

DRAFT TRADE EXPOSURE REGULATIONS

SUMMARY OF STAKEHOLDER COMMENTS AND RESPONSES

June 2020

Organisation abbreviations
Aluminium Federation South Africa (AFSA)
Association of Cementitious Material products (ACMP)
Business Unity of South Africa (BUSA)
Chemicals & Allied Industries' Association (CAIA)
Climate Neutral Group (CNG)
Cova Advisory (on behalf of South32)
Department of Environment Forestry and Fisheries (DEFF)

Industry Task Team on Climate Change (ITTCC)
Minerals Council South Africa (Minerals Council)
South African Iron & Steel Institute (SAISI)
South African Petroleum Industry Association (SAPIA)
South African Property Owners Association (SAPOA)
South African Sugar Association (SASA)
Ferro Alloy Producers' Association (FAPA)

Section	Stakeholder	Comments	Response
Title of the regulations	WC Government	<u>Formatting</u> <ul style="list-style-type: none"> There is no reference to section 19(b) of the Carbon Tax Act Add reference to section 19(b) 	<ul style="list-style-type: none"> <u>Accepted.</u>
Preamble	WC government	<u>Preamble</u> <ul style="list-style-type: none"> Preamble should be used in legislation that is required in terms of the Constitution. Reconsider the use of the Preamble in the draft regulations. 	<ul style="list-style-type: none"> <u>Not Accepted.</u> The preamble to the regulation provides the context and background for the trade exposure allowance.

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Section 1: Definitions	WC Government	<u>Reference to the Carbon Tax Act</u> <ul style="list-style-type: none"> The full short title of the Act should be used. Add the full short title of the Act. A definition for the Act should also be added. 	<ul style="list-style-type: none"> <u>Accepted.</u>
	SAPOA	<u>Inclusion of the definition of trade intensity</u> <ul style="list-style-type: none"> A definition for trade intensity should be included in Regulation 1 (it is mentioned but not defined in Regulation 4.2. nor is it defined in the Carbon Tax Act); 	<ul style="list-style-type: none"> <u>Not accepted.</u> The formula for calculating the trade intensity of a sector is set out in Section 10 of the Carbon Tax Act.
Section 2: Allowance in respect of trade exposure in respect of carbon tax liability	WC Government	<u>Editing suggestions</u> <ul style="list-style-type: none"> Incorrect Wording in heading The wording in the regulation should correspond with Annexure A. Replace title so that “in respect of” is not used twice. Add “Name” after “Sector”, and “Trade Exposure” before “Allowance” 	<ul style="list-style-type: none"> <u>Accepted.</u>
Cap on trade exposure allowance	Catalyst Solutions	<ul style="list-style-type: none"> The allowance is capped at 10%. However, there are some sectors that are significantly more trade-exposed than this 10%. Many companies have higher trade intensities than 10%. For companies operating in these sectors, the 10% is insufficient to protect against the threat of competition and price relating to imports and exports. Given the above, it would be useful for companies, sectors or subsectors to be allowed to make submissions to the Minister to motivate for a higher trade exposure allowance that is more reflective of or in line with their actual trade intensity. 	<ul style="list-style-type: none"> <u>Not accepted.</u> The carbon tax allows taxpayers to claim a range of allowances up to a maximum of 95 per cent. The allowances are targeted incentives to address particular concerns such as trade exposure, incentivize reduction in the emission intensity of activities and flexibility to reduce tax liability by using carbon offsets. The trade exposure allowance is located within this suite of allowances and is aimed at providing transitional assistance to companies as they transition towards lower carbon more efficient business practices

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			and investments. Importantly, the cap also indicates that the need for the allowance will recede as more countries implement carbon pricing policies.
Data – Availability of 2016 Supply Use data	Individual – C Morden	The data from the mentioned publications in the Summary Note should be reconciled with the data as contained in the 2016 Supply and Use Tables as published by StatsSA.	<ul style="list-style-type: none"> • <u>Accepted.</u> For some sectors where compatible production data was not available, the 2012 GVA data was used in the trade intensity calculations. The analysis was updated to use the latest 2016 GVA data and the allowances were recalculated. This means that some of the sector level trade exposure allowances may have changed.
Data – Transparency	Catalyst Solutions BUSA CNG	<ul style="list-style-type: none"> • The regulations should state the source of the data used to calculate the trade intensities specified in Annexure A so that companies can understand how the calculation was done. • Variable “P” is defined as the number equal to "...the total production of the relevant individual sector for the immediately preceding three tax periods, determined by means of the statistical release published from time to time by Statistics South Africa: ‘Manufacturing: Production and Sales’ or by means of the statistical release published from time to time by Statistics South Africa: ‘Mining’: Production and Sales”. In defining variable “S”, reference again is made to the same publications from Statistics South Africa. 	<ul style="list-style-type: none"> • <u>Partially accepted.</u> To ensure transparency of the data sources used for the calculations, National Treasury will provide links to the relevant data sources that is, on the StatSA and SARS / the dtic websites.

Section	Stakeholder	Comments	Response
		<ul style="list-style-type: none"> The mentioned publications from Statistics South Africa (Manufacturing: Production and sales [P3041.2] and Mining: Production and sales [P2041]) do not contain manufacturing and mining production volume data. Instead, the production volume data is published in index form. It is recommended to include a link to the specific document where the information, required for determination of parameters “P” and “S” can be found. 	
	Minerals Council	<ul style="list-style-type: none"> Furthermore, it is proposed that, for the mining sector, the Department of Minerals Resource and Energy (DMRE) should be included as an approved data source for production, sales and export information. That is, not only limit the data source to Statistics South Africa. The DMRE publishes a wider list of commodities that are produced in the country with granular details such as grade or mineral type. This information will be important for instances where mining companies produce more than one commodity, and the commodity is not included in the Statistics South Africa tables. 	<ul style="list-style-type: none"> <u>Not accepted.</u> The StatsSA and the DMRE data are the same.
<i>Methodology for determining level of allowance – generous 30% threshold for max allowance</i>	Individual – C Morden	<ul style="list-style-type: none"> The draft Regulations to provide for the Trade Exposure Allowance is well crafted but could be simplified and be a bit more transparent. With the full 10 per cent Trade Exposure Allowance that kicks in at a Trade Intensity of 30% the draft Regulations appear to be overly generous. A more in-depth analysis by sector and subsector however, using the 2016 Supply and Use Tables, suggests that the maximum 10 per cent Trade Exposure Allowance should only apply at a Trade Intensity of around 80 per cent for most of the sectors. The Supply and Use Tables identify 104 sectors and subsectors and for 38 of the sectors and subsectors the average Trade Intensity is about 5 per cent with the maximum Trade Intensity of around 30 per cent for this group of mainly service orientated sectors. For remaining 66 sectors with a Trade Intensity above 30 per cent the average Trade Intensity is 89 per cent. The 38 least Trade Intensive sectors account for about 70 per cent of the Total Industry Production and only 12 per cent of external trade (import plus exports), with an average Trade Intensity of about 5 per cent. The 66 most Trade Intensive sectors account of only 30 per cent of Total Industry Product and a whopping 88 per cent of external trade. This 	<ul style="list-style-type: none"> <u>Noted.</u> The trade intensity thresholds are based on international best practice. The 30 per cent trade intensity threshold resulting in the maximum allowance is comparable to the thresholds that apply in the European Union and South Korean carbon pricing schemes. Work will also be undertaken through the World Bank NDC Support Facility to review the design of the trade exposure allowance and this will inform future changes to the trade

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		<p>confirms the predominance of the service sectors and other non-tradeable sectors (e.g. construction) in the South African economy.</p> <ul style="list-style-type: none"> more equitable dispensation of the Trade Exposure Allowance under the Carbon Tax could comprise of two formulae: One for less trade intensive sectors and subsectors with maximum allowance of about 4 per cent that kicks in at a Trade Intensity of 30 per cent; and another formula where the current maximum 10 per cent allowance kicks in at a trade intensity of around 75 per cent. The 50th percentile trade intensity for this group is 76 per cent¹. If only one formula is deemed more appropriate, which would be the preferred option, the maximum Trade Exposure Allowance should only kick in at a Trade Intensity of around 75 per cent for all sectors and subsectors – with either Industry Production or Sales as the denominator. 	<p>intensity thresholds, and the overall methodology to calculate trade intensity.</p>
<p>Methodology – sector vs sub-sector</p>	<p>Catalyst Solutions</p>	<ul style="list-style-type: none"> The trade exposure allowance is set at sector-level however; the sectors contain a number of subsectors. It was suggested that determination of the allowance should also be determined at a subsector level if the relevant data is available. It was noted that this will be different to the company-specific trade intensity as this is based on the monetary value of products that were imported by the taxpayer as opposed to taking into account total imports of a product into South Africa. The assumptions and methodological approach to the determination of the percentages set in Annexure A, is a critical feature of the Regulations. These assumptions and processes feature in the guidance in the Summary Document under the heading: “Methodological approach to determine the allowance”. It is unclear why these assumptions and methodologies are not included in the Regulations. In order to facilitate the consistent application and review of Annexure A, particularly mindful of the comments in paragraph. 	<ul style="list-style-type: none"> <u>Partially accepted.</u> The current trade intensity calculation using compatible trade and production data at a sector level was based on comments from industry. To ensure more accurate assessment of the trade intensity of a taxpayer, a sub-sector or company level calculation will be more appropriate. <u>Partially accepted.</u> The methodology used to align the trade and production data at sector level and the relevant data and calculations will be published with the final regulations.

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<i>Review</i>	DEFF SAPOA	<ul style="list-style-type: none"> • Clarity on how and when the trade exposure allowance will be reviewed should be provided (with the understanding that trade exposure will change over time). • In this document it is clarified that “trade intensity is calculated using the latest three-year average of the value of imports, exports and production for the sector or subsector” (own emphasis).¹ It appears that based on this determined trade intensity (as formulated in the Summary Document), National Treasury has formulated the automatic sector-based trade allowances in Annexure A to the Draft Trade Exposure Regulations. There is, however, no procedure to mandate or regulate the revision of Annexure A. • Notwithstanding the fact that the Summary Document recognises that trade intensity is based on the “latest” three-year average values, the Draft Trade Exposure Regulations do not provide for a review mechanism to automatically update such averages on an annual basis, to take changes in trade circumstances into account. • If Annexure A is to be based on the latest three-year average, the regulations should mandate an annual review of the percentages in Annexure A. 	<ul style="list-style-type: none"> • <u>Partially accepted.</u> A ‘review’ of the regulations can be conducted at any point in time based on new information and / or relevant inputs from stakeholders. Therefore, including a clause on a review of the trade exposure allowance is therefore not required. Also see comments above on the technical review study to be undertaken through the World Bank.
<i>Administration</i>	South 32	<ul style="list-style-type: none"> • The regulations do not clarify the required supporting documents that must be submitted in order to claim the allowance. In addition, the overseeing authority body is not provided or a timeframe of when the submissions must be made. 	<ul style="list-style-type: none"> • <u>Noted.</u> The level of the trade exposure allowance that a sector would qualify for is specified in annexure A to the allowance. A taxpayer will need to determine the sector within which an activity falls and use the allowance for the sector as stated in Annexure A in the regulation. Supporting documents will therefore not be required.

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<i>Legal</i>	SAPOA	<ul style="list-style-type: none"> The current format of the regulations provides for a static determination of trade intensity. Moreover, it does not provide for the legal process for the determination of trade intensity nor does it define it. Rather, the term trade intensity is explained in the document entitled “Summary Draft Trade Exposure and GHG Emissions Intensity Benchmark Regulations” dated December 2019 (Summary Document). 	<ul style="list-style-type: none"> <u>Not accepted.</u> The Carbon Tax Act provides formula for determining trade intensity which is used to determine the trade exposure allowance.
Section 3: Allowance for more than one sector	WC Government	<p><u>Formatting</u></p> <ul style="list-style-type: none"> Incorrect punctuation and wording. Semi-colon at the end of para (a); Semi-colon and “and” at the end of para (b). 	<ul style="list-style-type: none"> <u>Accepted.</u>
<i>Weighted Average Formula</i>	BUSA	<ul style="list-style-type: none"> We believe the formula should be stated as; <ul style="list-style-type: none"> a) $N = P * Y / S$ b) The introduction of an ‘X’ here creates confusion with X in the first formula above and hence it is preferable to use ‘N c) X needs to be replaced by N thus; <ul style="list-style-type: none"> ‘ “N” represents the number to be determined. 	<ul style="list-style-type: none"> <u>Accepted.</u>
	BUSA SASOL Minerals Council CNG	<ul style="list-style-type: none"> In the calculations of the trade exposure allowance applicable to trade exposure over multiple sectors, one of the formulas used to calculate trade exposure refers to the use of variables “P” and “S”. Consequently, it is not possible to do the calculation as proposed in the current Draft Regulations based on the current definitions of variables “P” and “S”. BUSA proposes that instead of using the “total production” in variable and calculation definitions, the definitions should be adjusted to refer to manufacturing and mineral sales. When determining the parameters “P” and “S” for the formula “$X = P/S \times Y$”, the unit expressing the “total production” of sectors is perceived unclear. From the example on page 5 of the published document “Summary – Draft Trade Exposure and GHG Emissions Intensity Benchmark Regulations” and the formula on page 6 of the same 	<ul style="list-style-type: none"> <u>Accepted.</u> The reference to production data used for the calculations will be corrected to clarify that the data to be used is the monetary value of production and not production volumes.

Section	Stakeholder	Comments	Response
		<p>document, it seems to be the monetary value of the total production per sector. It is recommended to apply consistency across all documents that when the concept “total production” is used, the monetary value of total production is meant. This is deemed to be of importance when determining specific parameters used in prescribed formulae.</p>	
Methodology	SAISI	<ul style="list-style-type: none"> Provision is made for trade exposure in relation to more than one sector or SIC Code category. It is suggested that actual emissions per sic code category is used. In the case of Arcelor Mittal for instance, that may sell coke into the market, such emissions can be quantified separately when a Tier 1 approach is followed, as factors are supplied in the DEFF/IPCC documents. In cases where the trade exposure is the same per SIC Code things are quite simple, but if they differ the calculation of a weighted average can be cumbersome and complex. 	<ul style="list-style-type: none"> <u>Not accepted.</u> The level of trade exposure of a sector is determined using the trade intensity of the sector. Emissions intensity cannot be used as a measure of trade intensity; it is the basis for the emissions intensity performance allowance.
	SASA Philafrica	<ul style="list-style-type: none"> In section 3 of the Trade Exposure Regulations, the multi-sector trade exposure method only allows for combining the values in terms of section 2 (i.e. the values determined on a national level) and only allows for combining these values on a total sector production-based weighing. Approaching the determination of the multi-sector trade exposure solely on a national level may not be appropriate for the actual situation an individual taxpayer is in. <u>Recommendation:</u> There should be consistency between a single-sector trade exposure and a multi-sector trade exposure allowance. Taxpayers that have diversified in their products should also be able to determine the allowance using their tax data and choose the most appropriate method. Therefore, similar to the alternative offered for the trade exposure allowance for individual sectors (method in section 4 as an alternative for the listed values in Annexure A in line with section 2), an alternative should also be offered for the multi-sector trade exposure allowance (section 3) whereby an individual allowance based on the taxpayer’s data (section 4) can be used and the weighting is also performed on the based on the taxpayer’s production data. We recommend for a weighted-average-based approach to calculate the percentage trade performance allowance 	<ul style="list-style-type: none"> <u>Not accepted.</u> The company based approach to determine the trade exposure allowance is based on the trade exposure of the company. It takes into account the value of all imported and exported final products and the sales of a company. Since the allowance is based on a company’s trade intensity, a weighted average calculation is therefore not required.

Section	Stakeholder	Comments	Response
		based on company-specific export, import and production data in the case where there is more than one applicable SIC code (i.e. and alternative method whereby both weighing and percentage trade allowance per SIC code is determined on a company level).	
Section 4: Alternative Method	WC Government	<u>Drafting suggestions</u> <ul style="list-style-type: none"> • Incorrect cross-reference • Section 4(1) The reference to “section 2” should be to “regulation 2” 	<ul style="list-style-type: none"> • <u>Accepted.</u>
<i>Quantitative Approach</i>	Minerals Council	<ul style="list-style-type: none"> • The company-specific trade intensity includes a term for imports defined as ‘an amount equal to the monetary value of products that were imported by the taxpayer during the tax period. Clarity is requested on whether this refers to imports by the company of the product it manufacturers or all imports by the company or only imports of raw material. It is suggested that the draft regulations define this term in more detail. 	<ul style="list-style-type: none"> • <u>Accepted.</u> The regulations would be amended to clarify that for the import, export and sales date, this relates to a final product of a company.
	SAISI	<ul style="list-style-type: none"> • An alternative method for calculating trade exposure is supplied on page 4 of the Regulations. Imports and exports by a <i>taxpayer</i> are required in the formula, and SAISI is of the view that imports and exports for the <i>sector</i> would be more appropriate to determine trade exposure. 	<ul style="list-style-type: none"> • <u>Not Accepted.</u> The trade exposure allowance is already a sector based allowance. For data compatibility, a company level allowance should be based on company level import, export and sales data for a final product.
<i>Borderline</i>	Catalyst Solutions	<ul style="list-style-type: none"> • Although on page 6, of the published document “Summary – Draft Trade Exposure and GHG Emissions Intensity Benchmark Regulations”, is explained that Regulation 4 of the proposed Regulations on Trade Exposure Allowance is applicable to taxpayers which are considered to be “borderline”, the proposed Regulations do not make it specific what the criteria are for being considered “borderline”. It is recommended to specify the range of trade intensities within which the concept “borderline” is applicable to a taxpayer. 	<ul style="list-style-type: none"> • <u>Noted.</u> It should however be noted that taxpayers can approach the National Treasury at any point with credible data and motivate for a different trade exposure allowance.

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<i>Verification</i>	CNG	<ul style="list-style-type: none"> In case sub-regulation (2) of Regulation 4 of the proposed Regulations applies, it is unclear to which extent (assurance-level) the values used by the taxpayer in determining its trade intensity, as per the method prescribed in sub-regulation (2), must be validated and/or verified by an independent auditor. 	<ul style="list-style-type: none"> <u>Noted.</u> To the extent that a company level methodology is used, the taxpayer will use the calculation and the trade intensity categories defined in the regulation to determine its allowance. Self-assessment will apply. A record of the relevant data and audited financial statements will need to be kept by taxpayers for auditing purposes by the SARS.
<i>Qualitative Approach</i>	BUSA SAPOA	<ul style="list-style-type: none"> BUSA suggests that a softer inclusion of some of our previously submitted options could be included as “any other additional motivation” at the time of calculation and submission of the tax return. The previously submitted proposal was included for consideration which included a range of qualitative assessment criteria for eligibility for this allowance. 	<ul style="list-style-type: none"> <u>Not accepted.</u> The draft regulations currently provide three approaches for a taxpayer to determine the level of trade exposure allowance it would qualify for. This is based on the use of sector based production data, gross value added in the absence of production data and the option to determine its trade intensity using company level data for imports, exports, and sales for final products. All three are quantitative approaches. A qualitative approach is considered to be inherently subjective in nature and unlikely to provide an objective assessment of trade

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	ACMP	<ul style="list-style-type: none"> The ACMP notes that that National Treasury has considered trade intensity as a proxy for trade exposure and determined at a sector or subsector level based on the World Customs Organisation - Harmonised System Convention (HS Code) classification and available national data for the corresponding production per sector. The ACMP further notes that National Treasury has allowed for an alternative prescriptive quantitative approach based on input from stakeholder engagement. During engagement with the ACMP it was recognised that the cement sector is trade exposed as evident from international experience and it was agreed that a qualitative approach would be considered should the methodology included prove to be an anomaly for the cement sector. This was always confirmed both inside and outside Parliament. It is, however, disappointing to note that the qualitative approach is not allowed as per the draft It is thus recommended that National Treasury consider amending the draft trade exposure regulations to allow for qualitative assessment particularly for those industries that are both capital and energy intensive. 	<p>exposure and therefore inappropriate for determining the trade exposure allowance.</p> <ul style="list-style-type: none"> <u>Not accepted.</u> See comments above. The ACMP has been advised on several occasions by the National Treasury to submit a quantitative motivation for the trade exposure allowance at a sub-sector level. To date this information has not been submitted to the National Treasury.
Section 5: Short title and commencement	WC Government	<ul style="list-style-type: none"> Words in title of regulations must be capitalized. Capitalize the words in the title of the regulations Incorrect commencement Date. Correct the date 	<ul style="list-style-type: none"> <u>Accepted.</u>
<i>Retrospective application of regulations</i>	SAPOA	<ul style="list-style-type: none"> SAPOA notes that the regulations are intended to apply retroactively as of 1 June 2019. In this instance the retroactive application of the regulations, particularly Regulation 4, may result in unfair outcomes, particularly as it applies to import and export transactions already concluded. More importantly, it limits the time in which an individual tax payer may 	<ul style="list-style-type: none"> <u>Not accepted.</u> The data used for the analysis is for the period 2016 to 2018. This addresses any equity concerns.

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		<p>realistically apply for a specific trade exposure allowance under Regulation 4 in the event it disagrees with the sector allowance in Annexure A.</p> <ul style="list-style-type: none"> In order to avoid unfair outcomes, it is proposed that a transitional period be included to afford a blanket 10% trade exposure allowance for all SIC codes in Annexure A for the period 1 June 2019 to 31 May 2020, and for the allowances in Annexure A to only take effect on 1 June 2020. 	
Annexure A	WC Government	<p><u>Formatting</u></p> <ul style="list-style-type: none"> Inconsistence on the capital letters and full stops Incorrect Tenses Ensure consistent use of punctuation and tenses. 	<ul style="list-style-type: none"> <u>Accepted.</u>
<i>Alignment of SIC and IPCC Codes</i>	DEFF	<ul style="list-style-type: none"> DEFF has done some work to map IPCC codes against the Statistics South Africa SIC codes and the International Standard Classification of All Economic Activities (ISIC) codes and division which can be shared with the National Treasury. 	<ul style="list-style-type: none"> <u>Noted.</u> National Treasury will engage the DEFF.
<i>Removal of IPCC codes</i>	BUSA SASOL SAPIA ITTCC Minerals Council Catalyst Solutions South 32	<ul style="list-style-type: none"> In April 2018, BUSA submitted a list of economic sectors that, in BUSA's opinion, ought to be eligible for the trade exposure allowance. At the time, this list did not attempt to align SIC codes to IPCC codes and members have identified several areas of misalignment which have been detailed below. To avoid any confusion related thereto, we recommend that the column containing IPCC codes in Annexure is removed. It appears that the Draft Regulations intended to allocate an IPCC code to each SIC code, however this does not take into account that different emission sources are reported within a respective SIC Code. Sasol does not support this approach and proposes that the column in Annexure A pertaining to the IPCC Codes be removed, however retain the applicable SIC Code column alone. If this should not prove acceptable to National Treasury, then a small task team consisting of BUSA and National Treasury members should agree alignment between the IPCC codes and the SIC codes. In this case the IPCC codes should be four-digit to avoid confusion across sectors. 	<ul style="list-style-type: none"> <u>Accepted.</u> The IPCC codes were included in Annexure A at the request of BUSA. To limit confusion on the SIC and IPCC code classification, the IPCC code column will be removed. During consultations held with industry in February 2020 it was also agreed that NT would work with BUSA to develop a guide on the IPCC and applicable SIC codes for taxpayers information.

Section	Stakeholder	Comments	Response
<i>Clarification of applicable allowance on emission categories</i>	BUSA Sasol	<ul style="list-style-type: none"> When one considers SIC Code 351 as reflected in Annexure A (Basic iron and steel products) then only one IPCC emissions code is linked to it. This implies that only process emissions from the iron and steel industry qualify for the Trade Exposure allowance which was never the intention. SAISI would suggest that all IPCC codes that are relevant to basic iron and steel production should apply and be linked to SIC Code 351. This would also ensure alignment with the DEFF Technical Guidelines. To further clarity, Annexure A does not stipulate whether the allowance for a SIC code may be applied for the combustion, process and fugitive emissions under that SIC code. Final regulations should make a clear reference to the emission categories that can receive the allowance. Sasol proposes that all emissions, irrespective of IPCC Code or category, receive the allowance if operated under a specific SIC code. 	<ul style="list-style-type: none"> <u>Accepted.</u> It is important to clarify that for non-primary electricity generators; the same trade exposure allowance will apply for all emission categories ie. Combustion, fugitive and process emissions covered by the carbon tax. Consideration will be given to include this clarification in the Carbon Tax Act.
<i>Motivation for full allowance</i>	WC Government	<ul style="list-style-type: none"> The trade exposure allowances for dairy products, grain mill products, other food products and beverages are lower than the majority of allowances (10%) offered to other sectors. The lower allowances present a disproportionate impact on those industries. Given that these industries are critical to the Western Cape economy (especially the wine industry), the Western Cape and broader South African economy is likely to be disadvantaged through these lower allowances. This could result in an increase in product cost and associated decrease in competitiveness in export market share in these industries and subsequent disinvestment and job losses. Due to the potential impact on the economy, (particularly of the industries defined by SIC Codes 302-305), it is suggested that the allowances be bought in line with the maximum trade allowance of 10%. 	<ul style="list-style-type: none"> <u>Not Accepted.</u> The allowances are based on a quantitative sector based approach and methodology that treats all sectors equitably that is, based on their respective trade intensities.

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	SASA	<ul style="list-style-type: none"> • SASA acknowledges the trade exposure allowance of 7.59% for SIC Code 304 – Other food products included in Annexure A of the Trade Exposure Allowance Regulations (the ‘Trade Exposure Regulations’) and the various methods offered pertaining a multi-sector allowance and an allowance based on company rather than sector data. • Reviewing the Trade Exposure Regulations, SASA has identified the following issues: <ul style="list-style-type: none"> a) The allowance value of 7.59% for SIC Code 304, although covering the sugar sector, may not be appropriate to the sector. b) The method for determining a multi-sector allowance (section 3) does not allow using allowances based on the taxpayers’ internal company data and neither allows a weighing based on the actual exposure of the taxpayer to the relevant sectors. • It seems that SIC Code 304 - Other food products, covering the sugar sector (and for example bakery products, cocoa/chocolate and many other food products), is not appropriate for the trade exposure of the sugar sector. • <u>Recommendation:</u> SASA requests the National Treasury to adopt a 10% trade exposure allowance for the sugar sector as it is clear that its trade exposure is well above 30%. Options for adopting a more appropriate trade exposure allowance in Annexure A may include determining and adopting one for SIC 3042 named “Manufacture of sugar, including golden syrup and castor sugar” or alternatively providing SASA with the opportunity to calculate and substantiate a sugar sector specific allowance. 	<ul style="list-style-type: none"> • <u>Accepted.</u> Further engagements were held with SASA. A subsector approach to determine the trade intensity is accepted using the available trade data for sugar and industry based production data which was submitted to the former Department of Agriculture, Forestry and Fisheries.
<i>Missing SIC Codes</i>	BUSAs SAPIA SAPOA DEFF ITTCC	<ul style="list-style-type: none"> • Suggestions that the missing SIC codes are included in Annexure A: codes 392, 395 and 420. • The manufacturing of transport equipment subsectors is also not reflected in the Annexure A. • Mining sector commodities that are excluded in Annexure A. The analysis of the level of trade exposure impact for each commodity is reflected below <ul style="list-style-type: none"> a) Diamonds: Over 90% of total production is exported. The industry is also much more trade exposed b) Platinum group metals: About 94%, on average, of total platinum production volumes was exported, representing 745 tonnes, from 	<ul style="list-style-type: none"> • <u>Partially accepted.</u> For SIC codes 420 for Collection Purification and distribution of water, this will be included in the annexure. • Mining: SIC code for gold will be included and the trade intensity will be determined using GVA data.

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	Minerals Council	<p>2016 to 2018. Platinum prices have also declined precipitously in recent years because of the Volkswagen diesel scandal in 2010 which affected platinum demand. The industry is also highly affected by the vagaries of international forces of demand and supply.</p> <p>c) Gold: The industry is one of the most exposed in terms of international market forces. The three years, from 2016 to 2018, the gold industry exported an average of 76% of production volumes, the equivalent of 305 tonnes. It is therefore difficult to understand why it does not benefit from the trade exposure allowance</p> <ul style="list-style-type: none"> • In the calculation average exports and average total sales, for the respective commodities are computed. The period considered is 2016 to 2018, in line with the examples provided in the trade exposure explanatory notes from the National Treasury. It is recommended that the following SIC categories are included in Annexure A: 230 Gold, 242 Silver, 242 PGM, 252 Diamonds, 242 Chrome, 242 Manganese Ore. 	<ul style="list-style-type: none"> • <u>Not accepted.</u> <p>Import and export data are available for diamonds and silver however comparable production or GVA data is not available.</p> <p>SIC code 395 Recycling will not be included as recycling applies to existing manufacturing and mining activities and is not a sector on its own.</p> <p>SIC 392 Manufacturing NEC. There is no data available and will not be included.</p>