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Manufacturing to get incentives for BEE

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CAPE TOWN — The Department of Trade and Industry is planning measures to incentivise manufacturers to enter into black economic empowerment (BEE) deals, acting director-general Garth Strachan said in Parliament last week.

Provision for this would be made in the new version of the Industrial Policy Action Plan to be released in April, he told Parliament's trade and industry committee.

The department's "huge bouquet" of existing instruments, such as the Manufacturing Competitiveness Enhancement Programme and export guarantees, could be used as incentives, he said. "We need to do some very important work around a financial support mechanism with very strong conditionalities for black ownership in the sector."

He said empowerment activity in manufacturing had lagged other sectors such as mining and financial services, where the rates of return were much higher and the level of risk was much lower. "There has been an impetus to ownership and equity shareholding in those sectors" rather than manufacturing which held little appeal to empowerment consortiums, Mr Strachan said.

Empowerment would also be central to the negotiations under way with international investors over a joint venture with the Industrial Development Corporation (IDC) to establish a new steel mill, he said. The selection of a partner and the negotiation of a participation agreement is expected to be finalised by the second quarter of this year.

"Strong conditionalities" would be included in the agreement to ensure the government retained control of the project and that steel was supplied at competitive prices.

The new mill would use low-cost iron-ore tailings and not the lump iron ore used by ArcelorMittal SA in the production of steel. It would also use technologies that would eliminate the need for importing expensive coking coal, the second-largest cost item in the production of steel using blast furnace technology.

The IDC's acquisition of Scaw Metals would ensure access by the new operation, Masorini, to Scaw's distribution network.

In his briefing to the committee on the report of an interdepartmental task team on iron ore and steel — adopted by the Cabinet in December — Mr Strachan said the IDC had already concluded a prefeasibility study on a new steel investment and had concluded that a new steel mill could reduce the local price of a broad range of flat and long products by 10%. Its location would be vital as logistic costs were the single largest component in the cost of steel. In his introductory remarks, Trade and Industry Minister Rob Davies stressed the need to develop a new competitive advantage for the beneficiation of mineral products. He said a number of manufacturers had indicated they were willing to invest in SA if they had access to mineral products supplied at a price advantage on the local market.

Another outcome of the report was that the Department of Economic Development would introduce amendments to the Competition Act to ensure price concessions for iron ore enjoyed by steel producers were passed on to users.

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