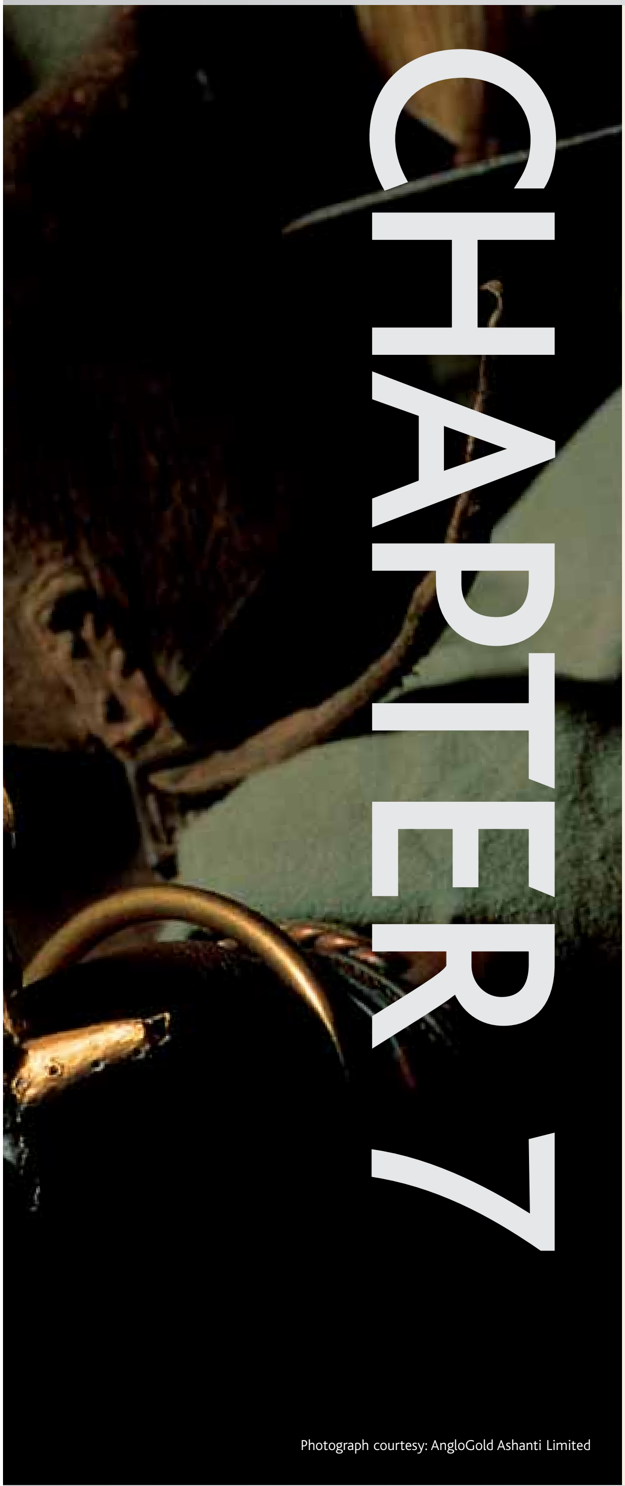
CHAPTER 7
TRADE



Photograph courtesy: AngloGold Ashanti Limited

Contents:

CHAPTER 7

TRADE

South Africa, as a major importer and exporter of goods, has long-standing trade relationships with a number of countries...

South Africa is a major importer and exporter of a wide range of goods and services and consequently has long-standing trade relationships with a number of countries.

As the world's largest miner of gold, (14% of global production in 2004)[1], South Africa is an important participant in the international gold market.

7.1 TRADE

7.1.1 South Africa as an international trading partner

Since 1994, the value of South Africa's exports has on average risen by 12% per year...

Since the first democratic elections in 1994, the value of South Africa's total exports has on average risen by 12% per year, while the value of total imports has risen by 15% on average per year.

In value terms, the contribution of mining to South African exports has fallen from 50% in 1994 to 32% in 2004...

In value terms, the contribution of mining to South African exports has fallen from 50% in 1994 to 32% in 2004. In contrast, the importance of the manufacturing sector to exports (in value terms) has increased over the same period from 40% to 60%.

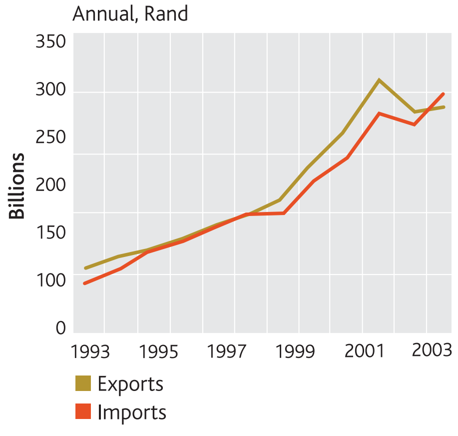
By region, Europe and Asia account for 60% of the value of all South African exports. The proportion of exports to Asia, currently 24%, can be expected to rise with increased demand for raw materials from China.

The United States, United Kingdom and Japan are the top importers of South African goods and services in value terms, representing collectively 33% of the total of the country's global exports in 2004.

The largest source of South African imports is Germany, which accounted for 14.6% of the value of imports into the country in 2004. These imports are mainly heavy-duty equipment and machinery.

By region, South African imports on a value basis are even more consolidated than exports, with Asia and Europe accounting for 80% of goods imported in 2004.

South Africa total trade
Annual, Rand



Data source: Department of Trade and Industry.

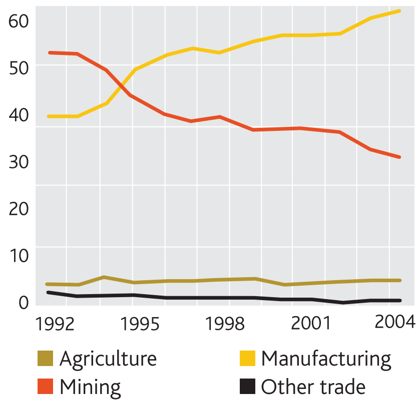
7.1.2 Customs and excise and the import and export of gold to and from South Africa

The analysis of gold imports and exports into and from South Africa differentiates between the authorities' definitions of 'monetary gold' (bars), 'coin' and 'other fine gold products' that refer to jewellery either in finished or semi-fabricated form.

Before presenting the analysis, some comments on the data are warranted.

South Africa conforms to and uses the international Harmonised Commodity Description and Coding System (HCDCS or HC) in the recording and reporting of all trade data.

South Africa exports by sector
Annual, %



Data source: Department of Trade and Industry.

[1] See Chapter 2 for details.

The HCDCS codes relevant to the gold industry are shown in the following table:

Harmonised commodity description and coding system (gold)	
71.08 Gold	Unwrought, semi-fabricated or powder form
71.08.10	Non-monetary
71.08.11	Powder
71.08.12	Other unwrought
71.08.13	Other semi-manufactured form
71.08.13.1	Bars, rods, plates, sheets and strip
71.08.13.2	Foil
71.08.13.9	Other
71.08.20	Monetary
71.13	Jewellery
71.18	Coin

Data source: Department of Trade and Industry

To collate a summary of imports and exports of fine gold into and out of South Africa, the trade figures associated with the above HCDCS codes going back to 1999 were analysed. In each year, analytical anomalies with the official data were encountered. These are listed below and it should be noted that they are in no way unique to South Africa. Similar anomalies are encountered in the analysis of trade statistics of other countries:

- there were instances where clear typographical errors had been made, as tonnage figures bore no relation to quoted Rand values;
- there are a number of sub-codes, and it is unclear from their definitions exactly to which precious metals they refer and the form of the precious metals; and
- there were instances where the units of measurement had been confused. For example, the volume figures were in grams when they ought to have been in kilograms or vice versa. Further, there were instances where there were no tonnage figures, only Rand values, in the category covering 99% of gold exports (defined as 'country unknown' or 'origin of goods unknown').

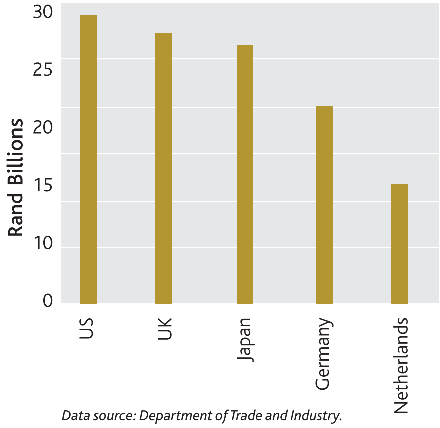
  The table below was extracted from the DTI's website and demonstrates the situation. Examining the more detailed statistical database provided by Customs and Excise still left a number of unanswered questions:

2004	DTI trade data	
Gold exports Code 7108	**Rand value**	**%**
Origin of goods unknown	28,053,783	99.9
India	24,496	0.1
UK	3,439	0.0
Hong Kong	271	0.0
US	58	0.0
Total	**28,082,047**	**100.0**

Data source: Department of Trade and Industry website.

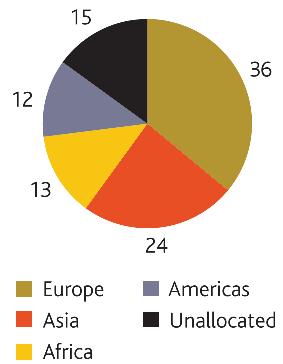
- there were instances of South Africa importing metal to itself, with no clear explanation for this. These figures may have represented semi-fabricated jewellery exported for finishing and then re-imported into the country for sale, but this is only conjecture; and

South African exports by destination – 2004
Top five countries, Rand Billions



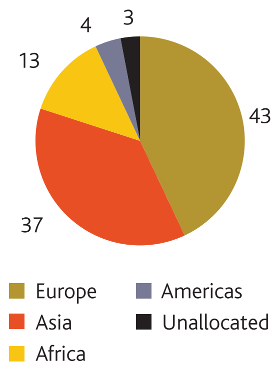
Data source: Department of Trade and Industry.

South African exports – 2004
By region destination (%)



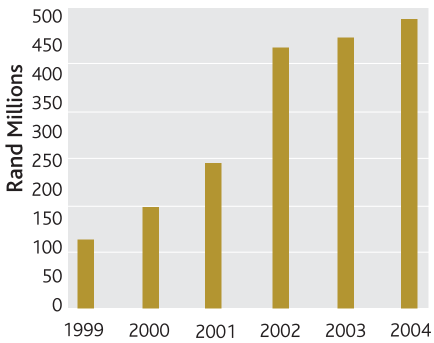
Data source: Department of Trade and Industry.

South African imports – 2004
By origin (%)



Data source: Department of Trade and Industry.

Jewellery exports, 1999-2004
Rand Millions



Data source: DTI.

- while Customs and Excise appear to collate the data on a monthly basis, the data is only published on an annual basis. Due to concerns about accuracy, and lack of data with respect to the volumes as described above, analysis of volumes was therefore based on the Rand values. On an annual basis, the analyst was then obliged to apply an average Rand gold price for the year, taking into account the Rand/Dollar exchange rate and the international gold price in Dollars.

Given these concerns, the analysis of trade figures has relied more on the value of trade (in millions of Rand) than on the quoted volumes (in grams, kilograms or tons).

This approach addresses the concerns about the volumes but raises other concerns with respect to the interpretation of the values. Obviously, the exchange rate used greatly affects the calculation of the final gold tonnages. Even using end-period data as opposed to averages can greatly influence the outcome, particularly when the currency has been subject to wide trading ranges during the year under review.

Accordingly, while we have made the best use possible of the data available, there is the potential for a margin of error.

7.1.3 Results of the customs data analysis

Exports of gold from South Africa
According to the trade figures collated by Customs and Excise, annual exports of fine gold from South Africa between 1999 and 2004 were as follows, expressed in the calculated tonnages from the Rand values:[2]

Fine gold exports from South Africa 1999-2004 (t)

	Monetary gold	Coin	Jewellery
1999	452	1.07	1.81
2000	451	0.48	2.48
2001	414	0.47	2.84
2002	418	0.39	3.70
2003	408	0.42	4.50
2004	421	0.72	5.07

Data Source: Virtual Metals' Analysis of Customs and Excise data.

Exports of fine gold in bars totalled 421t in 2004...

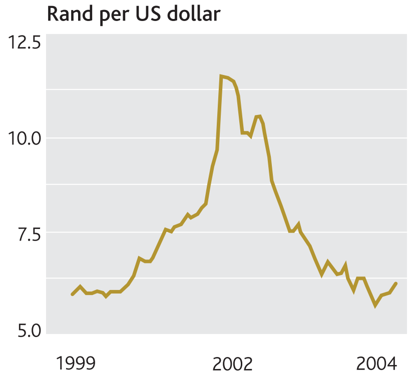
Exports of fine gold in bars (monetary gold) totalled 421t in 2004, up from 408t in 2003. Exports of fine gold coins and medallions totalled 0.72t, up from 0.42t the previous year.

Fine gold exports in the form of jewellery have risen over the past five years...

Fine gold exports in the form of jewellery product have risen over the past five years at an annual average of 23%, albeit from a very low base in 1999 of the calculated Rand value equivalent of 1.81t.

This increase in exports of gold jewellery has occurred despite a volatile Rand, with the exchange rate against the Dollar depreciating by 20% annually between January 1999 and December 2001, before appreciating by 24% a year between January 2002 and December 2004 (see the accompanying chart).

Rand per US dollar



Data source: DTI.

[2] The methodology used for the calculation of the tonnages from the Rand value in all cases was as follows: Virtual Metals used the appropriate HCDCS code which gives an annual value in billions of Rand. This was divided by the average Rand gold price in the respective year to give a tonnage figure. Allowance was then made for the mark-up on the various gold products where appropriate.

The stronger Rand has made South African gold jewellery exports more expensive. Interviews with the gold jewellery manufacturers who produce primarily for the export market confirmed that, in recent years, the strong currency has affected their ability to export final product.[3] As manufacturing costs became more expensive in the wake of the stronger Rand against the Dollar, these manufacturers adjusted their marketing to recapture more of the local market in the face of declining overseas market share.

In effect, the strong Rand also placed pressure on domestically-focused local fabricators as they now have to compete with local manufacturers who were previously targeting the export market.

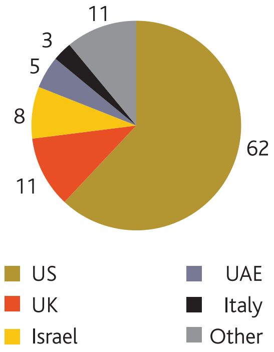
The strong Rand has placed pressure on local manufacturers targeting the South African market...

The effect of the strong Rand aside, the increase in the levels of fine gold exports of jewellery reveals some potential for local fabricators to break into the overseas markets, although from a low base.

Details gained from the interviews with the primary manufacturers tied in closely with the Customs and Excise figures. Cumulatively, the 20 fabricators interviewed reported exporting at least 4.1t of fine gold in 2004. In addition, according to the research, another 0.5t is believed to be for indirect export via tourism. Furthermore, this research acknowledges that there must be some exports of gold product by manufacturers who were not interviewed although, given the fabrication sample covered by the interviews, this volume is considered to be relatively small.

The chart on the right shows the country destination of this exported jewellery.

Jewellery exports – 2004
By destination (%)



Data source: Virtual Metals' analysis of trade data.

In considering the growth potential of jewellery exports, there are two important considerations.

- South Africa enjoys favoured nation status with the USA via the African Growth and Opportunity Act of 2002 (AGOA)[4], which allows South African gold jewellery fabricators to export their finished product to the USA free of import duties. This gives South African jewellery manufacturers a 6% cost advantage over their European and Far Eastern competitors, on whom the 6% duty is levied for jewellery product destined for the USA. The predominance of the United States as an importer of manufactured jewellery (62% of the total amount of jewellery exported from South Africa in 2004) is partly a function of South Africa benefiting from AGOA status with that country.

- Under the South African/European Trade Development and Co-operation Agreement (TDCS)[5], a Free Trade Area (FTA) between South Africa and the European Union is being developed through the gradual abolition of import and export tariffs between the two trading partners. Import and export duties are gradually being removed from their maximum of 20% in 2003 to zero by 2012. This implies that the country will be able to export local gold jewellery duty-free into Europe. Therefore, over the next six years, the European market will gradually open up to South African jewellery manufacturers at an increasingly attractive fiscal rate.

This reciprocal removal of trade duties between South Africa and the European Union is, however, a double-edged sword. It implies that European jewellery manufacturers will, in turn, be able to import their products into South Africa, ultimately duty-free. This will gradually remove the 20% fiscal protection currently in place for South African manufacturers with predominantly local target markets.

[3] See Chapter 4 for further comments.
[4] AGOA is discussed in more detail later in this chapter.
[5] TDCS is discussed in more detail later in this chapter.

The following table details the proposed reciprocal reduction in import and export tariffs agreed between the European Union and South Africa:

Phase-down between the European Union and South Africa

Reciprocal tariff	Import/export tariff %
2004	20.0
2005	17.6
2006	15.0
2007	12.6
2008	10.0
2009	7.6
2010	5.0
2011	2.6
2012	0.0

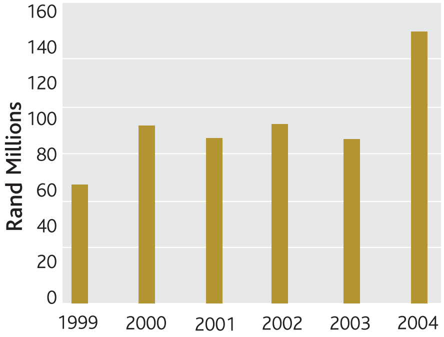
Data source: TDCS.

Increasing trend for jewellery manufacturers to seek trade outlets outside traditional markets...

The reduction of tariffs applies to jewellery fabricated from gold, silver and PGMs.[6] The implication is that locally produced precious metal jewellery will eventually enjoy access to this market, free of import duties.

Apart from South Africa's traditional major trading partners, there is an increasing trend for jewellery manufacturers to seek trade outlets with other markets. Sub-Saharan Africa has been cited as a potential market with manufacturers investigating possible business opportunities in countries such as Nigeria, Ghana and Mali. The reasons given for this interest in other African countries are largely associated with increased levels of overall business being conducted and jewellery being perceived as one of many opportunities for increased trade. Although manufacturers intend to consider other African markets as a potential destination for their jewellery product, little in the way of business in these areas appears to have been generated to date.

Jewellery imports, 1999-2004
Rand Millions



Data source: Department of Trade and Industry.

Imports of fine gold to South Africa

Trade figures collated by Customs and Excise indicate that annual imports of fine gold by product, between 1994 and 2004, were as follows, expressed in the calculated tonnages from the Rand values:

Fine gold imports to South Africa 1994-2004 (t)

	Monetary gold	Coin	Jewellery
1999	0.00	2.68	0.85
2000	0.03	1.67	1.16
2001	0.01	0.96	0.87
2002	0.07	0.71	0.67
2003	0.00	0.46	0.74
2004	0.00	0.32	1.28

Data source: Virtual Metals Analysis of Customs and Excise data.

It should be noted that no data was available on imports of non-South African gold production known to be refined in South Africa. This is because ownership of mine production remains with the mine and is not passed on to the refinery when the doré is delivered for refining. However, once manufactured (mainly into bars), these products are recorded as exports from South Africa, irrespective of the country of origin of the gold.

Imports of fine gold coins in 2004 were recorded at 0.32t and imports of gold jewellery in 2004 totalled a calculated Rand-value-equivalent of 1.28t of fine gold. Gold jewellery imports have not shown the same growth as the gold jewellery exports, as the accompanying chart shows:

The chart on the left shows the Rand value of jewellery imports into South Africa. In calculated tonnages of fine gold, the imports show a similar profile. Between

[6] Platinum group metals

2001 and 2003, these imports varied between 0.67t and 0.87t of fine gold. In 2004, they increased to the calculated tonnage equivalent of 1.28t.

As the accompanying chart shows, much of this increase in imports of gold jewellery[7] came from Hong Kong and China, which accounted for one third of total imports.

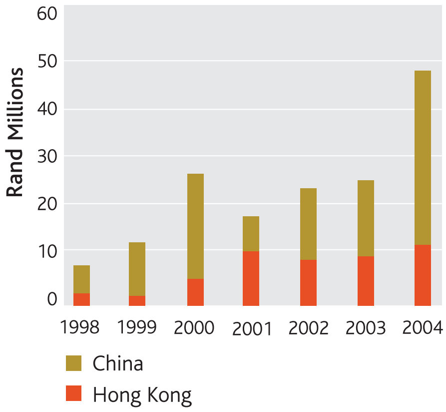
This increase in imports of jewellery product from China and Hong Kong appears to be a combination of three factors:

- increased trade and imports of a wide range of products from these countries;
- finished product that is cheaper to manufacture in these countries because of lower labour costs relative to South Africa; and
- the strengthening Rand, especially between 2002 and 2004, which reduced the cost of importing goods into South Africa.

Interviews confirmed that the level of imports of gold jewellery is highly subject to fluctuations in the Rand/Dollar exchange rate, rising in times of Rand strength and falling when the Rand weakens against the Dollar.

With the stronger Rand, especially between 2002 and 2004, the trade reported a sharp increase in the number of commercial entities importing finished jewellery into the country. More seriously, many claimed that the strength of the Rand was encouraging a high level of smuggling of finished jewellery into the country, avoiding both the 20% import tax and 14% VAT. This is obviously not reflected in the official trade statistics and it must be assumed that the official figures that are presented here understate the true levels of gold jewellery entering the country, possibly by a wide but unverifiable margin.

Jewellery imports from China and Hong Kong
Rand Millions



Data source: Virtual Metals' analysis of trade data.

Quotable quotes:
"I reckon at least another 50% over the official import figures is being brought in through the green channel in suitcases. It is killing the local manufacturer who has overheads to pay."

"Smuggling can be an individual coming into the country wearing 10 tennis bracelets or it can be more organised in which case the volumes are huge."
Jewellery manufacturer

Quotable quotes:
"I am importing finished product. Even with duties, VAT and a clearance cost, I can land very similar goods in South Africa cheaper than I can make the stuff."
Jewellery manufacturer

7.1.4 Export considerations and structural initiatives

The South African/European Trade Development and Co-operation agreement (TDCS)

The South African/European Trade Development and Co-operation Fund (TDCS) provides for the creation of an FTA between the European Union and South Africa by no later than 31 December 2012. By this date, 90% of all trade between the two partners will be free of customs duties. The European Union will remove duties on 95% of South Africa's exports to the European Union over 10 years. Similarly, South Africa will remove duties on 86% of the European Union's exports to South Africa over a 12-year period.

It should be noted that the phase-out of the duties takes place over a different time horizon – the reduction of duties as they apply to South African fabricated goods for export to Europe takes place more quickly than the reduction of duties on European manufactured goods for export into South Africa. The implication here is that South Africa will have a limited window of opportunity during which local manufacturers will benefit from being able to export to Europe at a lower rate of tax compared to European manufacturers exporting to South Africa. From 2012, however, the zero-rate tax rate will apply to both trading partners.

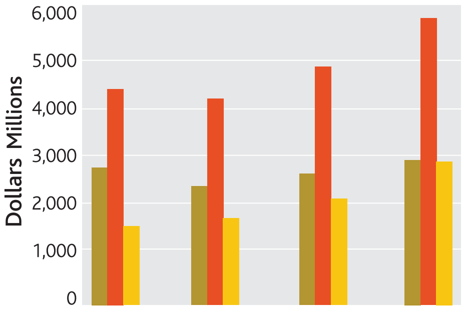
Goods to which the FTA protocol will apply need to:

- be produced in their entirety from products grown or mined in South Africa or the European Union or derived from these products or their by-products; or
- contain manufacturing inputs imported from outside South Africa or the EU, but which conform to the specific processing rules pre-described for each tariff heading.

The duty phase-out allowed for by the TDCS has important implications for the local jewellery industry and a table of the phase-down was presented earlier in this chapter.

Duty phase-out as a result of TDCS has important implications for the local jewellery industry…

[7] According to the trade codes and definitions, this gold jewellery may contain set or mounted stones. However, it is clear that it excludes unset or loose diamonds, which have a separate coding category.



Data source: AGOA.

The USA is one of South Africa's major trading partners...

The African Growth and Opportunity Act of 2000 (AGOA)

AGOA was signed into law in the USA on 18 May 2000 as Title 1 of The Trade and Development Act of 2000. Since then the Act has been amended twice – on 6 August 2002 and 12 July 2004 – extending the terms and tenure of the Act.

AGOA offers incentives for African countries to continue their efforts to open their economies and build free markets. These incentives are in the form of trade between the country and the USA free of duties, and quotas on specified product lines. It provides reforming African countries with the most liberal access to the American market available to any country with which the USA does not have a Free Trade Agreement.

AGOA originally covered the eight-year period from October 2000 to September 2008, but amendments signed into the law by President George Bush in July 2004 further extend AGOA to 2015. AGOA builds on existing USA trade programmes by expanding the duty-free benefits previously available only under the Generalised System of Preferences (GSP) programme. Duty-free access to the United States market under the combined AGOA/GSP programme now stands at approximately 7,000 product tariff lines.

AGOA allows access to the USA market, free of import duty, for the 37 African countries designated as eligible, South Africa included. Those qualifying are chosen according to various pre-defined criteria, including evidence of progress towards the following:

- market-based economies;
- development of political pluralism and the rule of law;
- elimination of barriers to trade and investment;
- adherence to legal infrastructure;
- commitment to democratic principles and human rights issues;
- protection of intellectual property;
- increased availability of health care and education;
- protection of workers' rights; and
- efforts to combat corruption.

The USA is one of South Africa's major trading partners: exports from the USA to South Africa greatly exceed USA exports to other Sub-Saharan countries.

Between 2001 and 2003, the percentage of South African exports to the USA covered by AGOA or the GSP provisions rose steadily from 21% in 2001 to 32% in 2002 and 34% in 2003. In 2004 it fell back to 30%. However, in value, it continues to rise, from \$1.69bn in 2001 to \$1.78bn in 2004.

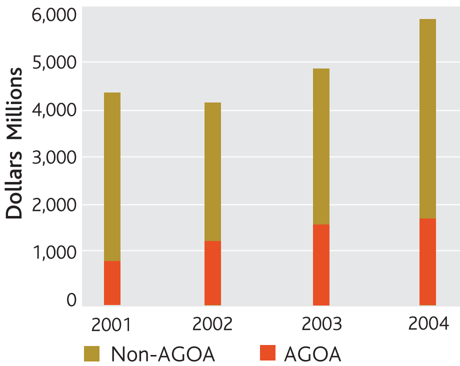
In terms of African exports to the United States, South Africa ranked second only to Nigeria. While exports from Nigeria were heavily weighted in favour of oil and oil-related products, exports from South Africa comprised a diverse range of products of which jewellery was but one, accounting for 1% of the total. However, this total does not include monetary gold exports to the US, as South African Customs do not break this data series down by country of destination.

By sector, minerals and metals were the largest single category of exports to the USA under AGOA, comprising 36% of exports by value. This share is, however somewhat smaller than the minerals and metals sector's share of the total South African exports (including AGOA and non-AGOA).

Value 000 $ 2004	Total exports to USA	Exports under AGOA	Total imports from USA
Minerals and metals: excluding monetary gold	3,874,580	639,845	111,320
Transportation	649,459	539,144	867,566
Chemicals	394,724	219,428	501,563
Agricultural products	224,955	148,976	189,052
Machinery	192,044	16,630	381,997
Textiles and apparel	180,505	119,622	31,612
Misc. manufactures	87,064	57,648	56,774
Forest products	81,951	24,615	96,648
Energy	55,282	–	113,402
Electronics	47,434	14,237	474,776
Footwear	1,024	890	1,460

Data Source: AGOA.

South African exports to the US
Annual, US Dollars



Data source: AGOA.

ATA Carnet

The ATA Carnet system is an internationally operated and recognised means of facilitating trade and streamlining customs procedures for temporary export of a variety of products. The system operates under the international customs conventions administered by the World Customs Organisation (WCO).

In 2000, some 200,000 carnets were issued globally covering goods valued at $12 billion. ATA stands for 'Admission Temporaire/Temporary Admission' and covers commercial samples, professional equipment and goods for exhibit and return to the country of origin.

In 2000, some 200,000 carnets were issued globally, valued at $12 billion...

In practice, and specific to the local jewellery industry, the ATA carnet is issued by the South African Chamber of Business (SACOB) to South African exhibitors of jewellery prior to leaving the country to exhibit at one or several foreign venues. This ensures that the exhibitor is exempt from paying provisional duties and taxes for temporary importation purposes in the country of destination. The exhibitor, in order to be issued with the appropriate ATA carnet, has to comply with SACOB regulations by photographing, tagging, weighing and valuing each item of jewellery and each piece being taken out of South Africa for exhibition purposes.

South Africa is one of 59 countries in which ATA carnets are issued and accepted. For South African jewellers, this facilitates exhibiting in countries such as the USA, Israel, China, Japan, Australia and throughout Europe.

South Africa is one of 59 countries in which ATA carnets are issued and accepted...

For local jewellers wishing to export their goods temporarily, the ATA Carnet eliminates VAT payments and customs duties on their return. Carnet holders also do not have to post any securities at customs. Holders can make customs arrangements ahead of travel, visit more than one country on the same carnet and use the carnet for multiple trips through its annual validity.

Fees vary according to the country and are determined by the value of the goods, the number of countries to be visited plus any additional security, insurance or other services. In South Africa, SACOB charge the following:

- for goods valued at R100,000 or less there is a flat-rate fee of R1,300 per carnet;
- for goods valued in excess of R100,000 the flat-rate fee is R1,900 per carnet; and
- express services for the issuing of carnets attract a further R300 charge. If the exporter wants SACOB to complete all the paperwork, there is an additional fee of R500.

In addition, the temporary exporter must lodge a cheque or bank guarantee for 50% of the value of the goods for export. This is fully refundable on re-importation of the goods. While the ATA carnet system assists jewellers who intend to exhibit overseas as temporary exporters, the requirement for a cheque or bank guarantee to the value of 50% of the value of the goods for export still poses a problem, especially for small and micro manufacturers.

SACOB is the country's only issuing and granting association...

SACOB is the country's only issuing and granting association, acting in accordance with international customs conventions. The fees paid to SACOB as a Section 21 Company[8] for the service go to covering the costs of printing and issuing the carnets, as well as to the associated insurance of the goods and administrative fees. SACOB does make an undisclosed profit on issuing carnets.

Trade and Investment South Africa (TISA)

TISA concentrates on the manufacturing sector and the development of small, medium and micro enterprises...

Trade and Investment South Africa, (TISA), is an agency working under the auspices of the Department of Trade and Industry (DTI). It is designed to provide a 'one-stop shop' for investors and exporters at a national level.

As a service delivery agency that combines trade and investment promotion, TISA is positioned to assist the DTI so that it may maximise the synergies between investment and export. TISA operates out of the DTI in South Africa and out of 50 diplomatic offices globally, providing core market information and identifying marketing and investment opportunities.

TISA's strategy is threefold:
- the development of Industrial Development Zones (IDZs);
- the development of special investment packages to match those being offered by competing countries; and
- the development of policy for the creation of investor-friendly environments.

TISA concentrates on the manufacturing sector (including jewellery fabrication) and the development of small, medium and micro enterprises (SMMEs). TISA also co-ordinates provincial development initiatives.

While TISA appears to have made progress in encouraging South African presence internationally via trade exhibitions, the overall concept has some way to go before its stated objectives are met. As yet, the local jewellery industry is not fully aware of the incentives offered through TISA. This lack of awareness is not confined to TISA services but also extends to those training incentives which are offered, for example, by the MQA.

In this regard, South Africa is competing with initiatives such as the DMCC[9] in Dubai which was established in 2002. The DMCC is an industrial development zone offering one-stop refining and trading facilities for the precious metals and diamond industries. The DMCC offers investors a number of incentives, the most relevant of which for this discussion is a 50-year tax free status for investors with respect to both personal and income tax, no foreign exchange controls and no restrictions on capital repatriation.

Industrial Development Zones (IDZs)

The DTI's Industrial Development Zone (IDZ) Programme is designed to encourage international competitiveness in South Africa's manufacturing sector. The IDZ programme was established under the Manufacturing Development Act No 187 of 1993 as amended in 2000.

An IDZ is a purpose-built industrial area...

An IDZ is a purpose-built industrial estate linked to an international airport or port that contains a Controlled Secured Area (CSA). A CSA is exempt from duties, VAT and import duties on machinery and assets.

[8] A company established not for profit.
[9] Dubai Metals & Commodities Centre.

Each IDZ is designed to:
- provide a location for the establishment of strategic manufacturing investments;
- promote and develop links between domestic and zone-based industries, maximise existing infrastructure, generate employment and encourage the transfer of technology; and
- allow for the exploitation of resource-intensive industries.

The primary intended characteristics of an IDZ are that, ultimately, it should:
- have direct links to international gateways;
- be geared towards production for export;
- have dedicated customs support;
- have access to duty-free importation of raw materials and inputs;
- have a zero VAT rating on supplies procured from within South Africa;
- have import status on finished goods sold locally; and
- have the ability to qualify for government incentive schemes.

There are four IDZs at different stages of development...

There are currently four IDZs at different stages of development.

The first IDZ is the Coega Industrial Development Zone near Port Elizabeth which took its first tenant in May 2005. While it is operational, it is too early to evaluate its success. The second is in Richards Bay and is under development. The third is ELIDZ, the East London Industrial Development Zone, which was first granted a licence to operate in March 2003. In July 2005 it was announced that the ELIDZ was finalising the first phase of its infrastructural development and had attracted three investors, the largest of which was a glass manufacturer. This IDZ is focusing on the automotive, agricultural and pharmaceutical sectors and not on the precious metals industries. The fourth is a proposed IDZ at Johannesburg International Airport, the details of which are given below, since the proposal relates directly to the local gold industry.

The Proposed Johannesburg International Airport (JIA) IDZ

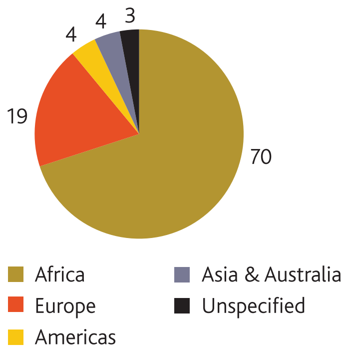
A consortium led by Mintek, the Airports Company of South Africa (ACSA), Blue IQ and Rand Refinery, has been set up to establish a Precious Metals/Jewellery Manufacturing Precinct. The precinct would be designated as an IDZ and consist of two centres – one at JIA within the High Security Zone on a five hectare plot; the other at Rand Refinery on the 2.5 hectare Gold Zone site. This IDZ is specifically designed for the manufacture and export of jewellery products.

The proposed IDZ at Johannesburg International Airport relates directly to the local gold industry...

The purpose and objectives of this IDZ are to:
- achieve national beneficiation objectives by building South Africa's export capacity in jewellery and related industrial sectors;
- create an integrated centre linking production, beneficiation, retail, and export of precious metals;
- create a regulatory fiscal environment (ie. zero VAT on export related transactions) for the manufacture and export of South African produced jewellery;
- establish an export centre for the trading and cutting of diamonds;
- establish a global centre for national and international applied research and development, utilising precious minerals and metals primarily for jewellery related applications;
- administer gold, platinum and diamond loans; and
- allow for the phased implementation of a mineral/metal exchange – initially to support working capital for jewellery production and industrial production of precious metal/mineral product, as well as the exchange of scrap and refined product.

As at the time of wriring, construction is scheduled to begin in February 2006.

Tourist arrivals – 2004
By region of origin (%)



Data source:South African Tourism Strategy Unit.

7.2 TOURISM

South Africa had 6,677,839 visitors in 2004; this industry is still relatively small in global terms. The vast majority of those who arrived in the country were from within Africa to seek employment and therefore cannot be considered tourists.

The country is ranked by The Economist (World in Figures, 2006) as the 25th most popular holiday destination. In international terms this may seem small. According to The Economist, tourist numbers amount to only 1/12th of the numbers visiting France and one-third of the numbers visiting Germany.

		Tourist arrivals 2004 000's	% change on 2003
1	France	76,056	1.4%
2	Spain	52,477	1.8%
3	USA	40,356	7.0%
4	China	34,356	5.1%
5	Italy	33,477	0.0%
6	UK	25,854	3.9%
7	Russia	20,737	1.4%
8	Austria	20,059	5.1%
9	Mexico	19,726	3.3%
10	Germany	19,588	6.3%
32	South Africa	6,677	2.7%

Data Source: South African Tourism Strategy Unit.

A more comparable data set for South Africa might be other 'long-haul' destinations such as the USA, Australia or Thailand. South Africa receives more visitors than Australia or Brazil, but fewer than Thailand, Mexico or the USA. In reviewing data on South African tourist arrivals, it needs to be borne in mind that many visitors to South Africa are from neighbouring countries, and visit South Africa with the intention of purchasing basic commodities and white goods, rather than for the purpose of tourism.

	Tourist arrivals 2004 000's	% change on 2003
USA	40,356	7.0%
Mexico	19,726	3.3%
Thailand	11,231	11.4%
South Africa	6,677	2.7%
Australia	5,200	7.7%
Brazil	4,155	2.2%

Data Source: South African Tourism Strategy Unit.

The majority of visitors to South Africa from outside Africa come from countries with historical connections with South Africa. The fact that the UK features high on the list of countries of origin of visitors is a function of the colonial history of South Africa and the continued close trade links between the countries and their people. This relationship also has some bearing too on the local jewellery industry in that the two markets show strong similarities.