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# Trade Zones: Recommendations for South Africa

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## ABSTRACT

South Africa introduced industrial development zones (IDZs) on 1 December 2000 through the Manufacturing Development Act. IDZs assist in the creation of industrial complexes that have strategic economic advantage. They allow for the exploitation of resource-intensive industries and existing industrial capacity, while also creating employment. The South African government offers investors in IDZs various incentives. These include customs duty and value added tax (VAT) benefits.

Special trade zones aim to attract investment for value-added production, which stimulates exports.

South Africa's major trading partners in Europe, the US, Latin America, India and China have used special trade zones as a policy instrument to attract investment, stimulate exports and create employment for decades. The majority of EU countries have free zones. The US has 277 foreign trade zones. Countries from the Mercado Común del Sur (Mercosur) implemented harmonised free trade zone legislation in 1987. India set up its first export processing zone in 1965 and has since established a further 129. China has a large number of different trade zones that can be categorised into special economic zones, enterprise zones and industrial or commercial free zones.

In addition to the traditional free zone benefits of customs duties and VAT, most trade zones offer local and national tax relief, appropriately skilled labour, inverted tariffs (ie duty is assessed on the product manufactured in the special trade zones as opposed to levying duties on the imported inputs) and no exchange control.

The paper reviews the provisions and benefits provided by South African IDZs, and explores the special trade zones in the EU, the US, Mercosur countries, India and China. It outlines the guidelines provided by the Organisation for Economic Co-operation and Development on different incentives for a country to attract foreign direct investment. In light of South Africa's struggle to attract the necessary foreign investment in IDZs, despite already offering a number of incentives, the paper concludes with suggestions for further incentives for the government to consider providing to IDZ investors.

## ABOUT THE AUTHOR

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## ABBREVIATIONS AND ACRONYMS

BUSA	Business Unity South Africa
CCA	customs controlled area
CIP	Critical Infrastructure Programme
EC	European Community
EPZ	export processing zone
FTZ	foreign trade zone
FZ	free zone
GSP	generalised systems of preferences
IDZ	industrial development zone
Mercosur	Mercado Común del Sur (Common Market of the South)
PTA	preferential trade agreement
R&D	research and development
SACU	Southern African Customs Union
SEZ	special economic zone
VAT	value added tax
WFTZ	Waigaoqiao Free Trade Zone

## INTRODUCTION

South Africa first introduced industrial development zones (IDZs) on 1 December 2000 through the Manufacturing Development Act.<sup>1</sup> Since then there has been much debate over the effectiveness of IDZs, how they should attract investment and at what level of government they should be controlled.

The paper explores the provisions and benefits of South African IDZs. It compares these with special trade zones in other jurisdictions of some of South Africa's major trading partners and recommends how IDZs can be made more attractive to investors.

## SPECIAL TRADE ZONE

Special trade zones are referred to by various terms:

- free zones;
- foreign trade zones;
- export processing zones;
- free trade zones;
- special economic zones; and
- industrial development zones.

All have the same aim to attract investment (preferably foreign direct investment) for value-added production that stimulates exports through customs duty, value added tax (VAT), other tax and investment incentives. Generally, such zones:

- are industrial parks that have been designated by a government to provide tax and other incentives to export firms;<sup>2</sup>
- are labour-intensive manufacturing centres that involve the import of raw materials or components and the export of factory products;<sup>3</sup> and
- allow for normal trade barriers, such as tariffs and quotas, to be eliminated and bureaucratic requirements to be lowered to attract new business and foreign investments.<sup>4</sup>

## INDUSTRIAL DEVELOPMENT ZONES IN SOUTH AFRICA

### **The Manufacturing Development Act**

The Manufacturing Development Act<sup>5</sup> (hereafter referred to as the Act) established the Manufacturing Development Board (hereafter referred to as the Board), whose objective is to promote manufacturing growth through the provision of incentives or concessions within the framework of the economic policy of South Africa.

The Board also makes recommendations to the Minister of Trade and Industry (hereafter referred to as the Minister) on policy in respect of all manufacturing

development programmes and issue regulations to achieve or promote the objectives of the Act.

IDZs were introduced into South Africa through the IDZ Programme (a schedule to the Act) on 1 December 2000 (the schedule is hereafter referred to as the Regulations). This led to the demarcation of four IDZs:

- Richards Bay IDZ in Richards Bay, KwaZulu-Natal;
- East London IDZ in East London, Eastern Cape;
- Coega IDZ in Port Elizabeth, Eastern Cape; and
- Oliver Tambo International Airport IDZ in Kempton Park, Gauteng.

### **The Regulation**

In terms of the Regulations, the Minister may identify an area as suitable for the development of an IDZ and designate it as such if the Minister is satisfied that designation of the area as an IDZ will:<sup>6</sup>

- facilitate the creation of an industrial complex having strategic economic advantage;
- provide the location for the establishment of strategic investments;
- enable the exploitation of resource-intensive industries;
- take advantage of existing industrial capacity, promote integration with local industry and increase value-added production;
- create employment and other economic and social benefits in the region in which it is located; and
- be consistent with any applicable national policies and law, as determined by appropriate environmental, economic and technical analyses.

IDZ operators are required to obtain an operating permit from the Minister. Once this has been granted, an IDZ operator may:<sup>7</sup>

- develop and operate the IDZ, including all infrastructure, utilities, buildings, warehouses, factory shells and other facilities and improvements necessary for its operation;
- freely make investments and earn money from investments made in connection with the IDZ;
- sell, lease or sublet property within the IDZ;
- assign the rights to the revenue or property of the IDZ to any person as security for a loan to fund the development or expansion of the IDZ;
- advertise and promote the IDZ to potential local and foreign investors, businesses and service providers;
- contract with public and private service providers for the provision of infrastructure, utilities and other services to the IDZ; and
- facilitate, in co-operation with government, the establishment of a single-window service for IDZ investors, known as the IDZ Enterprise, into relevant organs of state.

In addition to the single-window service, the IDZ Enterprises will also have access to all incentives currently offered by the South African government, as well as customs and excise duty and VAT relief offered by the Customs and Excise<sup>8</sup> and VAT<sup>9</sup> Acts. Annexure 1 lists the current incentives offered by government.

The provisions for the administration of customs controlled areas (CCAs) within IDZs are contained in section 21A of the Customs and Excise Act and its rules, and Schedule 4 of the Customs and Excise Act.

Goods imported into a CCA are imported under rebate of duty. From here they can be used in the production of goods in the CCA for sale in the Southern African Customs Union (SACU); or for export to countries outside SACU.

The imported goods can also be warehoused in the CCA from where they can be exported to countries outside SACU or sold in SACU in the same state. Goods warehoused in the CCA can also undergo operations necessary for their preservation, to improve their packaging or marketable quantity or quality; or to prepare them for shipment (such as grouping of packages, sorting and grading or repacking) before export. Goods supplied from South Africa into a CCA can be zero rated for VAT. The supplier therefore charges no VAT on the supply of the goods. Goods imported into a CCA of an IDZ are exempt from VAT.

## TRADE ZONES IN OTHER JURISDICTIONS

South Africa's major trading partners are Europe, the US, Latin America, India and China. South Africa has formal trade relations with most of these territories by way of generalised systems of preferences (GSP) – for example GSP with the US and the extension thereof through the African Growth and Opportunity Act – and free trade agreements with the EU, the European Free Trade Association and the Southern African Development Community. South Africa has also been in discussions with the US, India and China regarding preferential trade agreements (PTAs). Discussions with Mercosur (Common Market of the South) have led to a PTA that is yet to enter into force.

The following section discusses the treatment of special trade zones in these jurisdictions, given that South Africa needs to compete with and, in some cases, offer preferential rates to goods manufactured in trade zones within these territories.

### **The European Union**

Free zones (FZs) are special areas within the customs territory of the European Community (EC) provided for under EC law.

There are FZs in all EC countries except for Austria, Belgium, Lithuania, Luxembourg, Slovakia and Sweden.

The primary function of FZs is to provide a service for traders to facilitate trading procedures by allowing fewer customs formalities. Goods placed within these areas are free from import duties, VAT and other import charges. Goods for export can also be placed in FZs to allow for VAT zero rating. There may be special reliefs available in FZs from other taxes, excises or local duties, which will differ from one zone to another.

Benefits of using FZs include the following:<sup>10</sup>

- There is improved cash flow management by removing the obligation to pay VAT or import duty at the same time as goods are physically transported into the FZ.
- FZ facilities are similar to customs warehouses.
- Goods brought from outside the EC and held in an FZ are treated as being outside the customs territory of the EC, even though they are physically within it.
- Import VAT on goods is suspended in FZs. Traders pay VAT when the goods are removed from the FZ.
- Import duties (including agricultural charges) are suspended, provided the goods are not released for free circulation. Excise duty is also suspended until the goods are released to the EU market or used in the FZ.

The world's first free trade zone was the Shannon Free Zone in Shannon, Ireland. It was established in 1959 in an attempt by the Irish government to promote employment within a rural area, make use of a small regional airport and to generate revenue for the Irish economy. In all, 110 overseas companies have invested in the Shannon Free Zone. The companies employ 6 500 workers with a trade of approximately EUR 3 billion per year.<sup>11</sup> Ireland also has a second free port at Ringaskiddy. The Shannon FZ offers:<sup>12</sup>

- one of the lowest corporation tax rates in Europe at 12.5%;
- a young, skilled well-educated workforce, with relevant technological and business skills;
- an advanced and competitive operating environment; and
- access to the EU market of 495 million people.

The key business activities carried out at the Shannon FZ are not limited to manufacturing but also include:

- a customer support and contact centre;
- shared services and bank office operations;
- financial services;
- supply chain management;
- regional headquarters; and
- aircraft maintenance, repair and overhaul, and leasing.

There are currently five FZs in the UK:

- the Isle of Man;
- Liverpool;
- Prestwick (Ayrshire, Scotland);
- Sheerness (Kent); and
- Tilbury (Essex).

There are no special reliefs in UK FZs from other taxes, excise duties or local authority rates.<sup>13</sup> France's first and only customs FZ is located at the Port of Bordeaux-Le Verdon. The other French FZ is Zone franche de Guyane in French Guiana. There are currently three FZs in Germany:

- Bremerhaven;
- Cuxhaven; and
- Hamburg.

Italy currently has two FZs in Trieste and Venice. The free port of Trieste offers the following benefits.<sup>14</sup>

- Import goods can be immediately discharged regardless of their nature, origin or destination, and do not need any specific authorisation.
- Goods discharged are considered 'in transit' and are exempted from duty payment so long as they remain within the free port area.
- Customs duties and VAT payments can be postponed up to six months for goods imported into the EU.
- The maritime duty is limited to around one-third of other Italian ports.
- Generally in all the normal EC customs ports, goods have to receive a customs status (import/transit/depot) within 45 days. At the free port of Trieste, goods can maintain an undefined status so long as they are in the free port.

### **The United States**

The US has close to 277 foreign trade zones (FTZs),<sup>15</sup> which are licensed by the US Foreign-Trade Zones Board and operated under the supervision of the US Customs Service.<sup>16</sup> FTZs are special commercial and industrial areas in or near ports of entry where foreign and domestic merchandise, including raw materials, components and finished goods may be brought in without being subject to the payment of customs duties.<sup>17</sup> Merchandise brought into these zones may be stored, sold, exhibited, re-packed, assembled, sorted, graded, cleaned or otherwise manipulated prior to re-export or entry into the national customs territory. US FTZs offer the following benefits.<sup>18</sup>

- Duty exemption. There are no duties or quota charges on re-exports.
- Duty deferral. Customs duties and federal excise tax are deferred on imports.
- Inverted tariff. In situations in which zone manufacturing results in a finished product that has a lower duty rate than the rates on foreign inputs (inverted tariff), the finished product may be entered at the duty rate that applies to its condition as it leaves the zone, subject to public interest considerations.
- Logistical benefits. Companies using FTZ procedures may have access to streamlined customs procedures (such as 'weekly entry' or 'direct delivery').
- Other benefits. Foreign goods and domestic goods held for export are exempt from state/local inventory taxes. FTZ status may also make a site eligible for state/local benefits that are unrelated to the US FTZ Act.

The reasons for creating US FTZs are to:<sup>19</sup>

- help facilitate and expedite international trade;
- provide special customs procedures as a public service to help firms conduct international trade-related operations in competition with foreign plants;
- encourage and facilitate exports;
- help attract offshore activity and encourage retention of domestic activity;
- assist state/local economic development efforts; and
- help create employment opportunities.

### **Mercosur**

Most FTZs are located in developing countries. Brazil, Indonesia, El Salvador, China, the Philippines, Malaysia, Bangladesh, Pakistan, Mexico, Costa Rica, Honduras, Guatemala, Kenya and Madagascar have export processing zone (EPZ) programmes. In 1997, 93 countries had set up EPZs employing 22.5 million people. Five years later in 2003, EPZs in 116 countries employed 43 million people.<sup>20</sup>

Free trade zones in Latin America date back to the early decades of the 20<sup>th</sup> century. The first free trade regulations in this region were enacted in Argentina and Uruguay in the 1920s. The Latin American Free Trade Association was created in the 1960 Treaty of Montevideo by Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay. However, the rapid development of free trade zones across the region dates from the late 1960s and early 1970s.<sup>21</sup>

The Southern Common Market of South America (in Spanish the Mercado Común del Sur – Mercosur and in Portuguese the Mercado Comum do Sul – Mercosul) was founded in 1991 by the Treaty of Asuncion and later amended and updated by the 1994 Treaty of Ouro Preto. Mercosur is a customs union between Argentina, Brazil, Paraguay and Uruguay.<sup>22</sup>

Uruguay has 12 free trade zones. In terms of legislation passed in 1987, Uruguayan free trade zones are areas that are isolated from the rest of the national territory, where economic activity is stimulated by specific legislation. Free trade zones are granted customs and tax exemptions, and are also excluded from the jurisdiction of state monopolies. This differentiates them from most free trade zones where only customs benefits are granted and tax exemptions are generally limited. The introduction of goods from the free trade zone into the non-free zone is treated as an 'import'. The importer is required to pay all the applicable import duties and taxes. Likewise, the introduction of goods from the non-free zone into the free trade zone is considered as an export from Uruguay.

Free trade zones are administrated either by the government or by private companies duly authorised by the government.

Uruguayan law requires that companies located in free trade zones (such companies are referred to as free trade zone tenants) must employ a minimum of 75% Uruguayan personnel for the development of their activities.

All goods, services, merchandise and raw materials introduced into the free trade zone, regardless of their origin, are exempted from customs import fees and taxes generated from such transactions. Customs exemptions are related to the activity, that is, they are applied in all cases, regardless of whether the buyer is a free trade zone tenant. The goods

and services are allowed to exit the free trade zones on their way to third countries at any time, and are exempted from all taxes applicable to export activities.

Free trade zone tenants are exempted from every domestic tax, including gains tax, equity tax and personal income tax. Uruguayan government monopolies do not have jurisdiction in the free trade zones. Consequently, it is possible to develop telecommunication systems that are independent from the government telephone company and to purchase fuel from any source. This enables free trade zone tenants to enjoy the advantages of a free competition regime.

The circulation of money, precious metals, bonds or any type of commercial or financial paper is free. The payment or collection of funds generated by purchases or sales negotiated in the free trade zones does not require the intervention of the Uruguayan economic authorities, and the repatriation of capitals and interests is free.

Goods exported from a Uruguayan free trade zone and imported into the territory of any of the member countries pay the customs duties applicable at the time of the importation. This means that customs duties are applicable to the whole finished product, not discriminating regional raw materials from foreign components. This is one of the distinctive characteristics of Mercosur free trade zones compared to other special trade zones.<sup>23</sup>

Paraguay, Brazil and Argentina have similar legislation to Uruguay, since it is based on legislation applicable to the whole of Mercosur.

## India

India was one of the first countries in Asia to recognise the effectiveness of the EPZ model in promoting exports. It established Asia's first EPZ in Kandla in 1965. The Special Economic Zones (SEZs) Policy was announced in April 2000.<sup>24</sup> India's 130 SEZs aim to:<sup>25</sup>

- generate additional economic activity;
- promote exports of goods and services;
- promote investment from domestic and foreign sources;
- create employment opportunities; and
- develop infrastructure facilities.

The incentives and facilities offered in SEZs to attract investment include:<sup>26</sup>

- duty free import/domestic procurement of goods for the development, operation and maintenance of SEZ units;
- 100% income tax exemption on export income for the first five years, 50% for the next five years, and 50% of the reinvested export profit for the five years thereafter;
- exemption from minimum alternate tax, central and state sales tax and service tax;
- external commercial borrowing by SEZ units of up to \$500 million in a year without any maturity restriction through recognised banking channels; and
- single-window clearance for central and state level approvals.

## China

China set up its first EPZ in 1979. By 2007, 30 million people worked in more than 200 EPZs in China.

China's EPZs began as four SEZs in Shenzhen, Zhuhai, Shantou and Xiamen in 1980 and later expanded to 14. In 1985 the entire Hainan Province became the fifth SEZ. In the same year the regions listed below became SEZs:

- Yangzi River Delta;
- Pearl River Delta;
- Southern Fujian Delta;
- Shandong Peninsula;
- Liaodong Peninsula;
- Hebei Province; and
- Guangxi Province.

By the end of 1992, China had set up 60 SEZs. Apart from the earliest four, China's SEZs are more jurisdictions than physical zones. This sets them apart from other SEZs that tend to be specific demarcated areas.

Chinese development zones are SEZs built inside the main cities and are usually called 'new districts'. The development zones are divided into six main types.

- Economic and technology development zones, high-tech industrial development zones and border economic co-operation zones, which are usually part of a city that allow a broad range of duty free goods and activities.
- Bounded zones or logistics parks, export processing zones, and industrial parks and investment zones, which are usually enclaves of a city that attract mainly export industries.<sup>27</sup>

The Waigaoqiao free trade zone (WFTZ) is one of the oldest and largest of China's free trade zones. Located in Shanghai and established in 1990, the WFTZ provides the following incentives.

- Companies operating in the WFTZ are exempted from payment of customs duties and VAT on the importation of raw materials, machinery, manufacturing components and office equipment. This exemption does not apply to raw materials and components imported for use in products to be sold domestically. Imported goods can be stored within the WFTZ, and simple processing is permitted.
- The WFTZ is the only place in China where foreign exchange values may be fully retained.
- Foreign-funded companies operating in the WFTZ are entitled to conduct international trading, manufacturing, processing, warehousing, logistics and exhibition of bonded commodities. Foreign-funded companies are also entitled to conduct trade-related services, such as testing and maintenance.
- Foreign companies investing in the WFTZ zone may enjoy the government preferential tax treatment and special subsidies from the Shanghai Municipality and the Pudong New Area Government.<sup>28</sup>

## ATTRACTING FOREIGN DIRECT INVESTMENT FOR SOUTH AFRICA

A company invests in a country to be close to the resources it requires or to be close to the markets it intends to access. In the context of South Africa, IDZs can fulfil both these requirements through the provision of infrastructure that enables investors to gain access to the country's markets or resources for beneficiation and export. South African IDZs can also be used as a gateway for the rest of Africa.

Despite this potential, there seems to be lacklustre investment in South Africa's IDZs, which find it difficult to meet their ambitious goals.<sup>29</sup>

One of the foremost requirements from investors is the provision of attractive incentives that include tax incentives packages.<sup>30</sup> Without IDZ-specific incentives, South Africa's IDZs do not seem to be able to compete with international SEZs.<sup>31</sup>

The general benefits of SEZs therefore seem insufficient to attract the required investment for the support and further development of South African IDZs. South Africa therefore needs additional benefits to those already offered to attract investment for the IDZs.

The Organisation for Economic Co-Operation and Development has identified the following tools for attracting investment to a country.<sup>32</sup>

### Regulatory incentives

- offering investors derogations from national or subnational rules and regulations; and
- easing the environmental, social and labour-market related requirements placed on investors.

### Financial incentives

- infrastructure subsidies;
- job-training subsidies;
- relocation and expatriation support;
- administrative assistance;
- temporary wage subsidies;
- credits to investors;
- real estate below market value; and
- cost participation.

### Fiscal incentives

- reduced direct corporate taxation:
  - reduced rates of corporate income tax;
  - tax holidays;
  - special tax-privileged zones.
- incentives for capital formation:
  - special investment allowances;
  - investment tax credits;
  - reinvested profits.
- Reduced impediments to cross-border operation:
  - withholding tax;
  - taxation of foreign trade;
  - taxation of employees.

Although the incentives currently offered by South Africa incorporate some of the possibilities listed above, South Africa has other options available that can be offered specifically for IDZs. South Africa does not have incentives that cover the following options.

- Regulatory incentives offering investors derogations from labour rules and regulations to ease requirements related to the labour market. South Africa's labour laws are generally seen as very restrictive.
- Financial incentives for relocation and expatriation and for making real estate more attractive.
- Incentives for capital formation where profits are reinvested.

## CONCLUSION

Although South Africa's major trading partners have used SEZs for decades, South Africa only introduced these in 2000. All SEZs have similar objectives. They aim to identify specific areas where goods and services can be imported free from customs duties and other indirect taxes so as to attract investment, exploit resources and create economic growth through employment and exports.

IDZs are an important tool for attracting investment. The normal benefits of IDZs alone, however, have been insufficient in attracting investors for South Africa without IDZ specific incentives, in addition to those already offered by government, to make them more attractive. The South African government has acknowledged this. It undertook in the recent budget proposals to consider expanding incentives for labour-intensive projects in IDZs and to offer additional tax relief to greenfield investments in IDZs. In addition to this, government should also consider the following incentives for IDZ investors:

- easing the labour-market related requirements placed on investors;
- infrastructure subsidies;
- job-training subsidies;
- wage subsidies;
- real estate below market value;
- cost participation; and
- incentives for transferring technology and know-how.

Support in IDZs should not only be for the manufacturing industries, but also for other services and support industries establishing themselves in IDZs. The benefits offered can also be used to attract services industries to IDZs that are closely linked to international trade such as:

- logistic service providers;
- shared services and bank office operations;
- financial services;
- supply chain management;
- aircraft and maintenance, repair and overhaul, and leasing; and
- call centres.

## ANNEXURE 1: GRANTS AND INCENTIVES OVERVIEW<sup>33</sup>

### Research and development

Section 11D of the Income Tax Act, No 58 of 1962 permits a deduction from a taxpayer's taxable income of expenditure actually incurred in respect of scientific or technological research and development (R&D). Significantly, 'research and development' is defined to have a particular meaning for purposes of interpretation of this section, and that definition is not necessarily limited to the meaning as understood by conventional, lay-scientists. Both scientific and legal expertise is required in order to apply this section properly.

Section 11D(1) allows a supercharged deduction of 150% on qualifying research and development expenses, and section 11D(2) allows for an accelerated depreciation allowance on all new R&D assets brought into use after 2 November 2006. This allowance can be claimed retrospectively for qualifying project activities from this date onwards.

Qualifying activities relate to:

- the discovery of novel, practical and non-obvious information; or
- the devising, developing or creation of:
  - any invention as defined in section 1 of the Patents Act, 57 of 1978; or
  - a design as defined in section 1 of the Designs Act, 195 of 1993; or
  - a computer programme as defined in the Copyright Act, 98 of 1978; or
  - knowledge that is essential to the use of such invention, design or computer programme.

If that information, invention, design, computer programme or knowledge is:

- of a scientific or technological nature; and
- is intended to be used by the taxpayer in the production of income; or
- is discovered, devised, developed or created by the taxpayer for purposes of deriving income.

### Critical Infrastructure Programme

The Critical Infrastructure Programme (CIP) is a cash grant incentive that covers between 10% and 30% of the construction cost for the development of critical infrastructure to support strategic investment projects in South Africa. The main aim of the CIP is to support infrastructure that will service new investment projects or the expansion of existing investment projects.

### Municipal Infrastructure Grant

This National Treasury incentive programme is targeted at providing grant funding to municipalities to cover the capital cost of municipal projects. The programme is comprised of a number of grants each with specific mandates, conditions and reporting requirements. Many large-scale municipal infrastructure projects being delivered by the private sector could qualify for grant funding.

### **Manufacturing Investment Programme**

The Manufacturing Investment Programme offers a grant of between 15% and 30% of the value of qualifying investment costs in machinery, equipment, commercial vehicles, land and buildings required for establishing a new production facility or expanding an existing production facility. The grant is payable over a period of two years.

### **Industrial Policy Projects**

The section 12I tax incentive encourages investment in large industrial projects by granting an additional investment allowance of either 35% or 55% of the cost of qualifying investment assets. Projects can be classified as 'qualifying status' or 'preferred status' Industrial Policy Projects, which entitles the project to an allowance of 35% or 55% respectively. The classification of a project depends on the points the project scores in terms of the requirements stipulated in the regulations made under section 12I of the Income Tax Act. A project can be classified as a greenfield or brownfield project, which impacts the maximum benefit a project may receive.

### **Tourism Support Programme**

This incentive programme is targeted to support the development of tourism enterprises that will stimulate job creation and encourage a geographic spread of tourism investment. This incentive programme offers a grant of between 15% and 30% towards qualifying investment costs for establishing and expanding existing operations in South Africa. To be considered for support under the programme, investments must be located outside of the metropolitan areas of Johannesburg, eThekweni and Cape Town.

### **Climate change and sustainability – Energy efficiency tax allowance**

Section 12L of the Income Tax Act provides for a tax deduction for taxpayers who are energy efficient. Section 12L is an energy reduction incentive, not simply an electricity usage reduction incentive. The deduction is dependent on the acquisition of an 'energy efficiency savings certificate'. The issuing of an energy efficiency savings certificate is subject to regulations to be issued by the Department of Energy in 2011.

### **Climate change and sustainability – Carbon credits**

The Clean Development Mechanism of the Kyoto Protocol provides a means through which carbon abatement projects undertaken in South Africa can earn certified emissions reductions (known as carbon credits). As carbon credits are, at the same time, a form of foreign direct investment and a diversified financial instrument, the mechanism offers a very attractive form of financing to South African companies moving towards the use of cleaner production techniques. As South Africa's economy is carbon intensive (its CO<sub>2</sub> emissions per unit of gross domestic product are one of the highest in the world), there is tremendous scope for the expansion of this market. Estimates suggest that the

global carbon credit market could be worth up to \$150 billion by 2012. In South Africa, 1 megawatt hour of Eskom grid electricity saved is equivalent to 1 tonne of carbon emissions saved.

## ENDNOTES

- 1 Manufacturing Development Act, No 187 of 1993.
- 2 Hinkelman EG, *Dictionary of International Trade, 1st edition*. San Rafael: World Trade Press, 1994.
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- 4 *Ibid.*
- 5 Manufacturing Development Act, *op. cit.*
- 6 Section 3 of the Regulations.
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