

# Presentation to the Portfolio Committee on Trade, Industry and Competition

## ITAC Annual Report (2021/2022)

Presented by ITAC Acting Chief Commissioner  
Mr Dumisani Mbambo

09 November 2022



## ABBREVIATIONS

#	Abbreviation	Descriptions
1	AC	Audit Committee
2	AGOA	Africa Growth and Opportunity Act, 2000
3	AGSA	Auditor-General South Africa
4	AIS	Automotive Investment Scheme
5	APDP	Automotive Production and Development Programme
6	CC	Chief Commissioner
7	DBRP	Dollar-Based Reference Price
8	EDD	Economic Development Department
9	EPA	Economic Partnership Agreement
10	EPC	Eligible Production Certificates
11	GDP	Gross Domestic Product
12	IPAP	Industrial Policy Action Plan
13	ITA Act	International Trade Administration Act, 2002
14	ITAC	International Trade Administration Commission of South Africa
15	MIDP	Motor Industry Development Programme
16	NDP	National Development Plan
17	NGP	New Growth Path
18	PFMA	Public Finance Management Act, 1999

#	Abbreviation	Descriptions
19	PI	Production Incentive
20	PPPFA	Preferential Procurement Policy Framework Act, 2000
21	PPS	Price Preference System for Scrap Metal Exports
22	PRCC	Production Rebate Credit Certificates
23	RMC	Risk Management Committee
24	SACU	South African Customs Union
25	SAPA	South African Poultry Association
26	SCM	Supply Chain Management
27	WTO	World Trade Organisation
28	The dtic	Department of Trade, Industry and Competition
29	TPSF	South African Trade Policy and Strategy Framework
30	TWG	Technical Working Group
31	VAA	Volume Assembly Allowance

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## INTRODUCTION

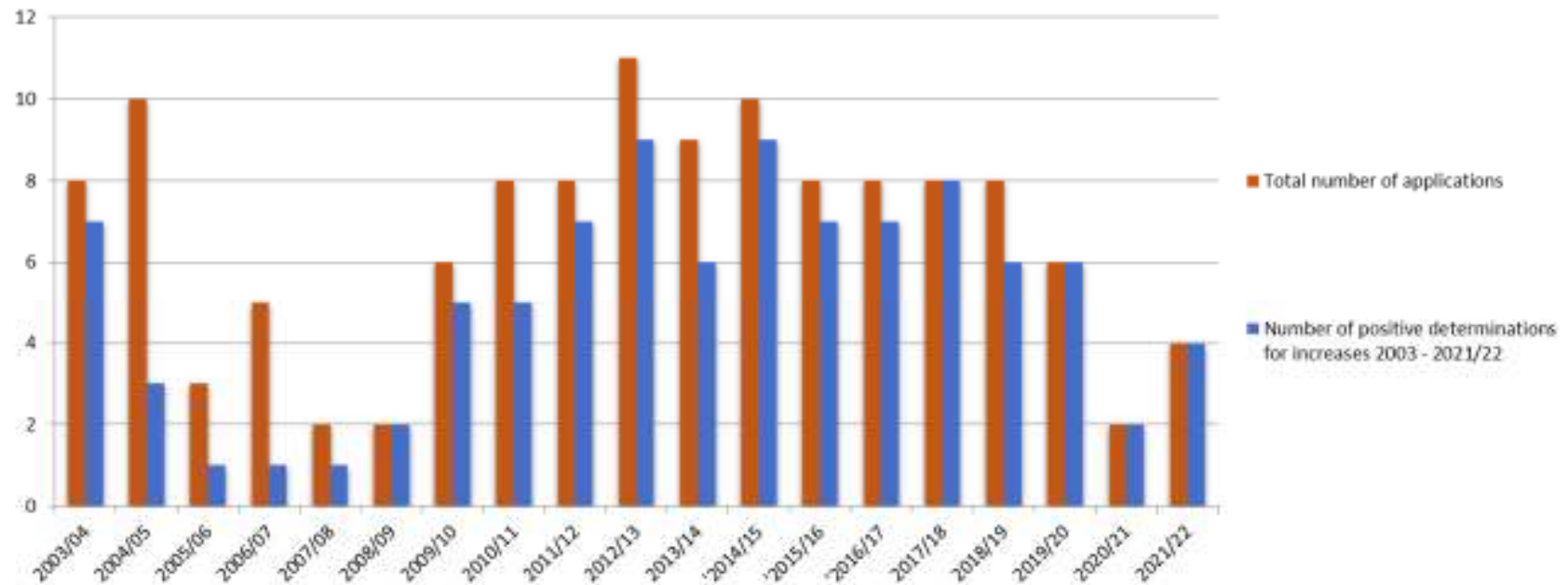
- The international trade environment globally continues to undergo profound changes, with the rules-based multilateral trading system hitherto governed through the World Trade Organisation facing an existential crises following unilateral and protectionist action. Closer to home, South Africa is also dealing with an impasse within the Southern African Customs Union (SACU). The major challenges emanate from the lack of policy harmonisation and coordination among the SACU Member States. South Africa, being the largest economy in SACU, uses tariffs to support its industrial policy objectives. By contrast, the other SACU Member States use tariffs for fiscal purposes.
- In recent years government has sought to follow a coordinated approach to assisting industry, which approach seeks to use complementary measures to support growth. This approach continued in the period under review and will continue into the future. The International Trade Administration Commission of South Africa (“**ITAC**”) continues to administer trade instruments in a manner that contributes to inclusive economic growth, in particular, an increase in investment, employment and incomes. Consistent with this, ITAC will intensify its monitoring of performance against reciprocal commitments by those industries which receive support from ITAC.
- ITAC administers trade instruments on behalf of Member States of the Southern African Customs Union (“**SACU**”), being South Africa, Botswana, Lesotho, Namibia and Eswatini. During 2021/22 ITAC’s tariff investigations focused on diverse sectors of the South African economy, including the chemical, metals and textile sectors. Majority of tariff support applications were principally the result of a difficult domestic economic environment and were in response to comparatively low-priced imports from emerging economies. On Trade Remedies, ITAC conducted eight original investigations and nine sunset reviews. The investigations involved diverse products such as pasta, chicken, laminated safety glass, garden tools, frozen potato chips, tyres and cement. In addition, two safeguard investigations on bolts and set screws were also conducted. There were 18749 import and 15100 export permits issued against the target of 16000 and 12000 respectively.

## POLICY FRAMEWORK

- The National Development Plan (“**NDP**”) sets out the long-term socio-economic vision for South Africa.
- The National Growth Path (“**NGP**”), Industrial Policy Action Plan (“**IPAP**”) and the South African Trade Policy and Strategy Framework provide policy parameters within which ITAC should execute its mandate.
- All call for developmental trade policies and the use of trade policy to contribute to positive structural changes in the economy. The NGP places employment creation at the center of economic policy, which means that tariff policy has to be sensitive to employment outcomes. Tariffs (i.e. ordinary customs duties) are an instrument of industrial policy and not revenue generation.
- A developmental approach to tariff setting is followed for both agricultural and industrial goods. Decisions to amend tariffs are evidence-based and depend on the circumstances of each case, as opposed to being rigid blanket determinations. Tariffs may therefore be increased (with provision for rebates where appropriate) or reduced. The key consideration is the desired outcome i.e. increased domestic production, investment, job retention and creation, as well as international competitiveness. This approach is typically applied goods used in sectors that drive employment creation such as infrastructure, agriculture, mining, green goods and manufacturing.

## TARIFF INVESTIGATIONS

### Trend Analysis of Tariff Increases for the Period 2003 - 2022



## TARIFF INVESTIGATIONS

- Tariffs are used as trade and industrial policy instruments whose key objective is to promote, in a complementary manner, domestic production, job retention and creation, and international competitiveness.
- In a nutshell, they are instruments to support domestic industries by leveling the playing field.
- In the year under review, the following 5 tariff adjustments and 2 rebate provisions were approved:
  - **Customs duty adjustments (increase)** for foot-operated grease guns; chrome grinding balls; and certain tinsplate cans, pails and aerosol cans;
  - **Customs duty adjustments (reductions)** for safety headgear.
  - **Duty rebates** for sodium hydroxide (“Caustic Soda”) in aqueous solution used for the manufacture of semi-chemical fluting paper; and certain goods used for the manufacture of upholstered furniture



## TARIFF INVESTIGATIONS

APPLICANT	PRODUCT	APPROVED AMENDMENT	TYPE OF AMENDMENT
Gurtech (Pty) Ltd	Foot-operated grease guns	From free to 10%	Increase
Grinding Media South Africa (Pty) Ltd	Grinding balls	From free to 15%	Increase
Hall Longmore (Pty) Ltd	Certain tubes, pipes and hollow profiles, seamless of iron (excluding cast iron) or steel	Tariff subheadings: 7304.19.90, 7304.23.90 and 7304.29.90* From 10% to 15% Tariff subheading: 7304.39.35** From free to 15%	Increase
Rheem SA (Pty) Ltd and SA Steelpack Solutions (Pty) Ltd	Certain tins, cans, pails and aerosol cans	From free to 15%	Increase
Sappi Southern Africa (Pty) Ltd T/A Sappi Tugela Mill	Sodium hydroxide ("Caustic Soda") in aqueous solution used for the manufacture of semi-chemical fluting paper	Approved	Rebates
Bravo Group Manufacturing (Pty) Ltd	Certain goods used for the manufacture of upholstered furniture	Approved	Rebates
Association of Motorcycle Importers and Distribution	Safety headgear	Approved	Reduction
* Certain tubes, pipes, and hollow profiles, seamless, of iron (excluding cast iron)			
** Certain tubes, pipes, and hollow profiles, seamless, of iron (excluding cast iron)			



## AUTOMOTIVE PRODUCTION AND DEVELOPMENT PROGRAMME (APDP2)

- **Administration of APDP2**

ITAC administers the Automotive Production and Development Programme Post 2020 (“APDP2”) in line with the International Administration Act, 2002 (Act No. 71 of 2002), APDP2 Regulations and all relevant Info Docs as well as the Legislation (The relevant rebate items & drawbacks are found in the Customs and Excise Act under Schedule 3, Schedule 4 and Schedule 5)

The Technical Working Group (“TWG”), which constitute of industry representatives is in place to enhance transparency and consistency in the evaluation and adjudication of applications for participation under APDP2. The primary role of the APDP Phase II TWG is to assist the Senior Manager: Tariff Investigations II in the effective discharge of the duties and responsibilities with specific regard to the APDP Phase II.

- **Monitoring and Evaluation**

The APDP Post 2020 is monitored and evaluated by the dtic and various industry stakeholders on a quarterly basis.

## AUTOMOTIVE PRODUCTION AND DEVELOPMENT PROGRAMME (APDP)

APDP consists of four elements as indicated below:

### Stable Tariffs

- Stable throughout the programme, i.e.
- Import duties on vehicles: 25% *ad valorem*
- Import duties on Components: 20% *ad valorem*

### Automotive Investment Scheme (AIS)

- Non-taxable cash grant for qualifying capital investment made;
- Between 20% for OEMs and 25% for component and tooling manufacturers; and
- Administered by **the dtic**

### Production Incentive (PI)

- The PI is an incentive available to final manufacturers and is calculated at the point of sale based on value added on qualifying motor vehicles, tooling and components manufactured in South Africa.
- The PI factor for light motor vehicles, semi-knocked down vehicles and relevant components as well as automotive tooling is 50% and 62.5%, respectively.
- Administered by ITAC and SARS

## AUTOMOTIVE PRODUCTION AND DEVELOPMENT PROGRAMME (APDP2)

### Volume Assembly Localisation Allowance (VALA)

- The VALA is available to registered light motor manufacturers that achieve a minimum production level of 10 000 units over the most recent four quarters.
- The VALA is used by registered light motor vehicle manufacturers to reduce the value for customs duty purposes of original equipment components imported by itself and the imported component values of original equipment components received from any other entity in the SACU region.
- Any surplus VALA of a registered light motor vehicle manufacturer in a specific quarter, will be rolled over to the next quarter and/or may be used to rebate duties on specified light motor vehicles imported by the registered light motor vehicle manufacturer upon obtaining prior written approval from the Commissioner of SARS.
- Administered by ITAC and SARS.

## AUTOMOTIVE PRODUCTION AND DEVELOPMENT PROGRAMME (APDP2)

### Certificates issued by ITAC under the APDP2:

- Eligible Production Certificates (EPCs) - confirm the eligibility of a company and certain automotive products under the APDP. ITAC issued 93% of the EPCs within the set timeframe (10 working days).
- Production Rebate Credit Certificates (PRCCs) - indicate the Rand value of the production incentive earned by a participant. ITAC issued 94% of the certificates within the set timeframe (30 days).

### Verifications conducted under the APDP2:

- Calculation of benefits under the programme is complex and detailed, thus requiring on-site verification of financial information to ascertain compliance with requirements of the programme. Verification is necessary to ensure the integrity of the programme and prevent undue benefit to participants at the expense of the fiscus.
- ITAC conducted 100% of the verifications within the set timeframe (90 days).
- Company Specific Percentages (CSPs) - 93% of certificates issued within 10 working days.

## TRADE REMEDIES

- Trade Remedies are trade defence instruments endorsed by the World Trade Organisation (“**WTO**”) for use in combatting material or serious injury caused by imports. They are described briefly below.
- **Anti-dumping Measures:** Used to counter “dumping” ie the exportation of products at prices which are lower than the domestic selling prices or cost of production in the exporting country, thereby causing material injury (eg. loss of sales, jobs etc.) to producers of like products in the importing country/territory. Measures endure for 5 years unless renewed following a Sunset Review in which it was determined that the removal of anti-dumping measures will result in the recurrence of dumping and material injury. “Injurious Dumping” constitutes an unfair trade practice.
- **Countervailing Measures:** Used to remedy material injury caused by subsidised imports. Countervailing measures endure for 5 years unless renewed following a Sunset Review in which it was determined that the removal of countervailing measures will result in the recurrence of subsidised imports and material injury. “Subsidised exports” constitute an unfair trade practice.
- **Sunset Reviews:** These are investigations conducted at the end of the five year period over which anti-dumping countervailing duties have been in force in order to determine whether there will be a continuation or recurrence of injurious dumping or injurious subsidised exports if the protective measures were to be removed.
- **Safeguard Measures:** Used if, as a result of unforeseen circumstances and the effect of the obligations of a WTO Member Country under the WTO, there is a surge in the volume of imports which causes serious injury to the manufacturers of like or directly competitive products in the importing WTO Member Country. These measures apply to both fair and unfair trade practices.

## TRADE REMEDIES

- In the year under review, the following trade remedy measures and 3 provisional measures were approved:
- **Anti-Dumping:**
  - Duties imposed (Pasta)
  - In progress (Frozen bone-in Chicken; Float Glass; Laminated safety glass; Chain links; Garden tools; Potato chips; Tyres)
- **Safeguards:**
  - Duties imposed (Bolts with hexagon heads of iron or steel)
  - Duties extended (Set screws (Ext. of safeguard measure))
- **Sunset reviews** of anti-dumping duties to extend protection against unfair imports
  - Duties maintained (frozen bone-in chicken; float glass; stainless steel sinks; wheelbarrows; and garlic)
  - In progress (Cement; PET; Unframed Glass Mirrors)

## TRADE REMEDIES

### ANTI-DUMPING

Product	Country	Applicant	Type	Status and Duties initiated
Pasta	Egypt, Latvia, Lithuania and Turkey	BOLUX GROUP (PTY) LTD, NAMIB MILLS (PTY) LTD, PIONEER FOODS (PTY) LTD AND TIGER BRANDS LIMITED	Anti-Dumping	Duties imposed
Frozen bone-in Chicken*	Brazil, Denmark, Ireland, Poland, Spain	SAPA	Anti-Dumping	In progress
Float Glass*	Malaysia	PFG	Anti-Dumping	In progress
Laminated safety glass*	People's Republic of China	PFG	Anti-Dumping	In progress
Chain links*	People's Republic of China	Mckinnon Chain	Anti-Dumping	In progress
Garden tools*	People's Republic of China and India	Lasher	Anti-Dumping	In progress
Potato chips*	Netherlands, Belgium and Germany	McKain	Anti-Dumping	In progress
Tyres*	People's Republic of China and India	SATMC	Anti-Dumping	In progress

\* Carried over from the 2022/23 financial year



## TRADE REMEDIES

### REVIEWS

Product	Country	Applicant	Type	Status and Duties initiated
Frozen bone-in chicken portions*	Belgium, the UK and the Netherlands	SAPA	Sunset Review	Duties maintained
Float glass	China and India	PFG	Sunset Review	Duties maintained
Stainless steel sinks	China and Malaysia	PFG	Sunset Review	Duties maintained
Wheel barrows	China	Lasher	Sunset Review	Duties maintained
Garlic	China	SOUTH-AFRICAN GARLIC GROWERS ASSOCIATION	Sunset Review	Duties maintained
Cement*	Pakistan	Concrete Institute	Sunset Review	In progress
PET*	Chinese Taipei, India, and Korea	SAFRIPOL (PTY) LTD	Sunset Review	In progress
Unframed Glass Mirrors*	India	PFG	Sunset Review	In progress

\* Carried over from the 2022/2023 financial year

### SAFEGUARD INVESTIGATIONS

Product	Country	Initiation date	Finalisation date	Status
Bolts with hexagon heads of iron or steel	All countries	15/05/2020	10/12/2021	Duties imposed
Set screws (Ext. of safeguard measure)	All countries	21/05/2021	02/08/2021	Duties Extended

## IMPORT AND EXPORT CONTROL

### IMPORT PERMITS ISSUED

- During 2021/2022 import permits issued amounted to 18 749. The target was 16 000.
- Majority of the permits were issued in respect of imported products used in the following sectors:
  - Marine Resources
  - Mineral fuels and oils
  - Chemicals
  - Rubber and tyres
  - Metals
  - Capital Goods and Mechanical Appliances
  - Automotive

### EXPORT PERMITS ISSUED

- Export permits issued in 2021/2022 amounted to 15 100. The target was 12 000. The largest categories of export permits issued are listed in the table below.

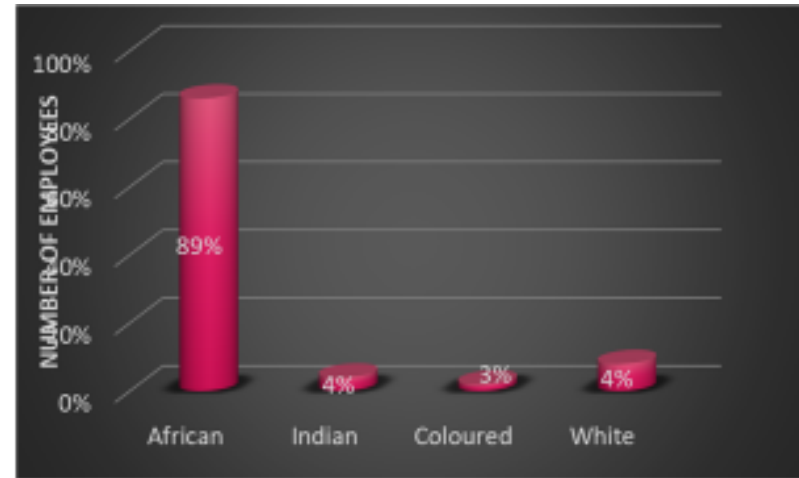
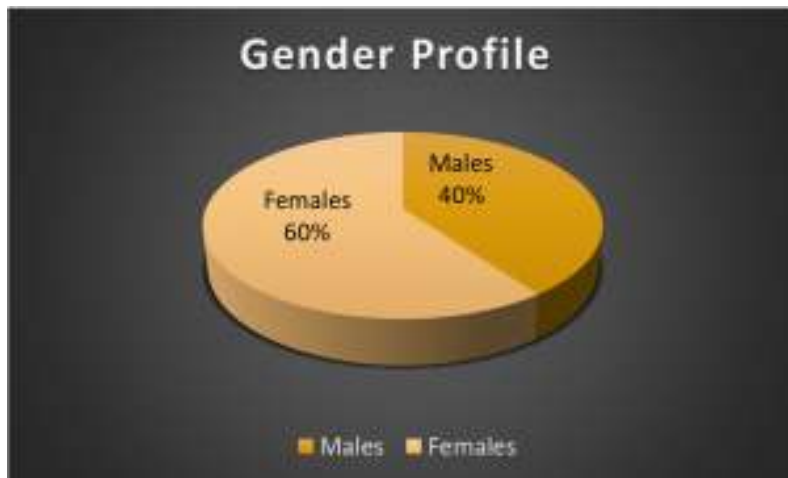
Description	Permits Issued
Used motor vehicles	9 427
Ferrous and non-ferrous waste and scrap	2 808
Organic and inorganic chemicals	1 161
Mineral fuels and products of their distillation	608

## ACHIEVEMENTS

- In 2021/22, Gurtech (Pty) Ltd, Grinding Media South Africa (Pty) Ltd, Rheem SA (Pty) Ltd, SA Steelpack Solutions (Pty) Ltd and Hall Longmore (Pty) Ltd received support through increased duties on Foot-operated grease guns, Grinding balls, Certain tinplate cans, pails and aerosol cans and Certain tubes, pipes and hollow profiles, seamless of iron (excluding cast iron) or steel, respectively, in order to improve the domestic industry's price-competitiveness position against foreign competition. The support would assist the domestic industries to:
  - maintain its capability to manufacture the subject products;
  - increase local content;
  - encourage value-addition;
  - improve production capacity utilization;
  - achieve economies of scale;
  - Gurtech, Grinding Media, Rheem and SA Steelpack & Hall Longmore, respectively to sustain current employment of 20, 303 and 515 (Rheem & SA Steelpack combined) and 49 employees directly involved in the manufacture of the products concerned; and
  - Gurtech, Rheem & SA Steelpack (Rheem & SA Steelpack combined) and Hall Longmore to create 13, 96 and 8 additional jobs, respectively.

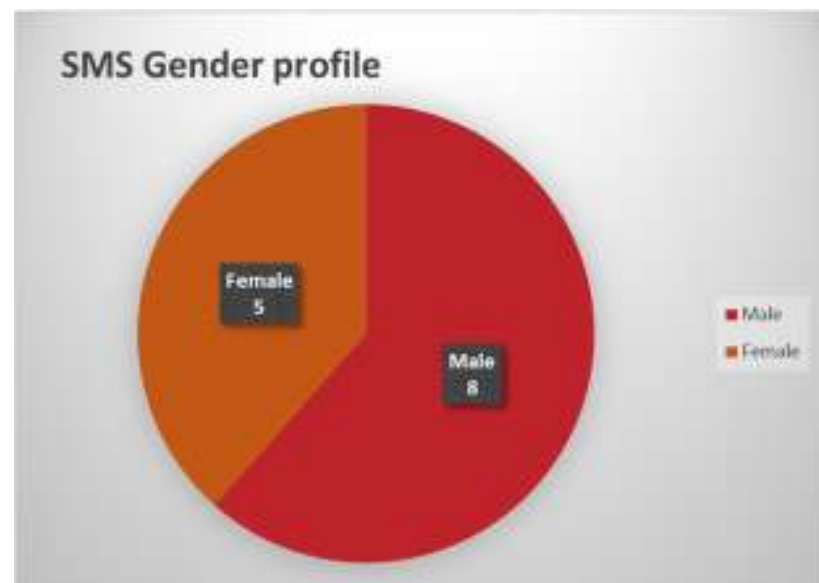
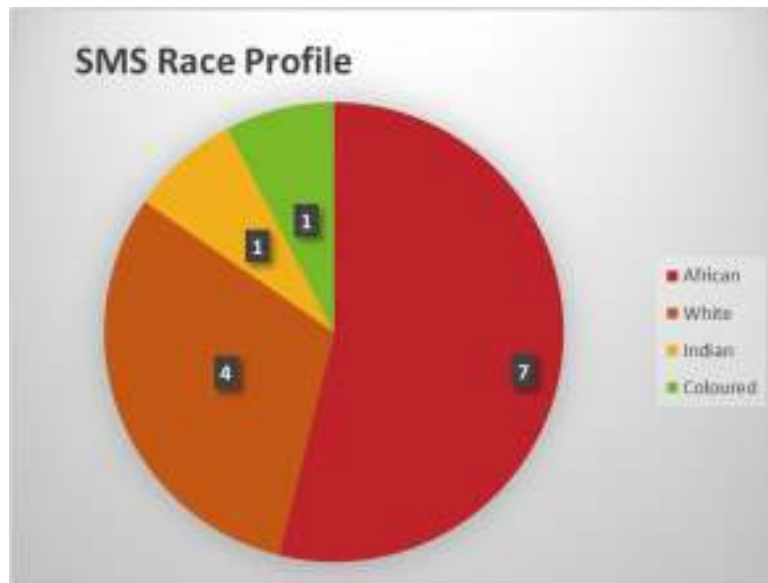
## HUMAN RESOURCES MANAGEMENT

- As at 31 March 2022, 98 people were employed at ITAC: Core business - 50; Support services – 45; and 3 executives (Chief Commissioner, Deputy Chief Commissioner, and GM: Corporate Services). In addition, there were 9 contract employees (including interns) in the period under review.
- The vacancy rate for the period under review was 25.19%.
- The graphs below present ITAC's employee profile in terms of gender, race, and job category.



## HUMAN RESOURCES MANAGEMENT

- ITAC's senior management employee profile in terms of gender and race



## CORPORATE GOVERNANCE

### COMPLIANCE & INTERNAL CONTROLS

- ITAC is an independent statutory body and a creation of section 7 of the International Trade Administration Act, 2002 (the “**ITA Act**”). Its policies are aligned with applicable legislation and regulations including the ITA Act, the Public Finance Management Act, 1999 (“**PFMA**”), the Preferential Procurement Policy Framework Act, 2000 (“**PPFA**”), National Treasury Regulations, including Supply Chain Management Regulations. ITAC has developed checklists which assist it in ensuring compliance.
- ITAC maintains internal controls which are designed to ensure that risks are reduced or managed, and that the organisation is able to meet its performance, financial and governance obligations. ITAC’s key corporate governance structures include Audit and Risk Committees.
- Internal controls are monitored throughout the year by management, internal audit unit and other relevant committees and breaches or gaps identified are addressed.

## CORPORATE GOVERNANCE Continued

### AUDIT COMMITTEE REPORT

- The Audit Committee (“**AC**”) held five meetings - four regular meetings and two special meeting to consider the Annual Report before issuing it to the external Auditor (“**SAB&T**”).
- According to the AC report:
  - The findings of the risk based Internal Audit reviews revealed that the control environment needs improvement in specific areas. However, the AC is satisfied that appropriate interventions have been considered in addressing areas of improvement.
  - The AC is satisfied with the content and quality of monthly and quarterly reports prepared by ITAC management.
  - The AC is satisfied that the Internal Audit function is operating independently. The AC’s view is that the function was not sufficiently resourced based on the approved plan and has not been fully effective in identifying control gaps and reporting thereon.
  - The AC has noted the root causes of the new findings and management responses, and has requested management to prepare a detailed action plan to address root causes.

### RISK MANAGEMENT

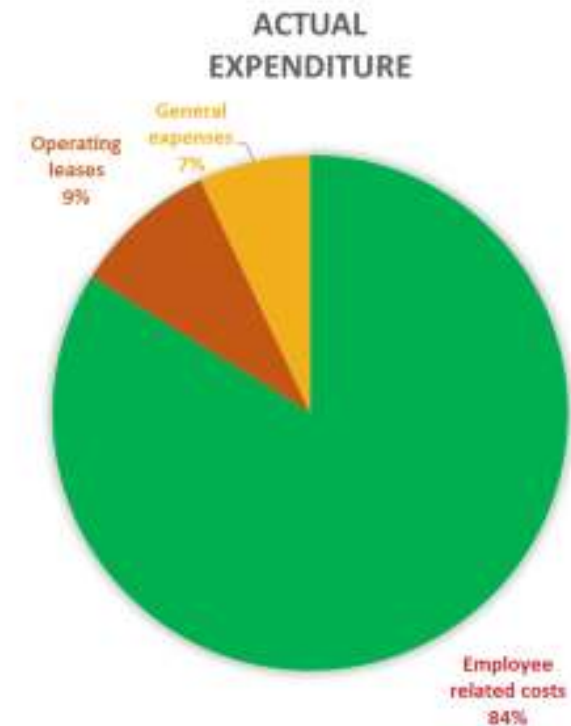
- ITAC has a risk management unit which conducts risk assessment continuously and also presents the risk register to the Risk Management Committee (“**RMC**”) for review.
- The RMC is a subcommittee of the AC. It monitors risk management activities and presents its findings to the AC.
- The Internal Auditors assist the RMC by reviewing the risk register for any update.
- The RMC then makes recommendations to the Chief Commissioner (“**CC**”) to approve the reviewed risk register.
- ITAC Executive Committee monitored the internal controls and relevant risk management processes for 2021/2022 financial year and is satisfied with their effectiveness.
- According to the National Treasury’s Risk Management Capability Maturity Assessment, ITAC is at level 5 (pertinent risks are well managed).



# Financial Performance

## Financial Performance Overview

- The total budget allocation for the 2021/22 financial year was R113 380 000, of which R5 500 000 was for assisting ITAC towards administering the Price Preference System on ferrous and non-ferrous scrap metal.
- Actual revenue received was R114 861 815. Transfer payments account for 94% of the total budget allocation. The remaining revenue consists of interest received and recoveries from staff.
- Actual budget spending on 31 March 2022 was R98 615 105. Amount spent as a percentage of total budget was 87%.
- The composition of spending was on employee related costs (R82 681 611), operating leases (R9 011 921), and general expenses (R6 921 573).
- The spending per programme was:
  - Administration – R44,5 million,
  - Trade Remedies – R14,1 million,
  - Tariff Investigations – R23,2 million, and
  - Import and Export control – R16,8 million
- Expenditure on computer equipment amounted to R1 150 202.



## Financial performance - Budget vs Actual 31 March 2022

	Annual budget	Actual expenditure	Variance	Variance %
Salaries and Wages	91 834 000	82 681 611	9 152 389	21
Other Staff Cost	859 757	350 232	509 525	59
Subsistence and Travel	2 157 500	1 064 196	1 093 304	31
Admin Expenses	3 556 402	2 108 552	1 447 850	41
Rental and Leases	9 010 351	9 011 921	(1 570)	(0.1)
Professional Fees	2 398 000	1 547 145	850 855	35
External Audit Fees	1 024 190	1 030 132	(5 942)	(0.6)
Legal Fees	2 500 000	511 213	1 988 787	79
Communication Costs	90 000	47 208	42 792	42
Repairs and Maintenance	25 800	13 268	12 532	48
Depreciation	424 000	249 627	174 373	41
<b>TOTAL EXPENDITURE</b>	<b>113 880 000</b>	<b>98 615 105</b>	<b>15 264 895</b>	<b>13</b>

## Financial Performance – Variance explanations

- An amount of R5.5 million was received towards assisting ITAC in administering the Price Preference System for scrap metal.
- Employee related costs variance is as a result of vacant positions. There were 33 vacant positions as at 31 March 2022 with a vacancy rate of 25,19%. Certain positions were advertised, and recruitment was still in progress at year end. Other staff costs was also underspent as a result of recruitments not finalised.
- Travel activities were resumed during the year, but most verifications were still conducted virtually.
- Admin expenditure decreased as most personnel continued working from home during the financial year.
- Professional fees were allocated for some labour related matters, but the postponements resulted in some budget not spent. Some of the procurement were also not finalised and halted after the National Treasury issued an Advisory Note in relation to the Preferential Policy Framework.
- Legal fees decreased as a number of old cases were finalised during the financial year. The costs were paid from provisions raised in the prior years. There was also an overprovision on some matters, which was subsequently reversed as the cases were settled.

## Financial Position and Cash Flow – 31 March 2022

- Net assets as at 31 March 2022 amounted to R23.1 million. There was an increase of R16.2m compared to the 2020/21 financial year.
- Cash and cash equivalents increased from R24.2 million in the 2020/21 financial year to R37.8m in the 2021/22 financial year.
- There was a 62% decrease in legal provisions, as most of the old matters were settled and the over provision from previous years reversed.
- Net cash generated by operation increased to R14.7m in the 2021/22 financial year compared to the R0.4m for the 2020/21 financial year.

## Audit outcome for 2021/22

- ITAC received an unqualified audit opinion with findings.
- Material findings were received on the reporting of annual performance information and annual financial statements.
- Management developed an audit improvement plan to address the root causes that led to the regression. The implementation of the plan is in progress and monitored.
- The Internal Audit's three year rolling plan include making a follow up on audit findings raised by the external auditors. ITAC is also in the process of strengthening capacity of the current internal audit function.
- The ITAC Executive Committee also plays a role of monitoring the implementation of the action plan through a report presented on implementation.

Thank you

