

The South African Chemical Industry 2015

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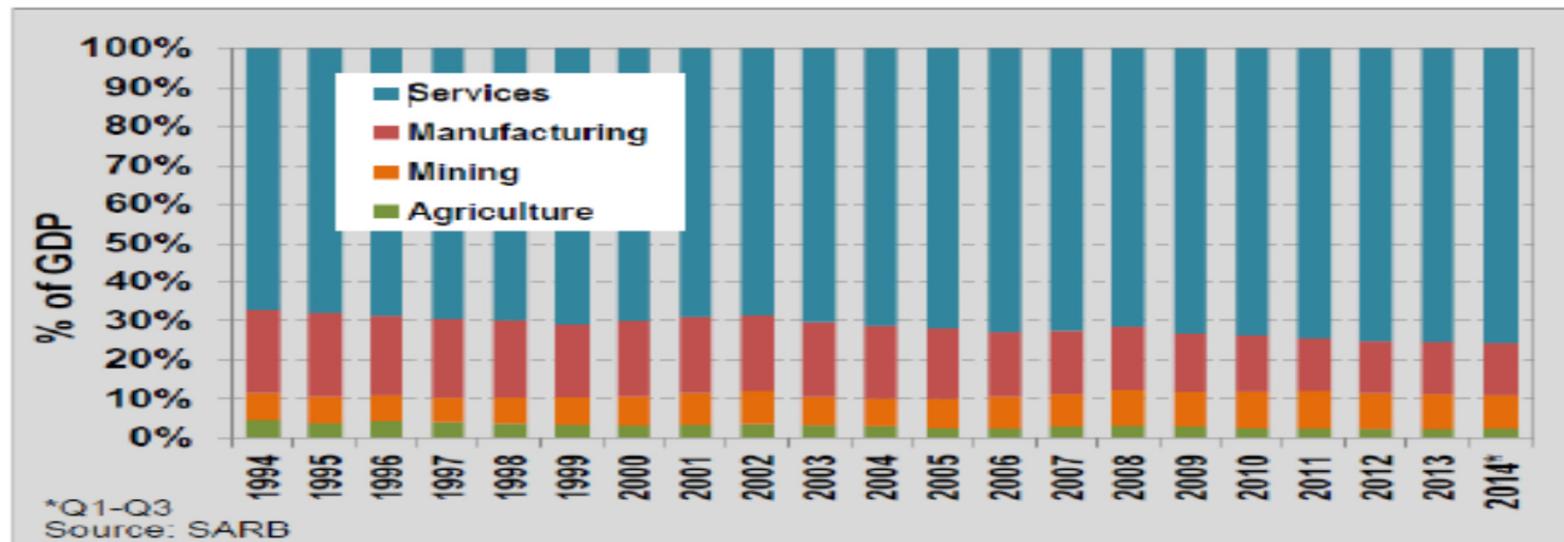
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INTRODUCTION

- Study: to understand the status of the chemical industry in South Africa and to identify the current constraints, opportunities and strategic considerations
- Significant structural and economic challenges face South Africa. The manufacturing sector is being heavily negatively impacted – the contribution of manufacturing to total GDP is declining



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INTRODUCTION...cont.

- The chemical industry is an apex industry; contributing to downstream value chains both internal and external to the industry itself
 - › 2.7% of GDP
 - › 1.2% of labour
 - › 8.8% of all exports versus 13.4% of all imports (note the trade deficit)
- The performance of the chemical sector exceeds that of the manufacturing sector
- Despite the performance achieved through commitment to the economy:
 - › More than half of the fine chemicals synthesis plants have been shut down, relocations to other countries are taking place and new investments are increasingly being made outside of South Africa



INTRODUCTION...cont.

“In the United States of America, it is estimated that each chemical industry job generates 7.5 jobs elsewhere in the economy”

- The potential multiplier effect for South African circumstances is not known. Markets and market sizes need investigation and competitiveness needs to be improved
- Imperative that more be done by Government to facilitate and encourage growth of the chemical sector in South Africa due to its potential to stimulate the entire economy
 - › Less reliance on imports – economic advantage, improved trade deficit
 - › Increased skilled employment opportunities – societal and economic impact
 - › Strong contribution to job creation and economic growth
- Currently operating in “survival mode” rather than focusing on strategic, long-term project planning and implementation



KEY CONSTRAINTS

- Market size
 - › Small local markets
 - › Competitiveness
 - › Barriers to trade
 - › Loss of protective tariffs



KEY CONSTRAINTS...cont.

- Electricity and energy supply
 - › Negative impact on GDP
 - › Negative impact on demand
 - › Increased costs
 - › Increased waste
 - › Price and effect on competitiveness



KEY CONSTRAINTS...cont.

- Labour matters
 - › Rigid labour law
 - › Frequency of industrial action
 - › Above-inflation wage escalations



KEY CONSTRAINTS...cont.

- Feedstock
 - › No source of additional feedstock to support new development
 - › Reliance on imported feedstock, or no local development
 - › Lack of downstream value-addition



KEY CONSTRAINTS...cont.

- Skills
 - › Shortage
 - › Challenges to import required skills



KEY CONSTRAINTS...cont.

- Cost of doing business
 - › Port costs
 - › Environmental levies
 - › Administration
 - › Taxes



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KEY CONSTRAINTS...cont.

- Regulatory stringency and burden
 - › Ineffective consultation
 - › Little co-operation
 - › Need risk-based and rational policy-making
 - › Government departments and spheres of Government need to be better co-ordinated



KEY OPPORTUNITIES

- African market
 - › Chemical industry exports to Africa growing at 14% p.a. since 2000
 - › Significant economic development in the region
 - › More than 50% of chemical industry exports from South Africa are to Africa



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KEY OPPORTUNITIES...cont.

- Co-operation on energy supply
 - › Community-level co-operation to minimise impact of load-shedding
- Regional and global harmonisation where appropriate
 - › Ease of trade and international freight movement
- Co-operation on training efforts
 - › Hazchem and Transportation of Dangerous Goods - at implementation level (municipalities, SAPS, customs, etc.)
- Regulatory Impact Assessments
 - › Uncertainty constrains investment and multiplies this effect as investment decisions cannot be made



REGULATORY BURDEN

- *“The issue of excessive red-tape across regulatory agencies and all three spheres of Government – manifested in a wide range of difficult forms and onerous licensing requirements – severely complicates the operating environment for business. In order to start seriously reducing the regulatory burden, Government is initiating a number of interventions to make doing business simpler. These include ‘One Stop Investment Centres’ championed by **the dti**; the colocation of SMME support agencies by the Small Business Department; and speedy resolution of Strategic Environmental Assessments (SEAs) by the DEA.” (IPAP 2015/16, p. 28)*
- **This requires fast implementation and other support, such as Regulatory Impact Assessments**



REGULATORY IMPACT ASSESSMENTS

- 2003: “Designing a Regulatory Impact Assessment System for South Africa”
- 2007: Government committed to the introduction of a RIA system
- 2012: The Presidency released a guideline
- 2014: Commitment renewed by President Zuma (SONA)
- RIAs to be carried out on new and existing legislation

- **Legislation continues to be developed without policy and/or strategy agreed to through consultation with stakeholders**

- **Similar to other aspects of the regulatory environment, comprehensive implementation – together with enforcement and compliance monitoring – is lacking across Government mandates**



KEY STRATEGIC CONSIDERATIONS

- Strategic matters that will affect the development of the industry in the next 10-20 years must be discussed with stakeholders, including Government, to develop a common objective for the industry going forward
- These discussions need to take place urgently to ensure that the medium-term success of the industry, and its contribution to economic growth, can be assured
- A closer and more trusting relationship with Government must be fostered, urgently



CHEMICALS MANAGEMENT BILL

- The objectives of the Chemicals Management Bill appear to be focused on the following challenges that have been identified in the Discussion Paper.
- The following will not necessarily be resolved by new legislation. **It is suggested that focus be on:**
 - › ***improving compliance monitoring and enforcement** across Departments and mandates to reduce manipulation of the system, illegal possession and trafficking of chemicals and hazardous wastes, all forms of pollution;
 - › ***improving implementation** to reduce improper management of chemicals;
 - › **improving coordination:** to reduce any fragmentation of regulatory frameworks. Different mandates across Government departments are however required (health, labour, water and sanitations, trade and industry, economic development, international relations); and
 - › **reviewing** existing legislation to provide clear, distinct mandates.

* → implications to the creation of skilled employment opportunities



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CHEMICALS MANAGEMENT BILL...cont.

- Some challenges can be addressed more holistically:
 - › Pesticide handling, use and disposal of containers
 - Education, awareness, compliance monitoring and enforcement
- Some challenges will always exist, but the risks can be managed
 - › Risks of incidents taking place can be reduced through planning and appropriate control measures
 - › The potential impact of incidents can be reduced through emergency response plans being in place and tested



CHEMICALS MANAGEMENT BILL...cont.

- It is clear that a multistakeholder approach to identifying challenges with the legislative environment and specific chemicals of concern is required
- Dual reactive and proactive approach required
- The key is to identify concerns or challenges, before considering new legislation that will have a limited impact



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SUPPORT

- The domestication of Multilateral Environmental Agreements
 - › Important to be a part of the global community and support the efforts where indicated for South Africa
 - › *What existing legislation can be used to give effect to this?*
- The formalisation of the Multistakeholder Committee for Chemicals Management
 - › The political will across Departments is imperative to have a co-ordinated approach, but implementation and enforcement are key issues
 - › *How can this be formalised?*
- Rational, scientific, risk-based approaches



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Thank you



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