

Monday, 10 June 2024]

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PARLIAMENT OF THE PROVINCE OF THE WESTERN CAPE

ANNOUNCEMENTS, TABLINGS AND COMMITTEE REPORTS

MONDAY, 10 JUNE 2024

COMMITTEE REPORTS

- Report of the Standing Committee on Finance, Economic Opportunities and Tourism on its engagement with Summer Citrus from South Africa, beneficiaries of the African Growth and Opportunity Act, on 18 August 2023, as follows:**

Delegation

Members

Murray, C (DA)(Chairperson)
Brinkhuis, K (Al Jama-Ah)
Nkondlo, N (ANC)
Van der Westhuizen, AP (DA)

Apology

Sileku, I (DA)

Staff Members

Adams, Z (Procedural Officer)
Cloete, L (Senior Procedural Officer)
Barends, A (Logistics Official)
Naidoo, W (Security Official)

1. Introduction

The Standing Committee on Finance, Economic Opportunities and Tourism (the Committee) endeavoured to engage with relevant role players within the African Growth and Opportunity Act (AGOA) preferential trade agreement, as the debate about the renewal or expiry of the AGOA in 2025 unfolded.

The AGOA allows for duty-free and quota-free exports from eligible African countries into the United States (US). South Africa is one of the African countries that benefits from the AGOA.

The Committee met with the Western Cape Department of Economic Development and Tourism, Wesgro and the Western Cape Department of Agriculture on 9 June 2023 to gauge the impact that AGOA has had on the Western Cape. The Committee was informed that AGOA was of great importance to the agricultural sector of the Western Cape, specifically, for the citrus producers and exporters, for job creation, and to the overall growth of the Province's economy.

The Committee then embarked on an engagement with Summer Citrus from South Africa (Summer Citrus) on 18 August 2023 on the benefits and challenges they experienced in respect of AGOA.

Following the engagement with Summer Citrus, the Committee embarked on a walkabout at Stellenpak, a fresh fruit export packing and cooling facility.

In terms of the 2023/24 Strategic Objectives of the Western Cape Provincial Parliament, linked to the Speaker's Priorities, the outcome of this report is linked to the following priorities:

- Priority 2: Expanding citizen service
- Priority 3: Strengthening the core business

This report highlights the Committee's findings and recommendations stemming from the briefing and visit.

2. Briefing by Summer Citrus of South Africa on the benefits of AGOA and the challenges experienced

2.1 Overview

The day commenced with a briefing from Summer Citrus. The briefing was led by Ms S Conradie, the Chief Executive Officer of Summer Citrus, Mr A Mouton, the Chairperson of Summer Citrus, and Mr P Smit, the Director for Summer Citrus. The presenters were also supported by Market Demand Fruits, Good Hope Fruit, Cedar Citrus Pty Ltd, Cold Harvest, Cape Fruit Coolers, Seatrade, Maersk, and MSC.

Summer Citrus has been in existence for 25 years and is an umbrella body representing major stakeholders in the citrus industry, who export citrus products from South Africa to the US. The focus of the organisation is to maintain and sustain the market in the US for the current growers who have access to the US.

Summer Citrus briefed the Committee on the benefits of AGOA and any challenges that they have experienced so far.

2.2 Observations

2.2.1 Summer Citrus has focused on promoting and establishing the necessary quality standards for fruit exporters in compliance with quality standards applicable to all citrus fruit products sold to the US. According to Summer Citrus, Western Cape is the only province in the country that can ship citrus products to the US due to its stringent phytosanitary shipping standards and cold-treatment protocols. The citrus products are only shipped through the Port of Cape Town.

- 2.2.2 Previously, citrus producers and exporters in the Western Cape were unable to compete with local citrus producers in the US during winter, therefore the focus was to promote exporting citrus to the US in summer, resulting in year-round citrus availability in the US. Citrus producers and exporters in the Western Cape have also had to compete with other major citrus exporters, such as Chile and Peru.
- 2.2.3 The South African citrus industry has been the second largest exporter of citrus in the world. The Citrus industry in the Western Cape has become very dependent on exports to the US, which, in turn, was dependent on international competitiveness and market access. This was why AGOA was so important to South Africa.
- 2.2.4 Before an administrative change in the US in 2020, citrus exporters were only allowed to ship to New York, Wilmington and Philadelphia. As part of Summer Citrus' strategy to sustain and ensure the longevity of its citrus programme, they trialed shipping to Houston and asked if they could ship to Savannah. Following the administrative change in the US in 2020, Summer Citrus gained access to all ports in the US that had cold treatment facilities or programmes.
- 2.2.5 Summer Citrus offers an integration service throughout the total citrus supply chain. They have connected all bilateral entities such as the Western Cape Department of Agriculture, the United States Department of Agriculture, and the Perishable Produce Export Certification Agency. Summer Citrus also played an integral part in connecting citrus growers, pack houses, exporters, logistical companies in the US and South Africa, supply chain service providers, shipping lines, ports in the US and South Africa, and importers. This was a unique model, which also focused on collective engagements with supply chain groups, specifically shipping lines. None of the citrus producers and exporters were large enough to charter a conventional vessel or to approach a shipping line because, individually, they did not have volumes large enough to justify shipping to Philadelphia Port. Therefore, the engagements with shipping lines were done as a collective.
- 2.2.6 Citrus exports, through AGOA, have grown 2.5 times since the pandemic, even though there were global supply chain disruptions at the time. According to Summer Citrus, it was estimated that AGOA provided for 35 000 jobs opportunities from the farm level throughout the citrus supply chain in South Africa, and approximately 20 000 job opportunities created in the US.
- 2.2.7 The AGOA programme has also allowed for the opportunity for members of Summer Citrus to create 24 successful empowerment projects, with another 15 projects that are still in the process of being developed.
- 2.2.8 It was estimated that in 2022, the AGOA programme allowed for the generation of \$155 million in US turnover, which was approximately R1.6 billion turnover for South Africa.
- 2.2.9 The AGOA programme allowed citrus producers and exporters in the Western Cape to enter the US market duty-free, which then allowed them to compete with major competitors such as Chile, Peru and Australia, who were also able to enter the US market duty-free due to trade agreements. According to Summer Citrus, if AGOA was not renewed, citrus producers and exporters from the Western Cape would not be able to compete with those competitors. If AGOA is not renewed and export duties are introduced, it would become too expensive for growers to export to the US because the growers would have to absorb those additional costs. If growers stopped exporting to the US, then South African-based citrus exporters would be unable to adhere to the shipping commitments, and shipping lines would stop going to the US. Approximately 7 million cartons of citrus fruit would have to be sent to other markets, which would cause a disruption, and have a potentially destabilising impact on those markets as well.

- 2.2.10 The AGOA programme directly benefited the rural areas in the Western Cape. The main beneficiaries and the main job opportunities that were created were in the rural areas. If investments are removed from these areas, there would be a massive negative impact on rural areas, specifically in the Western Cape.
- 2.2.11 Ms Lena ("Tiekie") September, the Chairperson of Cedar Citrus Pty Ltd, briefed the delegation about "The Harvest of Hope", one of the beneficiary projects that received 36ha of citrus farmland from ALG Boerdery in 1998. This was the first empowerment programme for previously disadvantaged communities in the Western Cape. The farm is now a successful citrus growing business that is 50% Black-owned and now operates on more than 120ha of land, providing 200 job opportunities in the area in season. The farm first exported its citrus products to the US in 2004 under AGOA, and now the US is their main market.
- 2.2.12 Mr Lubabalo Mtya from Maersk emphasised that the current shipping line between South Africa and North America was very dependent on AGOA, so if AGOA was not renewed it would have a major impact on other commodities that are shipped to North America as well, not just the citrus industry. The North American trade line was one of the smallest for South Africa from a shipping point of view, therefore there is a reliance on "shared" shipping across industries because vessels are so large. Approximately 10% of the products shipped to North America were from the citrus industry. If this volume was lost, it would not be economically viable to service this shipping line.
- 2.2.13 Mr Ian Fairlie from MSC indicated that exported goods to the US was one of the smallest coming out of South Africa; however, this trade still amounted to approximately \$10 trillion. He also emphasised that neighbouring countries (Mozambique, Botswana, Lesotho, Eswatini etc.) also exported their fresh and dry products through South Africa. If AGOA was not renewed, the vessels used for transporting exported products would have to be downsized. The smaller the vessel, the higher the slot costs or freight rates for customers/suppliers, which was concerning as it could result in South African shipping companies losing their competitive edge.
- 2.2.14 Summer Citrus indicated that the US was concerned that there was no reciprocal approach from South Africa in terms of trade. AGOA seemed to provide South Africa with a one-sided advantage in terms of duty-free access into the US market, whereas products exported from the US into South Africa included export duties. It seemed that the US wanted to export certain products such as pork, beef and chicken to South Africa; however, there were technical issues that were hampering their plans, which was not ideal for the US. Summer Citrus also indicated that these were trade agreement conversations, and the focus should be on AGOA, which was US legislation.
- 2.2.15 Summer Citrus noted that there were massive investments made in citrus production, rural areas, job opportunities, cold storage, cold sterilisation, shipping, retail programmes etc. Approximately R1 billion has been invested in cold facilities; therefore, there was an urgent need for stabilisation of the AGOA programme. The investors, and the citrus producers and exporters needed assurance that the AGOA programme would continue in the medium term.
- 2.2.16 Since the Port of Cape Town was the only port in South Africa that was able to export citrus products, it was critical that the infrastructure at the Port was in proper working condition. If this was not in place, then long-term business sustainability would be impossible.
- 2.2.17 Summer Citrus encouraged the Committee to engage with national government about the challenges that were raised at the visit. Summer Citrus further emphasised the importance of market access and competitiveness into the US for South Africa, specifically for the citrus industry in the Western Cape, which AGOA played a vital part in.

2.3 Walkabout of Stellenpak in Simondium

The Members were given a tour of Stellenpak, a fresh fruit export packing and cooling service provided to approximately 100 deciduous and citrus producers in South Africa. The Stellenpak facility uses multi-purpose packing lines with weight sizes to pack the fruit, which is then exported to various countries.

The Members engaged with experts working for Stellenpak and observed different varieties of citrus fruit being taken on conveyer belts to be cleaned, separated, packed, labelled, boxed and taken to cold storage, ready to be transported and exported.

Stellenpak used specific technology to identify fruit that was spoiled and was not in a condition to be exported. The technology allowed for “undesirable” fruit that were damaged, had blemishes and/or were the incorrect size to be separated from ones that could be exported. The “damaged” fruit was then repurposed as juice.

The remaining “desirable” citrus fruit was then cleaned, packed, labelled, and packaged for export to various countries. The packaged fruits are then sent to fast cooling areas before they are taken away to be exported. Stellenpak charges local farmers per kilo in respect of packing.

3. Resolutions/Actions

3.1 The Committee RESOLVED to invite the Minister of Trade, Industry and Competition to committee meeting to share the concerns raised by the citrus industry.

3.2 The Committee REQUESTED the following:

3.2.1 A report from the Western Cape Provincial Parliament’s Research Unit on the viability and potential advantages and disadvantages for South Africa to push for a trade agreement on primary and secondary agricultural products, should AGOA not be extended;

3.2.2 A detailed report from Summer Citrus on the 25 empowerment projects indicating (i) the ownership structure for all of the projects (ii) the investments made in these projects over time (iii) the Rand value of the investments (iv) a list of all the investors (v) a list of any government funding given to the projects, and (vi) how each project links to the supply chain system of the citrus and related industries;

3.2.3 A report from Summer Citrus indicating, in terms of marketing and stakeholder relations, whether there are any organised formations to include industries in the US who are in support of SA citrus, and who gave endorsements to the current AGOA agreement to continue. If there are no endorsements, the report should provide a list of opposing groups and arguments made by them against AGOA, specifically against the citrus industry; and

3.2.4 A report from Summer Citrus indicating whether the citrus industry has held any formal discussions with the South African Ambassador or country representatives on the AGOA matter, to raise their concerns. If so, please provide details of when the discussions took place, who the industry met with, and the outcomes of the discussions.

4. Acknowledgements

The Committee thanked Summer Citrus and its members, Cedar Sitrus, Maersk and MSC for their willingness to meet with the Committee and to share critical information

pertaining to the benefits and challenges experienced in respect of the AGOA. The Committee also expressed its gratitude to Stellenpak for the guided tour of its facility.

2. REPORT OF THE STANDING COMMITTEE ON FINANCE, ECONOMIC OPPORTUNITIES AND TOURISM ON THE ANNUAL REPORTS OF THE PROVINCIAL TREASURY AND THE WESTERN CAPE GAMBLING AND RACING BOARD FOR THE YEAR ENDED 31 MARCH 2023, DATED 25 MAY 2024

1. Introduction

The Annual Report programme for the 2022/23 financial year was advertised in newspapers, inviting stakeholders and members of the public to attend and participate in the virtual meeting and discussions.

Members of the Standing Committee on Finance, Economic Opportunities and Tourism (the Committee) deliberated on Part A: General Information, Part B: Performance Information and Part D: Human Resource Management of the Annual Reports of the Provincial Treasury and its Entity, the Western Cape Gambling and Racing Board, on 26 October 2023.

Members of the public were also given an opportunity to pose questions and make oral submissions. The Committee did not receive any input from the public for this Annual Report deliberation.

2. Overview

The Committee considered the Annual Reports of the Provincial Treasury and its Entity; Western Cape Gambling and Racing Board (the Board).

Before proceeding to the consideration of the Annual Reports, the Minister, the Head of Department, the respective Chief Executive Officer and Chairperson of the Board were given an opportunity to make opening remarks.

The Provincial Treasury and the Board received clean audit outcomes for the 2022/23 financial year.

3. Deliberations on the 2022/23 Annual Reports

3.1 Provincial Treasury: Findings/Concerns and Observations

3.1.1 Minister M Wenger, Minister of Finance and Economic Opportunities, noted that Provincial Treasury continued to be a critical and integral driver of good governance within the Western Cape Government (WCG) by implementing and constantly improving on processes and systems that underpinned a maximum impact on the ground, and spoke to every cent of public money that was spent. This was evident from the audit outcomes for the year under review, where every department in the WCG received an unqualified audit outcome. This was the best audit outcome received by the WCG in half a decade.

3.1.2 There were a number of municipalities in the Western Cape that were under severe financial distress, especially Beaufort West Municipality, which incurred less expenditure than expected. Provincial Treasury provided dedicated, direct and extensive support to municipalities throughout the financial year. During the year under review, Beaufort West Municipality was the only municipality under formal intervention in terms of Section 139 of the Constitution. Provincial

Treasury held cash flow intervention meetings with Beaufort West Municipality thrice a week, which was also supplemented with support from consultants, and grant support was provided to them. Consultants assisting the Beaufort West Municipality found errors in processes, and inconsistencies in general valuations and billings.

- 3.1.3 The local government support Unit within the Provincial Treasury provided ongoing support to municipalities throughout the year, which included monthly monitoring of municipalities. If the team observed a decline in performance, immediate action was taken. There were exogenous reasons for municipal challenges as well as reasons internal to specific municipalities. The COVID-19 pandemic saw a decline in municipal revenue collection, which impacted massively on municipalities with weaker governance foundations. Droughts and floods were also examples of exogenous factors that added to the financial challenges experienced by certain municipalities post-pandemic. The Provincial Treasury engaged with municipalities on good governance processes and engaged in detailed governance assessments of municipalities. If municipalities did not implement good governance policies and procedures, then this would lead to financial troubles later. The Provincial Treasury monitored the municipalities through monthly reports, which were also brought to the Minister’s attention monthly. The Provincial Treasury also wrote to municipalities to query particular data items.
- 3.1.4 Recently, a Constitutional Court judgment and a circular from the National Treasury impacting on procurement caused serious challenges for the supply chain processes in all provincial departments. However, Provincial Treasury had developed a Supply Chain Management (SCM) Strategy approximately ten years ago, which was revised accordingly if there were any SCM changes. There were also SCM fora that were run with provincial departments and municipalities, where governance matters were discussed. Provincial Treasury met with National Treasury on a quarterly basis to ensure that they were kept abreast of new developments when the circulars were released, so these changes could easily be communicated to the provincial departments and municipalities. Therefore, the Western Cape was in a better position to respond to the changes issued in the circular.
- 3.1.5 There was a concern about instances where prices of certain commodities that were being procured through SCM processes were very high. This was why the drafting of specifications for bids and quotes was extremely important. Provincial Treasury spoke to the benchmarking of commodities, indicating that they started publishing unit prices of commodities during the COVID-19 pandemic because of the exorbitant prices of goods and services at the time. These unit prices were also published publicly. After the COVID-19 pandemic, the Provincial Treasury continued to publish its disclosure reports but without the unit prices because of the large number of commodities that they were dealing with; however, they have started revamping the SCM system, focusing on value-based SCM. Part of this process was to supply as much information as possible, not only to users within departments and municipalities, but for the private sector as well. The information is available; however, there was a challenge in respect of correlating all the information for commodity prices because different sectors were using different financial systems. The intention was to get to the point where the Provincial Treasury could supply departments and municipalities with a list of benchmarking prices; however, a decision still needed to be made in respect of whether it was “good policy” to publish the information publicly.
- 3.1.6 For the year under review, the Provincial Treasury was focused on “project preparation facility”, which received an allocation of R83 million for various projects to assist departments to start looking at different phases and preparations for credible project pipelines. During the current 2023/24 financial year, the

Provincial Treasury looked at “alternative financing”, which explored different approaches to draw investment from outside the public purse. Infrastructure, which often had a great economic return, was not always fundable through the public fiscus, hence the exploration of a “blended financing modality”. Provincial Treasury has secured technical assistance support from the World Bank and will explore the concept of blended financing instruments, which was piloted initially in the energy sector.

- 3.1.7 The Provincial Treasury has started working with the Department of the Premier and the Department of Social Development to implement a broader approach to gender responsive budgeting, while considering how the Department should develop policies and planning in terms of gender responsiveness. The Provincial Treasury was also learning from the Department of Women, Youth and Persons with Disabilities, that developed a framework and a roadmap in respect of gender responsive budgeting that had to be implemented by 2026.
- 3.1.8 It seemed that the Provincial Treasury’s staff were under immense pressure because of their workloads. The Provincial Treasury has implemented new rules of engagement to address this concern such as streamlining meetings, streamlining the frequency of meetings, ensuring that engagements are more productive, and respecting deadlines and responsiveness. Ultimately, the aim was to change the way officials engaged with one another in order to prioritise a work-life balance, and the overall health and well-being of the staff.
- 3.1.9 There were six bursaries offered by Provincial Treasury that were not taken up by successful recipients due to changes in the students’ academic choices, students securing financial stability and securing alternative funding such as scholarships. The Provincial Treasury’s bursary included an amount for fees, textbooks and stationery, but did not include money for transport and accommodation. It was noted that some potential bursars declined Provincial Treasury’s offer to take the bursary/loan offered by NSFAS, which provided for transport and accommodation as well. The Provincial Treasury was in the process of assessing its bursary policy, including looking at the “missing middle”, which were students of families who were in the middle-income bracket. The Provincial Treasury also planned to visit schools in collaboration with the Western Cape Education Department to raise awareness about it being the employer of choice.
- 3.1.10 The Municipal Economic Review and Outlook (MERO) was published two months after the Provincial Economic Review and Outlook (PERO) was published. The decision to “decouple” the tabling of the MERO and PERO was to align the PERO to the budget timelines in the Public Finance Management Act (PFMA), and to align the MERO with the municipal budget timelines. This was to ensure that the information was as accurate or up to date as possible for municipalities to use in their budget process.
- 3.1.11 Succession planning within the Provincial Treasury was extremely important, especially for officials who have invested many of their working years within the Department. This was noted in respect of the departure of the previous Head of Department, Mr D Savage. It was critical that there was succession planning in these instances to fill critical posts, especially for officials who hold institutional memory. The Provincial Treasury had a talent management strategy, which spoke to succession planning. The succession planning strategy was also linked to the bursary programme that encompassed both internal and external initiatives. The Provincial Treasury promoted officials internally; however, it was also noted that the Department has also become the training ground for officials who then received offers from municipalities, national government and the private sector.
- 3.1.12 There were two municipalities in the Garden Route that had unfunded budgets at the end of March 2023. Adopting unfunded budgets was not legal in terms of Section 18 of the Municipal Finance Management Act. The Provincial Treasury worked closely with municipalities in order to avoid unfunded budgets. There

were a few municipalities in the province that were, for more technical accounting reasons, potentially unfunded; however, the Provincial Treasury worked with them to ensure that between the tabled budgets and the adopted budgets, they made the necessary changes to get to a funded budget position. The Provincial Treasury then monitored these municipalities to ensure that they did not regress to an unfunded budget position when it came to the adjustment budgets.

- 3.1.13 The National Treasury has empowered provincial treasuries across the country to have direct control over the condemnation of irregular expenditure within their respective departments and municipalities. The Western Cape accounted for approximately 3% of the irregular expenditure in the country. When the authority was given to the provinces, the Western Cape addressed more than 1 000 cases, and there was a significant drive amongst the departments and entities to reduce irregular expenditure. Provincial Treasury and the Department of Local Government were responsible for training councillors and officials about irregular expenditure. Most of the irregular expenditure occurred in the supply chain space. The Provincial Treasury's programmes were designed to assist officials to better understand the procurement space to avoid irregular expenditure.

3.2 Western Cape Gambling and Racing Board: Findings/Concerns

- 3.2.1 It was noted that the Western Cape Gambling and Racing Board (the Board) made a significant recovery following the COVID-19 pandemic, in terms of the revenue that they were able to collect from gambling taxes and levies. However, the growth in the gambling sector has not been the same for all industries. There was no growth for the totalisator industry, while the casino industry experienced slight growth and recovery since the pandemic. There was some decline in the Limited Payout Machine (LPM) industry, while there was phenomenal growth in the sports betting industry. The LPM industry experienced significant and continuous growth due to the pandemic when people were in lockdown and could only access betting activities online. The Western Cape also does not have a cap on bookmaker licences, so there was a continued increase in the number of licences that were issued.
- 3.2.2 The Board also experienced a loss in income due to the expiry of some of its previous revenue sources. The Board was only allowed to collect legislated revenue and was not authorised to create its own revenue stream. The Western Cape Gambling and Racing Act sought to create these revenue streams for the Board; however, this legislation was being repealed. The revenue streams, which existed in the past, such as exclusivity fees and route operator fees, have expired. Hence, the Board was dependent on the grant from the Provincial Treasury to be self-sufficient.
- 3.2.3 In the year under review, the Board implemented a committee which replaced the Responsible Gambling Forum. The Board felt that there needed to be a dedicated committee focusing on responsible gambling given the importance of the issue.
- 3.2.4 The growth in the gambling sector placed an enormous strain on the office of the Board to meet the expectation of licence holders. A major portion of the growth in the sector came from the betting industry, which meant more disputes and more licence applications. The Board needed more resources to deal with these matters, as staff was working overtime to keep up with the workload. This was unsustainable, so the Board completed a study to determine their needs going forward. The Board has presented a new funding model to the Minister and awaits approval thereof.
- 3.2.5 The Board, as a government entity, was required to enforce the principles of Broad-Based Black Economic Empowerment (BBBEE) in the industry, through

the imposition of licence conditions. The Board resolved to review its current licensing processes to ensure compliance with the Supreme Court of Appeal judgement (Tsogo Sun Caledon (Pty) Ltd and Others v Western Cape Gambling and Racing Board and Another) when reviewing the BBEE conditions imposed on licence holders. Subsequently, each licence holder's licence was renewed annually, and the Board adhered to the conditions imposed for each licensee. The Board also adopted a BEE policy that would guide the requirements for the gambling sector in the Western Cape.

- 3.2.6 The Board achieved a surplus for the 2020/21 and 2021/22 financial years, which they requested to retain. The surplus was then used to purchase office accommodation for the Board. The surplus achieved for the 2022/23 financial year was surrendered back to the provincial fiscus. The Board spent R25 million on the new premises; however, the existing lease was extended to the end of 2023 so the Board could refurbish and renovate the new office. The Board was reliant on the Department of Infrastructure to assist with the renovations for the new building.
- 3.2.7 It seemed that online gambling establishments preferred to apply for licences through the Western Cape's Board because it is seen as the best board in South Africa. This was because of the quality of responses and engagements that licensees received from the Board, in addition to the positive licence application processes and public participation experiences.
- 3.2.8 The Board has received a relocation application from Caledon Casino, which they have been considering. One of the burning issues was the impact of the relocation on the Overberg community. This was a complex matter because there was no legislation in effect that dealt with the relocation of casinos. This matter would be addressed in the Western Cape Twentieth and Twenty-First Gambling and Racing Amendment Bills. The Board has taken a cautious approach to this request and is in the middle of a probity process. The Board has also envisaged that public hearings will take place to engage with affected community members.

4. Resolutions/Actions

4.1 The Committee REQUESTED the following:

- 4.1.1 A detailed report from Provincial Treasury on the concept of alternative financing, once it is tabled at Cabinet; and
- 4.1.2 A detailed report from the Western Cape Gambling and Racing Board on the technical innovations that would pose any risks in the gambling sector, and the type of regulations this would require.

4.2 The Committee RESOLVED that:

- 4.2.1 The Provincial Treasury should demonstrate to the Committee the use of the Western Cape Government Tenders website, focusing on extraction of specific information, downloading of specifications etc.;
- 4.2.2 The Committee would visit the Procurement Client Centre; and
- 4.2.3 The Provincial Treasury should invite the Committee to its events with the Western Cape Education Department to raise awareness about its bursary programme.

5. Conclusion

The Chairperson commended the Provincial Treasury and the Western Cape Gambling and Racing Board for their excellent audit outcomes. The Chairperson thanked the

Minister, the Provincial Treasury and the Western Cape Gambling and Racing Board for their preparation and responses to questions raised by the Committee members.

3. REPORT OF THE STANDING COMMITTEE ON FINANCE, ECONOMIC OPPORTUNITIES AND TOURISM ON THE ANNUAL REPORTS OF THE DEPARTMENT OF ECONOMIC DEVELOPMENT AND TOURISM AND ITS ENTITIES; WESTERN CAPE TOURISM, TRADE AND INVESTMENT PROMOTION AGENCY (WESGRO), SALDANHA BAY INDUSTRIAL DEVELOPMENT ZONE LICENCING COMPANY (SOC) LTD AND ATLANTIS SPECIAL ECONOMIC ZONE FOR THE YEAR ENDED 31 MARCH 2021, DATED 25 MAY 2024

1. Introduction

The Annual Report programme for the 2022/23 financial year was advertised in newspapers, inviting stakeholders and members of the public to attend and participate in the discussions.

Members of the Standing Committee on Finance, Economic Opportunities and Tourism deliberated on Part A: General Information, Part B: Performance Information and Part D: Human Resource Management of the Annual Reports of the Department of Economic Development and Tourism and its Entities: Western Cape Tourism, Trade and Investment Promotion Agency, Freeport Saldanha Industrial Development Zone and Atlantis Special Economic Zone, on 27 October 2023.

Members of the public were also given an opportunity to pose questions and make oral submissions.

2. Overview

The Committee considered the Annual Reports of the Department of Economic Development and Tourism (the Department) and its Entities; Western Cape Tourism, Trade and Investment Promotion Agency (Wesgro), Freeport Saldanha Industrial Development Zone (FSIDZ) and Atlantis Special Economic Zone (ASEZ).

Before proceeding to the consideration of the Annual Reports, the Minister, the Head of Department, the respective Chief Executive Officers and Chairpersons of the Entities' Boards were given an opportunity to make opening remarks.

In the year under review, the Department, FSIDZ and ASEZ received clean audits, while Wesgro received an unqualified audit opinion.

At the end of each Annual Report deliberation, the Chairperson afforded members of the public the opportunity to address the Department and Entities.

3. Deliberations on the 2022/23 Annual Reports

3.1 Department of Economic Development and Tourism: Observations and Findings/Concerns

3.1.1. During the year under review, the Department of Economic Development and Tourism (the Department) reached a significant milestone, which was the completion of the Jobs for Growth (G4J) strategy that aimed to lift the provincial growth rate and the economic growth rate. The 2022/23 financial year saw the

- recovery of the tourism and event sectors; however, the year also saw unprecedented loadshedding and a crippling strike at the Port of Cape Town.
- 3.1.2. The Department spent 98,6% of its appropriated funding and did not have any unauthorised fruitless and wasteful expenditure. There were approximately 3 000 jobs generated by the Department and its Entities.
 - 3.1.3. The Small, Medium and Micro Enterprises (SMME) Booster Fund was a fund based on market demand, where proposals were made to the Department, which would be considered and assessed. Once the project was approved, the Department would partner-fund with the SMME. The Department then further assesses the project for further possible expansion. In this way, the Department was also able to leverage funding from the private sector.
 - 3.1.4. The Department noted that the previous approach to skills development entailed identifying occupations in high demand and providing the individual with the necessary skilling and training. However, the Department realised that skills development was complex, and the reason individuals were not being employed was because they did not have on-the-job experience. The Department subsequently changed its approach. The new approach entailed developing an experiential learning programme that provided qualifications, accreditation, on-the-job training, and a behavioural component that dealt with on-the-job skilling. This resulted in an 80% absorption of learners after completion of the programme. A study conducted by the Department with the National Treasury, the Provincial Treasury and the Government Technical Advisory Centre showed that this skills programme was one of the most inexpensive programmes in the country that would result in employment. The cost of a job stemming from the Department's skills programme was R15 333, while one job from the Extended Public Works Programme cost R60 000.
 - 3.1.5. The Business Confidence Index (BCI) measured how businesses felt about the economy, and business prospects going forward. The province's BCI experienced a decline of 13 points, from 52 to 39. This was discouraging for the provincial recovery trajectory and investment prospects. If businesses are not confident about the economy, then it may result in contraction in certain sectors, and/or growth in the unemployment rate. Loadshedding impacted greatly on the BCI as companies could not operate and trade effectively. This was why the Department prioritised the energy component of the G4J strategy.
 - 3.1.6. There was a concern that the G4J strategy did not target certain impoverished geographic locations such as the Cape Flats and townships, where a response was needed to address structural inequality and unemployment. The Department indicated that one of the key principles of the G4J strategy was to advocate for employability and entrepreneurship, and the role of government was to create an environment for everyone who wanted to succeed. The Department also understood that its role was to provide the necessary information and skills for people and businesses to thrive. The G4J strategy had a specific spatial lens and filter across all of the priority focus areas. One of the priority focus areas within the G4J strategy was on townships and communities. There were explicit interventions that were targeted at townships. The approach was twofold. One approach was structural, looking at the systemic challenges of the communities who lived far from economic activities. The second approach was to look at action-based plans and coordinating government activities in communities so that programmes were more coordinated across departments.
 - 3.1.7. Data availability which spoke to SMME performance in the Western Cape and across South Africa was found to be lacking. However, the Department has initiated a Memorandum of Understanding with the Department of Small Business Development, which will look at capturing data that will speak to SMME successes. The Department will also be appealing to relevant heads of departments to make statistics available in respect of funding coming to the

Western Cape-based SMMEs, through incentives and loan funding. The Department will also be disaggregating the entrepreneurship rates so it can see what the rate is for the Western Cape. This would allow the Department to see the number of new businesses that were being initiated and the number of existing businesses that were succeeding and failing.

- 3.1.8. The development of the green hydrogen industry has created quite an interest; however, it was a highly energy-intensive industry, which could be problematic. The Department indicated that the green hydrogen programme would assist with the energy crisis through green hydrogen investments. Firstly, green hydrogen investments will start to make other more direct energy projects more viable because it adds scale to them. For example, any upgrades to transmission lines would be buffered and strengthened because of the additional requirement for hydrogen. Secondly, in terms of green energy, green hydrogen would provide excess energy so it would contribute to the province's energy needs. The green hydrogen programme would also contribute to the province achieving its climate change goals and would effectively support job creation and the growth of industries, particularly for export markets that have introduced carbon border adjustment mechanisms.
- 3.1.9. The Department noted that there were challenges affecting the informal sector such as crime, permitting, lack of infrastructure, access to finance, and access to support services. The Department worked with the Department of Small Business Development to encourage the uptake of incentives by the informal sector. The Department also formed a relationship with the South African Informal Traders Association, who reported red tape issues, especially around municipalities.
- 3.1.10. There was a concern about the dominance of foreigners owning spaza shops in the townships. The Department noted that these businesses had an intricate system of ordering and running their businesses, as well as an extensive network of buying. This was a difficult issue to navigate. The Department planned to partner with Technical Vocational Education and Training (TVET) colleges in townships and areas such as Khayelitsha, the Garden Route, Atlantis and the West Coast, where hubs would be used for entrepreneurship development for local students and community members who would like to be upskilled.

3.2. Western Cape Tourism, Trade and Investment Promotion Agency: Observations and Findings/Concerns

- 3.2.1. Wesgro received an unqualified audit outcome for the year under review, which was an improvement from the qualified audit outcome that they received for the 2021/22 financial year. It was noted that this was a great turnaround, which required the team effort of the Minister, the Department of Economic Development and Tourism, the Provincial Treasury, Wesgro and other government stakeholders.
- 3.2.2. Wesgro attributed the improvement of the audit outcome to the complete refresh of their finance team, the appointment of a new Chief Financial Officer, the appointment of a chartered accountant in the supply chain team, and appointments of chartered accountants across the Entity where it was needed. The supply chain management was also reorganised.
- 3.2.3. Boat building and boat maintenance has become a fast-growing industry for the Western Cape. The Western Cape was the production hub of the South African boat-building industry and accounted for 70% of the country's marine manufacturing capability. 70% of the yachts and boats built in the province were exported to the United States. Almost 80% of leisure boats and 40% of commercial boats manufactured in the Western Cape was produced for export. South Africa was also a major global producer of catamarans, ranking only second to France.

- 3.2.4. There was a hub in Stellenbosch called Wine Arc that supported 13 black-owned wine labels. Some of these black-owned wine brands were taken to an expo in New York as there was a growing interest in the sector, especially in the United States. However, there was a concern about whether these black-owned wine owners benefited from the expos, and whether the exposure translated to sales/orders.
- 3.2.5. There were 11 resignations from Wesgro during the year under review. Wesgro attributed this to staff movements and the dismissal of two officials because of the qualified audit report that the Entity received for the 2021/22 financial year. Resignations may have occurred due to the change in management; however, Wesgro still retained a full executive team, senior management team, and management team. Wesgro staff were also poached by the private sector, and the Entity was unable to compete with the salaries offered by the private sector.
- 3.3. Freeport Saldanha Industrial Development Zone: Observations and Findings/Concerns
- 3.3.1. Freeport Saldanha IDZ (FSIDZ) indicated that the year under review had been a challenging one; as the shortened sustainability of the Freeport was a concern; however, the Entity has started to align its corporate plan with the green hydrogen programme as it had the potential to play a major role in the green hydrogen corridor. The FSIDZ has also tasked its management team with investigating all avenues to address its sustainability, including raising capital from the private sector.
- 3.3.2. The FSIDZ's focus in the 2022/23 financial year was the conversion of its investor pipeline, which was seriously hampered by its lease agreement with the Transnet National Ports Authority (TNPA). The FSIDZ focused on resolving this issue and developing a working relationship with the TNPA. The FSIDZ had high hopes to grow the industrial zone into a large investment opportunity for the Western Cape.
- 3.3.3. It was noted that the FSIDZ's plan to become financially self-sustainable was a challenge, as the pace of investment and tenanting into the Zone was delayed due to the COVID-19 pandemic, loadshedding, the economic downturn, lack of port infrastructure and policy inconsistency.
- 3.3.4. The ArcelorMittal and Sasol opportunity was good news for Saldanha Bay, considering that there was a discussion about ArcelorMittal's closure a few years ago, which resulted in job losses. The FSIDZ saw the practicalities of this opportunity - green hydrogen was a molecule that had to be used in industrial processes as it was zero carbon, thereby removing the carbon emissions from products. Exports were taxed according to the Carbon Border Adjustment Mechanism, which was a tool used to attach a price to the carbon emitted from the production of carbon-intensive goods entering the European Union. Using green hydrogen in the production of green cement, green fertiliser, green steel, green fuels used in ships, cars, trucks, trains and busses etc., would drastically lower the country's carbon footprint, making the Western Cape and the products it produces more resilient and competitive on a global scale through export markets and lower taxes. Sasol would produce the green hydrogen, which would be provided to ArcelorMittal, who will produce a product called Green Directly Reduced Iron. Mainstream Renewable Power, an Independent Power Producer, will supply Sasol and ArcelorMittal with green electrons. The project is in the pre-feasibility study phase, with plans to be operational in 2027. All the detailed information regarding the green hydrogen needs and opportunities was contained in a document drafted by the FSIDZ, Wesgro, the Department of Economic Development and Tourism and Atlantis SEZ called the Green Hydrogen Concept Note.

- 3.3.5. One of the challenges in respect of the green hydrogen project was that it was a large-scale project, which required a large amount of land that the FSIDZ did not have. The FSIDZ needed to expand the Special Economic Zone (SEZ), which required the assistance and support of the Department of Trade, Industry and Competition, specifically also in respect of Sasol's application to be a part of the SEZ.
- 3.3.6. In terms of skills development, the Chemical SETA was an important partner for the FSIDZ, assisting with the opening of the Smart Skills Centre (the Centre) within the freeport on 17 October 2022. The Centre focused on augmenting the artisan training that was being provided by the FSIDZ, providing digital skills and open access for the people of Saldanha Bay. The Centre was targeted at unemployed youth. The FSIDZ provided the facility, while the Chemical SETA provided funding on a programme basis. The Chemical SETA has also been tasked by Minister Blade Nzimande, Minister of Higher Education, Science and Technology, to study the hydrogen skills needs. This report was being used to indicate which skills programmes were needed for green hydrogen. The Centre would serve as a conduit to facilitate programmes and skills for the hydrogen economy. The FSIDZ has also worked with the Department of Education to implement programmes at high schools that will benefit the Saldanha Bay community.

3.4. Atlantis Special Economic Zone: Observations and Findings/Concerns

- 3.4.1. The Atlantis Special Economic Zone (ASEZ) achieved a clean audit outcome for the 2022/23 financial year, despite being a new entity. The ASEZ has made the transition into its implementation phase and was well underway in respect of getting its first zone ready for the building of factories.
- 3.4.2. The special dispensation around tax incentives was a challenge. The ASEZ has written to the Director-General of the National Treasury to request that they promulgate the tax incentives for the Special Economic Zone (SEZ), which was standard procedure. To date, the ASEZ has not received a response from National Treasury. The ASEZ then wrote to the Minister of Trade, Industry and Competition and the Minister of Finance regarding this matter, but they have not responded either. In 2020, the previous Minister of Finance indicated that the National Treasury would no longer promulgate tax incentives for the SEZs. The ASEZ then commissioned a legal opinion, which indicated that the Minister of Finance did not have discretion about whether to award the promulgation if requested by an SEZ. This was communicated to the Director-General of the National Treasury, the Minister of Finance and the Minister of Trade, Industry and Competition. These incentives were required because the playing field was not level. The SEZ who applied for the promulgation of tax incentives prior to 2020 received the benefit, while those who applied following the Minister's announcement in 2020 could not benefit from the promulgation. This impacted on investor interest in the ASEZ.
- 3.4.3. The rates offered on land was also dependent on the ASEZ receiving funding from the Department of Trade, Industry and Competition (DTIC) to put in civil infrastructure and to put up the top structures on the SEZ. If the ASEZ received this funding to build the factories, they could offer very competitive rates to investors. However, it seemed that the DTIC was running out of money for the ASEZ programme. It was becoming more difficult for the DTIC to cater to all the SEZs because their budget was not growing. The ASEZ has looked at alternative financing and funding mechanisms. The ASEZ was confident that it would be able to get the investors it needed; however, at this stage, the ASEZ was dependent on the DTIC's grant funding.

- 3.4.4. The ASEZ indicated that there was a need to relook at the SEZ programme and how the incentive regime was structured. There were ways to improve the incentive regime and to tailor the programme so each SEZ could focus on a speciality. The ASEZ was targeting the renewables cluster and the agricultural processing cluster, so it would be ideal to have a package that helped the ASEZ target those investors and industries. Currently, the SEZ programme had one tax incentive across the board.
- 3.4.5. In terms of the revival of railway line for goods between Atlantis and Cape Town, the ASEZ felt that it was not able to take advantage of the freight rail link in its current circumstance. The railway line was not operational. The ASEZ commissioned a feasibility study to see if the current investors in the SEZ would be interested in utilising the freight rail link once it was operational and the general sentiment was that they were not interested in using the service because they felt that they could not rely on Transnet to deliver their goods. However, if the freight rail was operational, it could provide all sorts of opportunities for the SEZ to become a freight village, and to assist with some of the congestion that exists in the Port of Cape Town.
- 3.4.6. During the year under review, four officials received written warnings. This was because the ASEZ had a zero-tolerance rule for non-compliance, particularly around irregular expenditure.
- 3.4.7. Resolux disinvested from the ASEZ due to the uncertainty in the procurement on the Renewable Energy Independent Power Producer Programme (REIPPP). Resolux was a small international company that manufactured internals for wind turbine components; however, they had not received any orders for a period of four years, which meant they were a manufacturing facility that was producing a good that had no destination to be sold to. Resolux then disinvested but left the building behind, which was acquired by another real estate business.

4. Resolutions/Actions

- 4.1. The Committee **RESOLVED** to accept the Department of Economic Development and Tourism's invitation to attend the SMME Booster Fund event being held at RLabs in Mitchell's Plain.
- 4.2. The Committee **REQUESTED** that:
 - 4.2.1. The Department of Economic Development and Tourism provides a brief report on the measurement called the percentage in tourism safety perception which was discontinued during the COVID-19 pandemic, focusing specifically on (i) whether this measurement still existed, (ii) if the study was still being undertaken, and (iii) what the results of this study were;
 - 4.2.2. The Department of Economic Development and Tourism provides a report on one of their previous indicators, which was to enhance resource resilience in the economy by using water more effectively and assisting entities to save 20% on their water consumption. Page 4 of the 2022/23 Annual Report showed that the Department changed this target from four water intensive sectors to one water intensive sector. The report should focus on (i) which sector they are now assisting, (ii) the results of this programme, and (iii) the reasons for decreasing the target;
 - 4.2.3. The Department of Economic Development provide a report on the skills development change mentioned in point 3.1.4 in this report, focusing on (i) the R85 million which was leveraged and resulted in an additional R200 million external funding, (ii) where this money was leveraged from, and (iii) what the conditions were set for the R200 million external funding;

- 4.2.4. The Department of Economic Development and Tourism provides a report explaining the Department's skills development cost in comparison to the EPWP cost mentioned in point 3.1.4 in this report;
- 4.2.5. The Department of Economic Development and Tourism provides the Committee with the independent evaluation report on the impact of the SMME Booster Fund programme if and when completed;
- 4.2.6. Wesgro provide the Committee with a report on the declarations and orders for the black-owned wine labels stemming from the trade exhibitions;
- 4.2.7. Wesgro provides a report on how investment promotion is disaggregated across the different municipalities;
- 4.2.8. Freeport Saldanha IDZ provides the Committee with updates on the Sasol-ArcelorMittal green hydrogen project as it unfolds;
- 4.2.9. Freeport Saldanha IDZ provides the Committee with the Green Hydrogen Concept Note once it is finalised;
- 4.2.10. Atlantis SEZ provides the Committee with its correspondence to the National Treasury, the Minister of Finance and the Minister of Trade, Industry and Competition on the promulgation of the tax incentives in order for the Committee to flag this matter with the responsible Ministers; and
- 4.2.11. Atlantis SEZ provides the Committee with a brief report on the funding they will receive from the Department of Trade, Industry and Competition, as well as the deliverables or targets that might be changed for SEZs, in order for the Committee to raise this issue with the Department as well.

5. Conclusion

The Chairperson congratulated the Department, Atlantis SEZ and Freeport Saldanha IDZ on their clean audit outcomes, and congratulated Wesgro in improving their audit outcome and receiving an unqualified audit result. The Chairperson thanked the Minister, the Department and its Entities for their preparation and responses to questions raised by the Committee Members.