Presentation to the Portfolio Committee on Trade and Industry

November 2012
Outline of presentation

• Part 1: Background
• Part 2: Analysis of the local economy
• Part 3: Issues emerging
Part 1: Background
Background

• Regular notification of company closures and retrenchments
• Tours of local industry followed meeting between EDD, DTI, MEC Jonas and ECSECC
• Purpose of the visits
  – Response to global economic crisis
  – Involve key stakeholders (EDD, DTI, DEDEAT, NMM Metro, ECPL, BCM business reps, NMM Chamber)
  – Understand crisis impact in the Eastern Cape
  – Better understand nature of sub-sectors
  – Understand challenges faced by industry
Part 2: Challenge of the EC economy
Eastern Cape Economy

• One of the provinces with the highest unemployment rate (31.8%)
• Industry plays significant role in EC economy
• Industry: foundation of real economic activity and jobs
• Manufacturing is 3rd contributor towards Gross Domestic Product (GDP)
• But worst affected by recession
  – Loss of jobs and closing down of factories
Factories visited
<table>
<thead>
<tr>
<th>Engineering</th>
<th>Construction</th>
<th>Clothing &amp; textiles</th>
<th>Automotive</th>
<th>Food</th>
<th>Energy</th>
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</thead>
<tbody>
<tr>
<td>Prism</td>
<td>Halls</td>
<td>Da Gama</td>
<td>Jendamark automation</td>
<td>Summerpride</td>
<td>Eveready</td>
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<td>Defy</td>
<td>Floorworx</td>
<td>ELTEX</td>
<td>Ford Motor</td>
<td>Paramount Mills</td>
<td>Willard Battery</td>
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<td>Firstpro</td>
<td>Inca</td>
<td>Gubb &amp; Inggs</td>
<td>Johnson Controls</td>
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<td>Supreme</td>
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<td>Glenvida</td>
<td>Lumotech</td>
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<td>Yebo Tanks</td>
<td></td>
<td>Bagshaw</td>
<td>Bel-Mec Die Casting</td>
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<td></td>
<td></td>
<td>Footwear</td>
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<td></td>
<td></td>
<td>Little Slipper</td>
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<td>Cape Mohair</td>
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<td></td>
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<td>Beck Trading</td>
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Challenges facing industry
Recession persists

- Crisis has expedited the collapse of industries that have been increasingly experiencing challenges of competitiveness and profitability
- Crisis has also triggered companies to move ahead with restructuring, retooling and consolidation plans
- Has, in most cases, led to job loss
- Expected to continue

Shweshwe from da Gama Textiles, Zwelitsha
Recession persists

• Crisis has also tended to reinforce past patterns of growth:
  – Uneven spatial development patterns dating to the Bantustan era
  – Disproportionate negative impact on employment of historically disadvantaged sectors of the labour force (women and youth) persisting or even worsening
  – We are lagging behind in attempts to deepen democracy and eliminate historic inequalities.
Challenges facing industry

• Manufacturing employment stagnant over the last decade, despite major state investments in MIDP/APDP, ELIDZ and Coega IDZ/Port of Ngqura

• Key issue now is to introduce measures that will stop retrenchments and attract new investments and employment in manufacturing industry
Challenges facing industry

• We need first-class infrastructure

N2 between East London and PE after the floods
EC Auto sector

• Important in providing a solid platform for job creation
• Highest contributor to manufacturing employment
• Government (DEDEAT) has developed cluster approach to support the sector
• But consistent decline in employment
  – Decline is significant and probably a key reason for growing unemployment experienced in metros
Other key sectors

• Food, beverages in slow decline
• Light engineering, chemicals etc affected by fragile auto supply chain
• Old clothing and textile sector – also in decline
• Electronics, pharma etc in decline
Economic decline means a smaller tax base for the municipalities
The metros are in financial difficulty

• This has three main consequences:
  – *High tariff and rates increases compared to other SA metros*
  – *Reduced capex (also contrary to other metros)*
  – *Need to restore liquidity*
Metros are in financial difficulty

• E.g. NMB liquidity crisis: had cash and investments available of R1.9 billion in 2007-8

• Had declined to R60 million by 2010-11
Municipal decline means that the environment for industry is worsening
Part 3: Issues arising
Challenges of the manufacturing sector
Issues raised by industrialists
<table>
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<tr>
<th>Strategic challenges:</th>
<th>Problems:</th>
<th>Possible solutions:</th>
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<tbody>
<tr>
<td>Lack of beneficiation of raw materials/unfettered imports/dumping</td>
<td>• Raw materials (wool, leather) exported semi-processed</td>
<td>• Tariffs/taxes</td>
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<td>• Exports of scrap metal</td>
<td>• Prohibition measures</td>
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<td>• Foreign imports subsidised at source</td>
<td>• Enforcement of standards</td>
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<td>Improved Logistics</td>
<td>• High port costs; poor efficiencies</td>
<td>• Appropriate budget for upgrades</td>
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<td>• Transport links</td>
<td>• Transport subsidy?</td>
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<td>Revitalisation of agro-production</td>
<td>• Wool/mohair in decline; farmer insecurity; production decline</td>
<td>• Supply chain studies/cluster support</td>
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<td></td>
<td>• Leather exported semi-processed; sector decline</td>
<td>• Support measures?</td>
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<td>• Milk products uncompetitive</td>
<td>• Resolve tenure issues</td>
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<td>Efficient local government services</td>
<td>• Electricity prices/ feed-in tariffs</td>
<td>• Punitive export tariffs for semi-processed material</td>
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<td>• Water/sanitation</td>
<td>• Procure local</td>
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<td>• Road network/logistics</td>
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Since the visits...

• Interacted with EDD and DTI
• Presented outcomes to DEDEAT
• Presented to Economic Development Portfolio Committee
• Presented to NUMSA Jobs Task Team
• Continuing interaction with National Government
• Presentations to NMB Metro and Business Chamber
Challenges in implementing IPAP
Challenges in implementing IPAP

1. Industrial policy is barely implemented (apart from MIDP/APDP)
2. Contrasting the NGP and the NDP:
   – NGP includes active industrial policy IPAP
   – NDP has no active industrial policy component
3. DTI budget only 2% of total national budget
4. IPAP has had minimal impact in EC
Challenges in implementing IPAP

5. Minimal impact of DTI flagship programme: Manufacturing Competitiveness and Enhancement Programme (MCEP)

6. Effectively DTI incentivises capex and not employment – makes little sense given high unemployment levels

7. EC Industrial Jobs Stimulus Fund shows promising early results (2500 jobs incentivised over past year)
DTI budget is only 2% of total national budget

- Fiscal emphasis is on education, social grants, state security etc with limited resources to drive industrial and agricultural development
- Nationally DAFF gets 1% of total national budget
- DRD&LR gets 1.6% of total national budget
- DTI gets less than 2% of total national budget
- EDD gets less than 1% of total national budget
- Provincially DEDEAT gets less than 2% and DRD&AR gets 3% of total provincial government spend.
Critical issues going forward

• Services
  – Utilities
    • Electricity and water/sanitation costs
    • Stability of services/maintenance of infrastructure
  – Roads
    • Maintenance
    • BRT failure
    • Integrated network of adequate scale

• Local procurement

• AND we need a genuinely active industrial policy!
“There is a lack of belief that it can be done in South Africa”
- Jendamark, PE