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Effects of localisation policy are being watched, says Ebrahim Patel amid cost fears

Limiting cement imports could have a huge inflationary effect on construction, property developers say

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Trade & industry minister Ebrahim Patel. Picture: FREDDY MAVUNDA

Trade & industry minister Ebrahim Patel says the economic effect of the various localisation measures will be constantly monitored amid concerns that the contentious policy could destroy the competitiveness of local industry and increase input costs.

Patel did not say whether a detailed socioeconomic impact study was conducted before the localisation policies were introduced recently.

In a reply to questions from the DA published in parliament last week but not yet reported on, Patel said there is constant monitoring of the effects of various localisation measures being implemented.

“As the localisation policies have been agreed with other social partners, both the business and labour constituency will be evaluating the impact of, and reporting on successes with localisation policies,” he said.

Localisation, which emphasises the use of locally made inputs in manufacturing, is central to government plans to revive distressed sectors such as poultry, sugar and steel. The policy, which is viewed by critics as a form of protectionism, calls on business to target 20% of nonpetroleum imports for local replacement within five years.

In a recent circular issued by the Treasury, the state banned the use of imported cement for state-awarded contracts after local cement producers argued that cheap imports are hurting their businesses and job-creation efforts. Players in the poultry, sugar, and steel industries have made similar arguments, calling for more measures to reduce imports.

Trade agreements

Patel said the government’s industrialisation and localisation policies aim to build and upgrade domestic production to supply domestic and foreign markets, support wider economic development and promote employment growth.

But critics argue that localisation is inconsistent with trade agreements that SA has signed, including the new African Continental Free-trade Agreement (AfCFTA) that is meant to create a liberalised market for goods and services continent-wide. There are also concerns that other African countries could impose retaliatory measures against SA industries.

Patel said localisation policies are “entirely consistent with SA’s international trade obligations, and building industrial capacity is the very purpose of the AfCFTA”.

“Indeed, other African countries see the AfCFTA as an incentive to their programmes to build agricultural and industrial productive capacity for export under the AfCFTA,” the minister said, suggesting that SA’s localisation policies would also focus on collaborating with African producers.

DA MP Mat Cuthbert who put the questions to Patel accused the minister of dodging direct questions, specifically on the socioeconomic impact assessment of the localisation policies.

In-depth analysis

“Patel’s response is merely a rehashing of the same protectionist line … I asked him a very specific question about whether the [department of trade, industry & competition] conducted a socioeconomic impact study and instead he chose to obfuscate. It seems as if they did not do the requisite homework beforehand,” Cuthbert told Business Day.

“Surely, before taking such a significant policy decision, logic would dictate that an in-depth analysis is performed to ensure that all economic benefits and consequences are accounted for. It is clear that he is not interested in evidence-based policymaking and can’t help but be driven by his own ideological dogma,” he said.

Western Cape property developers said the government directive limiting cement imports will in due course have a potentially huge inflationary effect on construction costs.

Deon van Zyl, chair of the Western Cape Property Development Forum, which represents the property development and construction industry in the province, said the production of locally manufactured cement highlights a number of local inefficiencies: the price of energy, the mining and water use licence regimes, labour costs and the general costs of compliance requirements placed on business in SA.

“It is extremely difficult to compete with imported manufacturers on equal terms. I find it unfortunate that the Treasury does not use the opportunity instead to investigate these efficiencies and attempt to correct them through the lens of wanting to protect local manufacturing,” Van Zyl said.

By supporting a locally priced product with inefficient input costs, the government will effectively be pegging the price higher than it should be, he said.

“If anything, this … allows the question to be asked: why does SA cement need to be so expensive? The challenge should be put to the Treasury to investigate and report on all input factors driving the price of cement and other building materials such as bricks ... Also note the impact that will play out for cement-brick manufacturers. With costs going up, the clay brick industry will follow suit and profit, notwithstanding that their costs have not necessary increased,” Van Zyl said.

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