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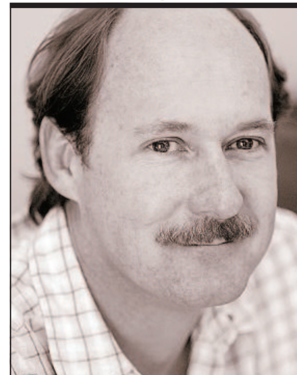
TRADEOFF

THE Port of Saldanha appears likely to play an increasingly important role in South African trade as the country's major harbours get more congested. And if export volumes increase in line with the recent call by Finance Minister Trevor Manuel, the deep water port at Coega may not turn out to be such a white elephant after all.

Manuel made the point about exports at the International Monetary Conference in Cape Town last month, stressing that if the economy is to sustain annual growth of about 5% for the next few years as planned, something will have to be done about the deficit on the current account of the balance of payments, which grew to 6,4% of gross domestic product (GDP) last year, its highest level in 31 years.

While strong capital inflows have financed the deficit quite comfortably up to now, economists warn that such inflows are relatively liquid and could be reversed rapidly in response to factors out of SA's control. That would put the brakes on economic growth unless the burgeoning demand for imports is balanced by more robust growth on the export side of the equation, especially in the non-commodity sectors.



Dave Marrs thinks that the pressure our ports are under will see the Port of Saldanha coming into its own

While the multibillion-rand national infrastructure investment programme is starting to kick in, it is likely — in the near term at least — that rising export volumes will worsen SA's port congestion problem. There is already increased competition for space in our major harbours due to the expansion of existing facilities and the ship construction, repair and maintenance industry's desire to take advantage of the global shipping boom.

In addition to its important role in SA's exports of iron ore, Saldanha, as the northern-most port on the west coast that is capable of taking large vessels, is also set to benefit from the international focus on the West African oil industry, with MAN Ferrostaal's R155m Saldanha oil and gas fabrication yard scheduled for completion next month.

The Western Cape government has called a maritime summit, to be held next month, that will seek to fast-track efforts to boost the oil and gas support industry.

In addition, it emerged recently that Saldanha could get its own bunkering facilities for the first time, which would obviously boost harbour traffic but may also take some of the pressure off Cape Town. Bunkering problems in Cape Town have led to ships being delayed or occupying berths for longer than necessary, while some of the vessels that are headed for Saldanha have had to stop in at Cape Town especially for fuel in the past, adding to voyage costs.

Black empowerment group Mandla Holdings secured a licence to establish bunker facilities at Saldanha three years ago, and the plan is to develop a bunker reception facility near the multipurpose terminal that could also serve as the loading point for a bunker barge. An environmental impact assessment is expected to be completed by the end of the year, and while the bay is a sensitive area environmentally, the proposed use of permanent booms to contain any fuel spillage should make the plan feasible.

Incidentally, this issue contains the first in a series of articles by veteran trade writer Mike Holmes on the obstacles that could get in the way of the kind of export growth Manuel would like to see. This month he tackles the difficulties faced by small, medium and micro enterprises (SMMEs) and argues the case for a national trading house, similar to those of Asia, on Page 9.

■ *Dave Marrs is editor of The South African Exporter and Cape editor of Business Day.*

FAIR TRADE

Petrel expands into global market

CAPE Town-based Petrel Engineering is expanding into the global market for specialised deck equipment for the marine and offshore oil industries, offering customised solutions designed and manufactured to the client's requirements. Petrel produces anchor, mooring, auxiliary, slipway and scientific Winches, as well as a range of knuckleboom and fixed boom cranes and horizontal and vertical Capstans.

A spokesman said the company was recently commissioned to design and manufacture 35-ton and 65-ton pull winches, to be installed on oil rig support vessels for global clients ABC Maritime of Switzerland and Phillippe Lassarat of France.

Petrel also designed and manufactured fairleads incorporating load cells and rotary encoders to give an accurate readout of wire length and tension.

A more recent project undertaken by Petrel was the design, manufacture and installation of a seismic streamer storage reel on the ship Main Port Oak. The reel stands on a base measuring 5m by 3m, and is driven by a 22kW power pack. The primary purpose of the reel will be to carry spare seismic cabling and thereby avoid lengthy delays in ordering the cable from shore.

A further Stellar move into Holland

STELLAR Winery has appointed Coenecoop Wine Traders, organic wine specialists in the Dutch market, as their new agent in Holland.

Stellar is Africa's largest organic wine producer and one of only a handful of cellars that produce wines with no added sulphur.

It was also the first winery in the world to be accredited by Fairtrade.

Stellar MD Willem Rossouw says the European market, specifically Holland, is important for the winery as demand for organic produce is growing strongly in that country.

Coenecoop commercial director Bart van den Brink says Stellar wines have been available for some time at various Dutch supermarket chains and organic food shops, and that their "remarkably good price-quality relation" augurs well for future sales.

Rand 'won't stop farmers spending'

WINE and fruit exporters need to remain at the cutting edge of technology and will, therefore, still be in the market for equipment and machinery despite the weakening of the rand against most major currencies, says Daan Louw, an associate professor of agriculture at the University of the Free State.

Louw was commenting on the prospects of the Wine Farmers & Fruit Growers Exhibition, taking place at the Cape Town International Convention Centre later this month.

Louw and Gert van Wyk, another agricultural economist who works for wine industry support body VinPro, are in agreement that it is not only the exchange rate that will have an effect on farmers cash flow: issues such as interest rates and the increase in the price of commodities such as fuel and fertiliser also need to be considered.

RMB deal a boost to projects in Africa

LOCAL investment bank Rand Merchant Bank (RMB) and Export Development Canada (EDC) have signed an agreement that will see them fund development projects jointly on the African continent.

The two companies are already working together on the $16m refurbishment of a hydro-electric power station in east Africa, which will supply energy to three neighbouring countries, and the agreement is expected to increase the number of such projects.

EDC, well known as Canada's export-credit agency, provides Canadian exporters with finance, insurance and bonding services, and foreign-market expertise. The company is used by 7 000 Canadian companies in more than 200 markets worldwide.

DTI takes its wares to Satie

THE trade and industry department has signed up as a main partner of the Southern Africa Trade & Investment Exhibition (Satie), taking place in London in October. The deal is seen as an important sign of growing confidence in economic growth in the region, particularly in the run-up to the 2010 Soccer World Cup.

The department will be exhibiting its nine regional development agencies and hosting more than 25 small, medium and microenterprises from sectors such as eco-processing and lifestyle — all of which want to export to the UK.

Satie 2007 will include a conference, networking platforms and a series of pavilions for business sectors such as property, process outsourcing, recruitment, tourism and the World Cup. It will also showcase SA as a leisure destination, with visitors able to enjoy South African beer in a replica shebeen, as well as sample a braai, cheese and wine.

Distell's growth defies all trends

DISTELL's Two Oceans wine brand is defying the harsh international trading conditions brought on by the wine glut, signing new distribution agreements in Holland, the US and the Nordic and Baltic states, and landing new listings in key markets in Europe and North America.

International operations head Don Gallow says the domestic market now represents just 17% of Distell's Two Oceans sales volumes.

Canada, Two Oceans' biggest market by far, also shows no signs of slowing, with volumes up 36% and the brand now one of the top 10 wine trademarks in the country.

"SA is a growing market, and we continue to invest assiduously in the brand with sales volumes steadily rising," says Gallow. "For the 12 months to May 2007, local sales grew 20%, in contrast with the largely stagnant performance of the local market." *Reports by Dave Marrs*

DECENT EXPOSURE

TRADE conferences, expositions and exhibitions taking place in the coming weeks:

■ **International Corporate Governance Network Conferences 2007** takes place from July 4-6 at the Cape Town International Convention Centre. Sue Dickerson (011) 706 4339.

■ **Frigair Exhibition** takes place at Gallagher Estate from July 18-20. Rory Macnamara (011) 457 7100.

■ **Wine Farmers and Fruit Growers Exhibition** is on from July 23-26 at the Cape Town ICC. Rocky Swartz (021) 448 7330.

■ **Homemakers Expo Vaal 2007** is on at the Emerald Casino sports and events centre from July 26-29. Pat Lofstedt (011) 683 9215.

■ **Tight Lines 2007** takes place from July 27-29 at the Tshwane Events Centre. Hanlie Delport (012) 327 1487.

■ **The Learning Point Education and Career Exhibition** takes place the Eastgate Shopping Centre in Johannesburg from July 27-29. Donna Kruger (011) 448 1699.

■ **Baba Indaba 07** will be on from August 3-5 at the Cape Town International Convention Centre. Natalie Naude (021) 689 3262.

■ **Nokia Cape Town Fashion Week** is on from August 7-11 at the Cape Town ICC. Paul Jackson (021) 422 0391.

■ **Decorex Jhb 2007** is on at Gallagher Estate between August 8 and 12. Melanie Robinson (011) 549 8300.

■ **Hobby-X Durban** is on at the Durban Exhibition Centre from August 9-12. Gloria Bastos (011) 478 3686.

■ **Markex & World of Events KZN** will be at the Durban ICC from August 14-16. Fran Lurie (011) 886 3734.

■ **Sustain (incorporating Afriwater)** is on at the Sandton Convention Centre from August 15-17. Zia Tomes (011) 886 3734.

■ **Small Business Week 2007** takes place at the Cape Town International Convention Centre from August 16-18. Hans Kuhn (021) 417 3501.

■ **Absa National Boat Show** is on from August 17-19 at the Coca-Cola Dome in Johannesburg. Wendy Warricker (021) 554 4540.

■ **Cape Homemakers Expo 2007** is on from August 30 to September 2 at the Cape Town International Convention Centre. John Leyden (021) 465 2200/465 2540.

■ *Information supplied by the Exhibition Association of Southern Africa (www.exsa.co.za) and the Cape Town International Convention Centre (www.cticc.co.za).*

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The Official Line

RUSSIA

IN SEPTEMBER last year, Russian President Vladimir Putin visited SA to promote political, trade, investment and scientific relations with the region. **Marja Tuit** spoke to ambassador Anatoly Makarov of the Embassy of the Russian Republic about progress made since the visit.

Q President Putin pledged to boost business ties with SA because economic ties between the two nations, both with vast mineral and diamond reserves, had lagged the political affinity they have enjoyed in the past 13 years. What progress has been made since the visit?

A President Putin's visit can be seen as the official return of Russia to Africa. The official visit laid a foundation for the realisation of relationships.

A number of important intergovernmental and interdepartmental bilateral documents, and agreements on cooperation between Russia's major companies and their African partners, were signed.

The visit of Mikhail Fradkov, chairman of the government of the Russian Federation, to SA in March this year has undoubtedly given a significant impetus to the strengthening of the bilateral developments.

Prospects for broadening bilateral economic ties underlie first of all the goods, services and technologies trade, as well as investment and industrial cooperation areas. However, the Russian side cannot help being worried about the low trade value. Russia is therefore interested in increasing its export level to SA, primarily in machine-technical and high-tech production spheres.

A number of important documents were signed during President Putin's visit: the Treaty of Friendship and Partnership, as well as agreements on cooperation in public health, the exploration and utilisation of outer space for peaceful purposes, and the protection of intellectual property rights. Can you provide more details, and say whether other mutually beneficial cooperation agreements have been or are being discussed?

Both sides continue to work on strengthening the legal base of the bilateral relations. Negotiations on the following documents are in a final stage: agreements on cooperation in the field of plant quarantine, energy, and matters relating to airworthiness. I believe that defining the ways of cooperation in the field of agriculture, as well as proceeding with the process of the legal base strengthening, ought to become the most significant elements.

I think the establishment of joint ventures between Russian companies and South African companies would confirm both sides' interest in developing platinum exploration and processing projects in SA.

Such an interest has already been reflected in some specific investment projects. For example, within the frameworks of the mineral recourses mining and explorations project, the Russian Renova group of companies, in collaboration with South African companies, participate in the Kalahari pool projects on manganese ore exploration, mining and processing.

A deal on joint exploration and mining of mineral resources in the territory of both countries — made by the Renova group and Harmony Gold — shows that bilateral investments are in process. According to the Protocol of Intentions signed, Harmony Gold will have a share in Renova's gold mining assets.

The energy sector cooperation is also being developed. Russia's RUSAL company is interested in building an aluminium plant in SA and is ready to invest in South African energy facilities.

A Joint Business Council was established during President Putin's visit and an interactive meeting was held during Prime Minister Fradkov's visit in March. What was the outcome of this meeting?

We expect it to give new impetus to developing bilateral trade, to attract the attention of Russian and South African business for beneficial cooperation, to assist us to find ways to address problems and to become an effective instrument of our bilateral relations' economic segment.

In the course of the business council's meetings, we provide for an exchange of information on the economic situation in our countries, consider the state and prospects of developing trade and economic interaction between them, and discuss issues of cooperation in mineral resources, energy, transport, science and technology and regional contacts.

Anatoly Makarov… Defining ways of cooperation in agriculture … ought to become the most significant elements of our work. Picture: ROBERT BOTHA

Both countries are major global producers of gold, diamonds, platinum, manganese and other strategically important natural resources, and each has unique capacities in their beneficiation. What is being done to further cement this reciprocal relationship?

Russian companies have expressed their interest in continuing the cooperation in the field of oil and gas, energy, mining, space development, agriculture as well as science, education and health, including those in the framework of implementing Asgi-SA, which has declared the major goal of reducing unemployment in SA by 2014.

Also, Russian companies, jointly with SA partners, have expressed their readiness to assist with the implementation of SA's state programme Jipsa, which is the continuation of Asgi-SA. The training of qualified engineers for industry, city and municipal services, health care and infrastructure development has been planned.

An interest has been expressed in exchanging technologies and elaborating on a strategy for creating conditions for the deep processing of rough diamonds and precious metals. We believe we can increase trade turnover substantially.

As first steps we need to improve the exchange of information on export capabilities and import demands, as well as on legislative and other judicial acts in foreign trade. We must also intensify the participation of Russian and South African companies in specialised international exhibitions and fairs in each of the countries.

One of the most important mechanisms regulating bilateral political, trade and economic relations between the two countries is the Intergovernmental Committee on Trade and Economic Cooperation (Itec). Do you believe that Itec is succeeding in its objectives?

I definitely do. In February this year we held the sixth session of the Itec. We outlined the key directions of business interaction in fields such as trade, investment and bank cooperation, mineral resources and energy, cooperation in the field of using atomic energy for peaceful purposes, science and technology, and cooperation in the field of exploring and exploiting space, transport and education. Implementing the agreements reached at Itec's sixth session will promote our mutual interests.

Russia Today, a global news channel from Russia that broadcasts 24 hours a day in English, hit the South African airwaves in September. Do you think it is in Russia's interest to promote this network to give South Africans a clearer insight into your country?

Definitely. We are always looking at ways to stimulate cultural ties between our countries. We have also seen an increase in South Africans wanting to learn Russian.

SA can find opportunities in the energy sector

John Maré

THE international energy sector, always of critical importance, has been assuming even greater relevance lately. It is being driven by many of the highest consumers of energy to locate increased supplies of traditional forms of energy from more diversified sources and the accompanying need to find ways to move to cleaner green energy. Greater efficiency, renewables and carbon capture and storage are all key elements of the latter.

Africa has a key position as it is producing an ever-greater share of the oil consumption of the US and China, two particularly high consumers, and others. In parallel with this development, in recent years Africa has been discovering and developing new gas reserves, something that is especially meaningful as gas gain importance in world usage of cleaner energy.

At the same time Africa still needs to find ways to increase supplies of energy for its own needs, especially if it is to reach the levels of development demanded for the goals set by many African governments and suggested by the international community. In SA the energy crunch is being felt on an unprecedented scale.

SA has a particularly strategic position in the energy scenario as it is the African country that can help play a meaningful role in the African energy market, both in terms of energy trading and also scientific research and technology. In terms of energy trade one must increasingly think of new formats such as carbon credits that are especially applicable to African conditions, apart from traditional oil and gas business deals. In terms of technology, and green energy SA would seem to have an especially large potential.

In order to better access this potential South African business has to continually position itself in the broader context both in Africa and internationally. The major users of global energy are developing new energy strategies that can be utilised by SA. Renewed international attention to solar and nuclear energy, and new excitement about the hydrogen economy that is on the horizon, open new doors that SA can utilise. One thinks of the ample sunshine and its uranium reserves.

The ongoing South African lead in the pebble bed modular nuclear reactor is but one example of something that could have a particularly meaningful impact globally but whose development is largely linked to international sensitivities, policies and regulatory frameworks.

While China is a particularly large new customer for traditional forms of energy from Africa, the EU would seem to be among those that offer much potential in collaborative formats to better develop cutting-edge technologies and applications of energy related products and services for use in Africa and globally.

There would seem to be a special need for SA to remain abreast of new EU energy developments as they offer good examples for readaptation in other formats, apart from joint ventures. One presumes that African commercial gains from new resource sales to China and elsewhere could be used in pursuing sustainable energy products for the longer term, and can be used to give Africa sustainable energy for its own needs.

The new EU impetus on energy that SA can latch onto is largely driven by a perceived need to diversify energy sources to have improved security of supply while ensuring competitiveness, and an increasing emphasis on environmental sustainability. This is largely explained by fact that the EU consists of highly developed economies, including four G8 countries, generally poorly endowed with energy resources to meet current needs and with special environmental demands.

Recent international events that have helped stress the urgency of new energy policies for the EU include not only developments in the Middle East but also an increasing dependence on Russia for energy, and especially gas supplies. Russia is now the largest supplier of gas to the EU but needs the EU market as much as the EU needs its gas.

The new EU policy directives on energy that appeared earlier this year touched on all these aspects, diplomatically including the need for a re-look at increased nuclear energy development, an issue that often divides EU support thus far. The ramifications of these new EU energy imperatives offer much for South African business leverage and deserve increased attention. Included in the EU energy policy wish-list is the need for increased supplies from Africa and increased R&D. The fact that there is such a great development on EU-Russian energy interdependence also opens new doors for technology and investments especially as Russian infrastructure needs new investment.

The opportunities for a greater international and multi-faceted approach in the South African energy sector seems to abound. While this is happening in some cases, more initiatives based on better informed strategy could help.

Africa can also help encourage more coordinated global energy policies and practices to help impede increased global competitiveness in the global market, something that has become as dangerous for African countries as increased competition for other forms of resources. In this South African business has a leadership role to play.

■ *Dr John Maré is an adviser on international public affairs and diplomacy for multinational companies, governments and global organisations (jhemare@worldonline.co.za).*

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Success of IDZ policy leads to expansion

The process of establishing industrial development zones in SA is gathering steam, writes **Linda Ensor**

THE government plans to build on the success of its industrial development zone (IDZ) policy by opening new ones and introducing IDZ-dedicated legislation and incentives.

A policy review process is underway, particularly around issues of ownership and governance, according to Tumelo Chipfupa, the deputy director-general of the trade and industry department's The Enterprise Organisation.

He briefed Parliament's trade and industry committee last month, after Trade and Industry Minister Mandisi Mpahlwa had noted in his budget vote speech in the national assembly that the aim of the proposed legislation would be "to put the governance of the programme on a clearer footing".

"It is clear that the IDZ programme is making good progress. In fact, the success to date is motivation enough to consider extending the programme, where the economic potential exists," Mpahlwa said.

He noted that "impressive work" had been done on the Mafikeng IDZ programme, which is probably the next zone in line for designation.

Chipfupa said the moratorium on IDZ designation had been lifted and interest had been expressed from other provinces.

The IDZs designated so far include Richards Bay, Coega, East London and Johannesburg International Airport. All except for Johannesburg are well advanced in terms of the installation of their infrastructure and secured investors.

Since 2001 the state has granted a total of R510m for the establishment of the three main IDZs — Richards Bay, Coega and East London.

The trade and industry department's policy review stems from this success, which has been five or six years in the making. As the IDZs consolidate, so their financing needs change. To some extent they are generating their own revenue through lease and rental income and land sales, but they will continue to rely on state funds in the medium term.

The policy review is aimed at ensuring a greater certainty of funding and more alignment between the interventions of national and provincial governments, and in some cases metropolitan councils as well.

Proper oversight structures are required, and stakeholder compacts between the different levels of government are planned.

The department plans to submit a set of IDZ policy review proposals to cabinet this year and is also investigating the desirability of a dedicated IDZ act. "An investigation of IDZ-specific incentives within the broader incentives review process is also currently being carried out," Chipfupa told the committee.

Mandisi Mpahlwa… The success to date is motivation enough to consider extending the programme, where the economic potential exists.

The investigation into incentives will be circumscribed, however, as Finance Minister Trevor Manuel has made it quite clear that he would not approve fiscal measures to accommodate the conversion of all industrial development zones into fully-fledged incentive-driven export processing zones.

"It is my view that the current cash flow relief mechanisms with respect to customs and excise duties and VAT applicable in the IDZs are sufficient," Manuel said recently in a written reply to a parliamentary question by Democratic Alliance MP Ian Davidson.

Currently, investors in IDZs that have been declared customs controlled areas by South African Revenue Service commissioner Pravin Gordhan are exempt from duties on imports for export production. Imported goods also qualify for zero rating on VAT and investors benefit from dedicated customs services and electronic customs clearing.

East London IDZ CEO Simphiwe Kondlo told the parliamentary briefing that R750m in investment had already been secured by 10 investors, with another one in the pipeline. Eight of these were in the automotive sector and seven were foreign direct investors, three of which had partnered with local companies to form joint ventures.

Strategic export-oriented industries in the automotive, agro-processing, ICT and electronics sectors were targeted, Kondlo said.

The automotive supplier park housed the first tier suppliers to DaimlerChrysler SA.

"The East London IDZ has through the development of its automotive supplier park successfully strengthened the manufacturing capability of the automotive industry in the Eastern Cape.

"The East London IDZ is already in advanced stages with the planning and sourcing of investors for the bio fuels and aqua culture sub clusters. An abalone exporter is already operating from the zone's aqua culture cluster," Kondlo said.

Investment and economic impact projections for phase one involve the investment by the IDZ of R1,3bn by 2010-11 and a projected total investment by IDZ tenants by this year of R7,4bn.

It is expected that the total number of direct and indirect jobs created will reach 5 448 by 2011.To date more than 3 200 direct construction and 1 118 manufacturing jobs have been created.

The Coega IDZ has so far attracted investment of more than R6bn by nine investors, with a R20bn Alcan aluminium smelter still up in the air. The biggest confirmed project is a R5,8bn chlorine and water desalination plant by Strait Chemicals.

To date R1,5bn has been spent developing the core development area and 16 142 construction jobs have been created. The port is to become operational by the first quarter 2009.

At Richards Bay new investments in the pipeline are a Tata steel ferrochrome smelter and a pulp mill involving Swedish partners with a combined value of R2,6bn.

FREE PORT

Abdul Milazi reflects on the UK's view of SA's strategic importance in Africa

BRITISH Minister of State for Trade, Investment and Foreign affairs Ian McCartney invited me to come over and chew the fat during his recent visit to SA.

We talked about this and that, but mostly about trade issues between SA and the UK. Since the UK is our major source of foreign direct investment and also our major trade partner, I thought the meeting was opportune, especially with preparations for the 2010 Soccer World Cup under way.

The UK and SA share a strong commercial relationship, assisted by long-term business interests and similar legal and business practices. McCartney says the UK is keen to further strengthen bilateral trade and investment through the UK Trade & Investment's new five-year strategy.

He says SA has been selected as one among a handful of high growth markets — the others being China, India, Brazil, Indonesia, Mexico, Russia, Saudi Arabia, Turkey and the United Arab Emirates (UAE). The government will reinforce its support for UK companies wishing to invest in this market, enter into partnerships with South African companies and assist local organisations looking to set up shop in the UK.

My meeting with McCartney took place a few days after outgoing British Prime Minister Tony Blair had paid President Thabo Mbeki an official visit at the Union Buildings in Pretoria to discuss trade issues.

The visit was crucial as it took place on the eve of the Group of Eight (G-8) Summit in Germany, to which Mbeki has been invited. Blair had designated 2005 as the Year of Africa, saying Africa's development was vital for global prosperity.

McCartney says the UK views SA as a major strategic partner in Africa and it is expected that this relationship will be consolidated by Blair's successor, Gordon Brown, who took over this month.

Trade between the two countries has grown exponentially over the years, reaching £27,8bn in 2004. McCartney says there is a healthy flow of investment in both directions. The UK remains the largest foreign investor in SA and more than 200 local companies have a presence in the UK.

The top five export commodities from the UK to SA remain nonmetallic minerals, office machines, road vehicles, telecommunications and sound recording and reproducing devices as well as medicinal and pharmaceutical products. SA's top export commodities to the UK are nonmetallic minerals, coal, coke and briquettes, vehicles, fruit, vegetables and nonferrous metals.

The two countries launched a joint small business partnership programme in 2000, to develop business partnerships between the UK and South African companies owned and managed by previously disadvantaged groups.

"Small and medium enterprises (SMEs) are playing a major role in the economic growth in the UK, and we are exploring ways of improving ties between SA and the UK in developing SMEs and combating AIDS and tuberculosis," McCartney says.

The local joint SME programme is funded by British Trade International, a trade facilitation body, and the European Union. The trade and industry department says more than 50% of SA's total to the UK are either precious metals or "unclassified goods".

British foreign direct investment in SA is estimated at about £16bn, with UK companies employing more than 40% of all those employed by foreign firms. And nine of the top 20 foreign companies in SA are British.

The UK is also SA's third largest export market with an annual growth of 16% from 2004 to 2005. The book value (stock) of UK foreign direct investment in SA was £4,1bn in 2001, £8,7bn 2002, £11,2bn in 2003, £10,9bn in 2004 and £15,6bn in 2005.

We are also a destination of choice to British tourists. The UK is second after Africa as our most significant source of tourists, a position it has not relinquished for the past 15 years.

According to SA Tourism, the number of tourists from the UK was 338 853 in 2002, growing to 456 368 in 2004, and latest statistics show that the figure for 2006 increased to almost 500 000.

McCartney says that the 2010 Soccer World Cup will rely on volunteers, from city tour guides to taxi drivers, who will all need to be trained, and the UK can help as the country has a well developed volunteer system.

Most of the jobs that will be created will be temporary and the volunteer system seems to have worked well for the UK, so we should tap into that expertise.

He says he has no doubt about SA's ability to have the infrastructure ready and to successfully host the soccer world cup, because the UK has been using South African expertise to develop infrastructure for major games, including the forthcoming 2012 Olympic Games in London.

SA is not only hosting the World Cup for the first time, but carries the hopes and dreams of the whole continent. That is an unselfish thing to do, and McCartney says the UK we will be proud to be part of it.

■ *Abdul Milazi is trade and industry editor of Business Day.*

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Bringing palms to the whole world

Representing the quintessential oasis, palm trees capture the imagery of tropical holidays and exotic destinations. **Nicola Jenvey** discovered a Mpumalanga-based farm selling that dream to the rest of the world

MARK Froman is passionate about anything associated with flora and fauna.

But while he was creating a garden for his Johannesburg home a decade ago, he was "horrified and disgusted" at the prices being charged by local landscapers.

"His solution was to grow palm trees so that everyone in Africa could have one in their garden without huge expense," says his partner, Joe Roome . So began their hunt for an appropriate farm.

Roome says the couple found their answer in a former Malanseuns-owned property in Nelspruit that required extensive investment and refurbishment. That investment has included installing an extensive irrigation system, planting new seedlings and stock and acquiring trucks and radio-controlled cranes. The land has had to be reworked to ensure the irrigation system is not exposed to the sun, and the spaces between the palm trees is carefully calculated to maximise turnover without compromising growth.

Today Froman's Eden, working closely with its marketing and export wing Plantwise, is the largest supplier of high-quality palms and other plant species in southern Africa. The company propagates both indigenous and exotic palms for the local and export market.

The property occupies four picturesque farms near Nelspruit, as well as holding farms in Tzaneen and Durban, meaning the business has the capability to propagate, pack and export hundreds of varieties of plants daily.

Farm manager Alan Hunt says the company specialises in palms and cycads from popular to extremely rare species, with the facility exporting to "discerning private and landscaping clients" worldwide.

Yet, says Roome, the beginning was less than auspicious. In a bid to secure stock rapidly — and meet an export order from China for 800 plants— Froman and Roome advertised in the local Gauteng newspapers for people wanting to have their palm trees removed from their gardens. A family member walked around neighbourhoods, knocking on doors and having tea with the locals as a means of acquiring trees.

Around half of the production is exported, with the major market being the United Arab Emirates where multibillion-dollar investment and expansion is the order of the day.

The more mundane method of buying out every nursery's stock of palms also paid dividends.

Hunt says around half of production is now exported, the major market being the United Arab Emirates, which is currently benefiting from multibillion-dollar property investments and expansions.

Dubai aims to become the world's leading tourist destination and the three Palm Islands, and The World, (man-made islands being built off the coast and already the site of many of the world's most impressive hotels and buildings), insist on instant landscaping as well as a balance to the Date Palm trees that are ubiquitous in the area.

Most in demand are the large palm varieties — Royal Palms, Foxtail Palms and Bamboo Palms — that counter the lack of natural vegetation in the desert states.

Other export destinations for Froman's Eden palms include Greece, Angola, Gabon, Italy, Mozambique and Namibia.

Roome says in facilitating the export of these giant trees, Froman's Eden has developed methods for shipping palms without the need for water. Packaging systems were also developed to ensuring their survival.

"Palms can transform an environment and provide the owners with a pleasurable mix of indigenous and exotic trees," she says.

Last year Froman and Roome sought to expand their palm farm to the KwaZulu-Natal north coast, thus placing the business closer to the Durban harbour, currently Africa's busiest port. On finding a suitable property, they asked Hunt (who was also the horticulturalist credited with designing the award-winning gardens for Sun City) if he would relocate — but he took one look at the view and proclaimed the land better suited to a golf course.

Consequently, the couple reviewed their initial concept and are developing a multibillion-rand residential estate to be extensively landscaped with South African and exotic palm trees.

Roome says currently none of the several thousand palm trees and seedlings in the Royal Palm Estates nursery are destined for export, but the future remains another option.

Hunt says SA has a window of opportunity within the palm growing and exporting industry. The UAE cannot import plant stock from Australia, while the US brings with it problems associated with longer transport distances and higher costs.

"SA offers significant palm varieties, not all suitable for export, but the market has shown its liking for our products," he says.

Exporters must take charge of value chains

Andre Jordaan, Reyno Seymore and Chris Lotter

WE ARE all familiar with consultants advising and urging their clients to take a "holistic view". Yet in international trade there seems to be a tendency to compartmentalise things rather than to take a holistic approach.

With exports, for instance, you will find many a brochure or information document dealing with the measures and planning surrounding the process. Yet few mention the preceding manufacturing process, and the import process as well. In our interaction with students we have found, many times over, that while their focus is on a perceived problem on the export side, the real problem is much further removed. It started with imported inputs.

In essence, you need to take a holistic approach; in other words you need to take account of the whole process. Our message is essentially that you need to look at your value chain, irrespective of what is happening in the world today. Why do we say that?

Take for instance the rand's strength against foreign currencies. In times of a depreciating currency our exporters are very competitive in the foreign markets, to such an extent that they sometimes neglect the domestic market — at their peril, we might add.

As soon as the rand appreciates their competitiveness overseas seemingly dissipates and they return to the domestic market.

In the world in which we live and compete today, there are many things that you need to account for. Even though some want to simplify things, the international trade arena is a place where this is more often than not impossible.

What we argue is that, as a first step, South African exporters must look at their value chain, by looking at all the costs that they incur, from the point of sourcing raw materials and inputs to other manufacturing costs, and the cost to get the goods to their eventual buyers.

Once this process has been completed you would be in a better position to evaluate all costs. The next step is to consider ways in which to reduce such costs. Here we are not advocating that you start cutting costs by compromising quality. What we propose is that you consider each cost individually.

In our experience companies that import inputs or components used in the manufacturing process tend to neglect the customs duties paid on such imports. Part of the reason is that customs duties are considered to be an indirect tax and thus paid by the consumer. Yet, they neglect to consider that they affect the price of the product and the eventual affordability to the consumer.

A third step would be to consider what provisions are available in respect of procuring the goods. The government provides a number of manufacturing provisions and other incentives focused on improving a company's competitiveness. In our experience companies tend to neglect them.

A fourth consideration when you are manufacturing goods that will be exported to countries that provide SA with trade preferences, is what is called the rules of origin provisions. If a product qualifies as being of South African origin it receives preferential treatment.

Exporters need to take charge of their value chains, but not necessarily in the conventional way. With the elementary steps that we have mentioned, you can make a difference to your costs, and more importantly to your bottom line.

■ *Prof André Jordaan is director, and Reyno Seymore and Chris Lotter researchers, at the Investment and Trade Policy Centre of the University of Pretoria (andre.jordaan@up.ac.za and itpc@up.ac.za).*

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SA joins marine industry big league

A Cape company is leading the global trend towards deep sea mining technologies, writes **Dave Marrs**

SA'S bid to become a meaningful player in the international ship construction, refurbishment and repair industry has been given a significant boost through a R1bn investment by diamond group De Beers in a new deep water marine diamond recovery vessel.

The Peace in Africa, the first such "floating diamond mine" to operate in South African waters, was launched in May and will seek marine diamonds in the Atlantic off the coast of Namaqualand in Northern Cape.

De Beers already has another marine diamond mining vessel called the Ya Toivo that is equipped with a similar remote-controlled undersea mining tool "crawler" and specialised onboard diamond recovery plant. This is deployed off the Namibian coast, where marine diamond production and quality exceeds that from land-based mines.

De Beers Marine has been injecting hundreds of millions of rands a year into the Western Cape economy through in-port maintenance and conversion contracts carried out on its fleet of diamond mining vessels at the Cape Town harbour, which keep more than 2 000 contractors in work.

The new vessel's 240-ton crawler was developed by Cape-Town based Marine and Mineral Projects, which was also responsible for the undersea mining tool used by the Ya Toivo, and has a third in commission on the Kawambo, a vessel owned by a Namibian marine diamond miner. The Peace in Africa is expected to yield about 240 000 carats of diamonds a year, with an estimated operating life of 30 years.

De Beers MD David Noko said at the official naming of the vessel in Cape Town that 76% of the total local procurement spend during the two-year conversion project went to black-empowered companies, in line with one of the main objectives of the drive to develop the industry locally. The Western Cape provincial government formed and is helping fund the South African Oil and Gas Alliance, a public-private partnership that aims to ensure South African engineering and logistics companies benefit from the increase in traffic on global shipping routes as well as the West African oil boom. MAN Ferrostaal has also invested R155m to establish a fabrication yard in Saldanha as part of its arms deal offset obligations.

Factory acceptance tests are conducted on the crawler's boom and knuckle prior to installation of the equipment on the diamond recovery vessel, Peace in Africa.

Noko said while some of the specialised equipment used in the conversion of the Peace in Africa had to be sourced abroad, about R452m of the R1,1bn total investment remained in SA and R344m — about 30% of the total spend — went to black-controlled suppliers.

"We are always conscious of the many benefits diamonds bring to local communities and a significant contribution will be made to the Richtersveld community through the local economic development projects that are included in the social and labour plan we have agreed to," Noko said. "The company will also supply its fleet from a newly constructed supply centre in Port Nolloth, where the company renovated the port infrastructure to meet the business activity in the region."

The Peace in Africa crawler unit is connected to the ship by a 650mm internal diameter rubber hose, through which the seabed material is pumped by a 2,4MW pumping system. A 500KW hydraulic power pack powers the crawler's systems.

Marine and Mineral Projects MD Rodney Norman says the ship and crawler will work up to 35km offshore at depths of up to 150m, where mining activities will be undertaken in 100m by 100m blocks. "Worldwide there are only a handful of diamond mining vessels in operation and it's a very specialised and new area of exploration. We are proud to say that Marine and Mineral Projects is pioneering the essential technology and has developed the best equipment to retrieve these deposits."

Norman says the export potential for the company's crawler units is huge, with offshore mineral deposits other than marine diamonds next in line to be exploited using the company's deep water technology. "The concept of deep sea marine mining arose in response to the rich diamond deposits that were identified off the coast of Namibia. More recently, deposits have been identified in various locations around the world, including in the Manus Basin, off the coast of Papua New Guinea, within the Kermadec Ridge in New Zealand waters and along several other fissures within the Pacific Rim of Fire, to name but a few. Globally, mining investors are calling this the new gold rush," Norman says.

Marine and Mineral Projects is working with two of the most active venture mining companies to invest in deep sea mining, Nautilus and Neptune, which are backed by multinational mining houses such as Anglo American, Barrick Gold and Teck Cominico. Their goal is to use the crawler technology developed by the South African company to mine minerals other than diamonds from the sea bed in deep waters, which has not been feasible in the past.

Mining the New Zealand and Pacific marine deposits is some years off, but Marine and Mineral Projects is in advanced discussions with Nautilus, the company that intends exploiting the Manus Basin's vast undersea gold, zinc and copper deposits. The marine diamond crawler technology is being developed and adapted to the conditions that are found there. Whereas the marine diamonds off the west coast of Africa are usually buried in silt, accessing the Manus Basin metals and minerals will require the crawler to include a mechanical cutter.

Norman says prospects for the technology "are extremely exciting as Marine and Mineral Projects is imminently set to become involved in several global projects in conjunction with some of the largest mining organisations in the world".

TRADE TALK

Brendan Vickers looks at the various scenarios post the expiry of the Cotonou trade preferences

THERE are less than six months to go before the expiry of the Cotonou trade preferences in December.

Under these arrangements, exporters from 76 African, Caribbean and Pacific (ACP) nations enjoy non-reciprocal market access into the European Union (EU).

In its controversial vision for future EU-ACP trading relations, Brussels is putting pressure on the ACP countries to sign economic partnership agreements (EPAs) that will fill the Cotonou void from next January.

As various impact assessments demonstrate, these free trade agreements will see ACP markets pried open, glutted and destroyed by highly developed, competitive and subsidised EU goods and services.

The recent African countries' continental review of EPA negotiations highlighted that the parties are still far apart in their positions, and crude challenges persist. West African negotiators have now formally asked for a three-year extension of the negotiating deadline.

But Brussels is increasingly insensitive in its approach. The European Commission (EC) is paying scant attention to key development themes or proposing viable post-Cotonou trading alternatives.

Its "eurocrats" insist on comprehensive free trade negotiations that smuggle in issues such as investment, that have been bumped off the World Trade Organisation's Doha agenda.

Given the ACP's principled objections to the EC's narrow power politics, it is highly unlikely that any of the regions, barring perhaps the Caribbean, will have an EPA in place by January. What, then, are the scenarios for exporters?

■ Scenario one: In January 2008 the EC will suspend the Cotonou preferences or face challenges in the World Trade Organisation (WTO) from aggrieved trading nations such as Brazil, Argentina, Ecuador and China.

Exporters from least-developed countries will enjoy duty and quota-free access to the EU under the Everything But Arms scheme.

In contrast, developing countries will have to make do with the less favourable Generalised System of Preferences (GSP). The GSP's higher tariffs and stricter rules of origin will mean that many exporters will simply shut up shop.

But this scenario isn't a viable option, either morally or legally. Under Cotonou's Article 37(6), no ACP country should be worse off under the successor trading regime, as would clearly be the case with GSP.

■ Scenario two: Brussels could join the moral high ground, and agree to just negotiate an "EPA lite". This would cover only trade in goods, excluding the new generation trade issues. This is essentially the position of SA and its partners in the Southern African Development Community (SADC) configuration.

This will certainly be complex, and negotiations may be complicated over the number of sensitive products, the depth of liberalisation and the scope of time to comply.

■ Scenario three: The ACP might press for an extension of the WTO waiver that legitimises Cotonou, in the hope of buying more time to do rigorous impact assessments and maintain a pro-poor negotiating perspective. Brussels is not in favour of an extension, nor is the WTO membership so inclined.

The EC could well press ahead with its proscribed Cotonou preferences, in much the same way as the African Growth and Opportunity Act (Agoa).

■ Scenario four: The WTO's rules governing regional trade agreements — and thus EPAs — are up for review in the lame-duck Doha Round.

The ACP has requested that special and differential treatment for poorer countries be formally incorporated into these rules. This would result in more lenient treatment of the scope and depth of tariff liberalisation required of developing countries. Currently, the rule of thumb is that countries should liberalise 80-90% of trade to not fall foul of the WTO's disciplines on bilateral trade pacts.

■ Scenario five: This scenario is certainly the best option, although the EC unsurprisingly appears less enamoured. It involves the extension of GSP+ to the ACP collective. The GSP+ scheme — its more fancy incarnation holds that it is the "Special incentive arrangement for sustainable development and good governance" — provides preferential access to the EU that is substantially higher than GSP.

But GSP+ comes with conditions. Beneficiaries must implement various international standards in human and labour rights, environmental protection, the fight against drugs and good governance.

Studies indicate that in 88% of the cases where GSP applies higher tariffs than Cotonou, the GSP+ provides duty-free access.

The London-based Overseas Development Institute calculates that for every single ACP export that would face a tariff jump of 20% or more in its ad valorem duty under GSP, that product would receive duty-free treatment under GSP+. However, in most cases where GSP+ is not duty-free, it offers the same level of access as Cotonou.

The extension of GSP+ to the ACP next year would allow EPA negotiations to continue, without disrupting existing trade flows.

■ *Brendan Vickers is senior researcher: multilateral trade at the Institute for Global Dialogue (email: brendan@igd.org.za).*

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SA's textile sector is still unraveling

As predicted, the government's Chinese clothing import quotas are proving too little, too late, writes **Mathabo le Roux**

THE KwaZulu-Natal clothing and textiles industry's woes continue, despite concerted efforts to haul it out of the doldrums. A survey shows that there has been a material drop in employment and the closure of more than 30 companies over the past year.

Along with Western Cape, KwaZulu-Natal — SA's most densely populated province — is the hub of clothing and textile manufacturing activity in the country, hosting most businesses that are active in the sector. The Durban Fashion Council recently commissioned a survey of the industry, which was conducted by industry consultants Judy Morrison and Renato Palmi between July last year and May this year, and its findings make for grave reading.

According to the records of the KwaZulu-Natal industry's National Bargaining Council, 379 companies were registered in the province in July last year, employing 32 060 people. Of these, 99 were fairly large, employing 50 people or more.

But over the past 10 months, the study shows that employment dropped a startling 17%, with 32 companies having closed down or moved into the unregistered informal sector with the loss of 5 275 jobs.

Only 90 firms in the province now employ more than 50 people, and the survey suggests that they are grappling with a range of issues.

The exchange rate and cost of labour are significant factors, compromising manufacturers' competitiveness, but the high prevalence of HIV/AIDS among workers and the resultant high level of absenteeism is casting a shadow over the industry.

The findings should ring alarm bells for the government, which has initiated various programmes to reverse the decline. Its most controversial scheme was to impose restrictions on cheap clothing and textile imports from China. The ban was implemented in January, causing much unhappiness among retailers. It appears that whatever benefits were expected have not yet trickled down to manufacturers.

The government said at the time that the restriction on Chinese imports would force retailers to procure more of their goods from local manufacturers. However, despite 32% of the survey respondents reporting an increase in orders since government's quota plan was implemented, they appear skeptical about the sustainability of the plan.

Almost 70% of respondents said they would not employ more people over the next six months, indicating they were not expecting substantial growth in production.

One of the primary problems is price, with the survey indicating that local retailers are putting the squeeze on manufacturers. Some 96% of respondents said they were experiencing immense competition and pressure as retailers aggressively drove down prices.

The implication for workers in the industry is dire, with a trend of increased casualisation emerging. While the wage determination in the clothing and textile industry is in line with those of other sectors of the economy, margins are so tight that manufacturers need to cut corners.

According to survey co-author Palmi, a growing number of companies are opting to close shop and then start up business again without registering, circumventing wage and other labour requirements stipulated by the bargaining council.

These unregistered factory owners say they are forced to operate outside the ambit of the bargaining council's regulations, arguing that this is the only way of remaining viable in an environment where orders are erratic and prices under downward pressure.

"The biggest problem for them is labour — especially cost and skills. And they are scared to invest in skills, because two years from now (when the Chinese quotas end) they will be back at square one," Palmi says.

Furthermore, retailers are in the process of reorganising and looking at alternative markets for cheap imports. It is expected that they will turn to markets such as Bangladesh, Cambodia and eastern Europe, where wage structures are materially lower than in SA.

According to the wage determination of the bargaining council in KwaZulu-Natal, a top machinist currently earns R630 a week, with that rate dropping to R550 a week for unregistered workers.

These wage packages are modest, but not nearly as low as those in peer markets likely to be targeted by retailers. According to a War on Want report quoted by Palmi, the average salary in Bangladesh's garment industry is the equivalent of R238 a month, while garment workers in Cambodia take home R490 a month on average.

Clothing and textiles remain a significant sector of the South African economy, contributing 3,6% to national gross domestic product. More pertinently it provides 14,5% of employment in the manufacturing sector. And, more than 80% of workers employed in the sector are women who support on average of five more people.

In its bid to save the buckling industry, the government has by and large focused its efforts on big retailers, trying to coax them into buying locally produced products. However, Palmi believes that it would pay dividends if the government turned the spotlight on smaller boutiques, which mostly stock imported product.

"They must push for a 70% local procurement target for small boutiques, then you will have a ripple effect. These small retailers tend to fall below the radar."

But he believes that there is still hope for the industry. "Those businesses that cannot compete will fall away, but there is scope for the industry. I think it can come together."

DEVELOPMENT THROUGH TRADE

Peter Draper assesses prospects for the Doha Round

BY THE time you read this column a breakthrough in the Doha Round may just have occurred.

Many commentators, including me, were fearful that the Democrat takeover of the US Congress would lead to a reversal in US trade politics in the sense that labour rights and the environment would move higher up their agenda, but would be resisted in the World Trade Organisation (WTO), thereby spelling doom for the round (and possibly the WTO itself).

These issues have moved up the congressional agenda, but will probably not intrude into this round. Rather, they have found expression in the US's bilateral free trade agreement (FTA) agenda, notably with respect to the Peru and Panama FTAs — the subject of a recent bipartisan deal (a rare commodity) in the US Congress.

Next Congress must decide on extending President George Bush's trade promotion authority (TPA), which expire at the end of last month, and concluding a new Farm Bill by the end of September.

The hot money in Washington has it that the TPA will be extended by six months, thereby providing a narrow window to conclude the round by the end of this year. In return Democrats will seek substantial amendments to trade adjustment assistance legislation, due by the end of September, whereby "losers" from trade liberalisation and globalisation (how they are identified is a mystery) receive training grants.

The significance of these developments should not be underestimated. But much depends on the Farm Bill. Recent analyses indicate that old established field crop interests (in decreasing pork barrel order: corn, cotton, wheat, rice, soya beans) have reasserted themselves, and have been joined by newer interests (fruit and vegetables) and the biofuels lobby.

To keep the round on track US subsidies will need to be capped at around $15bn (currently $19,1bn) — more than current payments but below the current cap, and will have to be substantially delinked from production. Dynamics in the Farm Bill process suggest that both conditions may be violated; hence the Farm Bill remains the Doha Round's Achilles heel.

Meanwhile, French President Nicolas Sarkozy has received an unprecedented reform mandate. Unfortunately, agricultural trade reforms are not (overtly) on his agenda. His new agriculture minister, Christine Lagarde (previously trade minister), will strenuously resist further agricultural reforms, notably tariff liberalisation, in the absence of a substantial Doha industrial tariff liberalisation package.

Unofficially the commission has indicated it can move to the G20's (of which SA is a member) position of a 54% average tariff cut; the key question is how many "sensitive products" it will be able to exempt. The secretive "G4 Directorate" (US, EU, India, Brazil) conducting this phase of negotiations seems to be converging on a figure of 4% of tariff lines.

So Brazil and India will have to offer substantial industrial tariff liberalisation. This will be governed by a developing country coefficient applied to the tariff regime in a formula cut (a lower coefficient implying higher cuts) which will also cap the tariff ceiling at the same level as the coefficient. My guess is the final number will be between 20 and 25.

Brazil's payoff is in the agricultural package. India will get more H1-b visas for its IT workers to temporarily work in Silicon Valley (the current quota of 50 000 is used up in one day) but will have to reduce its current ridiculous demand to exempt 20% of its agricultural tariffs ("special products") from liberalisation.

All this will have to come together this month, before the northern hemisphere holiday season begins, key congressional dates elapse and the US election cycle resumes. The next stage will be to cajole the WTO membership into the "contract zone".

This will be complicated, especially for SA. Organised business (import-competing manufacturing), and labour (Cosatu) are anxious. Bound tariffs (ceilings) will be cut but, owing to our failure to enact unilateral tariff reforms cuts, will bite substantially into applied tariffs. This will be mitigated through a (probably) 10% carve out (half the formula cut) for "sensitive" lines, to be shared with our Southern Africa Customs Union partners.

Take autos (30% tariff on cars) and clothing (40%). Assume these sectors are designated "sensitive". A coefficient of 25 implies a final autos tariff of about 22%; clothing around 31%. Modest cuts, but established sector programmes will be affected.

In the domestic market there will be pain (producers, workers) and gains (consumers, inflation, productivity, knock-on effects in other sectors) across the industrial landscape. Markets elsewhere will open up; particularly for agriculture and industrial goods. Missing from this will be a substantial services liberalisation package, either domestically or abroad. But in my view this deal would be positive for the economy.

But it will take place in a context of damaged labour relations after the public sector strike, fuelling discontent with the government's economic policies and feeding into that favourite dinner-party obsession: presidential succession. This will hasten discussions on welfare reforms, macroeconomic policy, AsgiSA, and industrial policy. Fasten your seat belts — it is going to be an interesting ride.

■ *Peter Draper is research fellow: development through trade, at the South African Institute of International Affairs (draperp@mweb.co.za).*

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Great idea to push out more exports

A national export trading house would open doors to the global economy for many of SA's small, medium and micro enterprises (SMMEs), writes **Mike Holmes**

FORMER South African Chamber of Business (Sacob) president Philip Krawitz has long advocated the establishment of a national export trading house in SA staffed by global trade specialists with experience in various aspects of the export process.

He is convinced that such a trading house would be particularly valuable in helping innumerable small enterprises to export successfully.

Krawitz, who is also chairman and CEO of the Cape Union Mart Group, says that for decades, leading Asian economies such as Japan, Taiwan and Singapore have embraced the concept of trading houses to lead their export drives into world markets.

Manufacturers, they believe, should be left to do what they do best while trading houses specialise in exporting. This thinking fuelled export booms that helped launch the economies of the Asian Tigers to unprecedented heights.

So how do trading houses operate? They are independent companies run by experts in global trade. They are business intermediaries between local manufacturers and foreign buyers or consumers. They export, import and engage in third-country trading of goods and services produced by other companies.

Trading houses can have various other roles. They might act as international traders that buy and sell for their own account. Or they might be export agents working on commission for other parties.

They could be export management companies handling a portion of a parent company's exports, and engage in countertrade if necessary. Or they might be purchasing agencies that specialise in supplying foreign companies.

Not long after the advent of democracy in SA a government white paper noted that, in view of the lower cost of job creation in the small business sector, it would be prudent to focus attention on the development and promotion of small businesses as a means of absorbing millions of new workers into the economy.

"Thus," it said, "the national framework will include steps to improve access of small enterprises to state procurement, big business purchases and export markets."

There are many ways in which a giant trading house, run by experienced professionals, could promote exports by South African SMMEs. For example, by finding new markets, assisting in training and capital equipment upgrading, and improving access to raw materials and components at globally competitive prices.

A trading house could source finance for capital equipment and contracts, and eliminate the need for small businesses to finance credit sales. Small enterprises could be helped to measure, meet and maintain global standards. A trading house could also help SMMEs avoid cut-throat local competition when it comes from a supply surplus.

Importantly, too, a trading house could enable small exporters to achieve economies of scale. It could do this by getting networks or clusters of SMMEs to work together to fulfil export orders.

In essence, a trading house could streamline an export sale to such an extent it would seem little more complicated than a local cash-on-delivery order.

Krawitz envisages that stakeholders in such a trading house would fall into four main categories — the state, black enterprises, major private sector companies, and countries sympathetic to SA's socio-economic progress. Banks and finance houses could also be considered.

Small private investors keen to take a long-term view could also invest through a public participation trust.

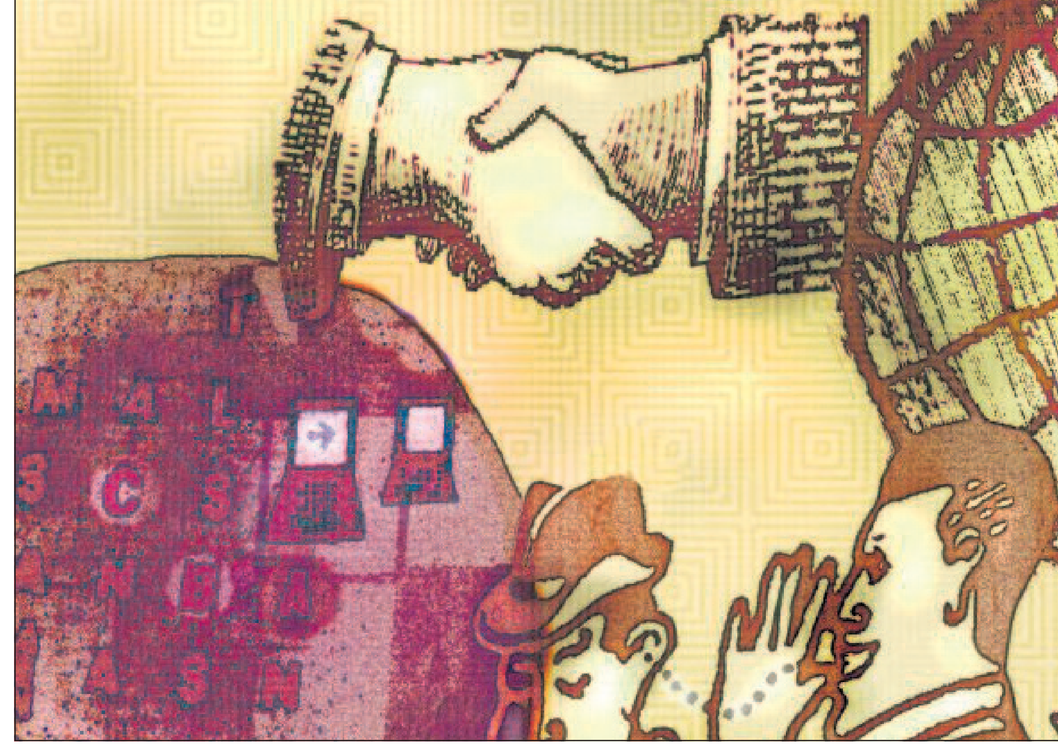
He says a giant trading house is not an endeavour that a market economy normally would be prepared to create. In order to get the venture going, the government would need to take a financial stake in it, similar to Sasol, Iscor and Denel.

Just as with other parastatals, the goal should be to build a financially viable enterprise which could be fully privatised.

It is also "highly desirable" to have major black investment groups make equity investments in such a venture. It would be important to make the trading house "a giant trading company yielding attractive returns to long term investors", he says.

DRIVING EXPORTS

Finance Minister Trevor Manuel recently emphasised the need for SA to export more. As the economy has grown, consumers have been spending more, heightening the demand for imports. The result: last year the deficit on the current account of the balance of payments grew to 6,4% of gross domestic product, its highest in 31 years. Manuel said for the national economy to sustain faster growth, SA had to improve its export performance, especially in non-commodity sectors. In a series of articles over the next few months The South African Exporter will look at shortcomings in the country's export performance and suggest what steps the experts believe should be taken to improve matters



Critical services on tap

A GIANT South African export trading house should be built on four pillars — marketing, finance, production and administration — says former Sacob president Philip Krawitz.

These pillars would require "a sound financial foundation able to give the fledgling enterprise the privilege of medium to long-term thinking".

A function of marketing is to assess the needs of the market and to stimulate the creation of needed products, to ensure that this process is carried out profitably, and to ensure that ultimately the products provided meet the needs of the marketplace and satisfy customers.

The trading house would have to find markets, including niche markets, bearing in mind the need for "sustainable competitive advantage".

Broad marketing-related issues that its experts would need to tackle include the definition of product parameters, product development, the sourcing of producers, correct pricing, ensuring consumer satisfaction, and trend monitoring.

For marketing initiatives to succeed it would be essential to adopt a sectoral focus that would separate economic sectors such as consumer goods, textiles and clothing, agriculture and food, plastics and mouldings, leather and footwear.

The financial role of a trading house would fall into a number of key areas, such as the negotiation of debt. Letters of credit could be established in favour of the trading house which would then discount these to provide working capital for the execution of contracts.

International transactions could be handled by the trading house — all the way from offer to execution.

It could also manage highly complex and multifaceted foreign exchange transactions. This is an area of expertise far beyond most small operators.

The trading house would be able to provide capital to suppliers, combining preferential borrowing facilities from banks, development agencies and other sources.

Finance could even be arranged for potential customers, using what Krawitz calls "creative financial engineering".

The exploitation of incentives is another potentially valuable trading house service. With "a plethora of avenues" leading to numerous incentives, this area can be a minefield for all but the most sophisticated of exporters.

The trading house could ensure that products are what the market wants. Other key issues include market research, product evaluation, supplier selection, sourcing of raw materials, and monitoring of quality.

Another crucial area is research and development, relating to new and innovative manufacturing techniques as well as products. "A trading house would be expected to have its own research and development division aimed specifically at new products and the upgrading of South African suppliers," Krawitz says.

A trading house should also ensure uniform quality and adherence to critical specifications, from engineering tolerances to clothing sizes.

"Supplies from different subcontractors should be indistinguishable from each other," Krawitz says.

Most small companies, says Krawitz, are enthusiastic producers "who sadly neglect the tedium of administration and control. This often proves to be their downfall."

Critically, a trading house should have its own forwarding, shipping and clearing division, which would earn revenue by supplying these services on an economic basis.

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Exporter welcomes new stone age

Anna-Marie Smith found a gem of an export operation that even gets orders from the Grand Canyon in the US

SA IS renown internationally as a supplier of precious gems such as diamonds, but what is less well known that we are also the world's largest producer of semiprecious stones.

Topstones, a family business based in Simonstown on the False Bay coast, exports large quantities of tumbled and polished stones, apart from turning them into jewellery and ornaments for sale at its Mineral World outlets. Tourists are also encouraged to search through piles of beautiful multicoloured stones at Scratch Patch franchises.

Director Anthony Baines, whose father Bruce founded the business 36 years ago, says there has been remarkable worldwide growth in the demand for gemstones in recent years. This has been boosted by the rise of the "metaphysical" market, which values stones and crystals for their supposed healing powers; they are also used in massage and meditation procedures.

He says demand for Topstones' tumbled and polished stones is particularly strong in the Far East, where they are becoming highly sought after as top-end substitutes for the traditional round Chinese beads.

Topstones was founded when Baines snr began selling semiprecious stones from SA at craft markets in the UK. His breakthrough came when he was awarded a contract to supply three different US-based companies with the raw materials for pebbles and tumble stones, which eventually led to the company being awarded a promotional order by Mobil International.

The decision to do the manufacturing, tumbling and polishing in SA was made early on, and when Baines set out to build a factory in 1971, undeveloped industrial land was relatively cheap and easily available in Simonstown, which also had the advantage of rail access.

Little did he know that the coastal route between Cape Town and Cape Point would become one of SA's busiest tour bus routes, making the location ideal for a tourist-orientated retail outlet.

In addition to the tumbling plant, where the rough stone chips are ground smooth before being polished, the Simonstown site is now home to the Mineral World manufacturing and retail operation, which produces a range of gem-centred jewellery, ornaments and sundry artefacts. It also hosts the main Scratch Patch centre, which attracts tourists and locals alike.

Topstone now employs 91 people in the manufacturing operation and another eight on the retail side, all from local communities.

Anthony Baines says his father often took his sons along with him when he travelled around SA and the region sourcing raw materials, which helped him "develop an eye for a good stone".

Their attendance at major international trade shows, as well as opening several Scratch Patch franchises, has helped increase the awareness of Topstones' product locally and internationally.

Bruce, Anthony and Michael Baines… Remarkable growth in demand. Picture: TREVOR SAMSON

Topstones now sources raw stone from elsewhere in the world as well as southern Africa, but does all of the tumbling, cutting and polishing here before re-exporting it.

Entertainment venues such as American theme parks and the Grand Canyon National Park have become big clients.

Baines says the more sophisticated value-added products sell well on the European market, while the advent of the metaphysical market has boosted exports to the US, Europe and Asia. This market prefers a more natural appearance, and also likes larger stones that either fit into the hand or can be worn around the neck. The Far East imports gemstones for more decorative applications such as in floors, architecture and Japanese gardens.

The raw materials arrive at the factory in any size from 20kg chunks of rock to others the size of a golf ball. These are crushed on site before being tumbled, cut, and tumbled again until the fragments are the required shape and texture.

This process can take between one and four weeks, depending on the order specifications. The stones are polished using abrasives and polishes, after which they are sorted into quality and colour categories. Cracked, chipped and poor tone stones are returned to the tumblers to be improved.

Baines says maximum value has to be extracted from each load to make the process viable and cost effective. The sand that remains is used as landfill.

The finished product is exported by either air or sea. Baines says shipments of 20kg-25kg can be sent by air, while a minimum of one ton is required for shipments by sea. The stones are packed in 5,5-gallon drums that hold product weighing about 360kg, or in 20kg bags.

The stones can be ordered in 11 different sizes and various colours, the most popular size being 2cm-3cm in diameter. Topstones currently exports about 100 tons of finished goods a year. China, India and Brazil are major competitors.

Baines says export duties are not payable on rough or tumbled stones, as they do not qualify as a finished product. But, because it is illegal to export Tiger's Eye, each shipment still requires an export permit.

All shipping from Topstones is done on an ex-factory basis.

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geekonomics

Frank Flatters and Matthew Stern review the right lessons from Asia

SA HAS come a long way in integrating itself with the global economy since 1994.

Almost all sectors of the economy have become more open and more productive, and have experienced simultaneous increases in export orientation and import penetration.

Nevertheless, SA's growth performance has been less than what one might have expected — and certainly less than necessary to meet its ambitious social and economic development goals.

The government is rightly looking for new ways to raise exports and promote investment. But there is no uniform agreement on the desired approach and the likely outcome.

Despite the progress that has been made over the past decade and a half, there are some that feel the need for a strong guiding hand from government in the form of sectoral interventions and strategic restrictions on imports and on some exports to promote the country's long-term growth and development prospects.

This view is based in part on a misreading of experience elsewhere, especially in Asian countries, and in part on an overestimation of government's capabilities to design, evaluate, implement and monitor more interventionist policies.

A key feature of the success of the east and south-east Asian economies has been their ability to integrate with global markets and production networks, as demonstrated by their rapidly rising shares of world trade and investment. This meant dismantling institutional and policy barriers to trade and investment — often with an initial emphasis on export-oriented activities. Another other key requirement was broad macroeconomic stability.

Finally, sustainable growth required wide-ranging institutional and domestic policy reform in tax administration, finance, regulatory regimes, contract law and property rights, ports, infrastructure, law enforcement and public administration, as well as the development of educational institutions for ensuring broadly based and efficient investment in human capital.

Not one country has ever gotten all these things "right", and Asia is no exception.

Government support of strategic industries is a common theme in stories of Asia's success. Some allege that the support of strategic infant industries was central to the success of many of these countries.

There is no question that most of the successful Asian economies protected strategic, infant and other industries. The success of the region, however, rested not on this form of protection, but rather on the ability to reduce its impact and, where protection could not be eliminated immediately, to reduce its harmful effects on export industries.

Both Indonesia and Malaysia gave strategic support to national car industries. The Indonesian venture, a joint scheme between the president's son and a Korean company, involved tax incentives, high import duties and other privileges available only to the "national" car firm. Fortunately for Indonesia, the scheme was short-lived and so the costs were small.

The Malaysian national car programme has been around much longer. It began as a co-operative venture between the government and a Japanese company and was supported by large and highly discriminatory tax benefits paid for by taxpayers and Malaysian consumers. While the incentives enabled the company to dominate the domestic market for many years, it has had limited commercial success as an exporter.

The Malaysian government has continued to pour resources into this uncompetitive sector. The incentives violate Malaysia's regional trade liberalisation commitments, but the government has declared the sector "sensitive" and tries to create new schemes that it portrays as meeting its trade commitments. But these also violate those commitments.

The cost to taxpayers and consumers of supporting this strategic industrial programme continues to mount.

While Indonesia recovered quickly from its mistakes in the motor industry, it fared less well in the aeronautical sector.

An influential science and technology minister tried to prove that Indonesia could defy the laws of comparative advantage by leaping into the design and manufacture of aircraft. Small and medium -sized regional passenger planes were made and sold to the air force and to several ministries. A very small number were exported, at high cost, as part of offset deals on government purchases.

The project was commercially unviable and economically foolish. It was supported by budget and off-budget subsidies, non-commercial loans from state banks and a variety of other funding sources. The costs were large and non-transparent. It was only the 1997 Asian financial crisis that gave key economic ministers the clout to end the subsidies.

Successful Asian exporters did not develop on the back of previously protected industries. They were based on new investments attracted by institutions that permitted them to import and export as freely as possible. Among the most successful innovations in Indonesia, for instance, were the replacement of customs by a Swiss preshipment inspection service and port reforms that, together, reduced the cost of importing by at least 20% in a matter of months.

It is quite natural for SA to learn from successful development experiences elsewhere. But let's ensure we draw the right lessons.

The success of the Asian economies can be attributed to their ability to get many more things right, and to recognise and correct policy mistakes.

■ *Matthew Stern and Frank Flatters are from Development Network Africa, a private economic and development consulting firm (geeks@dnafrica.com).*

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The potential of Inga Dam yet to be unlocked

Andrew Maggs

WHEN the shortage of power in southern Africa is discussed, invariably the conversation turns to the Democratic Republic of Congo (DRC) and the enormous potential of the Inga Dam site on the Congo River.

Industry experts estimate the hydropower potential of the DRC at 100 000MW, with Inga, located 200km downriver from the capital city of Kinshasa, having the potential capacity of 44 000MW. It is a massive resource that unquestionably can play a major role in not only meeting the energy requirements of the DRC, but also countries in the region and conceivably beyond the continent.

It is therefore not surprising that the development of a third generating facility at Inga has been put forward as a priority by the Nepad secretariat. If ever there was a project with the promise of fast-tracking development in Africa, then Inga III is it. Reliable and affordable power from Inga III would support industrial competitiveness in the region, stimulate private sector investment in southern Africa and contribute enormously to social and economic upliftment. However, for the time being Inga III remains a dream.

The immediate priority is to rehabilitate Inga's existing facilities (Inga I and Inga II), which are currently operating at less than 40% of their installed capacity.

Thereafter, the development of Inga III, with a 3 500MW capability, and in the longer-term its full development with an additional 35 000MW (the Grand Inga Project) can be considered.

Despite the DRC's enormous power potential the country has failed to exploit the opportunity. Years of conflict, mismanagement and inadequate capacity within Société Nationale d'Electricité (Snel), the national power authority, have all played their part in the demise of the country's power sector. However this situation is now set to change with the approval in May of a $296,7m World Bank loan to the government of the DRC to support the Regional and Domestic Power Markets Development Project. The project, which is also receiving support from the African Development Bank ($100m) and the European Investment Bank ($94m) will see targeted investments being made to rehabilitate Inga I and Inga II, as well as the installation of new transmission and distribution infrastructure.

At the Inga site civil works will be undertaken to improve the water flow through the plant while turbines will be refurbished to increase the operational capacity of Inga I and II from 700MW to 1 300MW.

The transmission component of the project will see construction of a 400KV line from Inga to Kinshasa to complement the existing 220KV line, while some $80m will be spent to expand and strengthen the distribution system in Kinshasa. This will include the purchase of low voltage cables and transformers and the extension of the grid into currently unelectrified areas of the city.

An estimated 50 000 new customers are expected to be connected. Given Snel's limited operational capabilities as the lead implementing agency, the project will see physical investments being complemented by strengthened managerial actions. To this end, funding will also be made available for capacity building and training.

The project's success is not only critical to the DRC but also to Southern Africa Power Pool member countries, which are likely to increase power imports from the DRC from the current 220MW to 500MW.

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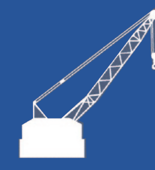

The SHIPPING NEWS

Report compiled by Nicola Jenvey

TRANSPORT parastatel Transnet has announced a feasibility study for establishing a new logistics hub to complement Gauteng-based City Deep, which can become part of a new freight rail ring. The thinking aims to alleviate congestion on lines frequently delayed by playing second fiddle to metropolitan suburban passenger trains.

WALVIS BAY

THE first eight new diesel-electric locomotives destined for Namibian rail operator TransNamib arrived via the port this month. Part of a 17-strong batch order, the locomotives replace the aging fleet Namibia inherited from SA on independence in 1990.

SALDANHA BAY

THE port played a significant role in boosting the total cargo handled through South African ports during May as ore exports grew to Saldanha and Richards Bay. Saldanha handled 3,6-million tons of cargo (17% of the national total) during May against 3,34-million tons in April. There were 35 vessel calls to the harbour during the month compared with 38 the previous month.

CAPE TOWN

ENVIRONMENTAL Affairs Minister Marthinus van Schalkwyk has ordered Transnet to rethink plans to extend the Cape Town container terminal 300m into Table Bay. The proposal came unstuck last year when the minister rejected the National Port Authority's environmental impact assessment study on the basis that it was seriously flawed. The R3,2bn expansion would involve widening the terminal's stacking area, but Van Schalkwyk has not indicated when the new impact assessment study will be released.

The port handled 1,3-million tons of cargo (April: 1,1-million tons) in May and 66,9 20-foot equivalent units (68,6 TEUs) from 273 (280) vessel calls.

MOSSEL BAY

THERE were no problems experienced with the single buoy mooring.

PORT ELIZABETH

LATEST figures from the National Port Authority demonstrate that the port handled 922 000 tons of cargo during May this year, a marginal dip form the 1-million tons handled the previous month. In terms of TEUs, the port authority handled 35794 TEUs (April: 37538 TEUs) from 104 (127) vessel calls.

COEGA

IN ANOTHER confirmation of commitment to the initiative, Canadian aluminium manufacturer Alcan has appointed a new CEO to head up its proposed Coega smelter. Brent Hegger's appointment was accompanied by the statement that the project remains subject to the successful completion of ongoing negotiations and financial arrangements. This is despite Alcan currently being subject to a hostile takeover bid by rival US aluminium group Alcoa.

EAST LONDON

AN UNWANTED barge will be put up for public auction to defray the costs incurred in accommodating the vessel for nearly two year. The National Ports Authority brought a court order against the barge owners. Known as GC55, the vessel arrived in East London from the United Arab Emirates nearly two years ago and although she was initially intended to be used to recover logs salvaged from a grounded bulk carrier, her general condition was too poor.

DURBAN

DURBAN retained its dominance as Africa's busiest container terminal, handling 201 324 TEUs (April: 222 448 TEUs) or 66% of the national total during May this year. There were 381 vessel calls (364) during the month into the port.

RICHARDS BAY

THE port suffered the indignity of having to recover a large mobile crane that toppled over, leaving its extended boom and an arm from the Duys shiploader it was dismantling lying in the water. The incident occurred at the dry bulk terminal and although a small amount of diesel fuel was spilt, there were no injuries.

Meanwhile, the port handled 8,2-million tons (April: 5,9-million tons) of cargo during May, accounting for 40% of the national total. There were 126 (148) vessels calling on Richards Bay during that period.

MAPUTO

THE first multilateral Maputo Corridor transport committee meeting has given the green light to establishing mechanisms through which to implement transport planning committees for mutual benefit. The meeting between representatives from SA, Mozambique and Swaziland plotted a way forward to give effect to the South African Development Community transport, communications and meteorology protocol.

Meanwhile, the Maputo Corridor Logistics Initiative has welcomed the news that toll tariffs on the EN4 between Ressano Garcia and Maputo have remained unchanged.

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Superalloy sales ready to take off

The industrial participation programme attached to the arms deal is set to boost SA's exports of superalloys, writes **Khulu Phasiwe**

NEWLY established superalloys producer Avalloy has positioned itself to benefit from the resurgent growth in the airline and energy industries and is aiming to get a share of the projected $780bn growth in the two sectors over the next 20 years.

The Johannesburg-based company will export superalloys to the European market, where they can be used in numerous applications.

Superalloys, known for their corrosion-resistance properties and ability to withstand high temperatures, are mostly used in aircraft engines and in nuclear reactors, but also in the automotive engineering and oil drilling sectors.

UK-based engine maker Rolls Royce, which owns 15% of Avalloy, says it plans to build 114 000 aircraft engines over the next 20 years to power the growing demand for commercial and business jets.

The engines, worth an estimated $600bn, will power 51 000 new commercial aircraft that are expected to enter the market globally within a period of two decades.

Most of the growth is driven by the demand for nonstop, long-haul flights, particularly to and from Asia.

Aircraft manufacturers Boeing and Airbus have already placed engine orders for their new generation of aircraft, such as the 787 Dreamliner and the A380 super jumbo jet.

Rolls Royce says there is further demand for $180bn worth of military aircraft engines; $70bn worth of gas turbines in the energy industry and $180bn worth of marine propulsion systems in the next 20 years.

The company's after-market services in the aviation, energy, defence and marine industries are expected to generate about $900bn over the same period.

Avalloy CEO Gerry Robbertze says the company stands to benefit from all this projected growth. The superalloy facility, the first in SA, will produce more than 3 000 tons of superalloys a year, with potential for further expansion.

The plant is based at Pelindaba in North West and will use locally mined minerals such as nickel, cobalt and chrome in the production of its alloys.

Its major suppliers include Anglo Platinum and Impala Platinum.

"We are confident that we can expand our role in this dynamic market by offering our customers the highest quality southern African products," he says.

Robbertze says Avalloy has already exported its products to customers in England, Italy and Ireland. Some of its products are used locally, mostly by the automotive industry.

Avalloy is also in talks with the Eskom-led nuclear project, the Pebble Bed Modular Reactor, about producing alloys for its reactor vessels.

The Rolls Royce investment in Avalloy forms part of its commitment to SA's industrial participation programme. This programme, led by the trade and industry department, aims to stimulate the South African economy and generate employment, black economic empowerment and technology and skills transfer through foreign direct investments.

Rolls Royce director of international affairs Ralph Murphy says the production of superalloys in SA also represents a major step forward in the country's mineral beneficiation programme.

Besides Rolls Royce, Avalloy's other shareholders are Cape Town-based financial services firm Abante Group and Homestead 1 Investment Trust, a holding trust comprising Avalloy management, legal advisers and financial management experts.

Abante Group is the single largest shareholder with 55%; Homestead 1 Investment Trust owns 30%.

Gerry Robbertze… Avalloy plans to produce 3 000 tons of superalloys a year. Picture: ROBERT BOTHA

DUANE's WORLD

Duane Newman notes that South African automotive exporters need to consider the threat from China as real

THE South African motor industry has been doing fantastically well in recent years on the back of the growing local economy and the Motor Industry Development Programme (MIDP), a government support programme. However, it is clear that it is highly sensitive to trends affecting the domestic consumer, such as interest rates and disposable income, as well as global developments.

There have been many critics of the MIDP due to its cost to the government, and ultimately we have a huge negative trade balance (imports exceed exports). I always believe it is a lot easier to be critical than provide solutions; the MIDP has created a stable manufacturing base in SA. The challenge is to grow our exports.

Imagine an industry where exports exceeded imports for the first time in 2005, having industry goals of an average annual growth rate of 40%, increasing its share of global automotive trade volume from less than 2% to 10% within 10 to 15 years, and the emergence of two to three global automotive enterprises that hold 60% of the domestic market. This is China.

It is clear that China is on many South Africans' minds if the number of local seminars, breakfasts and speeches on the subject are anything to go by. Many South African businesses are concerned about its impact on their businesses, from both a threat and an opportunity perspective.

A recent Deloitte automotive report entitled "Export readiness of China's automotive industry", surveyed senior executives operating in China, and I believe the results could be useful to executives in the South African automotive industry.

Obviously China's automotive industry is huge by comparison to SA's, as is demonstrated by the sales increasing from about 2-million vehicles in 2000 to almost 6-million in 2005.

Exports of automotive products (components and vehicles) exceeded imports for the first time in 2005, with an annual export growth rate in 2005 of 56%. Imagine if SA could achieve that.

Automotive components to date have made up about 43% of these exports, but have been of low value added, high labour content and raw materials. Export of vehicles has increased to over 170 000 units in 2005, with a 157% increase over 2004. However, over 100 000 of these vehicles were trucks in the mid- to low-end market segment.

There are a lot more foreign multinationals based in China than ever before, but it is Chinese brands that we need to be aware of, including Geely, Chery, and FAW Xiali, which together account for 18% of the Chinese market. The next global brands once they get their quality right?

The senior executives operating in China predict that exports will gradually increase to 50% of overall sales by 2010. I remember having discussions with automotive industry experts who said that the reason for setting up in China was to target the Chinese market, but it seems as if that trend is reversing.

The markets that are being targeted by Chinese automotive companies are North America and Europe. This is significant for South African exporters as these are the countries where SA has preferential duty access. South African exporters need to consider the threat from China as real and need to analyse whether their products will be affected.

Executives stated that quality is the number one success factor for exports. The main reasons cited by companies for not yet exporting their products were that their products had not been modified to meet international market standards, and they lacked effective channels to connect with international markets. When asked about the five most important factors in successful export activities, a majority of the respondents named quality, low cost, sales channels, brands and safety/emission standards as their key considerations. Interestingly, vehicle manufacturers are more concerned about after-sales service, while parts manufacturers care about technical innovation. With the entry of Chinese brands into SA one can expect increased focus on after- sales service.

A majority of the surveyed executives stated that the most significant challenges facing them were quality standards and certification, cost competitiveness, after-sales service, international relationships and logistics. In entering overseas markets Chinese exporters have adopted a low-price strategy in mid- to low -end segments, but are focusing more on quality to strike a balance between acceptable quality and attractive selling price. So we can expect the product quality to increase in line with established global norms.

In their market entry strategies Chinese companies initially rely on joint ventures in years one to three, but are developing independent capabilities thereafter. We have seen this trend manifest itself in SA through McCarthy. It will be interesting to see if the Chinese deem the South African market to be important enough in a few years' time to set up independent capabilities. A consistent theme is on enhancing competitiveness through building their own capabilities, such as increasing investment in serving overseas customers, establishing their own research and development capabilities and employing overseas market experts.

One of our findings is that multinationals making global sourcing decisions will not only compare piece prices of components, but will also balance the total cost of doing business with suppliers, including efficiency in transactions. Companies in China should increase transparency of information internally between departments, and externally with vendors, partners and even customers. An information technology system that is designed to support business operation needs can improve coordination through the entire supply chain. This finding is also applicable to South African companies so they need to be paying attention to their entire supply chain visibility.

It is clear that China's automotive industry still has room to grow before achieving global competitive standing. Nonetheless, this goal is within reach if companies can adopt international concepts (such as quality improvement methodologies) and implement management processes to improve operating effectiveness and market competitiveness.

It is important that the South African automotive industry pays close attention to developments in China, especially as we start to discuss a trade agreement with them .

■ *Duane Newman is a director at Deloitte who deals with indirect tax, specialising in customs and excise (e-mail: dnewman@deloitte.co.za).*

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Blogging and much drinking of wine make winery smile

Graham Knox… Harnessing the power of the internet.

Amy Brooke reports on a small Cape winery that may be unknown at home, but has virtually taken the international wine market by storm

LAST year, when South African wine sales took a dip overseas, a small Wellington winery called Stormhoek managed to double its exports. This year the winery predicts a repeat performance, forecasting international sales of more than 350 000 cases compared with the 10 000 it sells on the local market.

But what's even more surprising about this operation — still relatively unknown here at home — is the hype it has generated around its brand, particularly in European countries and in the US.

Stormhoek is now the most talked-about wine in the online world. Its website gets more than a million hits a day.

To achieve this, Stormhoek must surely have spent millions on marketing? "Not at all," says Stormhoek co-owner Graham Knox. "Our marketing budget is about R50 000 a year. That is nothing compared to the big guys, who are spending close to R20m".

I met Knox at a local Cape Town wine show. He is small in size, but bursting with big ideas. His energy and passion for the Stormhoek brand are contagious, and as he bounced around topping up people's glasses and making them laugh at his T-shirt (which read "High-class hoeker") it was hard not to catch "Stormhoek fever".

"I'm having so much fun," he said. "We're achieving huge success at the moment and having fun".

So what's the secret? By harnessing the power of the internet, Knox has embarked on what's called a viral, or social, marketing campaign.

Knox — a former advertising whiz — knew he wouldn't sell wine in an already saturated market by putting pictures of the product on billboards or in magazines. "Wine is social, people like to talk about wine, so we needed to figure out how to get people talking," he says. "Since ancient times word of mouth has been the most powerful means of communication".

The first move was enlisting the help of a man who certainly knows how to get people talking. Hugh McLeod is a cartoonist, but he is more than that. He runs the most popular weblog in the UK.

He's also been called "the most influential blogger in Britain" by the Financial Times. Blogging is the latest craze to sweep the internet, allowing anyone to be published online and own a scaled-down version of their own website — whether commercial or personal.

McLeod's blog (gapingvoid.com), which showcases his cartoons and provides social commentary, has a cult following. Millions of people have joined the online community he has built around it.

In between designing quirky cartoon-style labels for Sauvignon blanc and Shiraz, McLeod began blogging about Stormhoek, realising how easy it could be to create a buzz in cyberspace, which would then translate into profit. He offered a free bottle of wine with a personalised label to the first 100 people in the UK, France and Ireland who would include Stormhoek in their blogs.

At the same time the winery started sponsoring "geek dinners", providing free wine in the hope that people would go home and write about it. They did. The idea spread like a virus and soon Stormhoek was the drink of choice among the smartest, most tech-savvy crowd in the UK.

So successful was the initiative that it was applied to the US market shortly afterwards, and results there have also been sensational.

This innovative and surprisingly simple approach to selling wine has made marketing gurus around the world sit up and take notice.

The business has won the UK's prestigious Drinks Business Magazine award for Best Consumer Campaign, beating traditional big spenders like Chivas Regal. And US ad rag Advertising Age included it in its Top 50 global marketing campaigns last year, along with well known brands such as Toyota, Nike, Microsoft and Apple.

So, is this the future of marketing, I asked Knox. "Absolutely", he said. "It's interactive, it's inexpensive and it has a more potential reach than anything else".

UCT Graduate School of Business (GSB) lecturer Dave Duarte agrees: "This new conversational online marketplace is significantly affecting the business world. To illustrate this, Time magazine recently announced that the person of the year was 'You — the ordinary user of the internet'."

There were 155-million blogs at the time of writing, with millions more entering cyberspace each week. Duarte believes it's in the best interests of all SMMEs and bigger companies to get in touch with this trend and understand the way "digital citizens" work.

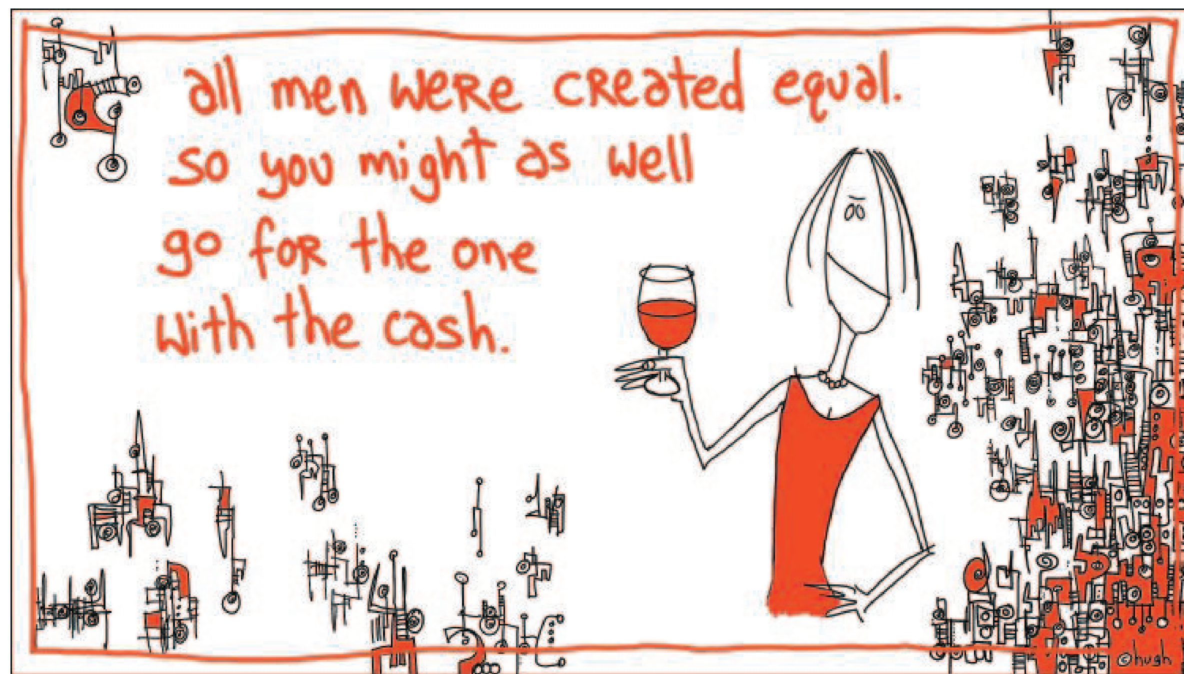
In light of this he has designed a course to run this month at the GSB called Nomadic Marketing, which he says is aimed at nontechnical business leaders, entrepreneurs, marketers and brand managers. It will explain how to make the most of digital marketing opportunities.

The course will run for three days and is the first on this topic to run at any South African business school. The topics include technologies such as Mxit, blogs and online social networks. Not surprisingly, Graham Knox is one of the guest lecturers.

As I wrapped up my chat with Knox, he handed me one of his "High-class hoeker" T-shirts. As I was on my way to a party at the Waterfront, I decided to wear it for kicks. When I arrived I was accosted by a group of Czech tourists, wanting to know where they could buy shirts like this one. After I had explained, they wanted to know where they could buy Stormhoek wine.

Minutes later a friend who owns a nightclub came over and said she'd love to have her bar staff wearing those shirts — and serving the wine.

There is no doubt that the Stormhoek virus is spreading.



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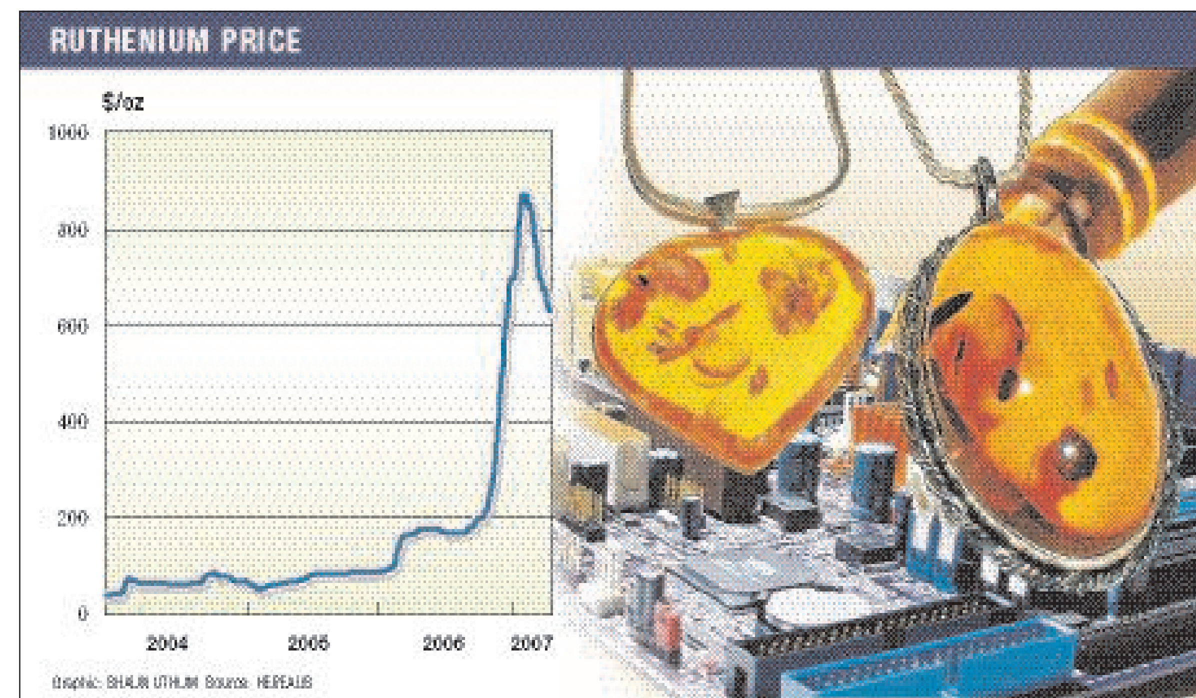
The rise of ruthenium is good news

An obscure platinum group metal is raking in export earnings, writes **Charlotte Mathews**



THE discovery of a new application in hard disk drives for ruthenium, a little-known platinum group metal (PGM), has sent the price into a frenzy this year. As a result, SA, the world's biggest source of ruthenium, is benefiting from a surge in foreign exchange earnings.

Ruthenium is a by-product of platinum mining. The two biggest platinum producers in the world are Anglo Platinum and Impala Platinum. Ruthenium is only mined in SA, Zimbabwe, Russia and the US/Canada.

In its Platinum 2007 review, speciality chemicals company Johnson Matthey said ruthenium demand soared 45% last year to a record 1,29-million ounces, and suppliers were hard-pressed to keep pace.

As a result, the price rose rapidly. It started last year at $87/oz and rose 600% during the year to $610/oz. Although it peaked at $800/oz early this year, it has since fallen to below $500/oz.

Ruthenium's main uses are in the chemical, electrochemical and electronics sectors. It has been used extensively by the electronics industry for a number of years, especially in the form of either "sputtering targets", which is how it is used in data storage, or ruthenium pastes, the form in which it is used to make flat screen plasma displays. These applications showed the greatest increase in net metal demand last year, Johnson Matthey said.

As the price of ruthenium has been rising, manufacturers of flat screen plasma displays have been able to reduce usage through recycling or substitution. But the hard disk sector's net ruthenium requirement, which takes recycling and substitution into account, more than trebled to 388 000oz last year, according to Johnson Matthey.

Ruthenium has been used in hard disk manufacture since 2001, when it was discovered that a three-atom-thick layer of ruthenium could increase the amount of data that could be stored on a disk.

The latest technology, called perpendicular magnetic recording, requires considerably more ruthenium. Longitudinal recording, the generic name for the previous application, has a limit of 100 to 200 gigabits per square inch, while perpendicular recording is expected to allow information densities of up to one terabit per square inch, according to Wikipedia. A terabit equals one thousand gigabits.

Precious metals and technology group Heraeus's head of sales & marketing Wolfgang Wrzesniok-Rossbach said in a recent article in The Alchemist that demand for ruthenium would have increased for that reason alone, but it was also spurred by a substantial increase in forecast production of hard disk drives to 750-million by 2010, from the 261-million produced in 2003.

Heraeus makes the ruthenium powder coating used in hard disks, and in 2004 it more than doubled its ruthenium refining capacity in SA to meet demand.

Wikipedia says the main companies making hard disks using the new technology include Seagate Technology, which started shipping it in April last year, Hitachi, Toshiba and Fujitsu.

On top of the fact that hard disk manufacturers started to build up inventories last year, speculators started to enter the market as they saw the price rising. But their activity was restricted by the shortage of the metal, Wrzesniok-Rossbach said.

Most mining houses do not separate ruthenium production data from other PGMs, but Johnson Matthey estimates SA's annual output at about 800 000oz.

According to the Minerals Bureau, a division of the minerals and energy department, SA produced 27 333kg (964 144oz) of ruthenium last year, down from 29 805kg (1,05-million oz) in 2005.

Ruthenium accounts for about 10% by weight on average of the basket of PGMs, which also includes platinum, palladium, rhodium and iridium, the Minerals Bureau said.

Anglo Platinum spokesman Trevor Raymond said the company produced about 500 000oz of ruthenium last year but in some years it might sell more or less than it produced. Ruthenium was no more complex to process than other PGMs, he said, and with the price at $800/oz, the cost associated with improving ruthenium recovery could be justified and may increase Angloplat's production volumes.

Impala Platinum spokesman Bob Gilmour said the group produced about 280 000oz of ruthenium last year, and even at current prices it was a very small contributor to group revenue.

The remainder of SA's ruthenium production comes from Lonmin, Northam Platinum and Aquarius Platinum.

Angloplat's Raymond said the company worked with customers and researchers to find new applications for all PGMs, including ruthenium, and developers of a new technology would tend to approach the company to confirm and secure availability.

Implats referred inquiries on local research into new applications for PGMs to Mintek, with whom it co-operates. State-owned minerals researcher Mintek did most of its work on finding new ruthenium applications during the 1990s.

In an article in the November/December 1999 South African Journal of Science, Dr Ira Wolff from Mintek said research was prompted by the fact that the ruthenium price in the 1990s was modest compared to other PGMs. Because of the large concentration of PGM resources in SA, there was little incentive for industries outside SA to research new uses for PGMs.

Mintek had researched adding ruthenium to improve corrosion resistance in certain stainless steel and titanium alloy applications and to improve hardness in drilling tools. It had also developed a ruthenium compound, RuAl, with a high melting point and resistance to oxidation, which could be used in spark plugs and protective coatings.

Wrzesniok-Rossbach said it seemed unlikely that ruthenium could achieve the $1 000/oz level that some market sources had hoped for because of substitution in certain industries. However, the expansion of production facilities in the electronics industry made it likely the price would resume its upward trend and was unlikely to fall back much further as there were too many applications for ruthenium and too many potential users.

Scrap the rand and make euro our currency

Neil Emerick

AS SA considers the idea of a single currency with its southern African neighbours, shouldn't the option of the euro be considered a better choice? Why should we hitch our fortunes to a group of countries with whom we have little financial interest, when a partnership with Europe would be far more beneficial?

SA's trade with euro countries (exports of R88bn and imports of R130bn last year) far exceeds that of its geographic neighbours. In fact, trade with the whole of Africa forms less than 5% of SA's overall trade.

The idea of forming a currency union with a larger block is an excellent one, but are we choosing the right bloc?

Abandoning the rand in favour of the euro would bring many benefits. The first is the reduced financial risk for overseas investors and traders as the risk of foreign exchange would fall away.

When exporters consider doing business in SA, not only do they have to consider the revenue they will earn, they have to factor in the currency rate at which they convert back to their own currency.

Forward contracts or other instruments can assist in reducing these risks, but such contracts are expensive. When two countries share the same currency, all foreign exchange risks fall away, reducing transaction costs. With reduced costs in trade, the possibilities for more trade increase.

Tourism is another obvious winner. European citizens who come to SA could use their own money without conversion. This would increase SA's attractiveness as tourists could do all their planing and comparing in a familiar currency.

Adopting the euro would also increase the economic freedom of SA's citizens. The dismantling of foreign exchange controls would allow local companies and citizens to maintain their wealth with banks outside SA. Increased choice would lower bank charges and reduce the risk for South African investors.

This country has had its fair share of currency scares in the past few years. An advantage of belonging to a larger bloc would be the reduced risk of external shock.

When South African problems occur, or we are guilty by association as an emerging country, the rand suffers, with corresponding knock-on damage. In a larger currency bloc, any specific industry ills, or localised geographic problems such as droughts, are absorbed in a bigger economic zone. The speculative effect on the exchange rate could therefore be reduced.

If we joined the euro zone, local interest rates would instantly drop to European levels — about five percentage points lower than our current rates. Old European savers have a great deal of money to offer young South African entrepreneurs. Let's make it easy for them.

Finally, we should consider the risk of our own central bank and its potential for monetary mistakes. In delegating monetary responsibility to an institution that is independent of national politics, we could feel a little more confident in the stability of our money.

Smaller countries – and more specifically, national central banks — are susceptible to political interventions by their governments. The South African Reserve Bank does not have a good record when it comes to monetary inflation.

Growth in our money supply has continually increased at about 20% a year, while economic growth over the long term has been static.

Inevitably, the increased money supply translates into higher prices.

Although the European Central Bank has not achieved zero monetary inflation, it has managed to create more stable prices than the Reserve Bank has through a smaller growth in money supply.

What arguments do we find against considering the euro as a substitute for the rand? Inevitably, there will be institutional resistance, the most obvious of which is the loss of seignorage to our Reserve Bank.

Seignorage is the profit a money-issuing authority receives by printing pieces of paper that are exchanged for real assets or services.

Last year the Reserve Bank issued about R14bn in new money, taking our circulating coins and notes to R95bn. In giving up the right to print rands, the South African government loses this gain.

However, if we negotiate correctly, SA could still receive this seignorage by winning concessions to print euros for the domestic market.

Another argument against sacrificing the rand would centre around the loss of monetary policy as an instrument of government.

While Keynesian policies and the Phillips curve were popular in the 70s, the work of Friedman and the Chicago school have done much to discredit them.

Cynics of government monetary interference argue that governments have the power to do harm, but rarely effect meaningful changes when messing with money supply or manipulating interest rates.

Market anticipation of government action is a strong argument for the neutral effect of such policies.

A similar argument is that unified currency areas cannot deal with regional difficulties, and that governments need monetary policies to cater for specific problems.

The retort would be that there is no logical difference between dealing with the problems of Limpopo in the larger South African monetary environment, with SA in a euro area.

One would rather insist that a unified currency area can assist in the free flow of labour and capital, and that institutional barriers (such as borders) restrict the flows that would otherwise assist under-developed regions.

■ *Neil Emerick (neil@nightsbridge.co.za) is a councilor for the Free Market Foundation. The views expressed are his own.*

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EMERGING MARKETS

LAST month, leaders of the G8 member states ended their most recent summit in Heiligendamm, Germany, by pledging $60bn to fight diseases in Africa.

In addition to this, G-8 members renewed the commitments made at the Gleneagles summit in 2005 to increase aid to Africa by $50bn a year by 2010. And a further amount was dedicated to combating the negative effects of climate change in Africa.

There was a very different sentiment in the air, at home and abroad, following the declaration of the above aid packages from the world's wealthiest nations. From an African perspective, the starkest difference lies in a growing scepticism on the part of African business and political leaders towards the role aid has played in the upliftment of the continent since the end of colonialism in the mid-1900s.

There is also a belated realisation that the real commitment of the G8 countries towards Africa and the so-called developing world as a whole is largely lacking.

Rhetoric has not been backed up, promises have not been fulfilled, and Africans are realising that the support of the G-8 and its fringe members simply cannot be relied on in a capitalist global system based on the notion of self-interest — the very antithesis to unilateral aid.

This scepticism has its basis in statistics. Since the "historic" Gleneagles summit in 2005, no G8 country has come close to reaching its agreed percentage of gross national income for foreign aid.

In fact, last year aid from G8 countries fell for the first time in a decade as they gave only 0,32% of their gross national income. G8 countries also fare poorly in relation to other wealthy countries such as Sweden, which gives on average $441 per person in aid, as opposed to the G-8 average of $87 per person.

As my colleague Dr Martyn Davies is quick to point out, one of the keys to destroying dependency is ascertaining whether Africa is regarded by the international community as a developmental burden or as an economic opportunity.

Significantly, the latter perception is one held by some of the world's most rapidly expanding economies, particularly India and China, which see what The Economist in 2001 called "The hopeless continent" as one rich in the raw materials, markets and diplomatic and strategic influence which they desperately require to continue their meteoric rise to global prominence.

China's diplomatic and economic assault on Africa over the past five years has been remarkable. It is driven by that country's desire to regain what it sees as its rightful place as the world's largest economy.

The key is for African countries to realise their own worth on a global scale and take advantage of the unprecedented level of interest being shown in the continent at present. An indication of this is the fact that the continent as a whole is set for 6% annual growth, with private and public investment continuing to flood in.

According to a United Nations World Investment Report last year, sub-Saharan Africa's foreign direct investment inflows increased from $17bn in 2005 to $31bn last year. Among the most prominent

Simon Freemantle urges African countries to realise their own worth on a global scale

countries spurring on investment into the continent were Equatorial Guinea, Chad, Algeria and Nigeria.

SA received more than 20% of sub-Saharan Africa's total investment inflows.

Since the turn of the century, Africa's 53 economies have grown at an average rate of 4,9%, with countries such as Angola consistently recording double-digit growth for the past five years.

Business environments have improved, investment incentives are increasingly bearing fruit and the continent is on the up and up for the first time in its post-independence history.

Therefore, the interest shown in Africa by China and India, as well as strong domestic economic growth figures, has facilitated the rise of a sense of confidence among prominent African leaders in their ability to create alternative means through which to achieve economic growth.

Speaking at the G8 venue in Heiligendamm, Ghanaian Foreign Affairs Minister Nana Akufo-Addo cautioned African countries not to expect too much from the G-8 meeting , saying that "Africa's destiny has to be crafted, determined, led and won by Africans, primarily with far greater interdependency and partnership among Africans than was seen in the past".

Opening the recent World Economic Forum held in Cape Town, Klaus Schwab, its founder and executive chairman, declared that "the world now needs Africa as much as Africa needs the world. This is true partnership".

World Bank Africa vice-president Obiageli Katryn Ezekwesili said that Africa is "beginning to do things right" as countries develop their economies to be less reliant on exports of single commodities such as oil, gold or diamonds.

The perception of Africa held in Beijing is rapidly altering mindsets in London, Berlin, Washington and Rome as the developed world realises the benefits to be had from a stronger and more economically sovereign Africa.

Africans themselves are slowly beginning to realise the strength of their position, but there is still a long way to go before the master-and-servant relationship between many African countries and their former colonial oppressors, as well as with the developed world as a whole, is destroyed.

■ *Simon Freemantle is senior business analyst at Emerging Market Focus.*

NEGOTIATORS were on the verge of a breakthrough in the Doha round of multilateral trade negotiations at the time of writing, but the pact is likely to constitute a "Doha-lite" package, writes **Mathabo le Roux.**

DOHA DEVELOPMENT ROUND

A CRUCIAL meeting between G4 countries — the EU, US, Brazil and India — to bridge divergent positions was taking place at the time of going to press.

SA's chief trade negotiator, Xavier Carim, said the meeting was important for a breakthrough for a wider deal. In a parallel process, the full multilateral process was also continuing in Geneva, with the chairmen of the different negotiating groups busy finalising convergence texts.

"If the big players (the G4) could come together it would give impetus to the multilateral process," Carim said, adding that the modalities, which would provide the framework and details for the final deal, were expected to be thrashed out in the course of this month.

Peter Draper, a research fellow with the South African Institute of International Affairs (SAIIA) said last month that if a multilateral deal was clinched it was likely to constitute a "Doha-lite" package.

But he believed that a Doha-lite deal was preferable to no deal, as a failure to conclude a multilateral pact could see the WTO's key mechanism of dispute settlement break down and international trade policy increasingly determined through judicial activism, which would expose poor states to the "tender mercies of rich, powerful nations".

US

A TEXT in pursuit of cooperative trade opportunities between the US and the Southern African Customs Union (Sacu) has been drafted, with only a few outstanding matters remaining. However, Carim did not foresee problems with wrapping up the negotiations.

ECONOMIC PARTNERSHIP AGREEMENTS (EPAs)

TRADE representatives of the EU and the SADC were scheduled to meet in Walvis Bay last month, after The SA Exporter went to press. According to Carim the position remained the same, with the EU still pushing hard for a deal that would include binding commitments on services. However, progress have been made on trading goods.

A proposal was to be tabled covering at least Sacu countries, but Carim was uncertain about the position of non-Sacu countries.

MERCOSUR

MERCOSUR cancelled a meeting scheduled for last month to finalise outstanding issues. An alternative meeting date has not been set.

INDIA AND CHINA

THE status of negotiations with India on the prospect of a free trade agreement remains unchanged. Studies into the effect of a trade deal with China are continuing.

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Juicy profits squeezed from fruit

Although controversial, the Coega IDZ gets a thumbs up from at least one of its tenants, writes **Sipho Masondo**

THE Coega Development Corporation's Industrial Development Zone (IDZ) was written off by many as a white elephant after it struggled to find an anchor tenant. The jury is still out on the issue, but that does not mean that the companies that have based themselves there should be tarred with the same brush.

Dynamic Commodities was the first operating tenant of the Coega IDZ and has gone from strength to strength since relocating from Port Elizabeth. The company does not have a very high profile, even in its own Eastern Cape neighbourhood, largely because a strategic decision was taken some years ago to focus entirely on international markets.

Dynamic Commodities supplies the US, Canada Korea, Holland, Denmark, Finland and the UK with top quality sorbet in fruit shell cups.

The company sources oranges, lemons, pineapples, grapefruit, apples and coconuts from all over Eastern Cape. "We buy most of the citrus from the Sundays River Valley and Patensie," says CE Adrian Vardy.

"We then clean the fruit, cut it in half, scoop out the flesh and freeze the shells. Afterwards we take the frozen shells into the plant and fill them with sorbet, pack and ship them to their destinations."

The finished products include blends of pineapple, coconut, orange, lemon, mango, passion fruit, red apple, green apple and ruby grape, although consignments of frozen fruit also constitute almost half of the business, both in terms of volume and profits.

Vardy says the company started out exporting fruit shells and frozen fruit segments to Japan, France and the UK back in 1996, operating from premises in Deal Party, a Port Elizabeth industrial area.

When the decision was made to refine the product and start exporting sorbet in fruit shell cups, the Industrial Development Corporation (IDC) was approached for help in acquiring an ice-cream making plant.

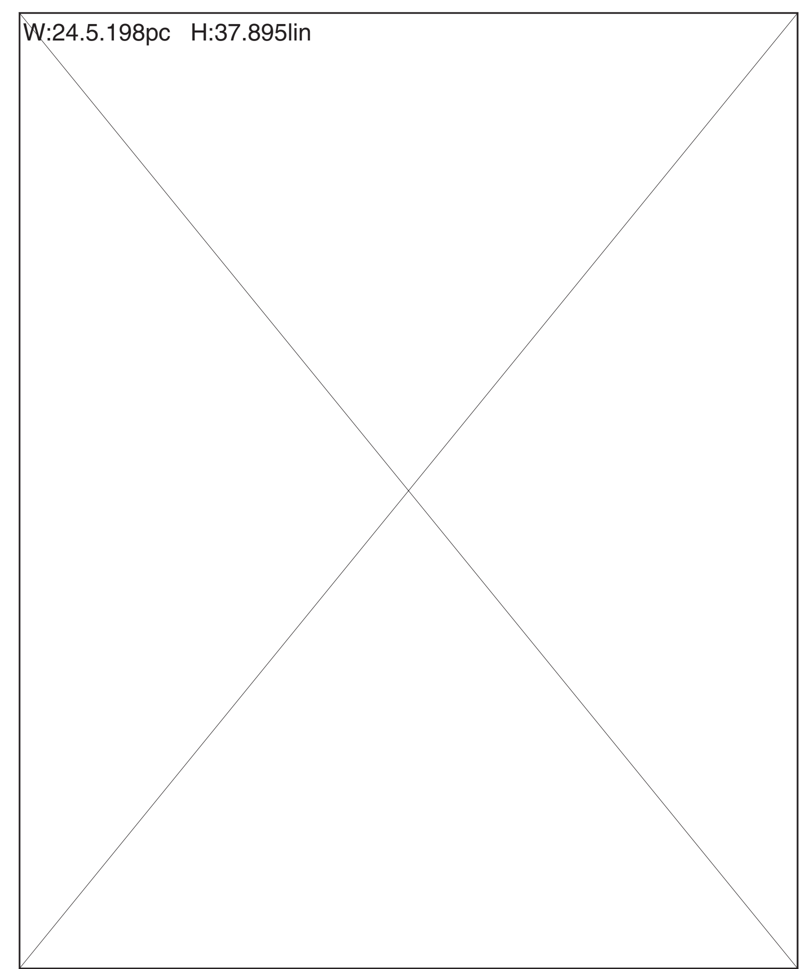
The success of this move was tempered only by the rand's dramatic appreciation in the early part of the decade. At an exchange rate of R5 to the dollar, margins were under severe pressure. However, the company's big break came when it started making use of the US Africa Growth and Opportunities Act (Agoa), which allowed companies based on the continent to ship their products to the US duty-free.

"This made a huge difference to our business as we had a competitive advantage and started shipping to the US, the biggest export market in the world," Vardy says. "We now ship 10 times more than when we started exporting to the US, and we could double our capacity again."

After the acquisition of the ice-cream making plant, the company increased its staff complement from the original 30 to about 140. After the implementation of Agoa, about 50 more staff members were hired. "The demand from the US was just so good that we realised that we had to grow even further," Vardy says.

"Coega had a vacant building in the IDZ and they were prepared to make certain changes to the building to meet our food specification needs," he says.

More funding was obtained from the IDC to equip the new factory in the IDZ, and double capacity once more. "The property and most of the infrastructure belongs to the CDC, but the IDC financed the processing equipment," he says.



Adrian Vardy… We had a competitive advantage and started shipping to the US, the biggest market in the world. Picture: SIPHO MASONDO

In February Dynamic Commodities moved into the IDZ, becoming the first tenant of Coega. "As a result, we now employ about 500 people, most of them from the previously disadvantaged community of Motherwell around the corner. We have a world-class facility, with management and quality systems to the best international standards."

Other than the 500 employees employed by Dynamic Commodities, there is also knock-on employment that the company creates in pineapple plantations in rural Eastern Cape. "Although the quality of the pineapples we use is good, they are normally reserved for cow feed as they are too small to harvest for consumption purposes. They have to get people to harvest them for us."

Operating a modern, world-class facility has meant more business for Dynamic Commodities. "Customers in developed economies have much confidence in us knowing that we meet the highest global standards," Vardy says.

He is full of praise for the CDC: "Many people are still sceptical of the Coega project, but I have no doubt whatsoever that this zone will work and will be a model for other zones in the future. I think they have a good team which is executing the projects tactically."

Vardy says his company is coming up against an increasing level of competition internationally, but is confident that with its new facilities and export experience it will continue to grow. And, independent blind taste tests repeatedly place the company's product at the top of the pile.

"We will grow enormously in the next few years. Our marketing in the US and Europe is growing, with more orders every day," he says.

In 2002 the company bagged the SA Food Review's award in the "best new product" category.

THE LAW's AN ASSET

Emile Myburgh weighs the merits of Angolan investment

JUST after the reunification of East and West Germany, after Berlin had resumed its role as capital the reunified Germany, that wonderful city quickly become known as the world's biggest construction site, as anybody who visited Germany in the nineties would confirm.

Nowadays, that title would be hotly disputed, but I would put a lot of money on Luanda currently being the world's biggest construction site.

The growth experienced by Angola (mostly thanks to its oil wealth) can be seen almost daily. New roads are being built, new buildings are going up and packed jumbos arrive there from all over. There are rumours of a new airport to be built to rival Johannesburg's OR Tambo in size and in the number of takeoffs and landings.

However, Luanda is hardly as pleasant a destination as Berlin (even though the airfares to both cities are roughly the same). The traffic is horrible, to say the least, and one should allow at least one hour to get from any one point in the city to another, even though the distance involved may be no more than 10km.

The patent poverty makes it clear that Angola still has a long way to go, and clearly, the beneficiaries of the growth have yet to start distributing it to the masses. Moreover, corruption is rampant, and if you plan to invest in Angola, be prepared to be asked for sizeable bribes.

Paying the bribes is, however, an issue for your own conscience, unless you are subject to the American Foreign Corrupt Practices Act, in which case the threat of Uncle Sam's $2m fine for paying a bribe — to come out of your own pocket and not that of your company — may be a further incentive for you to stick to the straight and narrow.

However, nobody can deny that, despite legions of problems, investing in Angola is worthwhile. So, once you've decided to get in there, what should you do next?

All foreign investment in Angola is subject to prior approval by and regulated by the National Private Investment Agency (known by its Portuguese acronym Anip), and only for investments larger than $100 000 and up to $5 000 000 (larger investments need to be approved by the cabinet).

Thereafter a subsidiary in Angola may be incorporated. The application for the approval of the investment needs to be accompanied by a sworn Portuguese translation of the parent company's articles of association and memorandum of incorporation, together with resolutions from the board authorising the company to invest in Angola, and there are certain other documents.

Also required is a business plan that sets out how and where the investment will be made, and to what extent the enterprise will benefit Angolans. These documents need to be in Portuguese (sworn translations if necessary) and legalised at the Angolan consulate — which is a costly procedure.

Upon approval of the investment plan, Anip issues a certificate of registration of the private investment (called a crip), which is essentially the key to start one's business.

Thereafter the company is incorporated and capital is transferred. If necessary, licences to operate in certain regulated industries (such as construction projects) must be applied for. In all cases the certificate must be produced. This entire process can take up to six months, and, despite promises by professionals in Angola that they can do it faster, I have yet to see it being done in anything less than that.

In some cases, such as retail, margin caps of 25% may apply, which can be quite complicated if your business model requires margins of more than 25%.

Purchasing property in Angola is also an interesting exercise. In most cases, you can't buy property in the sense that we in SA understand it in our Roman-Dutch law tradition.

Rather, you would acquire a right over the surface, or the right of usage for a limited period (which is renewable), through a concession from the state, which can be ceded to someone else.

Once the transaction has been formalised and the price paid, the documents are registered in the Angolan equivalent of the deeds office as well as at the so-called public conservatory. The South African notion where payment and transfer are effected at the same time does not apply in Angola.

The attorney responsible for the transfer also does not hold the money for the purchase price in trust pending transfer of the real right, as we do here, although this could be discussed if necessary.

However, when this idea was brought up during a recent trip to Angola at a meeting with an attorney, the idea did not elicit a lot of enthusiasm.

Despite the abundant opportunities in Angola, the bureaucratic processes are painfully slow (hence the incentive for insiders to have their palms greased to speed up the process).

Several delays and frustrations should be expected and it should be taken for granted that the process will not go smoothly, even though it will go through in the end.

I'm not writing this to discourage investment in Angola; it will take a long time to create efficient systems, and the current state of affairs is to be expected. But the rewards will be worth the effort.

■ *Emile Myburgh is an international trade and investment lawyer based in Johannesburg (EM@emilemyburgh.com).*

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Bleeping device easily worth its weight in gold

A technological breakthrough in the field of metal detection scanners has boosted an SA company's exports, writes **Abdul Milazi**

INDUSTRIAL electronic engineering company Saflec has enhanced its metal detection system with a unique walk-through contraption known as the Goldfinger, which can find even the smallest of metal particles in a human body.

This feature, which is supported by a proprietary technology, is helping the company pick up business from mining companies both locally and abroad.

Saflec chairman Bill Young says the company already has 30 of these units working all over the world, and as far away as China and Thailand .The company's best-selling product, though, is still the popular and commonly known 2000 Walk Through Metal Detector, which accounts for 20% of total sales.

Saflec exports to the UK, Pakistan, Bulgaria, the UAE, Taiwan, China, Poland, Malaysia, the US, India, Zimbabwe, Mali, Guinea, Uganda, Rwanda, Namibia, Mauritius, Mozambique and Zambia.

The company's turnover for the year to the end of February was R8,6bn, up from R5,9bn last year and R6,5bn in 2005.

Saflec holds world patents on its equipment and supports more than 60 agents worldwide. The company also leads the metal detection field in respect of the wide range of products it offers and the number of world "firsts".

"For example, we were the first to use fibreglass in a mono construction to build walk-through metal detectors. We are the most advanced company in the world in the difficult task of detecting gold and precious metals in very small amounts," Young says.

Saflec also manufactures the world's most popular hand-held scanner, the Garrett Super Scanner. "When used properly, it is extremely effective in detecting even the smallest of metallic objects," Young says.

"The Garrett Super Scanner operates in a very low frequency range and is completely safe for all scanning situations, including pregnancies and also for electronic devices such as pacemakers."

He says the company has a compete range of metal detectors covering all security needs and industrial metal detectors which are widely used in mining and industry throughout the world.

"Saflec is also very flexible in its manufacturing process and is capable of custom-designing metal detectors to suit specialised applications. Our standard range is made from durable fibreglass, and designed with ease of installation and maintenance in mind," Young says.

Saflec's range of walk-through metal detectors covers a wide range of applications in the security industry. These consist of relatively inexpensive but reliable units for general security use for weapons detection as well as theft, to highly sensitive detectors of precious metals.

Saflec has been in business for 22 years. Young says the secret of its success may be found in the strong bonds of loyalty that exists between staff — and the ability to react to a situation immediately with the minimum of delay.

"Saflec is an industrial electronic engineering company mainly engaged in manufacture and development in the field of metal detection and computer solutions for a wide variety of control and monitoring in industry and security," says Young.

Saflec also manufactures a range of industrial metal detectors for the protection of machinery, including crushers and saws in industries such as mining, coal plants and sawmills.

The detectors are available as standard to suit all standard conveyor belts, but in addition, the flexibility of Saflec's manufacturing process allows them to custom-design metal detectors for specific applications.

The detector coils are available in various forms to suit each specific application, and Young says Saflec's staff have a wealth of experience in the application of industrial detectors. The units are designed to be robust and constructed in modular form for ease of maintenance.

The Goldfinger heralds a new era of high sensitivity, analytical precious-metal detection and comprises a highly sensitive metal detector coupled to a computer.

Young takes up the story of the way in which the Goldfinger was developed: "We have been designing and manufacturing walkthrough metal detectors for over 26 years and each time we bring out a new model, which works better than the previous one, we take it to companies who are handling gold and precious metals and ask them to test it and give us their opinion."

He says that the new version of the detector was at first unsatisfactory and did not do the job, so it was back to the drawing board.

Bill Young… We have never made a hardware repair.
Picture: MARTIN RHODES

"We began noticing strange phenomena with the metal detectors. For example, when we had people walking through without any metal objects on them, and with the metal detector set at a fairly high sensitivity, with some people it would go off and with others it did not."

Saflec engineers then set up monitoring equipment to see what readings they would get with the same experiment, only to find that everybody had a different reading, and this they called the body effect.

"We began to understand why we were so unsuccessful with trying to find gold on a body. It was because the body gave off a bigger signal than the gold did , so in effect the gold was hiding behind the reading of the body. That was the first hurdle we had to cross," Young says.

Then next step was to design a metal detector that could find a small piece of metal. "About this time several factors finally pointed us in the right direction. First, we were active in the food processing industry, scanning prepared foods for unwanted metal and these detectors could find exceedingly small pieces of metal, but unfortunately come with relatively small apertures, too small to put a person through."

Saflec engineers then tried to apply the principle of this metal detection system in their bigger detectors.

"We started to wind new coils in the induction balance method, and after many failures we finally got it right . But it was back to square one as far as finding small pieces of gold was concerned."

Young says after enlisting the help of a computer company, the Saflec team realised that they needed to separate the body from the piece of gold they were trying to find, and let computers do the rest.

"This consisted of testing all people using the metal detector and lodging their individual readings in a data bank. When a person walks through the metal detector they identify themselves to the metal detector by means of their thumbprint. This then sets the metal detector to their specific reading and any deviation from that reading either up or down causes the alarm to go off."

He says the system is run entirely by a computer which prevents collusion between security and staff.

"The security staff are unable to tamper with the settings of the detector and only one very senior person is allowed to change settings. It gets a lot more complicated than that, but then that is only for the client's ears," Young says.

On after-sales service Young says: "We normally don't have service calls as the hardware is very reliable. In fact, we have never made a hardware repair. Problems come from what is known as finger trouble, where unskilled people fiddle with the computer and somehow lose the settings. But we have a solution for that — we advise the client to install a modem.

"Then we can set the system working again by telephone from our Johannesburg office."

He says there is only one other company in the world that makes something similar to the Goldfinger.

"The custom-designed software allows for complete control over all employees passing through the metal detector," Young says.

"The identification system used with the Goldfinger can be either bar-code card or pin number based, as any item carrying metal components cannot be carried through the metal detector," he says.

Saflec's major local clients include BMSC Engineering, Doculam, Eriez Magnetics, Fidelity Security Services, John Elliott Security, Lonmin Platinum Mines, Rustenburg Platinum Mines and R&D Screening.

Major export clients include Thermatool, Inductotherm, Danway and Activity Corporation.

"We are completely overhauling the present hardware and software of the Goldfinger, which will be aimed at upgrading existing systems," Young says.

"In the industrial range we are designing an intelligent metal detector for industry which will ignore nuisance metals such as beer and soft-drink cans, which cause no damage to processing equipment but severely hamper production.

Year-end export sales to February dropped to R262m from R777m last year, but Young says that Saflec will pursue exports aggressively once all the upgrades have been completed.