides in opening the economy to new black-owned companies and expanding levels of youth entrepreneurship.

The Ministry of Economic Development is responsible for the work of the Economic Development Department (EDD), the International Trade Administration Commission (ITAC), the Competition Commission, the Competition Tribunal and the work of the Secretariat and Technical Unit of the Presidential Infrastructure Coordinating Commission (PICC). Highlights of the work of the Ministry and its agencies are reported below.

Competition interventions and settlements

During 2016, the Ministry of Economic Development concluded settlements with AB InBev, CCBA (Coca-Cola Bottling Africa), Edcon, Clicks, Arcelor Mittal and seven construction companies. These are major transactions that introduced either new public interest obligations on mergers, provided for funding for developmental projects or supported actions by the competition authorities against collusion in specific industries. In addition, the Ministry facilitated the introduction from 1 May this year (2016), of new criminalisation provisions against collusion and cartel conduct in the economy, with stiff jail sentences of up to 10 years.

The competition interventions impact: a summary:

- **R4,8 billion** was committed by the companies listed above in development spending or penalties (excluding the value of the BEE commitments)
- **R6 billion** is the estimated value of the BEE-transactions
- **61 800 positive jobs impact:** a total of **57 200 jobs** were saved and an additional **4 600 jobs** (minimum) will be created as a result of the transactions.
- More than **120 000 small spaza shops and taverns** will be given the right to stock and display products from competitor brewers and soft-drink bottlers, opening the market for beverages in the boldest way yet in SA retail history.

Some of the key transactions and settlements concluded in 2016 included:

- **AB InBev** on the purchase of SAB Miller, which included among others, commitments to R1 billion that will be spent to promote new employment outside its core operations. The company will support small, emerging farmers with a R600 million facility through which 800 new farmers will be developed, with total employment gain of 2 600 workers and the remainder of the funding will support entrepreneurship and social programmes in South Africa - turning SA from a net importer to a net exporter of beer inputs. It will retain the current 6 000 jobs of the workforce for a five year period and provide protection against retrenchment; open up competition by craft brewers through granting them access to 10% of fridge space in taverns; develop low-alcohol and no-alcohol choices for the SA market and commit to the location of the African headquarters in South Africa.
- **Coca-Cola** on the merger of three bottling operations, which included commitments to retain the current 7 500 jobs for a three year period and provide for protection against retrenchments for specified categories of staff; provide R800 million funding to create new jobs in its value-chains, of which a R400 million facility will support small, emerging

farmers as well as packaging companies; and a further R400 million is available to support the opening of new spaza shops and retail outlets; setting aside 20% of the equity in Appletiser for black South Africans and 20% equity in Coca-Cola Beverages Africa for black South Africans; opening up 10% of the fridge-space in coolers and display cabinets owned or financed by Coca-Cola in 117 000 spaza-shops and small retail outlets, to smaller and rival soft-drink bottlers; deepening the localisation of its local supply-chain including commitments to retain the production base of Appletiser in South Africa.

- **The Edcon Group**, with the conversion of debt to equity and transfer of ownership of the company to its creditors, which included commitments by Edcon to support the local clothing, footwear and textile industry, retain 43 630 current jobs in the company subject to market conditions and grow the number of new jobs in its retail and manufacturing operations by 2 000 workers.
- **ArcelorMittal**, which was fined R1,5 billion during 2016, required to commit to fresh capital spending of R4,6 billion to upgrade its plant and equipment in South Africa, curb price increases through limiting its earnings before profit and tax to 10%, and limit retrenchments in its operations.
- **Seven construction companies** (Murray & Roberts, Aveng, WBHO, Group Five, Steffanutti Stocks, Raubex and Basil Read) committed to a new R1,5 billion reparation fund for developmental projects in addition to a R1,4 billion penalty for past collusion; and agreed to deep transformation through sale of equity or support for the development of black construction companies that will place many billions of rands in share-value or contracts in the hands of black South Africans and thus help to turn a new page of partnership between major players in the industry found guilty of collusion on the one hand, and government and the society at large on the other. Details of the transformation plans have been publicly announced by three of the companies (Murray & Roberts, Aveng and WBHO).
- **Clicks**, which acquired the pharmacies of the Netcare Group, committed to protecting 207 jobs, work towards creating a further 65 additional employees, maintain or improve its levels of localisation and small business procurement and provide at least 80 bursaries to pharmacy students and 100 learnerships to young pharmacist assistants.

The agreement with **Walmart/Massmart to support localisation** was relaunched during the year to expand its impact and resulted in a number of new localisation initiatives, including a local two-minute noodle maker, an environmental-friendly furniture-maker and a pump-filter manufacturer, being introduced into the company's local supply-chain.

Industrial development and funding

The Industrial Development Corporation last year approved R14,5 billion in new investment, the largest sum in its 76-year history and 26% higher than the preceding year.

Of particular note is the fact that this included **R2,9 billion in transactions involving 54 black industrialists**, so that we broaden participation in the economy. Roughly **R1 billion was approved for youth-owned enterprises**, showing that we are serious about implementing the Youth Employment Accord. A sum of **R1,2 billion was made available to women-owned enterprises**, which is an increase of 59% on the previous year, so that we tap the enterprise of women to help build the economy.

The IDC is driving new investment and commitments to improve the competitiveness of South African companies, with its initiatives in the past financial year **saving and creating 15 000 jobs**.

In addition to these outcomes, during 2016, the IDC partnered with the Beijing Automotive Industrial Corporation (BAIC) to set up a new **R4,3 billion auto-plant in Nelson Mandela Bay** that in the first phase will produce up to 50 000 vehicles for the domestic and African market, with planned employment of 2 500 workers during the construction phase and 800 permanent production workers in the plant.

Infrastructure development

The Ministry and Department provided the technical backbone for the work of the PICC during 2016. Some of the highlights of this work include the following:

- Supporting the expansion of new infrastructure projects and funding, which is expected to rise by more than R120 billion over the next three years, from R860 billion in the past MTEF to the new R987 billion announced by the Minister of Finance during the MTBPS in October 2016
- Working with National Treasury to develop a financing instrument for all public infrastructure which will require fiscal support
- Technical work to support the development of a new multiyear budgeting and appropriations framework for infrastructure that would allow for better long-term planning, smoother phasing of construction works in a project and better value-for-money through infrastructure spending
- Identifying new sources of funding for infrastructure, including technical work on the approval of the \$180 million loan by the BRICS New Development Bank for transmission lines for renewable energy plants
- Signing the Settlement Agreement with 7 construction companies on 11 October 2016 and facilitating the effectiveness of the Agreement on the 8th of November 2016 (see details above)
- Address to the Executive Council of NEDLAC on the National Infrastructure Plan and the need for stronger partnership between government, business and labour.
- Managed 20 meetings of the PICC structures.

Trade development

During 2016, the Ministry provided information to parliament on trade patterns on import and export performance of the SA economy. The analysis showed that exports to the rest of the continent is now the largest component of SA exports, and Africa overtook Asia, Europe and the Americas, as the largest export market for SA-made goods.

The Ministry defended through the courts, the introduction of trade measures to address shortages of scrap metal for use in the local infrastructure build-programme; and supported ITAC's work on tariff adjustments, including in the steel industry.

The Ministry, concerned with rising food prices in the context of the drought, instructed ITAC to review the variable tariff formula in relation to wheat, maize and sugar. The reviews were concluded and recommendations have been submitted for Ministerial consideration.

The Ministry also issued a trade directive to ITAC in relation to reciprocity for tariff support. The Trade Directive requires ITAC to consider the commitments companies make on investment, jobs and industrial output, when making its findings on tariff increases or rebates of duty. This was done to ensure that companies do not rely simply on tariff protection or rebates but invest heavily on new technologies, training of workers and product innovation to maintain and increase their market share. It is also to ensure that any costs to connected industries are at least accompanied by increases in jobs.

The major highlights on the Ministry's regulatory initiatives during 2016 included the following:

1. Introduction of provisions of the Competition Amendment Act to criminalise collusive actions by company directors and officials, with up to ten year sentences in jail
2. Issuing of a Trade Directive to ITAC to consider the commitments that recipients of trade relief make to address employment, investment and competitiveness concerns
3. Request to ITAC to review the tariff formulae applicable to wheat, maize and sugar imports.

Other Ministerial Interventions

During 2016 the Ministry and EDD-agencies focused on measures to retain steel manufacturing in South Africa, evaluate the impact of measures to support the clothing, textile and footwear industry and grow the agro-processing and film-making industries

A Steel Task-team developed a coordinated set of measures to address the impact of the global glut of steel on the local industry, the past collusive practices and the need to have a secure supply of steel. These included trade, competition and investment measures. A Pricing Committee was also set up with representatives across the value-chain to monitor steel pricing and Arcelor Mittal's adherence to a range of reciprocal commitments it made in relation to tariff support including increased investment, retention of jobs and pricing commitments.

Ministerial-level site visits were undertaken to four companies in the clothing, textile and footwear industries (see below) to evaluate the impact of incentive measures on industrial performance.

Competition measures in the beverages sector as well as support measures in soya helped to lay the basis for employment.

Support by the Ministry and EDD-agencies for the development of the soya processing industry has yielded exceptional results.

South Africa now has nine soya crushing plants, with a capacity to crush 1,8 million tons per year. This is roughly double the capacity that existed five years ago. South Africa has also increased the acreage under cultivation for soya-beans and has increased the export of soya oils and soya cake. During the year, 42 black farmers were identified for the planting of soya beans and by year-end, some 2005 hectares of land was being planted or considered for planting.

In addition, EDD provided support for a 'My-spaza Township Enterprise Development Project to introduce 42 wholesalers to 28 spaza shop operators to partner with them and provide funding for structural/ infrastructure upgrades of the spaza.

Economic Development Policy Co-ordination

The Department supported the co-ordination of economic development policy initiatives across national departments through economic cluster work, Cabinet Committee systems and bilateral meetings with Departments. This work also extended to co-ordination across the spheres of government to integrate work at national, province and municipal levels. The Deputy Minister, together with a team in the Department, worked with provinces and municipalities to ensure seamless alignment with the national policies and programmes. In 2016 we managed to assist provinces to develop plans that are aligned to the National Development Plan through the 9-point plan framework announced in the State of the Nation Address. Further work is being done to link the plans to budget and other resources that can be leveraged from national initiatives.

Building social partnership, supporting investment and addressing country-risk issues

Activities in the development of social partnership and supporting investment, job creation and economic opportunities can be listed in six categories:

- Meetings with investors and business associations
- Meetings with ratings agencies
- Discussions with International Financial Institutions
- Meetings with organised labour
- Social dialogue with business and labour
- Meetings with communities

A number of meetings were held with investors or business associations during 2016, including with companies such as Google, Coca-Cola, SAB Miller, Chevron, Sasol, Proctor & Gamble, Edcon and Arcelor Mittal and business associations such as the Atlantis Chamber of Business, CEOs at a meeting organised by the Johannesburg Chamber of Commerce and Industry, the Black Business Council for the Built Environment and the Progressive Business Forum.

The Ministry worked with the Minister of Finance on the South African narrative on investment and growth and met with three ratings agencies on country rating: Moody's, Fitch and Standard &

Poor and one ratings agency on the IDC rating (Fitch) as well as with business and organised labour on a common country position.

The Ministry met with the International Monetary Fund (IMF) on its Article 4 Consultations.

Addresses to the national policy meetings of trade unions included to the Congresses of the Food & Allied Workers Union (FAWU), Southern African Clothing and Textile Workers' Union (SACTWU), United Association of SA (UASA), National Union of Leather and Allied Workers (NULAW), National Union of Metal Workers of South Africa (NUMSA) and to the Central Executive Committee of trade union federation COSATU. Discussions were held with workers at food, clothing and metal factories to obtain feedback on government's industrial support programmes (see details below).

The Ministry was part of the government team led by the Deputy President, which engaged with business and labour on the National Minimum Wage and labour market regulation during the year.

The Deputy Minister assisted the Mpumalanga TVET Council to develop a Partnership Framework that has seen two partnerships being agreed upon through the signing of a memorandum of understanding between Gert Sibande College and Sasol; and between Ehlanzeni TVET College and RCL foods. In the MOU they committed to building an ideal TVET College that will result in the building of skills relevant to the industrial development needs.

Further work is progress with regard to Nkangala College and Eskom.

Conclusion

The Ministry looks forward to working closely together with social partners in 2017. We wish all South Africans a Merry Christmas and Prosperous New year.

Thank you.

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ANNEXURES

Key launches and site visits by the Ministry

The Minister and Deputy Minister visited a number of communities, construction sites, factories and public institutions in the past 12 months, to monitor progress, report-back to residents or launch key milestones in a project's development. The following 16 activities illustrate the kind of sessions held during 2016:

- **Film:** Opening of the new Joburg film studio(Skyrink) co-financed by the Industrial Development Corporation (IDC) and supported by the efforts of EDD, as part of a broader support for the growth of the SA film industry
- **Science and technology:** A visit to the Square Kilometer Array site in Carnarvon, with Minister Naledi Pandor, for the launch of the results of the first 16 dishes of the Meerkat programme that identified more than 1000 new galaxies
- **Community development:** A site visit to the community and Observatory in Sutherland, with community empowerment initiatives undertaken by EDD, including registering local companies to enable them to take part in supply of goods to official bodies, providing information on industrial and small business funding, helping to access supplies for the local hospital and obtaining donations of library-books for local children
- **Infrastructure:** visit to the construction site of the country's largest gas storage facilities in Saldanha, co-financed by the IDC
- **Auto sector:** official sod-turning of the site for the new R4,3 billion BAIC automobile assembly plant in the Coega Industrial Development Zone, Eastern Cape; and Toyota plant visit for the launch of the new Fortuner and Hilux bakkie South African production lines
- **Clothing industry:** Review of clothing incentives - visits to four factories – Ahlesa Blankets, Luomo Clothing, Braitex and Seagulls and address to the Fashion industry Imbizo
- **Agro-processing:** Visit to black-owned factory (Broadway Sweets) which mainly supplies the informal retail sector that has been supported by EDD
- **Food gardens:** visit to food gardens and market run by young black farmers in Tamboerskloof, Cape Town and meeting by EDD with farmers from Phillipi who are threatened by the rezoning of the area
- **Safe stoves:** Tembisa community meeting to launch, with the Minister of Trade & Industry, to launch the Cleaner Stoves Project for informal dwellings and to announce IDC support for the manufacture of safer stoves for domestic cooking
- **Youth entrepreneurs:** address to the Youth parliament in Kliptown, Soweto, in June and to the IDC National Youth Entrepreneurship Conference on the 18 -19 October 2016
- **Competition:** advocacy work through addresses at four major competition conferences involving law firms, corporations, trade unions, community members, government officials and international experts
- **Tourism:** Initiative to identify tourism opportunities in the Bo-Kaap area of Cape Town (July) and renaming of the area (December)
- **Infrastructure:** Visit to the construction site of the new quay being built to support the oil and gas industry

Parliamentary activities

Parliament remains a key forum for accountability. During 2016, the Ministry undertook the following in respect of parliamentary work:

- 11 Presentations by the Minister or Deputy Minister at meetings of the Portfolio and Select Committees of parliament on its work;
- Answered 37 written questions during the year and 14 questions at three oral sessions;
- Presented its Budget to the National Assembly's Extended Public Committee on 21 April 2016 and at the NCOP on 3 May 2016;
- Tabled the annual performance plans and annual reports of the Department, the IDC, ITAC, Competition Commission and Competition Tribunal, and
- Minister participated in the debate on the State of the Nation Address in the joint sitting of the National Assembly and NCOP in February 2016.

Key appointments

- Deputy Commissioner of the Competition Commission – new appointment: Mr Hardin Ratshisusu.
- Members on the Competition Tribunal – two new appointments: Mr Enver Daniels and Professor Halton Cheadle
- Commissioner of ITAC – Mr Siyabulela Tsengiwe – extension of term of office by one year
- Board of IDC: two new members: Ms Matshepo More (Public Investment Corporation - PIC) and Mr Andre Kriel (organised labour).