the dti Budget Vote Address delivered by Dr Rob Davies, Minister of Trade and Industry, NCOP

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Chairperson
Deputy Minister
Director-General and officials of the dti and its Council of Trade and Industry Institutions (COTII)
Leaders of organised Business and Labour
Distinguished guests
Ladies and gentlemen

It is an honour to give my first address to this Council of the 5th democratic administration and I would like to congratulate all the members on their appointments and wish you a productive tenure.

In the previous administration, Members participating in the dti budget vote debate consistently raised the difficult challenge of achieving a more equitable distribution of regional economic growth. The historic basis for the current skewed regional economic growth is well documented and it is a fact that the apartheid spatial planning that resulted in the underdevelopment of certain areas created stubborn patterns of unequal growth that are proving difficult to change.

There are very strong economic forces which tend to concentrate economic activity in the established urban areas of, Gauteng, the Western Cape, and the Durban - Pietermaritzburg area, simultaneously excluding opportunities from, people who reside outside the major metros. What is therefore required is purposeful interventions to try to bring about a more equitable spread of economic activity and of opportunity. This has to be based in the first instance, on an objective and sober assessment of economic potential of particular areas, and then an identification of strategies necessary to promote that.

In this regard, we found consensus, including in this Council, for the need to regionally diversify manufacturing industries to new economic regions in addition to the existing hubs. Industrial Development Zones (IDZ), if effectively managed, we argued, can be useful instruments for promoting a more regionally diverse manufacturing industry

I am pleased to indicate that the previous administration working together with our colleagues in the provinces, completed a policy review which allows us a basis on which going forward we will work together to advance greater regional diversification of industrial development.

The policy review culminated in the adoption by Parliament and assent by the President of the Special Economic Zones (SEZ) Bill. The new legislation promotes joint planning and implementation of special economic zones between and across all spheres of government. We believe that well planned SEZs contributes significantly to the country’s development goals, and I must emphasise that strong partnerships among and within the three spheres of government, as well as within each sphere are vital for the effective planning and development of the Zones.

We are able to stand here today, Chair, and say with certainty that these new policies, regulations and legislation are simply not a shot in the dark but these initiatives are based on learning’s of past efforts and will ensure that we continuously improve our offerings. We can also say with certainty that our effort to promote and develop the Special Economic Zone programme throughout the country is beginning to deliver results.

Allow me to mention a few successes:

- Firstly, as recently as 2013 we proclaimed Saldanha Bay as the fourth IDZ, positioned to focus primarily on oil, gas and marine repair engineering & logistics for Africa and will effectively serve as a One-Stop-Shop for oil and gas services. An application to operate as a Customs Control Area (CCA) to service the West and East African offshore oil and gas industry is being finalised and will be considered following due process. To date 18 companies –nine local and nine foreign-have signed non-binding expressions of interest and this is approximately 18 months before breaking ground in the facility.

- Secondly, the Coega, Richards Bay and East London IDZ, s together have generated R3.4 billion in investments and over 67,000 direct and indirect jobs thus far - currently a number of new investments worth several billion rands are being negotiated.

Returning to the Coega IDZ, on the 10th of July, the President launched one of the biggest investments thus far – the First Automobile Works (FAW) vehicle assembly plant. This estimated R600 million investment will initially target production of 5,000 trucks and light and passenger vehicles.

Similarly, the East London IDZ's support for Original Equipment Manufacturers has yielded positive results as the IDZ has been able to attract 7 new investors part of industrial clustering in the Automotives sector. To date, this IDZ has been able to attract about R1.7 billion worth of investment while creating over 1 700 jobs.

Thirdly, in line with this momentum shift, Cabinet recently approved the designation of the Dube Trade-Port in KwaZulu-Natal as South Africa's 5th IDZ. I think it's worth mentioning that due to the strong investment interest expressed by amongst others, Samsung, one of the largest companies in the world; the Dube Trade-Port was designated as an IDZ while the SEZ regulations and other processes are being concluded.

I would submit that it shows an increasing maturity in our systems and decision making to be able to respond so quickly to the needs of our investors. This significant investment will kick-start business at the Dube Trade-Port IDZ specialising in high-value, niche agricultural and horticultural products as well as manufacturing and value-addition for the automotive, electronics and fashion garments industries.

Maluti-a-Phofung close to Harrismith in the Free State is the proposed location for the 6th IDZ. This, the Tshiame IDZ, will focus on automotive, clothing and agro-processing activities.

Fourthly, within the next 100 days, the dti will finalise the SEZ Regulations and Guidelines and establish the SEZ Board and the SEZ one-stop-shop for fast-tracked support to investors. Once these regulatory matters have been concluded we will migrate our Dube Trade-Port and Tshiame IDZs to become South Africa's first SEZs.

We have reached this stage as a result of the dti and all Provinces working together. Moving forward there are already, eight pre-feasibility and feasibility studies underway.

For example in Limpopo and the North-West Province the dti is evaluating the feasibility of SEZs focusing on the beneficiation and value-addition of platinum. What we know is that significant opportunities to partner with international producers of fuel cells are available and that these partnerships have the potential for South Africa to become an established hub for the production of fuel cell components.

This would be a very significant development because fuel cells are new technology used for back-up power generation in telecommunication masts, base-load power-generation in rural areas, and fuel cell passenger vehicles. This technology is fast becoming the subject of intense international competition for investment and is also a technology well-suited to South Africa's comparative advantage in platinum mineral resources; we must pay close attention to attracting investment in this industry.

President Zuma emphasised in the State of the Nation Address that energy is South Africa's most important growth constraint. The collaboration between the Northern-Cape Provincial Government and the dti to assess the feasibility of a solar IDZ in Upington is therefore very important.

Indeed we are excited about the potential of these developments and have no doubt that the support available through the SEZ programme will lead to increased investment by the private sector and contribute to building new economic infrastructure in provinces.

Honourable Chair, there is still much work to be done but we can take heart from the progress made. However, the SEZ programme is but one quiver in the bow of bringing more manufacturing activity to provinces. A number of related initiatives will be simultaneously undertaken to improve the impact of interventions.

For example, I mentioned earlier that we will encourage investments in IDZ's to take advantage of what beneficiation can offer businesses. the dti is working with the Department of Mineral Resources (DMR) and other departments to develop a Minerals Beneficiation Action Plan (MBAP) that adopts a similar methodology to the Industrial Policy Action Plan.

The first iteration of the MBAP will focus on 5 minerals value-chains that have already been identified for prioritisation, namely, iron ore and steel; titanium; platinum group metals; precious metals and jewellery; and mining inputs. Beneficiation often (but not always) requires investments close to the mineral deposits for efficiency reasons. The prioritisation of the afore-mentioned value-chains takes account of the challenges and needs of Provinces such as Limpopo and the North-West.

the dti will use the SEZ programme strategically to actively encourage beneficiation investors to locate their plants close to the mineral deposits. In this regard, substantial work is already underway in the Platinum belts in North-West and Limpopo to facilitate major investments which we expect will 'crowd-in' additional private and public investment to the benefit of these provinces. To facilitate a coordinated approach in implementing the MBAP an interdepartmental task team made up of the dti, Department of Mineral Resources (DMR), Department of Science and Technology (DST), Economic Development Department (EDD), Department of Public Enterprises (DPE), Department Of Energy (DOE) and Department of Transport (DOT) will be established.

A further initiative and key lever of industrial policy is Government procurement. Government has seen the concrete benefits of localising the production of a range of manufactured goods for Government purchases. Whether this is in the renewable energy arena, rolling stock and locomotives for Transnet's fleet upgrades or buses for Metro areas public transport facilities, the message is clear.

South African manufacturers are up to the task of producing high-quality manufactured products across a range of sophisticated industries. Going forward, the localisation successes in renewable energy, buses and Transnet's R50 billion locomotive contracts will become the yardstick against which localisation of Government procurement is measured.

To fully unlock the value of localisation for South Africa, further refinement of our procurement legislation will be required – including a focus on compliance across all tiers of Government – as well as improving the transversal procurement processes. In the next 100 days, the dti will designate further products for Government procurement in line with the ANC's election manifesto commitment of 75% local content in Government

Taking this further, in order to assist firms who wish to buy local but cannot find local suppliers we will introduce measures to build upon the supplier development initiatives of the private sector to maximise impact. Moreover, we will in the course of this financial year, launch the Black Industrialist Incentive Scheme to assist up and coming black manufacturing businesses to be empowered to take up the opportunities arising from the changes in government procurement policies, and we are keenly aware that a key ingredient of successful industrial policy is the availability and cost of industrial finance.

The dti administers a substantial suite of incentives to support the competitiveness of labour-intensive and value-adding productive sectors of the entire South African economy.

The incentives include the Manufacturing Competitiveness Enhancement Programme (MCEP), the:

- automotive incentive scheme (AIS),
- the 12i Tax Allowance,
- the Clothing and Textile Competitiveness Improvement Programme (CTCIP), and
- the Incubation Support Programme (ISP).

For example, over the past financial year, (the Manufacturing Competitiveness Enhancement Programme which assists enterprises to upgrade their machinery, invest in skills development and ‘green’ their production processes, approved projects of over R2,7 billion.

Through the Manufacturing Investment Programme (MIP) which funds start-up investments and expansions, the dti approved incentives of about

- R491 million in Gauteng,
- R250 million in the Western Cape,
- R172 million in the Eastern Cape,
- R153 million in KZN,
- R47 million in North West,
- R37 million in the Northern Cape,
- R28 million in Limpopo,
- R25 million in the Free State and
- R85 million in Mpumalanga.

Clearly, these quanta of disbursements reflect the trend of skewed economic activity I spoke about earlier. We are confident however that as new initiatives begin to take root both within the SEZ’s and in general, this picture will at last begin to change.

I say this particularly in light of the encouraging data that is emerging from our efforts to revive and grow the leather and footwear sector. I do not have the time to expand on this case study at this debate but the press release will be distributed here and I urge all Members to read it as it outlines what can be done with well-designed industrial policy and close co-operation between the public and private sector.

Finally, it is important to re-iterate that government is committed to facilitating broad-based economic participation through targeted interventions to achieve more inclusive growth. We will begin implementing the Broad Based Black Economic Empowermen (B-BBEE) Amendment Act (Act No.46 of 2013), which was signed into law in January of this year. In essence the B-BBEE Act and its accompanying Codes of Good Practice seek to increase alignment between B-BBEE activities and Government's objectives of job creation, localisation, skills development and job creation.

In conclusion, these are the interventions that will lead to radical economic transformation across the country. As I said in the response to the State of the Nation Address, radical economic transformation in South Africa, must, amongst others, mean radical transformation of the productive sectors of our economy. We are willing to undertake this journey with our colleagues in the provinces in promoting growth through productive activities and beneficiation of our resources. I believe it is an exciting journey and have pleasure in calling on the National Council of Provinces (NCOP) to support the budget vote of the dti.

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