

[Part Four]

EXECUTIVE SUMMARIES OF RESEARCH REPORTS (VOLUME A - 2005 SYNTHESIS REPORT)



Appendix [H] Agriculture Report Prepared by: Nick Segal

Agriculture is one of the pillars of the Western Cape economy. Although the Province accounts for some 14% of the country's GDP (from just over 12% of the country's agricultural land), it generates about 23% of the value added in the agricultural sector nationally. It accounts for over 5% of the Province's Gross Regional Product (compared with less than 3% nationally).

The sector has generally performed well over the past 30 years, having grown faster than the rest of the provincial economy since the mid-1970s, as well as faster than the national economy and also than since the mid-1980s.

The sector is a significant exporter, and the national boom of recent years has been the result principally of increases in the Province's exports. The top two product categories in the Western Cape's export basket are agriculture, viz. fresh, dried and processed fruit as well as wine.

Agriculture is an important employer in the Province. Some 14% of the employed population works in agriculture, hunting, forestry and fishing (compared with the little less than 8% nationally). Furthermore, in the period 1996 to 2001, employment in these activities increased by 32 000 (whereas manufacturing shed nearly the same number).

The production processes in the Western Cape are more labour-intensive than the country as whole, worker remuneration is considerably higher (farm workers in the Province earn 24% of all farm wages in the country, whereas they account for only 18% of the farm worker population) and farmers' income is above the national average. These two factors mean that purchasing power in the Province's rural areas is greater than the national average. (At the same time, it must be noted that farmworkers typically have much lower standards of living compared with workers in metropolitan areas and also with workers in other sectors outside metropolitan areas – despite nearly 13% of formal-sector employment in the Province being in agriculture in 1993, 2.6% of the total salary and wage payments derived from farm employment.)

Within the aggregate employment picture, notable trends are the substitution of labour by technology (consistent with global trends), the replacement of permanent labour by seasonal/part-time labour, the increasing use of contract labour and an increase in the number of woman employed as farm workers.



Agriculture is important to the provincial economy in a variety of other ways. These include providing the raw material for a variety of manufacturing activities and indirectly generating business opportunities in agro-tourism of which wine tourism is the leading example. Success of the sector is critical to the viability of small towns and settlements across the Province. In general there is good evidence that the multiplier impacts of agriculture are unusually favorable. Not all of the sector's impacts are however positive, as it can have an adverse effect on the natural environment, for instance.

One of the features of agriculture in the Western Cape is its diversity. As many as 11 commodities contribute significantly to agriculture production, with fruit, poultry, winter grains, viticulture and vegetables comprising more than 75 % of total output. Its diversity includes fynbos products, ranging from flowers through rooibos and a variety of herbal teas. A distinctive feature of the latter of these products is their "association" with often poor communities living in distinct rural areas.

All in all, in aggregate terms agriculture has performed well in recent years and some sub-sectors have enjoyed spectacular success. While the weakness (until last year) of the Rand was a cause of the latter, a variety of positive factors (restructuring of supporting and regulatory institutions, exploitation of niche markets both domestically and overseas, contributing to - and benefiting from - the boom in tourism, attracting foreign direct investment notably in the wine industry, and so on) also contributed directly to the good performance. Looking forward, however, irrespective of the level of currency, there are a number of constraints that could impact adversely on the productive capacity of the sector.

These include resource availability, the most critical being that of water because of the high dependence of irrigation. The continuing growth of the Province's urban population is already putting pressure on agriculture as so-called low-value user water. The "solution" will require investment in new irrigation systems and associated infrastructure, along with pricing and other measures to curb demand.

A second constraint lies in the land-reformed programme and slow progress in the overall transformation process. While achievements to date have been minimal (for instance, less than 0.8% of available agricultural land was transferred in the period 1997 to 2002) the

critical importance of accelerating land reform is undisputed. The worry, however, is that most of the redistributed land has been used for settlement and not for agriculture, and also that the institutional capacity to advise and support the new owners to farm efficiently has only just been formed. Clearly it would be unfortunate if land reform were to impede agriculture's performance. Subject to budget constraints, which will themselves shape the pace of land reforms, the problems identified will need to be addressed.

The third and last constraint to be mentioned is the increased and increasing

competition from southern-hemisphere producers, chiefly in Chile, Brazil, Argentina and New Zealand. The performance of the exchange rate will clearly be vital, but product quality control, supply-chain logistics and marketing will ultimately determine the continued success of the Western Cape's producers.

Looking beyond these constraints, there undoubtedly is potential for growth. For both rain-fed and irrigated land, an analysis by product category reveals significant opportunities both to expand existing (often niche) markets and to enter new ones.

Appendix [I] Fishing and Aquaculture Report Prepared by: Mohammad Karaan

The fishing and aquaculture sector research report consists of three parts. Part I provides a technical snapshot of the current environment within the industry. Part II discusses the trends and issues in the industry. Finally, Part III addresses repositioning strategies and policy levers for consideration by the PGWC.

The report starts with a discussion on the general features of the fishing industry, providing statistics on catches, landings and values of the South African fishing industry. A section discusses employment and income statistics for the country and the socio-economic contribution the fishing industry makes to commercial harbour towns in the Western Cape. It also looks at different measures of transformation and briefly discusses the regulatory environment of the fishing industry. This is followed by a short summary of major fisheries active in the Western Cape, which include abalone, deep-sea and in-shore hake trawl, hake handline, hake longline, traditional commercial line fishery, mid-water trawl fishery, pelagic, south-coast rock lobster, shark longline, squid, west-coast rock lobster, tuna, seaweed and aquaculture. Finally, the report gives an overview of the aquaculture industry in South Africa with specific reference to abalone, kelp, mussels, oysters, seaweed, trout and eels.

1.1 Current state of the sector

The total value of South African fishing amounted to R2,78 billion in 1999, and the Western Cape accounted for about 90% of the industry. Demersal trawl contributes almost 50% to the total value of the industry. The Western Cape exported fish with a total value of R2 418,4 million, representing 8,5% of total Western Cape exports and 73% of total South African fish exports.

The South African fishing industry employs 38 311 people of which 90% are black. The Western Cape employs approximately 70% of the workers and about 71% of the gross remuneration is earned in the Western Cape. The majority (90,6%) of workers in the commercial harbour towns of the Western Cape are black. 76% of the black workers are semi-skilled.

Transformation in the fishing industry is primarily the result of a change in the number and size of fishing rights allocated. Some 2 625 rights (or quotas) were allocated in 2001, of which at least 2 000 qualify as SMMs. The Department of Environmental Affairs and Tourism estimates that an average of 60% are majority PDI owned

(majority previously disadvantaged owned means 51% or more of the company is owned by previously disadvantaged individuals). This large number of rights allocated to PDIs or companies owned and managed by PDIs resulted in a large increase in the flow of income to impoverished fishing communities. Notwithstanding the progress made with transformation in the fishing industry, there are still issues concerning especially employment, income generation, skills development and distribution, as well as livelihoods.

Aquaculture is one of the fastest growing industries in the fishing sector, reaching growth rates of up to 25% in the latter part of the 1990s. The fishing industry faces a number of key constraints, which include (not necessarily in order of importance): resource limitations with increased demand for resource access, the continued marginalisation of small fishers, lack of co-ordination in the mari-culture sector, limited access to capital for new entrants and poor fishers, destabilising livelihoods in a seasonal industry, skills composition among traditional fishers and small operators, poaching and corrupt behaviour in certain industry niches and poor resource conditions in linefish and abalone.

The report suggests that the fishing industry in the Western Cape has the potential for development in a number of important areas. These include local beneficiation and value addition, improving the infrastructure and enhancing the status of women in the fishing industry.

An additional opportunity for future growth is the development of new facilities for aqua-culture and mari-culture. This would entail the selection of specific areas and would require co-ordinated government support in areas relating to skills development, market access, quality control, compliance standards, finance and work organisation.

1.2 Review of current issues / policies

The report highlights issues in the fishing sector related to resource management, marketing and value addition, human resources, technology-support services and transformation. The management of South African marine fish stocks compares favourably to international standards with the exception of abalone and linefish. Poaching is considered the main reason for the dramatic decline in total allowable catch, with a



significant reduction of some 35% from the previous year. Linefish stocks appear more intricate as the dwindling stock seems more a result of the volatile interaction between highly cyclical natural stock levels and fluctuating catch allocations. Moreover, this resource is becoming increasingly lucrative in domestic and foreign markets, with added pressure from small commercial-sector operators.

The fishing industry aims at increased value addition to local products. This requires support with emphasis on incentives for research and development for exports and for product development. Regarding livelihoods, the seasonality induces volatility in already impoverished coastal areas. This requires the introduction of alternative business activities.

The regulatory environment is well managed and policed. The regulation of fishing, rights allocations and related procedures are sophisticated and well developed, even though there is at times dissatisfaction among fishers and fishing companies.

Transformation in the fishing industry is well on its way with more than 60% of current commercial fishing rights with PDIs or companies owned and managed by PDIs. The empowerment of women in the fishing industry has not been afforded adequate attention. Black representation at professional levels is also still inadequate.

The report also reviews the aquaculture sub-sector, dealing with resource management, technology, trade and markets, research and development, the regulatory environment as well as human resources. Marine-resource sites and inland freshwater resources are documented. Saldanha Bay and Knysna lagoon are productively utilised for the cultivation of mussels and oysters respectively. The Langebaan lagoon had been acknowledged as a prime mari-culture site, until it was declared a conservancy and world heritage site. The challenge remains to reopen this area for ecologically sustainable farming systems. St Helena Bay has established potential for seaweed mari-culture. The

prospects are promising, but it is capital-intensive and involves imported technology and expertise. A critical concern is the locating of suitable sites along the south and the west coast for farming purposes. Furthermore, a key frustration with aquaculture development is the accessing of sites through bureaucratic administrative procedures. Fresh-water aquaculture has shown considerable growth in the Western Cape, but environmental controls have to be strengthened.

South Africa has successfully used large-scale mari-culture models, using high-energy water and capital-intensive systems. There is, however, need for technological adaptations towards smaller-scale models, more effective technologically, with lower risk and a more distinct impact on poverty alleviation. More research and incentives are required for this purpose.

1.3 Suggested policy initiatives

The report finally lists a range of repositioning strategies and policy levers linked to the issues raised in both fishing and aquaculture, which are appropriate for consideration by the PGWC. Three of these proposed government interventions are listed below.

First is the planning and implementation of a business development support programme for small commercial fishing entities. This programme would aim to empower small operators in the fishing industry through extending business-development services that will enhance their commercial viability and business orientation. The programme should also address women in fishing to attain fair representation and economic benefit.

Secondly, there is the facilitation of finance in terms of grants or convertible equity for small companies to invest in critical infrastructure. This could include capital for processing facilities, boat engines and large equipment, slipways and jetties.

Thirdly, it is suggested that the PGWC co-finances a mari-culture institute to focus in greater depth on the challenges of this niche.

The first part of the report reviews major international challenges confronting the regional clothing and textiles industries, summarises the national policy-framework and identifies major sector strengths, weaknesses, opportunities and threats. The second part focuses on PGWC policy and strategy interventions aimed to counter the present negative momentum of the two sectors, to support their re-positioning in relation to export and domestic markets, and to facilitate their operational upgrading.

J.1 The global context

The global trends have shifted production of garments and textiles towards the developing world. The key trade frameworks regulating this shift have been the MFA (Multi-Fibre Agreement) allowing USA, Japan and Europe to impose import quotas, and the Agoa (African Growth and Opportunity Act) allowing duty-free imports from Africa to the USA under certain production-conversion conditions. Most developing countries with quota restraints do not use the full quotas they are entitled to, but China, India and Indonesia have shown the most consistent and wide-spread near-saturation of quotas for yarn, fabric and garments.

With the MFA being phased out in January 2005, the critical issue is the impact of China on global trade. In such a quota-free world, experts predict that China's share of world clothing exports will double in less than five years, and that more than 80% of clothing production may move to China.

The Agoa rules of origin, on the other hand, require South Africa to undertake a triple-stage transformation (i.e. yarn to fabric to apparel) in order to qualify for duty exemption. This severely limits the ability to export garments under Agoa. Rules of origin tie the domestic textiles industry into the clothing-production process and therefore any textile weaknesses can have a marked impact on the success of clothing exports.

J.2 African market integration

Sub-Saharan Africa (SSA) sectoral exports are globally negligible but in country terms rapidly growing, primarily due to MFA quotas and Agoa opportunities. SSA exports are mainly low-price basic items such as trousers, t-shirts and sweaters that typically have long production runs, low labour content and few styling changes. The majority of SSA exports in the sector are not competitive in higher value-added segments where product styling and marketing play an important role. A disadvantage for SSA is

that it is not a particularly low-cost location. Labour costs are relatively high, productivity is low, lead times are long and non-labour input cost are higher than in Asia. Many SSA firms will therefore find it difficult to compete in a quota-free environment. It is unlikely that Agoa and EU preferences will be sufficient to keep the industry competitive outside of the man-made fibre and woollen clothing sub-sectors where SSA is competitive and where US import duties are high. ON the import side, the 40% tariff rates provides insufficient protection because of poor customs policing, combined with the strong Rand and commitments to the WTO to further reduce tariffs. All if this renders the domestic sector highly vulnerable to Asian imports. As a result there has been insufficient investment in the industry and a national decline in the number of clothing

firms in the past few years. South African clothing firms appear to be increasingly relocating to areas where they can pay lower wages to counter the price pressures from imports. The industry has stressed skills development, but the SETA lacks credibility among manufacturers and is not supported.

Two strategic conclusions are stressed. Firstly, to compete in the basic product range where most of South Africa's exports currently lie, the cost structure will have to be internationally competitive. Therefore, South Africa should focus on the "fashion-basic" segment which requires greater focus on delivery times, services, quality and product range rather than price. Buyers in this segment are usually looking for the complete package where producers supply services such as design, quality control, cutting, sewing, sourcing of raw materials, logistics and labelling. Suppliers need to manage these services while controlling costs. In addition, close coordination with textile producers will be required.

Secondly, since tariff protection from Agoa is lowest in cotton products and highest in synthetics and woollen products. Western Cape garment and textile producers should be wary of depending on exports of cotton-based products.

The Duty Credit Certificate Scheme (DCCS) is an export-incentive programme for the textiles and clothing industries, designed to encourage outward orientation. Yet the majority of the DCC are sold (at a 30 to 40% discount) to domestic retailers who use them to import garments and house-hold textiles, reducing demand for domestic products and hurting domestic firms. The DCCS is currently being reviewed and the industry has made a submission to National Government.



J.3 The Western Cape sector

The Western Cape clothing and textiles sector is vital for the provincial economy, but it has struggled lately more than the industry as a whole. Since the impact of a loss of this sector is uncertain, as no socio-economic impact studies have been undertaken, this report recommends that such a study to be conducted.

Although exports have increased since 2001 (but less than in the other provinces), the industry is still focused on short production runs for high end domestic firms. The cost structure of the sector (including wages) is higher than in other provinces. There has been a move towards firms becoming more design-orientated, which has resulted in factory downsizing and the outsourcing of the manufacture of garments to CMT operators. Since the local sector situates itself at the higher end of the domestic market, the report recommends that design- and marketing-related skills are upgraded.

A further constraint for the clothing industry is the shortage of domestically produced fabrics as well as the variety of local fabrics available. This inhibits firms meeting rules-of-origin requirements for exports, and forces them to import fabric. In fact, domestic textile firms have moved towards producing an even more limited supply of standard fabrics with large production runs and to produce more household and industrial textiles. Quite logically, the textiles industry is not prepared to invest substantially to supply the clothing industry given the lack of confidence in the future of the clothing industry.

Given the domestic-market focus of the Western Cape clothing industry, the end of the MFA will have a more detrimental impact than on other, more export-focused, provinces. Even free-trade agreements with China, India and Mercosur will create greater competition with imports in the domestic market; in fact they are likely to severely effect the textiles and clothing industries. If the Western Cape continues to focus primarily on the domestic market, it will capture a decreasing share of this market. If, however, the industry upgrades and improves manufacturing processes and skills, it might look towards a larger export market.

J.4 The road ahead

Under current global conditions and in the absence of interventions to radically upgrade the industry to make it competitive and shift its orientation, the future of the Western Cape

clothing and textile sectors over the course of the next five years is bleak. It is likely that the clothing sector's opportunities for expanding exports will decrease substantially and that these opportunities will also become increasingly restricted to certain niches – synthetics and some woollens and men's wear. As the clothing sector is also heavily orientated to the domestic market, if no interventions occur to assist firms to become competitive enough to deal with cheaper imports it is likely that import penetration levels will continue to increase over the next five years. In short, the clothing sector is likely to shrink rapidly. Without substantial industry upgrading, improvements in manufacturing processes and skills, as well as an increased focus on export markets, the Western Cape will only be left with a few firms, employing a small number of people and merely servicing niche markets. If the currency depreciates (which seems unlikely), the outlook for the industry will alter, but this does not change the fundamental need to increase competitiveness.

This analysis also covers the textiles industry in so far as it feeds into the apparel value chain. By and large, it equally applies to the household textiles sub-sector, which is under very similar pressures. The industrial/technical textiles sub-sector is in a potentially similar position to that of the Europeans, even if no interventions occur. It is likely to survive and perhaps even prosper on the back of its own innovative developments. The danger is, however, that as the mainstream textiles industry disappears, the technical institutional support on which this niche draws diminishes to the point where the sustainability of the sub-sector becomes threatened.

Finally, nothing will make the slightest difference if firms in both clothing and textiles do not significantly internalise the principles of world-class manufacturing and recognise the importance of upgrading. The report highlights the threat confronting both clothing and textiles, particularly in low value-added, commodity-based sub-sectors. This suggests that firms be assisted to significantly upgrade their production activities and operational performance in line with manufacturing-excellence requirements. To do so implies significant intra-firm learning, as well as high levels of inter-firms cooperation, in order to build learning networks and clusters that can assist enterprises upgrade so as to meet the requirements set by demanding global and domestic value chains. While demanding value chains may well assist in this process, there is a direct role for provincial and metro-governments to play to ensure that local service providers are funded and encouraged to stimulate inter-firm cooperation and to build learning and restructuring networks.

J.5 Sectoral policy and strategy levers

The first recommendation is that government should support a sector-cluster programme that seeks to enhance inter- and intra-firm efficiencies and provide incentives for smaller firms, including CMT's, to engage. This support should be given for a limited period (perhaps three years), with the programme assessed and evaluated against efficiency and productivity measures for the industry as a whole and for the participant firms.

The second recommendation is that the provincial government supports a centre for the clothing industry, undertaking training and research, and focusing on marketing, merchandising and design. This centre should be located at a local tertiary-education institution, with financial support limited (initially) to about three years.

The strategy levers identified in this schematic framework are set out below in point format.

It is recommended that the PGWC focuses on the following areas, as a mechanism for effecting positive, necessary changes within the regional clothing and textiles sectors:

J.5.1 Indirect policy influence on National Government

- Lobbying the national organs with respect to changes in industrial policy formulation.
- Lobbying nationally for changes in the implementation of the DCCS.
- Lobbying national organs to more effectively review industrial policy such as DCCS.
- Lobbying the DTI to monitor/evaluate industrial policy-support mechanisms.
- Lobbying the DTI to provide international comparative information.
- Lobbying the DTI to set up effective international/market-trend information collection.
- Lobbying the DTI for implementation powers with respect to supply-side support measures.

- Lobbying the DTI for provincial participating in sector-development councils.
- Influencing central statistics to collect detailed provincial sectoral industrial data.

J.5.2 Direct policy and strategy levers

- Set up a DCCS credit-clearing house for Western Cape clothing and textiles exporting firms.
- Set up a clothing and textiles information hub to provide the following information:
 - market information on global buyers to assist effective linkage to global value chains;
 - dissemination sector trade intelligence to exporting firms;
 - export information on how measures such as the DCCS or 470.03 operate, etc;
 - service-provider directories to assist supply-chain efficiency and linkage;
 - regional/local information on manufacturing trends, firm level data, analysis;
 - commissioned research on various aspects of the sector; and
 - specific information on different cultural markets firms are relating to, for example, language assistance for exporters, legal systems, unique credit mechanisms.
- Provide funding to engage in clear programmes aimed at raising competitiveness levels.
- Set up continuous improvement learning networks/benchmarking clusters to bring operational performance into line with world-class manufacturing principles and techniques.
- Become a conduit for implementing and monitoring the DTI's supply side-support measures.
- Interface with tertiary-education institutions to ensure consistent and continuous provision of various programmes for upgrading management and technical skills in the sector.
- Support clothing and textiles sectors centres of excellence, undertaking research and training in the provincial tertiary-education institutions.

- Profile/project a design/fashion high value-added focus for the provincial sector.
- Attract designers, fashion experts, high-level management to Cape Town as the fashion centre.
- Bring trade missions from other countries and set up strategic firm-to-firm direct visits.

- Focus attention on eliminating logistic blockages in the freight and harbour linkages.
- Facilitate a discounted uniform container-freight rate with freight forwarders.
- Ensure SETA efficiency to raise skills levels of lower management and labour.

The metals- and engineering-sector report provides an overview of both national and provincial trends, focusing on specific sub-sectors, like basic metals and structural steel, metal fabrication and engineering, foundries, shipbuilding and repair as well as boat building. The industry grouping is defined to exclude automotive and machinery manufacture from the analysis, but includes the tooling industry. The key objective of the report is to assess industry dynamics in order to identify potential areas for repositioning and possible levers for government intervention and support.

K1 Current state of the sector

National data indicate strong growth in the basic metals industries with non-ferrous metals recorded as the strongest growth rates over the past fourteen years. Notwithstanding government's strategy of moving towards increasing beneficiation and growth in downstream industries, the reverse has been occurring, with South Africa increasingly a producer of relatively unbeneficiated upstream products. This has concrete implications for the Western Cape economy.

The broad group of metals and engineering has experienced poor growth and declining employment levels since 1995. The best performance within the industries has been iron and steel, but the key challenge is to use the local production downstream industries, which are relatively labour-intensive.

The Western Cape has clear advantages in South Africa's integration into the international economy related largely to geography – in simple terms, coastal locations are in a better position to take advantage of opportunities from international trade, technology and production networks. The ways, in which this integration impacts on the provincial economy, and the impacts on different economic sectors, depends to an important extent on actions by government. Broad-based manufacturing growth depends on the patterns of competitiveness in the provincial economy. Competitiveness in the context of being able to deliver on design, quality and delivery dimensions requires vibrant firm clusters and effective local institutions. In the absence of an appropriate framework the Province will continue with exports of unbeneficiated metals and in niches such as yachts, with relatively limited returns to the wider economy.



The broad approach here is in line with the thrust of government's industrial, trade, technology and skills policies. The challenge is to ensure effective implementation. This relates to building/developing effective local institutions and to information gathering, analysis and dissemination. Together this will mean that PGWC is able to play a crucial co-ordinating role by building linkages between different programmes, ensuring coherence and consistency, and identifying and removing bottlenecks. This is also very important if government attention is to be directed to less high profile sectors and industries, which may have much greater potential to absorb low-skilled labour and thereby contribute to poverty alleviation. By comparison, an investment marketing approach will inherently be drawn to higher-profile sectors. This does not mean that these be ignored or downplayed, but instead place greater emphasis on co-ordination and ongoing assessment to ensure consistency of programmes with PGWC's priorities.

K.2 Future growth prospects

For growth of downstream industries firms must be internationally competitive. International trade is much more significant now than five or ten years ago. The coastal location and relatively good skills base in the Western Cape places it in a good position to benefit from the opportunities on increased integration into the international economy. But these opportunities require co-ordinated government interaction in areas relating to the upgrading of firm capabilities, skills development, technological capabilities, technical services, investment in machinery and equipment, market access, supply chains materials quality, quality control, compliance standards, access to finance and work organization.

The research analysis indicates examples that demonstrate the broader potential areas of industrial growth and development. Aside from the obvious case of yachts, the development of the foundry industry in the Western Cape is striking. The growth has been partly catalysed by the dynamism of the auto sector, despite the absence of a major OEM in the Province. In addition, the growth has been built on the development of inter-firm co-operation, including specifically training. This contrasts with the failure of the industry at the national level to develop a coherent training strategy, something that it is currently working on using the Western Cape's experience. The foundry industry is also significant as it produces important intermediate inputs to a wide range of other

manufacturing sectors, including machinery and equipment. It is not particularly labour-intensive, but neither is it especially capital –intensive. Rather, investment in up-to-date capital equipment goes hand-in hand with being able to deliver on product specifications and, as evidenced in the Western Cape, significant employment growth.

In addition, the research indicates that there is great diversity within sub-groupings and that firm-level considerations are very important. This means that the range of factors which relate to building firm production capabilities, including the organization of production, firm strategy, access to finance (especially of small firms), etc. Benchmarking is one tool by which these factors can be addressed. It demonstrates to firms what can be achieved, and motivates to learn from best practice among their peers. Benchmarking is recommended as a broader adoption. The foundry industry is a possible one to explore, as firms are aware of its impact in the auto sector and are already engaged in inter-firm communication.

Overall, the research analysis suggests five main interrelated planks for consideration by the PGWC in advancing regional economic growth and development:

- Address cost competitiveness issues (including steel prices); these are impeding the performance of labour-intensive, relatively basic products.
- Action-orientated plans to ensure that policies for skills and training are being effectively implemented. Are firms using the skills levy, are local institutions providing the appropriate courses, etc?
- Monitoring the various technology initiatives and identifying where provincial- and local-government facilitation can ensure the potential gains are realised (including the National Tooling Initiative, Advanced Metals Initiative, etc).
- Mechanisms to build inter-firm communications and co-operation, such as benchmarking (specifically proposed for foundries).
- Selection of a small number of target areas where government action can facilitate significant expansion, of which ship-repair and shipbuilding are examples.

K.3 Current policies

Across the industry groupings one finds dynamic and leading firms. Indeed, it is perhaps a surprise to find very successful and export-orientated foundries making products for the auto sector while there is no auto OEM located in the Western Cape. In ship-building and repair, activity has been increasing in recent years, albeit from a small base. The growth of boat building (yachts) is impressive – building on a historical base through increasingly sophisticated activities requiring design, marketing and production technology. In yacht manufacturing, while the strength of the Rand has meant poor performance by many firms, there are several that due to their orientation and strategy are performing very well. This does not mean that we are reduced to firm specific stories, but that important emphasis needs to be placed on factors related to the building of firm capabilities. Skills development and support for the adoption and adaptation of improved technologies are crucial here. These in turn go to the importance of local institutions, which are orientated to the needs of firms and their workers. The analysis also suggests the value of firm benchmarking and clustering. The success of some firms suggests importance lessons to be learned from greater inter-firm communication.

Industrial groupings in metals and engineering have developed largely in the absence of any purposive government action, with the one exception being state support for the expansion of the steel manufacturing at Saldanha. However, this initiative has not translated into increased downstream production. One of the proposed initiatives is specifically based on a change in government policy in this regard to address steel pricing in the local market.

There is also currently a set of important national-government frameworks, which need to be implemented in concrete local actions. These include for instance the Tooling Initiative and Advanced Metals Initiative falling under the Advanced Manufacturing Technology Strategy, and the development of proposals for technical centres and innovation networks.

K.4 Key policy initiatives

The research report concludes with a matrix providing three classes of interventions: industry-specific, cross-cutting national (addressing issues of common or national concern) and cross-cutting provincial (addressing issues of common industry concerns in the Province). These interventions have to be prioritised and carefully unpacked. However, listed below are three possible initiatives and interventions for consideration.

K.4.1 Saldanha steel beneficiation cluster

Current negotiations by National Government of a developmental pricing framework for steel (to be extended to other basic metals and chemicals) will mean that downstream activities that are currently uncompetitive (both in relation to imports and exports) will become progressively more competitive depending on the phasing agreed on. If it is similar to the deal already in operation in motor vehicles then it implies approximately a 20% reduction in steel prices from the import-parity levels. Taking advantage of this means those other constraints to firm growth and new firm entry will become relaxed. The growth of downstream metal products activities will increase local demand for steel and reduce the amount that Iscor has to export – meaning a win-win outcome. Given the labour-intensity of metal products activities and their relatively low-skill requirements it would be appropriate for a task team to examine obstacles to expansion as part of discussions around increased beneficiation of steel from Saldanha (and Duferco).

The establishment of a service centre already means that steel can be cut and slit for use by fabricators, and there are several firms engaged in manufacture of products such as palisade fencing for export. It should be emphasised that there are very large employment-creation opportunities of a mainly low-skilled nature in metal fabrication.

A Saldanha steel beneficiation cluster requires:

- the PGWC to ensure beneficial pricing for local firms;
- an industrial development plan for the area, the current lack of which apparently is holding up further industrial growth (despite the location of heavy industries in the area);
- provision of infrastructure of firms making Greenfield investments and for those expanding their capacity and employment; and
- a commitment to provide the appropriate training support.

K4.2 Ship-building

There is a major opportunity for the PGWC to develop a shipbuilding industry focused on smaller vessels such as tugs and harbour craft, targeted particularly at the west African market including oil and gas. The only producer currently is performing well, and there is interest from new entrants. A key obstacle to accessing export

markets within Africa is the financing currently provided by European countries to buyers of their exports of ships. A competitive financing package is therefore required and would be consistent with Nepad objectives where South Africa becomes a major supplier of ships to other African countries.

A Western Cape Shipbuilding initiative requires, among others:

- identification of sites for major new shipbuilders and appropriate infrastructure provisions;
- identification of potential investors, foreign and local;
- development of a “package” , including export financing, local design and utilisation of research capacities of tertiary institutions;
- a steel pricing deal for shipbuilding firms; and
- an industry development body.

K4.3 Expansion of the ship-repair infrastructure

The demand for ship-repair services is set to increase rapidly with the boom in sea freight and the increased shipping activity up the west coast of the African continent. The Western Cape has a major natural advantage due to its location. The biggest obstacle is simply the capacity and organisation of the relevant infrastructure. Skills constraints are also becoming very important with the lack of a structured approach to appropriate skills being an obvious gap.

Sustained growth of ship-repairs requires:

- establishing/improving learnerships for artisans in technical colleges;
- an evaluation of trends in repair over the next five to ten years, and expansion plans for the Province; and
- marketing of Western Cape ship-repair strengths.

Appendix [L] Oil and Gas Report Prepared by: Mark Beare

L.1 What is COGSI?

The PGWC has taken the bold step of promoting a cluster initiative, namely the Cape Oil and Gas Supply Initiative (COGSI) to take advantage of increased UOG activity. This initiative has the tenuous support of National Government, indicated by the formation of the national Oil and Gas Task Team (the OGTT) chaired by the national Department of Trade and Industry (the DTI) to provide national strategic direction to the upstream oil and gas initiatives.

The UOG value chain has three distinct facets, namely production, sourcing and marketing. The first is self-explanatory and relates to tangible competitiveness, the second relates to looking back along the supply chains to identify the logistical advantages and disadvantages that one has and finally the marketing is forward looking and relates to the reaching out to both the supply (sectoral facilitation and promotion) and demand (outward branding in the market) sides. COGSI, as the only identifiable institution constituted formally to promote an UOG cluster, also has both public and private sector networks that can be used to facilitate the alignment of the production, sourcing and marketing activities whilst not actually getting involved in the organisation of the production hub and sourcing supply chains. Consequently, COGSI's role would be to leverage alignment between the supply, production and consumption aspects of the value chain.

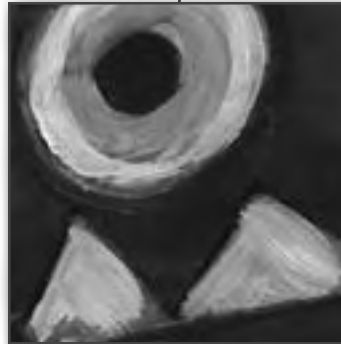
COGSI has been launched to promote a collaborative and competitive supply hub/ cluster located in the Western Cape. This cluster initiative signifies an institutional competitive advantage from value chain alignment perspective. COGSI identified four segments of the UOG services value chain as those to be pursued. They are the supply of services, the repairs and maintenance of offshore installations and vessels, and the fabrication of PAUs.

The PGWC's UOG service cluster initiative is however dependent on the achievement of the following critical or necessary conditions for success:

- 1) Close alignment of government, private and state owned commercial enterprise stakeholders to promote collaboration nationally; to provide coherent policy clarity

and foster consensus around shared and common goals; and to prevent unnecessary competition for resources from competing regional initiatives and commercial investors.

- 2) Transparent collaboration processes to integrate the current disaggregated competence into a cohesive national capacity that can deliver consistently reliable service in time, in spec and in budget. This should include early involvement of contractors in field development decision-making processes and the unhindered flow of information and knowledge.



L.2 Is there an opportunity in the UOG sector?

The answer to the question is a qualified yes. While UOG opportunities are substantial, long-term success is contingent on the achievement of an 8% new build fabrication market share over the next five years. While there is an assumed strategic advantage for South Africa in relation to the Far Eastern and American suppliers, the Western Cape is at a location disadvantage relative to the Nigerian, and to a lesser extent Angolan, coastal sites and the presence of South African based engineering competence is no assurance of competitiveness. To date there is no concrete evidence that a comparative analysis of South Africa's steel and engineering sectors has been conducted by the Department of Economic Development (DED) prior to the launch of COGSI.

L.3 Is the Western Cape well positioned to deliver on this potential opportunity?

From a productive and sourcing perspective South Africa, and more specifically the Western Cape, does not immediately offer any advantages. Import parity pricing (IPP), uncompetitive domestic logistical networks and severe labour shortages all undermine the competitiveness of both the steel and engineering sectors. In other words, the Western Cape has no immediate advantage from a production or sourcing perspective with regard to the West African UOG services sector.

However, through COGSI, the Western Cape has the tactical first mover advantage of leveraging a comparative advantage with regard to the organisation of the UOG service supply value chain in relation to the West African market. How well it is

positioned, is debatable, since COGSI is currently a Western Cape based cluster initiative with the production located elsewhere in South Africa, uncertain sourcing capacity whilst the market it is trying to penetrate is located in West Africa.

In order to align this regional 'cluster', COGSI needs to be extremely well networked within the private and public sector. Currently the challenges facing the COGSI 'brand' are the urgent need to promote a regional unlocking of the sourcing potential and convincing the market that it can deliver solutions to these challenges. In other words, the potential cluster has three key features:

- 1) An optimally located fabrication hub supported by dedicated and purpose built infrastructure marketed through a national brand – the South African Oil and Gas Alliance.
- 2) The competitiveness of the hub, in terms of the production (steel and engineering sectors) and the sourcing (transporting fabricated components from behind the inland to the coast and then to the West African market).
- 3) The regional alignment of the value chain with the regional sectoral and development trends in the West African UOG market in order to realize any competitive advantage through penetration into the target market. This third objective should be the focus of the COGSI initiative.

Therefore, COGSI represents the Western Cape's astutely leveraged comparative advantage from an institutional and geopolitical perspective. While COGSI has little scope to organize production or sourcing, it is well positioned to market the productive and sourcing capacity available. COGSI is therefore nothing more than a tactically launched institution with a potential brand that needs to market itself. It is not a production or sourcing hub initiative, but first mover tactic designed firstly to promote the Western Cape in the UOG sector and secondly to leverage clustering by promoting South Africa's competence and capacity in supplying goods and services into the West African UOG market.

However, if COGSI is to draw in other stakeholders, it has to have a commanding and inclusive identity. The advantage of a national identity is that it sends a powerful message to the market that the initiative has 'national' backing and also promotes an inclusive environment for various stakeholders to participate in the marketing process and therefore have the opportunity to achieve early or first mover entry into the market. The more innovative aspect of this is how to generate and leverage

opportunities to listen and learn in a collaborative environment, which promotes information flow and knowledge sharing. The various stakeholders need to have a forum(s) where the pressing issues of the market can be deliberated transparently by all stakeholders.

In addition, there is a need to bring in West African stakeholders and operators into a regional 'clustering' process and promote the brand into the West African market. A nationally branded cluster ('NOGSI') should aim to 'include' the national steel and engineering production components (and any competing clustering initiatives) and convince them that it is best positioned to leverage market access. 'NOGSI' would also need to facilitate the integration of supply chains that can deliver product to the Western Cape fabrication/sourcing hub (due to its location advantage vis e vie the West African market) for reliable delivery into the West African UOG market.

While COGSI may not coordinate the production activities, it can play an important facilitation role in coordinating the marketing efforts of South African companies. South Africa has a well-developed steel and engineering industrial base. However, it is inland based, not organized to promoting itself into the UOG sector and even less so the West African market. This is even more important in South Africa where the production is dislocated from the market and efficient logistical coordination is required to provide competitive connectivity of the inland fabrication to the offshore market.

L.4 Main recommendations

The main recommendations arising from this research are as follows:

Recommendation 1 Promote COGSI as a nationally identifiable brand

COGSI can use this to leverage first mover advantage to facilitate the organisation of the South African based production and sourcing in order to grow the 'COGSI' brand, and to subsequently organize the regional value chain through a powerful and well-coordinated marketing campaign.

COGSI needs to build a national cluster, which is sensitive to, but not determined by, local parochial interests. This national cluster needs to be 'regionalized' in order to provide an inclusive environment in which the 'COGSI' brand is sold. The regional organisation of the value chain should promote integration that will leverage collaborative behaviour throughout the region paving the way for the promotion of South African companies and fabrication sites within the regional 'cluster'.

Recommendation 2 Conduct a benchmarking investigation

The DED needs to urgently conduct a comparative competitiveness or benchmarking exercise to ascertain the real advantages of the South African steel and engineering sectors from both a production and sourcing perspective. The purpose of this is to provide decision makers and investors with accurate data to make less risky investments and to more efficiently and productively deploy human resources to pursue market opportunities.

The UOG sector is essentially a global steel and engineering driven value chain where the competitiveness in fabrication is driven by the cost drivers in the two sectors. Import parity pricing in the steel sector and the spatial arrangement of the engineering sectors places South Africa at a logistical disadvantage as engineered products have to be transported to the coast for shipping to the West African market. However, it is important to determine whether the disadvantages that seem to dominate in any high level strategic analysis of the steel and engineering sectors are absolute or not. A comparative (or benchmarking) analysis will enable decision makers and investors alike to determine with a degree of precision as to what comparative levers exist to relatively reduce some of the disadvantages to make South African fabrication industry competitive.

Moreover, the DED must step in and leverage the development of the hub and investment in production. The DED needs to play a greater role in leveraging national political championship of the UOG brand. National Government can then be more proactive in leveraging market access through the regional and bilateral trade negotiations. The DED also needs to play a greater role in assisting COGSI to galvanise the hub (as distinct from the cluster), as this should be based in the Western Cape. It will be COGSI's task to market the location of the fabrication hub in the Western Cape as part of the brand development.

From an investment perspective, the DED can directly leverage incentives, which COGSI cannot – the PFWC, however, needs to know the incentives will generate value in terms of economic growth and job creation. Hence, DED needs to conduct an urgent comparative/benchmarking analysis so that it can make informed decisions that demonstrate the

political will to support to the fullest any appropriate production initiative that has a competitive advantage and commercial interest from the private sector. Moreover, such a benchmarking exercise will ensure that the DED is able to promote the hub around the correct components in the first instance – i.e. those that have a comparative advantage or at least will be able to leverage the same in the near future.

The value of such comparative/benchmarking analysis will be realized when COGSI and the National Government take the information and turn it into evidence to promote collaborative regional behaviour that will leverage mutually beneficial resource allocation throughout the region. In order to achieve this, COGSI or a facilitator needs to align the local, provincial and national authorities towards an end state where COGSI or its nationally branded successor has a standing invitation on trade delegations to West Africa.

Recommendation 3 A regional conference, including stakeholders from the West African market

While this political leverage role of government stakeholders will be critical to the success of COGSI, the market players can also be aligned through a COGSI initiated regional 'competitiveness/clustering conference' which provides both a forum and vital information for COGSI to establish the market linkages. Once the cluster is 'regionalised', then the purpose of such conferences would be to keep the region ahead of the developments to sustain its competitiveness. In the short term we cannot bring the market to South Africa, so we must bring the stakeholders to South Africa to impress them with our location, infrastructure and industrial base. A well-managed conference will be able to articulate the South African brand and its value to the region.

Recommendation 4 Empower COGSI to deliver on these recommendations

The next six months will be critical for COGSI. The above recommendations need to be delivered within the next 6 to 8 months. However, more analysis is required in three areas critical to the success of COGSI, namely, South Africa's competitiveness in production and sourcing, the institutional arrangements required to leverage the 'NEPAD factor', and to leverage infrastructure development in the Western Cape. It is recommended that additional research be commissioned in these areas as soon as possible.

M.1 State of the Sector

As reported in the first electronics sector paper, the electronics industry in the Western Cape is a small but innovative industry that has proven itself world-class in terms of innovation and niche production. It was determined that in 2004, the electronics sector in the Western Cape contributed approximately R13.6 billion to the total national electronics output of approximately R62 billion. The sector developed, similarly to Israel, out of a necessity due to the fact that stringent trade embargos limited international trading opportunities. The requirement at that time was also fuelled primarily by the defence and parastatal industries.

The Western Cape electronics sector consists mainly of a handful of players with each a specific focus of production ranging from defence electronics to telecommunications and security and risk management related electronics. The sector in the Western Cape consists out of approximately 74 companies of which the majority focuses on manufacturing. Manufactured components include printed circuit boards, temperature systems, voltage sensors, battery chargers, heater controls and oxygen utilisation rate meters. Electronic systems are designed and produced to support



a variety of industries including telecommunications, automotive, IT, consumer electronics, power electronics, defence, aerospace, security and testing – most of these sub-sectors contain no more than five electronics companies.

Most of the companies in the sector are micro companies. The following table categorises some of the companies according to their sizes. These figures have been extrapolated from ratios obtained from the Research Study into the Contract Manufacturing sub-sector of the Electrotechnical industry in South Africa (2004) and normalised with industry interviews.

Specific industry focus areas also thin with each large manufacturer more or less focusing on its products with little or no local competition. The sector has some sophisticated manufacturing facilities, although a limited amount of large volume manufacturing is done. Production activities are more characterised by lower volume niche manufacturing activities.

The innovative spirit and capability of the Province is fuelled by the proficiency of the skills base in the electronics industry consisting of highly skilled engineers of world-class standard. The labour force and lower and middle management structures, although relatively expensive compared to Asian counterparts, is experienced and also have a high base of technical expertise. The high level of expertise and knowledge in the sector can be contributed to the easy access to the three top-class tertiary institutions, not only contributing to the delivery of a good grade resource but also responsible for ground breaking research and development. The further stability of the labour force is seen to be a competitive advantage, with little staff turnover and high levels of employee satisfaction. However, due to the relative low economic activity in the electronics industry in the Western Cape, the sector does not seem to have the potential or capacity to create significant employment opportunities.

The high level of innovation in the electronics sector in the sector Western Cape is found in design, low-volume manufacturing, customisation and problem solving. Its propensity to satisfy customer needs, willingness to facilitate practices outside normal product offerings (in order accommodate these needs) and flexible service delivery, can also contribute to competitiveness.

Table M.1: Electronic companies in the Western Cape

SIZE	NUMBER
Large (>200 employees)	4
Medium (51 – 200 employees)	12
Small (20 – 50 employees)	22
Micro (< 20 employees)	36
Total number of companies	74

Although the National Government is promoting the industrial and competitive growth of the economy by promoting research and development and innovation through a variety of programmes, the direct effect on the Western Cape electronics sector has been limited to date. However, this sector has huge potential for growth as learned from experiences by other international players such as the Asian Tigers.

M.2 Challenges

The following factors, which impact negatively on the ability of the electronics sector to compete, have been identified:

- The South African electronics sector products are not price competitive with the low-cost imports from the Eastern countries. For this reason, the manufacturing of electronics has been declining steadily, forcing many companies to seek niche markets. The direct effect is that South Africa imports low volumes of electronic components for assembly in the country, contributing to the higher cost per unit of the final product.
- The cost of labour is high compared to other countries such as Malaysia. This cost leads to higher prices, hence lowering competitiveness. Labour rates range from as little as US\$0.70/hr in Asia comparing to approximately US\$3.75/hr in South Africa.
- Logistical difficulties arise as a result of South Africa's distance from significant electronics markets.
- A short-term view of research and sector development initiatives. For example, SPII only addresses the embryonic stages of product development, does not meet further direct costs, and the R1.5m ceiling is insufficient for most R&D expenses in the sector.
- The lack of communication between sector stakeholders – A lack of proper formal communication channels and resulting in ineffective cooperation, which inhibits the proper functioning of the sub-sector as a whole. Many opportunities have been lost due to a lack of communication between original design houses, suppliers and contract manufacturers, when products and service were imported for local manufacturers or exported for further processing, rather than looking to local manufacturers, which could deliver the same function at similar prices and quality standards.

- Industry fragmentation – Although an electronics industry body in the form of the EIF exists, companies typically do not give much support to the associations as they feel it is a waste of time and that it does not add value to them as a business. For this reason, the EIF and other similar associations find it difficult to work as one body with one voice.
- Marketing and promotion – the Western Cape electronics sector does not enjoy adequate joint marketing and promotion. Efforts are largely focused on Gauteng and individual companies are responsible to promote themselves.
- Responsiveness to technological advancement – The local electronics industry is reactive rather than proactive compared to international marketing and technological trends. If the South African electronics industry wants to enter the high-value, low-volume, customised, flexible or design-oriented market, it is of the utmost importance that products should be of high quality and comply with technologically advanced standards.
- Insufficient investment in research and development – Research and development is the cornerstone of any business that thrives on building a concern based on strengths such as design capabilities, customisation and flexibility in product offerings. The Western Cape Electronics industry should therefore invest a similar or even larger proportion of its net profits in research and development, than is done internationally.
- The cumbersome application process for incentive programmes hampers investment flow into the Western Cape. Industry experts agree that the process is too time-consuming with too much “red-tape” and the process is daunting for potential applicants.

In response to these identified challenges, a number of reactive initiatives could be proposed. However, it is important to consider the policies and programmes that National Government has launched to promote the development of innovation and advanced technological capacity in the knowledge intensive industries of the country. The majority of these policies were not necessarily designed for the electronics sector in particular, although it is important and can be benefit from it.

These policies include:

- The Integrated Manufacturing Strategy (IMS)

- The Advanced Manufacturing Technology Strategy (AMTS)
- The Provincial Advanced Manufacturing Technology Strategy (PAMTS)
- The National Research and Development Strategy
- The Convergence Bill
- The Support Programme for Industrial Innovation (SPII)
- The Technology and Human Resources for Industry Programme (THRIP)

M.3 Proposed future steps

Taking into account the disparate nature of the Western Cape electronics sector, with no clear areas of specialisation or differentiation and a relative low-level of representation in a variety of different sub-sectors, it is difficult to highlight a specific growth area.

Also, in considering the various current initiatives already implemented by the National Government to stimulate and promote the development of the industrial capability of the country, of which the Western Cape electronics sector forms part and parcel, it is therefore not viable to recommend a specific growth strategy or policy for the Western Cape. Rather, it is recommended that a greater alignment and leveraging of national programmes should be pursued while maintaining the industry in terms of research and development, skills base and innovation, through generic strategies/policies.

Recommendation 1 Create an attractive environment for Multinational Companies (MNCs).

Various aspects such as incentives, infrastructure and risk finance need to be in place to attract MNCs. While incentives such as EMIA and FIG currently exist, the PGWC should rather concentrate its initiatives on creating an environment conducive to attracting MNCs by amongst other initiatives, including the establishment of an IDZ.

Recommendation 2 Maintain skills base.

Continue to upgrade the services provided by ISETT SETA to support the requirements of the sector to enhance the skills of labour and lower management and also continue to upgrade research and development and design skills to stay in line with the latest technology developments.

Recommendation 3 Maintain Research & Development and Innovation spirit.

In order to stay abreast of technology developments and identify development trends and growth opportunities continued research and development should be promoted. The current AMTS, IMS, SPPII and THRIP programmes should be better utilised for this purpose. The PGWC could lobby the DTI to streamline the delivery mechanism of these programmes to ensure better uptake by institutions and private firms.

Recommendation 4 Protect Intellectual Property.

A critical enabler of focused research and development is the assurance to top innovators that their intellectual property will be protected. The issue of ownership of IP is also a critical inhibitor of collaboration between universities and private firms. A recent study³⁰ found that adequate intellectual property protection is cumbersome for domestic investors to obtain. The study reviewed South Africa's IPR regime and revealed a rather mixed picture of the state of IPR protection in South Africa. IPR laws are considered 'state of the art', yet their implementation is often found wanting. In addition, whereas adequate intellectual property protection is cumbersome for domestic inventors to obtain, it is at times so ferociously defended when (mainly foreign) patent owners are involved, that technology dissemination could be hampered.

Recommendation 5 Stimulate the market.

The local electronics sector can be supported by promoting the products and services through and to trade delegations by WESGRO. Dissemination of international market information and trade practices will enable local companies to better position their offerings. The ability for local companies to interact with South African embassies abroad to obtain market information should also be encouraged and the vehicle and contact points for such interaction should be established.

³⁰Intellectual Property Rights in South Africa: An Economic Review of Policy

Appendix [N] Biotechnology Report Prepared by: Access Market International (Pty) Ltd.

N.1 State Of the Biotechnology Sector in The Western Cape and Future Projections

Since the injection of the Cape Biotech Initiative in December 2001, the biotechnology sector of the Western Cape has grown through the creation of the Cape Biotech Trust (CBT), amongst other initiatives, and currently represents a small but promising building block towards regional competitiveness. Although the CBT focus area is more towards regional human health biotechnology solutions, as a result of its mandate from the Department of Science and Technology (DST), the Western Cape has specific requirements in the area of plant biotechnology to support its agricultural and natural environment.

The sector has a well-developed university education and research system producing highly skilled labour, and suppliers of equipment and consumables are well supported. Supporting industries, including commercialisation support from incubators, manufacturing support and financial services (including venture capital), are also well represented in the sector. The biotechnology sector, however, is slow to commercialise numerous ideas developed within the university and science council environment.

Despite some 400 research groups operating in the Western Cape, the sector comprises only 15 core biotechnology companies according to the EgoliBio National Biotechnology Survey conducted in 2003. The majority of the Western Cape biotechnology companies are therefore heavily reliant on donor funding. The reasons for this are numerous, the most apparent are that this nascent industry is capital intensive, requires highly skilled and specialised staff, has long lead times for ideas to mature into revenue generating products or services and is highly risky. Set-up costs can run into several millions of Rands and ongoing operational costs can easily match this. Even the costs of regulatory, tax and administrative compliance is substantial for the small companies entering the market.

Biotechnology is a high-risk, high-return sector which, with appropriate funding, government support and strong industry body participation, can grow. Significantly more funds need to be made available to registered companies who are able to prove they have a viable business model supported by independently audited science. Government needs to raise the profile of the industry through facilitation of the

efforts of the commercial entities in the industry rather than act as the face of the industry. The Cape Biotech Trust and PlantBio related initiatives in the Western Cape need to be supported by business, government and academia if a coherent sector growth plan is to be realised.

A range of policies and strategies influence the direction and growth of the biotechnology sector and these policies need to be considered to evaluate the applicability and identify potential areas for improvement in the development of the sector. The three main strategies that impact on the biotechnology sector at this stage are the:

- National R&D Strategy (NRDS)
- National Biotechnology Strategy (NBS)
- Advanced Manufacturing Technology Strategy (AMTS)

There are several common themes that flow through these strategy documents that are largely being followed by the biotechnology sector in the Western Cape.

Although the various aforementioned strategies are related to one another they are not necessarily dependent upon each other for successful implementation.

N.2 Challenges and Opportunities

In analysing the various policies pertaining to the biotechnology sector and taking into account the current state of the sector, as described in the sector overview report, a number of pertinent issues were identified.

N.2.1 Lack of Clear Provincial Objectives and Measurement Criteria

Policies in the biotechnology sector do not appear to exist as such, and are mainly developed from the three most relevant National Government strategies, namely the National R&D Strategy, the National Biotechnology Strategy and the relevant concepts within the Advanced Manufacturing Technology Strategy. All three strategies have been thoroughly interpreted at the sector level by the biotechnology industry players, CBT and PlanBio in the Western Cape, but further clarity is sought in terms of more specifically stated objectives, especially at national level, which can in turn be translated to provincial government level.



The choice of which biotechnology products the Western Cape should specifically pursue, to meet its own needs is not at all clear and no particular research of product stands out at this stage. The DST is, however, undertaking an analysis of all major biotechnology projects being undertaken nationally by all BRIC's and PlantBio to ascertain the extent to which they are linked to national imperatives. This exercise could also be linked to provincial requirements. This selection of project and specific interventions that need to be pursued at Province level should be demand driven, in that the need should be derived from those sectors in which biotechnology can have a significant impact.

Related to this is the measurement of success within the biotechnology sector, especially at the provincial level.

N.2.2 Unfocused Research

Biotechnology research in South Africa is stated, in the NBS, as being leading edge but lacks focus. A review is currently underway of all biotechnology instruments from a National Government viewpoint. Although a significant effort has been made to focus efforts in relation to funding provided, R&D projects being pursued still appear to be extremely diverse, mainly due to the way in which they have been selected though comprehensive analyses conducted by CBT and PlantBio, largely in isolation of National Government's direct involvement. There is a realisation that more focus is required, especially in terms of addressing the national, regional and provincial imperatives, which the biotechnology sector will need to take cognisance of.

The NBS states that knowledge must be produced in the context of application. This is still deemed to be a major issue and demands more focus from a research output point of view.

Knowledge outputs need to be significantly more focused towards application, as is reported in a study by NACI on The Utilisation of Research in South Africa. The Western Cape's 400 research groups appear to be producing a significant amount of research and opinions that they need to be more focused towards the biotechnology priorities of the Province. The 50 strategic recommendations developed on improving research utilisation have set out to address this issue, but to date they have not yet been promulgated.

The NBS stated that high expectation research must lead to economic and social benefit. This is deemed to be of significant importance, especially in the biotechnology sector. Most of the social benefit derived from biotechnology research will result from addressing the national imperatives, such as food security and disease prevention

and cure. The subsequent growth of CBT's envisaged biotechnology cluster in the Western Cape, from a manufacturing point of view, will derive economic benefit.

N.2.3 Low Level of Collaboration

A further requirement of the NBS is that inter-disciplinary teams should work on trans-disciplinary research activities. It appears, from interviewee opinion, that this is an area that still needs to be addressed by the Biotechnology Regional Innovation Centre (BRIC), namely the Cape Biotechnology Trust (CBT) in the Western Cape as well as PlantBio. Coordination and synergy between researchers will enable outputs to be achieved in a more effective manner.

Diversity of participating organisations working on biotechnology projects is deemed to be important within an effective National System of Innovation (NSI). One of the concerns of the Biotechnology unit of the Department of Science and Technology is that there is not enough coordination amongst the numerous different organisations operating in the biotechnology sector. One challenge is that coordination and cooperation in developing biotechnology cannot occur in isolation in one region, such as the Western Cape, but will need to be coordinated externally to the Province to ensure an appropriate contribution to the country's national imperatives. Therefore, there appears to be a significant amount of work to be done to achieve high levels of cooperation, both inside the Western Cape and with other BRIC's located in Gauteng and Kwazulu-Natal.

N.2.4 Lack of Business Science Cross-Over Skills

A range of skills and a competent workforce are essential for the development of any industry cluster ranging from research, to commercial and management skills. Mention was repeatedly made of research-business cross-over skills to enable the transition from research to commercial viability of many of the research incubated projects to proceed with minimal risk.

N.2.5 Low Levels of Remuneration in the Industry

The distinct lack of skills is to a large extent driven by the low levels of remuneration evident in the biotechnology industry. Graduates do not remain in the industry due to low levels of remuneration on entering the job market as well as a low propensity to earn a more market related remuneration over the short to medium term. In meeting equity targets, the retention of black graduates in the biotechnology sector is even more

problematic, as they seek more profitable and less risky opportunities in other related and unrelated industry sectors.

N.2.6 Intellectual Capital

The management of intellectual capital and related licensing of technologies are long standing issues impacting on the development of the biotechnology industry. It is well known and repeatedly stated that the issues surrounding the management of intellectual capital are a matter for National Government to resolve.

The issues explored above are the main issues highlighted as a result of the research undertaken in the biotechnology sector of the Western Cape.

N.3 Policies Advanced

Various policy and strategy recommendations have been made, based upon the analysis in the previous sections of the report relating to the policy environment, the impact of the various policies on the biotechnology sector in the Western Cape, and the issue identified within a recommended policy framework. These recommendations address the leverage economic growth in the biotechnology sector, including its competitiveness and performance.

The biotechnology sector in the Western Cape Province is already established, albeit in its infancy. It is largely in the research and development stage, with very little commercial contribution to the Western Cape economy being evident at this stage. Some 15 companies have been confirmed to exist in the Western Cape. A consideration from the PGWC's point of view could be whether to leave the biotechnology industry to grow at its own pace through the CBT and the regional PlanBio initiatives, without any intervention, or whether to play an active role in providing some direction to the sector's growth. Given the facts that the MEDS process is still to establish the sector priorities for the Province, which would in turn inform the above, it is suggested that the biotechnology sector does warrant attention due to the cross-cutting nature of the industry and its impact on other sectors. Its ability to have some influence on the growth trajectory of others sectors, as well as to solve a range of socio-economic problems that impact not only at provincial level but at national level as well, warrants that the sector be considered, in the light of the MEDS.

It is within this context that the following recommendations can be advanced regarding the biotechnology sector in the Western Cape Province.

Recommendation 1 Identify and confirm which priority sectors in the Western Cape have critical needs that can be enhanced by supporting biotechnology initiatives, which are most likely to stimulate economic growth or satisfy social requirements indirectly. This needs to be ascertained prior to the Province supporting an agreed set of biotechnology programmes and projects.

The PGWC should, through the MEDS process, be selective in providing support for sectors underpinned by biotechnology, which will be able to play a role in satisfying the Province's economic growth and job creation needs. The Province should not just invest in biotechnology because it is a National Government initiative, but the PGWC should directly influence the course of the CBT and PlantBio activities based on the Province's economic and social development needs. This would ensure that the funding being utilised, part of which is sourced from National Government, is channelled into meeting provincial requirements thus ensuring that a return is realised through support sector economic growth and job creation.

The recommendation is substantiated by the fact that despite the CBT having undertaken stakeholder assessments of the Province's needs in the formulation of the current strategy, it has been reported as not yet being fully endorsed by the sector players in the Province as mentioned in the Biotechnology Sector Report.

The consequences of the recommendation would be the support provided by biotechnology initiatives in delivering on the objectives of other sector development plans, which would further contribute to economic development and job creation in the Western Cape.

Recommendation 2 The Province needs to facilitate and support the raising of funds to support biotechnology development in line with those sectors, underpinned by biotechnology that will contribute to Western Cape economic growth and job creation strategy. This includes the involvement and collaboration with neighbouring Provinces within the broader region.

Funding is vital to the source of all biotechnology developments, as illustrated in the numerous international investigations on the significant amounts of funding that have been put into the development of biotechnology clusters.

The recommendation is substantiated by the fact that the biotechnology instruments in the Western Cape have identified additional non-government funding from a

range of organisations. Once the biotechnology interventions within the selected growth sectors have been identified by the MEDS programme, the PGWC would be in an even stronger position to substantiate and raise funding for the identified needs within the sectors they wish to promote.

The consequence of the PGWC not being involved in funding-raising would be that the growth of the biotechnology sector in South Africa might largely ignore provincial needs. If relevant provincial departments were to get involved to raise and provide funding, and to steer research, the benefit would be to the benefit of the Provinces' economic development and job creation programme. The timing of this recommendation should commence in the 2006/7 budget year, once the provincial priorities have been established and the relevant biotechnology support for the appropriate sectors has been identified.

Recommendation 3 Research undertaken in the Western Cape must be focused, though a series of interventions involving the 400 biotechnology research groups, to ensure that utilisation of research undertaken is improved and economic benefits are derived.

Once the biotechnology strategy for the Western Cape becomes focused in terms of what the desired sectoral outputs are, and a monitoring system is in place, so biotechnology research conducted in the Western Cape will need to be further focused. This needs to be undertaken to produce utilisable research outputs to increase the extent to which current research is utilised far beyond the current 55% level estimated by the National Council of Innovation (NACI). Justified research requests need to be channelled through the CBT and PlantBio through to research institutions, with possible tax incentives provided on eligible research. This will enable significantly more research to be focused through the implementation of NACI's proposed R&D Charter, and will address the Province's needs in deriving economic benefit.

National and Provincial Government could establish a tax incentive scheme to encourage businesses to undertake eligible R&D, which meets national and provincial needs and imperatives. The scheme must guarantee quick and consistent delivery of incentives in the forms of tax credits or cash, to companies that qualify (similar to the one operating successfully in Canada).

Research utilisation, measured by NACI, is particularly low in South Africa. It was reported in the Biotechnology Sector report that the Western Cape biotech R&D spend rates

are considerably below the lowest rating and are reported to be in the region of 0.0975%. This is extremely low compared to the established national targets of between 4 to 5%.

This recommendation needs to be applied to all research institutions, such as universities and science councils, but more so the academic research institutions. The recommendation should be passed on to the Western Cape Department of Education and monitored through the Department of Economic Development, with strong involvement through the biotechnology instruments operating in the region, namely CMT and PlantBio. The benefits of more focused research are a greater flow of potential outcomes into the biotechnology industry and therefore those selected sectors which biotechnology supports.

Recommendation 4 Develop measures of strategic performance for the Western Cape biotechnology sector that aggregate all sub-sector biotechnology activities that contribute to the provincial economy and thereafter establish targets for effective monitoring and evaluation.

It is of fundamental importance that the PGWC drives what is important to enable it to achieve its economic growth targets through the definition of measurable objectives; validation through research; and execution and tracking through measurement towards set goals.

The broad objective for the development of the biotechnology sector in the Western Cape therefore needs to be measured and monitored at provincial level rather than at the innovation centre (BRIC) level. The role of biotechnology, as a cross-cutting sector, must contribute in a measurable way towards stimulating the growth of appropriate sectors such as agriculture, food, healthcare products and services, as well as utilities such as water provision and purification.

From the analysis of the policies and the CBT and PlantBio strategic plans and inputs from the Department of Science and Technology's KPI's, a number of performance measures have been suggested, which measure funding provision, relevant R&D output, measures of commercialisation success and employment creation.

These measures should be elevated to provincial level and made relevant to the Western Cape's needs. The recommendation is substantiated by the fact that currently the CBT and PlantBio's strategic performance is measured in terms of a set of KPA's, developed

by the Department of Science and Technology, the achievement on which will impact on the Province, but only within the scope of activity that the innovation centres cover. This clearly does not indicate what contribution is being made to the Western Cape Province.

It is important that baseline targets are also set for each of the performance measures that are finally decided upon. Clear milestone or due dates should be defined for the achievement of specific levels of performance against these measures. A dedicated communication and follow-up plan to regularly track performance against the measures should be put in place in order to focus stakeholders as to imminent objectives and goals.

The consequences of not adopting this recommendation will be that biotechnology in the Western Cape could become too nationally focused, or too opportunistic in

nature and not contribute to the economic growth of the Western Cape through the sectors which it supports.

Due to the fact that the biotechnology sector is a cross-cutting sector and currently relatively narrowly focused in the Western Cape Province, the range of policies relevant to the industry is narrow. Another reason is that the sector in the research and development life cycle has not yet progressed to a mature manufacturing sector, which would still take some time to develop.

Although a number of policies from the different government departments can be said to have, to a certain degree, an impact on biotechnology, none of them currently significantly contribute to the economic restructuring of the sector.

O.1 Introduction

The purpose of this document is to provide an accurate and up-to-date assessment of the profile of the crafts industry and set out proposed interventions as part of the wider Western Cape Micro-economic Development Strategy process.

O.2 State of the Sector and future projections

The craft sector has far greater diversity than many other sectors. Materials, specific techniques, scale of production and product types and quality may vary significantly. Market positioning also varies from functional items to fashion-led items, and gifts and souvenirs to collectibles or Craft Art. Furthermore, motivations for being in the craft sector may range from creative expressions to entrepreneurship and profit generation, as well as survival and poverty alleviation. This diversity can create confusion of objectives and tension between divergent mindsets within the sector.

Comprehensive and reliable information on the crafts sector is not readily available. However, key statistics based on current estimates comparing the Western Cape and national figures³¹ are as follows:

O.2.1 Number of producing enterprises

- CCDI producer database sample: 554
- Estimation for Western Cape (Based on the assumption that the CCDI database contains a third of enterprises in the craft sector in the Province): 1 662
- Estimated % Western Cape of national: 6 187 (27%)

O.2.2 Employment/people engaged

- CCDI producer database sample: 3 234
- Estimation for Western Cape (Based on estimates of numbers of each enterprise type and average number of employees per enterprise type): 7 165
- Estimated % Western Cape of national: (15.1%)

O.2.3 Retail enterprises

- CDDI producer database sample: 216
- Estimation for Western Cape (Based on extrapolation from turnover of listed curio retail outlets in the Province): 348
- Estimated % Western Cape of national: 580 (60%)

O.2.4 Retail turnover

- Estimation for Western Cape*: R200m to R500m



Retail is considered the dominant aspect of the value matrix in the Western Cape, followed by production and design. Craft retail includes diverse product from across the continent and further afield and is primarily mid-to-high end, with the dominant forms of retail being commercial retail outlets, galleries and producer outlets.

Most producers operate on a micro or small scale. Production is oriented towards mid-to-high end pricing, with a very diverse product range. However, there is a dominance of homeware and fashion accessories, with a contemporary design. Skills applied include hand building, sewing and beading; using mostly textiles, beads and ceramics. Intermediaries play an import role because

producers do not necessarily have the skill required to manage all aspects of their enterprises, e.g. marketing, export management and product design.

Despite the absence of very accurate statistics on the sector, it is clear that it is making a meaningful contribution to the provincial economy, in particular in terms of enterprise development. It appears that the sector may be particularly important to women and new entrants to the formal economy as a 'stepping stone' to other activities. It also has an impact on enhancing the attractiveness of the Province as a destination by creating unique retail and cultural experiences.

O.3 Threats and opportunities

The table below summarises the opportunities and threats that have been identified:

³¹Sources: CCDI database, draft Customised Sector Programme of the Department of Trade and Industry, Craft Sector Strategy workshop proceedings, October 2004

O.3.1 Opportunities

- Sustainable livelihoods out of relatively low skills base and minimal capital input;
- Consumer demand for handcrafted, unique, African-inspired products;
- Corporate and government procurement demand – e.g. boutique hotels, boardroom furniture;
- Scope for increased linkages and collaboration with related sectors in the Province;
- Design of handcrafted products that can improve quality of life;
- Strengthening local fashion industry;
- Numerous even-based marketing opportunities;
- Available funding;
- Opportunities in the local and international tourism markets;
- Empowerment transformation of the sector, and resultant new energy and innovation;
- Developing Proudly South African consumer awareness and purchasing;
- Enabling environment (political will);
- Development of coherent policy framework and objectives; and
- African collaboration.

O.3.2 Threats

- Individualistic mindsets of many crafters, inhibiting cooperation;
- Creation of sustained negative perceptions because of orders not met, unreliable service etc.;
- Potential high failure rates and rapid migration in and out of the sector;

- Absence of clear and common objectives across all interventions in the sector;
- Lack of an integrated approach to implementation of strategies and projects;
- Developmental funding and grants tending to create ‘false economies’;
- Cannot compete in export market with other developing countries on volume, mass production and cost; also increase in imports competition;
- Replacement of handcraft by industrialisation and copying; and
- Weak intellectual property protection and extensive copying by competitors, in particular for collective IP.

Based on the analysis of the current profile, threats and opportunities, a vision of the sector was developed from DED’s perspective to inform strategic decisions on intervention in the sector, namely:

By 2014 the crafts sector will be made up of professional commercial manufacturing enterprises using hand-techniques, exceptionally skilled master crafters and supportive intermediaries and retailers that work both independently and collaboratively. Products will be high quality (especially homeware and fashion accessories) diverse design styles, and be successful in the mainstream domestic retail, the tourist market, corporate and government procurement, and key export markets. This will have been achieved in a way that promotes socio-economic goals of the Province such as longer enterprise life span, fair trade principles, broad-based black economic empowerment, equitable participation by women, greater spatial equity, and improved quality of life.

O.4 Policies proposed

Numerous national, provincial and local government entities and other support entities are involved in current or planned interventions that impact on the sector. To date there has been inadequate coordination and diverse objectives. Should all intervention in the sector be removed, it is likely that the majority of welfarist projects would not be sustainable, while many commercial operations would continue to operate, although potentially with limited growth and transformation. The following gaps in interventions were identified:

- Baseline information and profiling of craft producers' growth orientation and capabilities;
- Support for the development of a craft representative structure;
- Commercially-oriented support for crafts enterprises in non-metropolitan areas;
- Coherent funding principles across all support entities;
- Reach of support for advanced business skills development;
- Extent of market intelligence and market access;
- Integration of support from market identification through to order fulfilment and sustaining -opportunities, with a selected group of enterprises;
- Extension of design initiatives beyond trends application;
- Mechanisms for migration of appropriate enterprises or individuals from developmental/ survival to commercially-oriented entities; and
- Support for beneficial linkages with related sectors.

It is recommended that the DED's role in addressing these gaps should be commercially-oriented, and therefore focused on providing support for commercially sustainable enterprises through product development, support for supply chain integration within the sector and with related sectors, and facilitation of formalisation and transformation of the sector.

Potential interventions were identified and these interventions were then prioritised. A brief overview of the prioritised interventions is provided below. The first two initiatives will provide a foundation for more effective overall intervention in the sector in future, while the next 4 are more programmatic in nature.

O.4.1 Extensions of role of CCDI (Western Cape's DED and CCDI to lead)

Core Objectives

- More focused and effective support to the Western Cape crafts sector;

- Growth in total activity in Western Cape crafts sector;
- More optimal realisation of production and retail opportunities across the Province; and
- Greater linkages in terms of market access, information, supply of raw materials and funding between rural areas and the metropolitan area.

Key activities

- Evaluation of current CCDI activities against priorities and vision for the sector;
- Re-alignment of activities where required;
- Identify any locations requiring satellite presence of CCDI officials, based on existing activity as well as potential for production and retail;
- Identify potential collaborative office space / resources e.g. with DAC, SEDA access points, local government;
- Awareness raising with officials from SEDA access points / RED Doors / local government of available CCDI support services;
- Securing additional budget where required on a 3-year budget cycle;
- Recruit / second appropriate individuals;
- Set up integrated systems to provide common base of support;
- Establish contact with target client base in each area; and
- Roll out support services.

Resource implications

- Human resources: estimated 4 additional people; and
- ICT system (computers, telephones, faxes, etc.)

O.4.2 Provincial framework on funding and investment into the craft sector (DED to facilitate)

Core Objectives

- More efficient, effective and transparent investment by provincial government in the crafts sector – in the Western Cape;
- Agreement on objectives of funding and related roles and responsibilities;
- Better intergovernmental coordination across all three spheres of government; and
- Alignment of multilateral and donor funding with the framework where possible.

Key activities

- Advocacy to motivate the need for a common funding/investment framework;
- Facilitation of an interdepartmental task team to seek agreement; and
- Implementation of policy and communication to crafters.

Resource implications

- Human resources – coordination, facilitation and senior leadership.

O.4.3 Integrated support programme from market information to order fulfillment (CCDI to lead)

Core objectives

- Increase the quality and sustainability of Western Cape product;
- Create sustainable commercial craft manufacturers; and
- Grow production volumes, employment and exports.

Key activities

- Research to consolidate learned to date from previous market access and order fulfilment programmes;
- Appointment of project managers;

- Confirmation of roles and responsibilities of various support service providers;
- Negotiation of market opportunities;
- Invitation, profiling and selection of priority target hand-technique manufacturers;
- Pilot with a series of enterprises, with targeted support based on needs analysis;
- Roll out to an extended group;
- Internalisation of skills into enterprises over a 2 to 3 year period; and
- Monitoring and evaluation.

Resource implications

- Primarily skilled human resources (1 project manager, 3 to 4 additional part-time resources, either internally or from existing service providers).

O.4.4 Intermediary / entrepreneur-crafter matchmaking (CCDI to lead, potentially with CapeMAC)

Core Objectives

- Develop supportive and mutually beneficial relationships between crafters and intermediaries;
- Increase professionalism and sustainability of crafts enterprises; and
- Grow production volumes and employment.

Key activities

- Identify a project manager;
- Identify a pool of potential intermediaries and successful entrepreneurs within and outside of the crafts sector, including BEE enterprises;
- One-on-one and event-based matchmaking of entrepreneurs with crafters that wish to focus on creative aspects of industry, require business skills and

potentially a capital injection, with guidelines on structuring of deals/shareholding of joint ventures;

- Linkages to enterprise support services; and
- Monitoring and evaluation system.

Resource implications

- Human resources; and
- Events management to host a 'matchmaking event'.

O.4.5 Deepening of design integration into the crafts sector (CCDI)

Core Objectives

- Optimise the role of design in improving the competitiveness and differentiation of the Western-Cape crafts sector;
- Create tools that improve the efficiency of hand production techniques in areas that are most significant to the Western Cape crafts sector;
- Develop materials that enhance the uniqueness of Western Cape craft products; and
- Develop products that meet market requirements and are recognised as demonstrating quality and innovation.

Key activities

- Extension of shared access to trends forecast reports;
- Rollout of trends analysis workshops;
- Research opportunities for design input within tools, materials and end products;
 - Confirm mechanisms for allocating intellectual property rights;
 - Facilitate linkages between designers and craft enterprises / groups of enterprises; and

- Support for feasibility assessments and sample production.

Resource implications

- Human resources required for facilitation (1 individual); and
- Funding for feasibility assessments.

O.4.6 Extension of advanced business skills development programme (CCDI or cross-sector initiative through DED)

Core Objectives

- Develop a group of individuals in targeted hand-technique manufacturing enterprises that have sufficiently high levels of skills to begin to manage their production processes and business in-house on a sustainable basis; and
- Support a minimum level of business competence amongst Master Crafters.

Key activities

- Develop agreed upon guidelines on skills set and competencies for manufacturers and Master Crafters;
- Integrate/align these guidelines with SAQA unit standards and programmes by accredited service providers;
- Establish formal mentorship commitments from successful business people followed by twinning with managers in targeted craft enterprises;
- Secure agreement from retailers to include craft managers into relevant in-house programmes (potentially government cross-recovery funding); and
- Negotiate alignment of design curricula in Western Cape tertiary institutions to include suitable business skills.

Resource implications

- Primarily skilled human resources (development of training materials and implementation of training programmes/mentorship).

Appendix [P] Cultural Industries Report Prepared by: Mike van Graan

P.1 Definition of the Creative Industries

The creative industries are those areas of social and economic activity that are premised on – or closely allied with:

- Individual or collective intellectual or artistic creativity; innovation and originality; and/or
- The preservation, teaching and celebration of cultural heritage including language; and
- Which have the capacity to provide work and generate income for the original creators as well as for others involved in education and training, production, distribution, documentation and support for creative products or cultural experiences, whether in a not-for-profit capacity or for commercial gain.

P.2 International trends

Over the past twenty years, the importance of the creative industries has come to be recognised as key drivers of employment, tourism, urban renewal and foreign income. According to UNESCO's Study on International Flows of Cultural Goods: 1980-1998, annual world trade in literature, visual arts, cinema, photography, music, radio, television and electronic games grew from \$95 billion to more than \$387 billion in that period.

The creative industries grew by an average of 9% per annum in the UK between 1997 and 2001. Creative industry exports accounted for 4.2% of all exported goods and services, and this sector had a total of 1.9 million jobs. Between 1997 and 2001, employment in the creative industries in the UK grew by 3% compared with 1% in the whole economy, an achievement similar to that of the cultural industries sector in the USA.

However, there is a widening gap between the developed world and the developing world with the latter mainly being consumers of cultural products from the former. In this context the growing international movement around cultural diversity is both an economic movement to encourage fairer trade in cultural goods and services and a political movement to ensure that the worldviews, ideas and values embedded in cultural goods and services that emanate from dominant economies have counterbalancing global forces.

P.3 National perspective on the creative industries

The Department of Arts and Culture (DAC) launched its Cultural Industries Growth Strategy (CIGS) in 1997, focusing on the four sectors of craft, music, publishing and film. Initial research into these areas revealed a film sector worth about R7.4 billion, a music industry worth R2 billion and a publishing industry that was worth R6 billion, collectively employing in excess of 100 000 people.

The strategy has led to its growth beyond the DAC, with its importance now recognised by the Department of Trade and Industry. The Department of Trade and Industry has made available further funding for the development of this sector, has commissioned further research into it, and has included representatives of sub-sectors in international trade delegations to develop the export potential of local products.

P.4 Trends in the Western Cape economy

- Since 1995, tertiary industries have grown much faster than primary and secondary industries.
- The traditionally important primary industries like agriculture, forestry and fishing and manufacturing contributed only 8.6% of all growth in the provincial economy between 1995-2001.
- The Western Cape economy provided 55 jobs for every 100 new entrants into the labour market compared with 34 for every 100 nationally.
- Nationally, 30 out of 100 Africans found employment between 1995 and 2002, but in the Western Cape, only 3 out of 100 Africans found employment in this period.
- In the same period, 66 of every 100 women as apposed to 39 out of every 100 males found employment.
- The provincial economy is increasingly shedding jobs for unskilled workers.
- The level of inequality in the Western Cape is significantly higher than the national figure and has, in fact, increased in the period 1995-2002.
- As with the national trend, unemployment has a very strong youth dimension



with youth making up 82% of all unemployment.

- Western Cape labour market demands are for highly educated and skilled individuals.

Statistics emanating from Census 2001 show that the Western Cape is the Province with the best quality of life in terms of social indicators, the lowest unemployment, high education levels, a large proportion of its population being relatively wealthy – all indicators of potentially good markets for the creative products and services. With shifts from traditional agricultural and manufacturing sectors towards an increasing knowledge-based economy, the Province has great potential as a centre for the creative industries. However it faces challenges in providing work, particularly for relatively unskilled black African youth and women.

P.5 Profile of the creative industries in the Western Cape

Snapshots of thirteen sub-sectors i.e. architecture, community arts, dance, design, fashion, festivals and events, heritage, language schools, music, musical theatre and opera, publishing, theatre and the visual arts reveal that the creative industries in the Western Cape:

- are predominated by small and micro-enterprises employing fewer than 50 people;
- are characterised by high levels of differentiation in income with almost as many part-time employees as full-time staff, and with a high percentage of ad hoc staff;
- comprise both a non-profit and for-profit sector that are interdependent to a large extent;
- have income levels that are relatively low;
- impact most positively on tourism and the service and retail sectors;
- provide significant employment and management opportunities for women;
- are labour-intensive; and
 - attract relatively well-educated employees.

It is conservatively estimated that close to 50 000 people earn their primary income in these thirteen sub-sectors, four times more than the total number of workers in the mining and quarrying and electricity, gas and water supply sectors in the Western Cape.

Two sub-sectors – architecture and film – have high levels of monthly income; design, fashion, heritage, language schools and publishing have medium levels; while community arts, craft, dance, music, musicals and opera, theatre and visual arts have relatively low levels of monthly income. However, those areas with relatively higher levels of income have limited impact on the local and international tourist market, while sub-sectors with lower levels of income are key players and add significant value in the tourism industry.

Gauteng represents the Province's major competitor in most creative industry sub-sectors. However, the Western Cape is a leader in the areas of events and festivals, film, heritage, language schools, publishing and theatre.

The Province is well-served with high quality tertiary institutions providing world-class training across all sub-sectors. This, however, is largely focused on practitioners. There is an urgent need for high-quality training of managers and entrepreneurs to provide leadership within this field and to unlock its significant economic and social potential.

The Western Cape generally benefits fairly from available national funding for the creative industries, and is a key recipient of international donor funding. The private sector is relatively untapped as a partner in the development of the creative industries, largely because of lack of education about the creative industries and their potential on the one hand, and on the other, because of perceived lack of professional business standards within the sector.

P.6 Economic impact of the sector

While research into the economic impact of the sector is relatively new and limited, two events point to the impact of the creative industries. In 2000, research found that the Klein

Karoo Nasionale Kunstefees (KKNK) injected R60 million into Oudtshoorn's economy over the 10 days, making it the third-largest contributor to the local economy after agriculture and the public sector.

Similarly, research in 2003 indicated that the Cape Town International Jazz Festival contributed in excess to R58 million to the local economy. These two events alone account for close to R120 million of income for the Province. The publishing industry, fashion, language schools, architecture, visual arts and heritage are all areas that impact on the provincial economy, either directly, or indirectly through their contribution to the tourism sector.

P.7 General economic arguments in support of the creative industry sector

- The creative industries already exist and make a significant contribution to the economic and social well-being of the Province. Some of the sub-sectors – like craft and film – have been developed with national or provincial government support, and with similar support, other sub-sectors can also develop further and make a more substantial contribution to employment and provincial income.
- Given the links to tourism and the goals of the PGWC to improve drastically its tourism figures by 2010, and given that international tourists have shown that they include cultural, arts and historic activities in their travels, it is in the interest of the Province to provide more cultural products and services aimed at the tourism market.
- With relatively low entry levels into some labour-intensive sub-sectors and with the possibilities that exist in the tourism sector, there is real potential to absorb key targets for employment – i.e. black women, men and youth.
- The creative industry sector is characterised by passion, commitment and hard work. If these were combined with business skills and acumen, there is the potential for many unsustainable, non-profit NGO's to be transformed into sustainable micro-enterprises, with all the attendant benefits to the individuals involved and to the provincial economy.
- Current international trends favour the development of the creative industries. South Africa's economic and political leadership within Africa and the developing world

generally, place it in a good position to be able to trade effectively in the areas of creative products.

P.8 Key challenges facing the creative industries sector

The key challenges within the creative industries sectors in the Western Cape are:

- a lack of coordination between the different sub-sectors and thus the absence of a representative structure to represent and coordinate the interest of the sector, both to government and to other industries which may benefit from the sector e.g. tourism;
- the ongoing need for data and research to inform the production of appropriate cultural goals and services, marketing strategies, and the general growth of the creative industry sector;
- a lack of access to start-up capital for new companies; and
- the absence of black people particularly at middle- and senior-management levels.

P.9 Proposed strategies and interventions to develop the Creative Industry sector

The primary role of the PGWC is to create an enabling environment in which these challenges can be addressed, chiefly by the creative sector itself. Ultimately, strategic interventions between the PGWC and the sector should result in the following outcomes:

- increased employment in the Province, particularly of black African youth and women;
- increased number of tourists;
- investment attracted to the Province from international companies and agencies;
- lifestyle options, job opportunities and wealth spread more equitably across the Province;
- improvement in the range and quality of local creative products and services; and
- a better quality of life for all the people of the Province.

Recommendation 1 Establish a Creative Industries Chamber

There is certainly no overarching body to represent the interests of the sector, leaving it highly fragmented. It is in the interest of the PGWC – and of the sector itself – that there be a representative body with which PGWC could communicate, and jointly devise and implement appropriate strategies to develop the sector.

Accordingly, the primary recommendation of this paper is that the PGWC facilitates the establishment of a Creative Industries Chamber to which all enterprises operating in the sector will be encouraged to affiliate. This Chamber will be the major partner of the PGWC to develop the creative industry sector.

As an incentive towards the establishment of the Chamber, and since the chamber will be its key ally in developing the sector, the PGWC should offer an amount of R1.5 million in the first year (2006/7), R1m in the second (2007/8) and R500 000 in the third year (2008/9) to cover the operational costs of the Chamber. Within three years, the Chamber should be self-sustaining.

To arrive at a Creative Industries Chamber:

- Commission research into those sub-sectors that require further detailed research to serve as baseline studies. This research would cost about R150 000. Time frame: July – September 2005.

- Host sub-sector specific consultations (1-2 days per sectors) to arrive at common visions and strategies. Ten consultations should cost a maximum of R200 000. Time frame: October/November 2005.
- Organise a conference of the creative industries in the Western Cape, and at which the Creative Industries Chamber will be launched. Cost: approximately R350 000.
- Time frame: March 2006 if funding is available, or April/May 2006.

Recommendation 2 Establish partnerships with the British Council and other international agencies

Given the experience of the creative industries in the UK, and given the willingness of the British Council to cooperate in this area, it is recommended that the PGWC establish a relationship with the British Council to help develop the creative industry sector in the Western Cape over a period of 3-5 years.

Recommendation 3 Coordination within the PGWC

It is recommended that, in order to streamline coordination and to ensure that limited resources are optimally utilised, the Department of Economic Development drives the establishment of an inter-departmental sub-committee with representatives of the Department of Cultural Affairs and Sport, the Department of Education and the Department of Economic Development serving on it.

Appendix [Q] Film Report Prepared by: Krista Tuomi

Q.1 The Local Film Environment

The film industry, from pre-production to distribution, plays a vital role in the economies of South Africa and the Western Cape. It fosters national pride, upholds cultural identity, generates substantial employment and facilitates skills acquisition. Furthermore, it has an important stimulatory effect on supply and hospitality industries.

The local film sector has a world-class skills base in the area of production, an unsurpassed variety of locations and until recently, competitive rates. Moreover, promising opportunities exist for film. The new South African Broadcasting Authority (SABC) channels, the expansion in media outlets, and the growth of satellite and digital technology, have all opened up new platforms new platforms for local products. The growing governmental awareness of the importance of film has also resulted in an increasing number of co-production treaties, incentive schemes and other initiatives, which should help develop the industry and stimulate growth.

The local industry clearly has the required competency to become a significant player in the international market. However, a number of global trends and internal structural problems are threatening its growth prospects. These include: the increase in competition from other countries (especially in relation to foreign public support schemes); inexpensive foreign film and television products (against which local products cannot compete); the strengthening Rand; and the escalation in support industry prices. Local filmmakers also face limited access to funding, distribution and facilitation facilities. Furthermore, few viable ongoing training opportunities exist for people entering the industry, especially those from previously disadvantaged communities. All of these concerns are compounded by lack of industry research and the recent preclusive legislative changes on the part of the South African Revenue Service, the Department of Labour and the Department of Home Affairs.

Q.2 Industry Snapshot

The film industry in the Western Cape currently produces a collective annual turnover of R1 billion, which in turn generates approximately R2.5 billion of economic activity. For the 12 months ending June 2004, this entailed over 1674 still photography shoots, 461 television commercials and 24 feature films and television series. Including both

broadcasting and the significant multiplier effect, it is estimated that film may contribute to about 4% of Gross Regional Product.

On a national level, it is estimated that the current employment impact of film is probably in the region of 30 000. Further jobs have been stimulated in the transport, catering and hospitality industries. A large percentage of employment in the film industry falls into the high and medium skilled category. Therefore, developing the local film industry translates into developing the local skill base and raising living standards. However, through its effect on the support industries, the industry also contributes to employment growth in the low skills sector.



Q.3 Industry Participants

The film industry has seen substantial changes in the last ten years, but is still dominant by a core group of conglomerates: Primedia, Johnnic Communications, Sasani Limited, and the Refinery. The industry is further represented by numerous employer organisations and other interested parties.

Q.4 Current Government Initiatives

The government has instituted a number of statutes and initiatives to develop the film sector. National Government organisations with film related programmes include: the National Film and Video Foundation (chief developmental and promotional agency for film); the Department of Arts and Culture (earmarks R20 million annually for industry projects); the Industrial Development Corporation (earmarked R250 million for the film loan and equity financing); the Department of Trade and Industry (offers a number of export and manufacturing incentives for film products); the South African Revenue Service (offers various tax incentives); and Sithengi (a Section 21 company promoting the development and trade of African film products).

Provincial and Local Government initiatives include: a subsidy of R60 million toward the Dreamworld Studio development; the Cape Film Commission (a Section 21 company acting as the official advocate for film in the Western Cape); the City of Cape Town's new 'film-friendly' Film Policy and Protocol; and the City of Cape town Film Permit Office. A number of other noteworthy private and semi-public initiatives exist. These include numerous film festivals and the Film Resource Unit.

Q.5 Problem Areas and Suggested Interventions

It is evident that the government is making a significant attempt to support film. As noted, however, certain legislative and bureaucratic hurdles are damaging the competitiveness of the sector. With the requisite research, cooperation and coordinated public sector support, further development of film is possible. Seven key problem areas have been identified: audience development; training; funding and distribution; tax and labour legislation; location and support industry issues; empowerment; and research.

Recommendation 1 Coordinate an Audience Development Plan.

South Africa does not have a coordinated strategy in place to develop audiences and local products rarely exhibit commercial success. Although some initiatives have been launched in this area, it is suggested that the PGWC complement these efforts by meeting with the Film Resource Unit (FRU) and the Cape Film Commission (CFC) and embark on a coordinated audience development plan. This should be undertaken by a CFC-FRU partnership and needs to include:

- A commitment to meet regularly with the consortiums behind the township cinema initiatives to assess any problems in their expansion plans.
- The organisation of a workshop with the relevant industry stakeholders to address the need for specific 'business skill' training.
- A commitment by the FRU to embark on further audience sampling.
- Negotiation with the SABC for early release of particularly promising local films.

Recommendation 2 Provide Training.

The state of training is a core issue of the industry, especially in relation to previously disadvantaged groups. Of particular concern is the severe lack of basic business skill and technical training, the poor links between training providers and the industry; the lack of effective standards; and the poor understanding of the National Qualifications Framework (NQF) and Media, Advertising, Packaging, Print and Publishing Sector Education Authority MAPPP-SETA) training requirements.

Since most of the coordination and standard setting has to be set at a national level, the requisite body to conduct the appropriate skills and training reforms is

the National Film and Video Foundation (NFVF). On a provincial level, it is suggested that the Cape Film Commission be supplied with the requisite funding to host a 'SDL guide for amateurs' workshop and that the funding request for the Western Cape Film Fund be seriously considered. This fund could act as an important local financing channel for bursaries and promising training initiatives.

Recommendation 3 Support Funding and Distribution Initiatives.

Funding and distribution issues impose significant constraints on local filmmakers. Although government funding is increasing, funding from other sources remains weak due to the high-risk nature in South African films. A poor distribution network compounds the problems faced by local filmmakers.

The PGWC can help mitigate these problems by:

- Granting the CFU's funding request for the proposed Western Cape Film Fund.
- Supporting local content quotas.
- Supporting Sithengi and ensuring that it receives adequate funding to allow for growth and expansion.
- Supporting any efforts aimed at brokering new co-production agreements.

Recommendations 4 Improve Tax and Working Conditions.

A number of tax and working conditions are being perceived as eroding the competitiveness of the industry. Some of the complaints are legitimate and require review. Other concerns, however, can be mitigated merely through greater clarification and improved communication between the government and industry members.

It is recommended that the PGWC back the attempts made by industry parties to achieve the following legislative reform:

- Independent contractors not in 'standard employment' should be taxed at a 25% flat rate.
- A simpler, fixed rate of tax should be levied when dealing with foreign talent.

- The 'at risk' rules relating to Section 24F of the Income Tax Act should be clarified.
- Crewing agents should be allowed to register as labour brokers.
- The recently passed legislation regarding DOL permits for children should be reviewed.
- A Basic Conditions of Employment Act (BCEA) exemption regarding overtime should be granted for the industry.
- The proposed changes to the Immigration Amendment Act should be reconsidered.

Recommendation 5 Streamline Location and Support Industry Requirements.

The escalation in location and support industry prices are rapidly reducing the attractiveness of filming in the Western Cape. This is further compounded by poor relations between production companies and local communities. The efforts by the CFC and the City of Cape Town (especially their new Film Unit Liaison Officer Project) should go some way to resolving many location problems. The PGWC can complement this by researching the feasibility and impact of a licensing scheme for production companies, where licences are automatically granted to production companies but are revoked if a company repeatedly violates good filming practice. All relevant industry bodies and production companies would obviously have to support and participate in the feasibility study.

Recommendation 6 Facilitate Empowerment

Transformation and Black Economic Empowerment (BEE) are key issues that need to be addressed in the film industry. It is vital that the CFC Transformation Group complete its BEE charter. As such, it is important that the PGWC support the CFC Transformation Group in its attempts to complete the BEE Charter and manage transformation issues.

Recommendation 7 Provide Research Support

The provision of strategic information is vital for industry sustainability. Current research efforts are ad hoc and inadequate to address industry needs. The NFVF's proposed 'Sectoral Information System' (SIS) and 'Integrated Promotional and Development Campaign' are perhaps the best tools to overcome this deficiency. The PGWC should support NFVF efforts, especially attempts to facilitate the collection of information by Statistics South Africa.

Q.6 Conclusion

Although the problems facing the industry are serious, the suggested initiatives should ensure that the industry maintain competitiveness and capitalise on its numerous advantages and opportunities. It is particularly important that the restrictive tax and labour legislation is addressed, especially the proposed changes to the Immigration Amendment Act. It is also vital that the BEE Charter is completed and that the proposed audience development partnership is considered. Furthermore, it is recommended that the Western Cape Film Fund receive the requisite funding to address some of the funding and training needs facing the Province.