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NEWSLETTER OF THE IQUAD GROUP



CEO's comment

Some positive developments and recent structural changes within the Group will, we believe, assist our strategic focus in a number of key areas looking to the year ahead. A major focus is to grow our presence in the Gauteng market. To this end I have relocated to Johannesburg as CEO and we have increased our marketing capacity significantly both in Gauteng and elsewhere.

IQuad is fortunate to have some invaluable strengths. We have a team of hardworking, dedicated and knowledgeable staff who are always willing and focused on going the extra mile in pursuit of the wellbeing of our clients. And our loyal client base continues to act as our biggest referral source for new business opportunities. We will never take this for granted and remain committed to creating value for our clients through the services we deliver.



David Edwards
CEO
IQuad Group Limited

A CAUTIONARY TALE

Beware “The Four Cs”: Currencies, Commodities, China and Confidence.

This article was presented by Adrian Clayton at a PSG Growth Conference in February 2010. It is published here with kind permission as we believe it has been prophetic in terms of what has happened since.

While we were bullish last year believing that markets were cheap and well worth buying, we never imagined that the rebound would be as steep and as quick as it has been. Consequently, we have become rather cautious after these substantial market gains – we simply don't believe that equity returns from current heady levels will be impressive, mainly because of four global risks, which for ease of memory, we have named the four 'C's.

Currencies

In the past year emerging market currencies have again been the flyers on the world's currency stage. In fact, of the 16 top performing currencies of 2010, five were emerging of nature and the top two were the Brazilian Real which gained 33% and the South African Rand, which rose 28% against the dollar. Of even more interest is that the top six performing currencies against the dollar were all from commodity orientated countries.

Concerns regarding the strength in these currencies relates to the fall-off in exports that is occurring in many industries operating in these economies. Most of these nations are trying to build up more advanced high-tech industries and do not want to be reliant on primary products for exports. However, the extreme appreciation across their currencies has resulted in a serious reduction in important export products. An example is vehicles produced in Brazil where exports have collapsed in excess of 40%. Furthermore, much of the currency strength seen across these markets has occurred due to 'hot' portfolio inflows from investors who tend not to take a long-term view on matters. Thus, be very careful chasing this trend of emerging market currency strength, where we view the rand as approximately 20% overvalued relative to the US\$.

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Commodities


Our second concern is the strength that has occurred in commodity markets. Commodity prices have appreciated precipitously since the market reached lows in early 2009. Copper as an example, has again reached prices that are almost as high as the heady levels of 2008. Copper at its highest, exceeded \$8000 dollars a ton, then fell in the market correction to \$2770 a ton and again ballooned to almost \$8000 before settling at its present levels. The real concern is that commodity markets are increasingly or disproportionately relying on China as the end user. Many resources are not enjoying balanced global demand or support and instead China is the primary engine of interest. Based on this skewed demand perspective, many commodity prices may simply be too elevated.

China

The greatest problem with respect to China is that it is an economy that is really difficult to understand and it is in the midst of an economic experiment which is untested. China's economy is best described as centralized or controlled capitalism. But whilst the experimentation taking place is untested and its success still to be determined, what is an immediate worry is the debt creation occurring in China. The Chinese Government instructed commercial banks to hand out debt liberally to buoy the economy last year. This meant massive money creation that has the potential to create dangerous asset bubbles. Already it is estimated that as much as 33% of this debt has filtered into risky assets like property and equities and created artificially high markets. It is this 'excess liquidity' that has been responsible for a great deal of the strength which has taken place in commodity markets. China is an enigma in many respects and global economic risks have risen as the country manages itself through this phase of increased debt within its financial system.

Confidence

The concern here is not about a lack of confidence but in fact precisely the opposite, over-confidence. Market confidence indicators show that market participants are almost as confident now as they were before the market crisis in 2008 and early 2009. At that point market confidence was at extremely high levels. Then during the market correction investors became too pessimistic about the world and the doomsayers were in our view, wrong. Fortunately, this has proven to be the correct interpretation of events. Right now though, the degree of optimism in the system is puzzling considering the world really did change for the worse in 2008. Markets are presently behaving as if the global economy is bullet proof whereas it actually was wounded rather severely in 2008. This is not rational and unpleasant economic or corporate surprises are very likely to seriously upset markets whilst they are in such a positive mind space.

So in conclusion, we are warning about certain emerging currencies (including the rand) that we view as too strong, commodity markets that have entered the stratosphere, China which is undertaking an untested economic experiment and market confidence which is too zealous. These are real risks to many markets, but with sound asset allocation and competent stock picking, many of these hazards can be reduced. 



Adrian Clayton
Alphen Asset Management

“Our programmes cater to a wide range of professionals, from exporters and importers to freight forwarders, bankers and other service providers...”



Developing global trade skills in SA

Companies trading in today's somewhat volatile international markets face a variety of challenges that could easily derail their operations. So diverse is our current trading environment that, without constant training and knowledge gain, direction is quickly lost.

In response to these challenges ITRISA Training (Pty) Ltd, a subsidiary of the IQuad Group, launched its flagship short courses at the Group's conference facility (in Port Elizabeth) earlier this year. The product of a joint venture between IQuad Global Trade Solutions (Pty) Ltd and ITRISA (International Trade Institute of Southern Africa), ITRISA Training combines the expertise and experience of its two partners to offer an extensive range of short training courses and workshops on practical aspects of exporting and importing to large corporates and small businesses alike in locations throughout South Africa.

MD Jeanique van der Mescht says “We understand the challenges that companies face when doing business at an international level – from having to satisfy the various authorities operating

in the export/import arena, to being confronted by complex logistical arrangements, fluctuating exchange rates and other forms of financial risk. The fact that each country projects its own culture and business norms can complicate things still further.”

“Our programmes cater to a wide range of professionals, from exporters and importers to freight forwarders, bankers and other service providers and are specifically designed to build the knowledge and trade skills companies need to survive in the competitive global trade arena.”

“Our courses are all offered in the form of regular public courses where delegates from various companies can attend. This method of training is well suited to those looking for a dynamic learning environment in which they can exchange ideas and experiences with delegates from other companies.”

She goes on to explain “All our programmes are also available in the form of in-house training for those companies that have confidential issues that they would like to address in the training session.”

Rose Blatch, Chairman of ITRISA Training Pty Ltd and founder and Executive Director of ITRISA says, “It gives me great pleasure that together with our business partners, we are able to assess companies' international business training and development needs, and offer a more dynamic and accessible range of international trade training solutions to the business community throughout South Africa.”

ITRISA Training (Pty) Ltd is based in Port Elizabeth and Johannesburg. Through the IQuad Group they run public courses in Cape Town, Durban and East London. ITRISA Training is a BEE level 4 service provider. 

For further information about the training programmes please phone 041 391 0627 or email info@itrisatraining.co.za



Jeanique van der Mescht
ITRISA Training

2010 promises inflation surprise

During the remainder of this year the market will justifiably tend to base some of its view on inflation forecasts produced by the South African Reserve Bank (SARB).

Speaking at the last MPC meeting, SARB Governor Marcus alluded to inflation in Q3 dropping to an average of some 4.9% before moving higher thereafter. However, history has shown that both private sector economists and even the SARB may have been accurate in picking the direction of inflation but not as accurate in judging the amplitudes of the cycle.

Average forecast of inflation in 2010											
Headline CPI	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
	5.7%	5.1%	4.8%	4.7%	4.7%	4.3%	4.2%	4.3%	4.4%	4.6%	4.8%

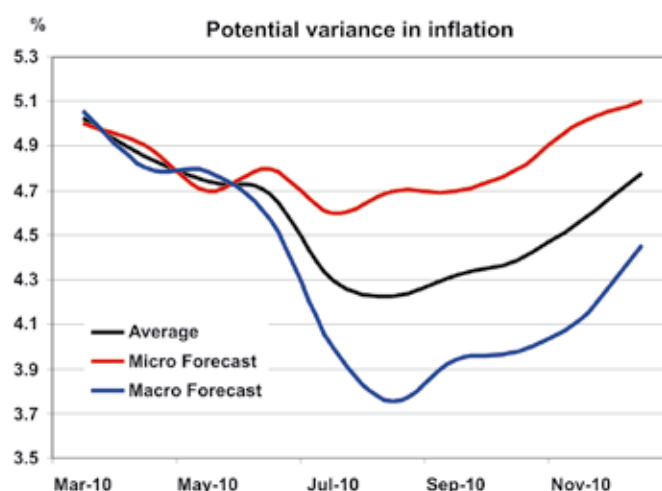
At the last Monetary Policy Committee meeting it was clear that the SARB revised downward their forecasts for inflation quite substantially from an inflation rate that was just hugging the upper limit of the inflation target range to one which troughed just below 5.0% in Q3.

In-house forecasts now show that even these downwardly revised inflation forecasts may be too high and that further such downward revisions might materialise through the course of the next few months. If one places significance on money supply as a variable which gives insight into whether or not a particular economic environment is one which supports or detracts from the manifestation of inflationary pressures, then one might be interested to note that such analysis predicts that inflation may have significantly further to fall through 2010 rising only towards the end of the calendar year.

The premise behind such a relationship is that low growth in money supply is synonymous with low growth in credit extension and consequently weak consumer spending, sluggish GDP growth and potentially a strengthening currency. All three of these factors play a major role in helping to drive inflation lower. The fact that these macro forces are quite evident in the SA economy suggests that on aggregate they are more likely to drag inflation lower rather than higher and confirms that the risk to the consensus forecasts is very clearly to the downside for as long as there is very little in the way of growth in money supply.


Structural rigidities

One of the potential criticisms of this more optimistic forecast is that they may not adequately reflect the structural rigidities inherent in the SA economy. Eskom for example requires tariffs to rise significantly whilst administered prices as reflected in the February round of the CPI data still stand at a whopping 12.9% year on year, more than double the upper limit of the inflation target band. Such a strong rise in administered prices is driven in part by the regulated portion of that category rising by an even more robust 14.9% year on year despite high base factors. These are clearly not monetary variables and will not be affected by the growth or contraction in either M3 or Private Sector Credit Extension.



There are however mitigating forces at play. Given that these price pressures are not demand but supply driven and given that they will encroach on household disposable income, one should not rule out the extent to which these forces behave in similar fashion to a good old fashioned rate hike.

As a rate hike can impact negatively on household disposable income to restrict the level of consumer demand, so the rise in administered prices through the likes of Eskom and others will have a similar effect. As is the case with a rate hike, such declines in the level of disposable income will impact on consumption expenditure.

When combined with an environment where demand for credit is weak and where the banks themselves remain cautious in their lending practices, the mitigating force to inflation emerges through an economic climate which is too weak to allow demand pull inflationary pressures to gain much traction. Companies need to be aware of the potential squeeze on margins that is likely to emerge through 2010. 



George Glynos
Senior economist
Econometrix Treasury
Management (Pty) Ltd


Industrial Policy Action Plan

South Africa's new Industrial Policy Action Plan (IPAP) was launched by the Minister of Trade and Industry, Rob Davies in February this year.

The revised plan builds on the original Industrial Policy Action Plan where IPAP2 is seen to be a 'living document' which outlines a range and combination of industrial policy interventions to address the critical challenges of our economy.

The plan will be reviewed annually, while taking the form of a three year rolling action plan. The objectives of this ambitious plan include creating some 2,5 million jobs over the next decade, diversifying and growing exports, improving the current trade balance, building long term industrial capability, growing our domestic technology and catalysing skills development.

The Industrial Policy Action Plan will rest on four cornerstones. The first of which is to develop proposals

to enhance access to concessional industrial financing for investment. Government will also revise procurement legislation, regulations and practices to enable the designation of large, strategic and repeat or 'fleet' procurements in a range of sectors. In addition government trade policies will be more strategically deployed and the South African Revenue Services will intensify their campaign against practices such as customs fraud, under-invoicing, smuggling and illegal imports. And finally anti-competitiveness practices will be targeted, particularly where these concern intermediate inputs to downstream labour absorbing production with a focus on products such as carbon, stainless steel, chemical polymers, fertilisers and aluminium. 

SIGNIFICANT INTERVENTIONS TO FOCUS ON 3 INDUSTRIAL CLUSTERS:

- Metals fabrication, capital and transport equipment, green and energy saving industries and agro-processing.
- Downstream mineral beneficiation, automotive components, medium and heavy vehicles, plastics, pharmaceutical and chemicals, clothing, textiles, footwear and leather, bio-fuels, forestry, paper and pulp, furniture, cultural industries, tourism and business process services such as call centres.
- Long term sectors to develop capabilities such as aerospace, nuclear and advanced materials.



Gregory Billson
IQuad Investment
Incentives (Pty) Ltd

Executive Profile: Madelein Fourie




Madelein Fourie
IQuad Investment Incentives (Pty) Ltd

Madelein Fourie, Operations Director, IQuad Investment Incentives, obtained her B Comm. degree at the University of Port Elizabeth (now Nelson Mandela Metropolitan University) in 2000.

On completion of her studies, three valuable years of international business experience was gained working at the MW Group Ltd, in London.

On her return to South Africa in 2003 Madelein joined Indevco Business Consultants (now IQuad Investment Incentives). With almost seven years extensive experience in the incentives field, Madelein consults to businesses on the optimal structural requirements they need to comply with to make sure

they obtain the maximum incentive benefits through the various investment incentives offered by the Department of Trade and Industry (DTI). "In addition to assisting businesses with the correct company structuring to qualify for an incentive, we will hold their hand through the whole application and claiming process," says Madelein. "I also serve on IQuad's New Product Development Committee to research and investigate any new products and incentives that could be beneficial to our clients."

Madelein is an avid runner and cyclist and successfully completed the Argus, Two Oceans and Comrades in one year! 

Share buy-backs *a potential double tax trap?*

The complexity of a tax system may in some instances result in the fiscus receiving amounts of tax that may not be legally due. One instance in which this may arise is when a JSE listed company buys back its own shares through the JSE.

When a natural person who holds shares as an investment sells those shares, the capital gain made on disposal of those shares (reduced by 75%) are included in his taxable income, which will potentially lead to a maximum tax of 10% (25% x 40%) on such capital gains. However when a company buys back its own shares, and finances the buy-back out of retained earnings, the proceeds received by the shareholder for the sale of those shares to the company are classified as a dividend

for tax purposes subject to Secondary Tax on Companies (STC) payable by the company, and exempt from tax in the hands of the erstwhile shareholder.

When such a buy-back is effected directly from the shareholders in general as opposed to a purchase in the open market, the company typically issues a circular to shareholders informing them of the tax implications of the buy-back. In the absence of such a notification, a well-informed taxpayer will likely know what inquiries to make to determine whether amounts received in a share

buy-back will be a capital receipt or a dividend as he at least knows who is purchasing the shares from him.

The position is, however, a lot more difficult when a JSE-listed company buys back its own shares through a broker on the JSE and not directly from its shareholders. In this instance, the company does not know from whom it is purchasing the shares and the selling taxpayer does not know to whom he is selling the shares. This barrier prevents the purchasing company from notifying the applicable selling shareholder of whether the proceeds on disposal are a dividend or whether he is still liable for capital gains tax.

Thus, in the absence of any indication to the contrary, the compliant taxpayer renders a tax return in which he discloses the disposal as a capital gains tax event on which he is liable to tax while the company buying the shares will have taxed itself on the amount of any dividend resulting from the acquisition of its own shares. SARS thus gathers 20% in tax instead of only 10%.

This anomaly will likely disappear when the new dividends tax is introduced, because the company will become liable to withhold the dividends tax from the amount payable to the shareholder if the buy-back is financed out of retained earnings, and the shareholder will effectively be notified whether the amount received constitutes or includes a dividend. ¹⁰



Rags to riches?



Together with manufacturers, retailers and organized labour, the Department of Trade and Industry (DTI) has been working on a comprehensive Customised Sector Programme which will replace the Textile Industry Development Programme (TIDP) to aid the beleaguered local clothing and textile industry.

A number of interventions have been formulated which will be implemented over an initial period of five years.

These include the Clothing and Textile Competitiveness Programme which is aimed at encouraging investment in the industry and which consists of an Enterprise Investment Programme which offers tax free cash grants to new or expanding manufacturing enterprises with special dispensation for the clothing and textile industry to encourage the upgrading of their capital equipment in order to improve their competitiveness.

A preferential Loan Scheme for capital upgrading at an interest rate of prime less 5% is also being offered by the Industrial Development Corporation of Southern Africa. Working capital loans are also available.

In addition the Clothing and Textile Competitiveness Improvement Programme encourages interventions aimed at improving the people, processes and products of a company. To this end a 65% grant is available to individual companies and a 75% grant to cluster initiatives.

The Production Incentive Programme has recently been finalised and offers a combination of a manufacturing value added incentive and a working capital facility. It is now open for application.

A Skills Development Programme aims to address critical skills gaps in the sector and will place a large proportion of the clothing and textile workforce on skills upgrading courses over the next five years.

Another vital intervention relates to combating customs fraud within the industry. This is being addressed by the South African Revenue Services (SARS) with dedicated resources to deal with activities such as illegal imports of clothing, textiles and footwear as well as under invoicing. To this end a permanent discussion forum has also been established between SARS and DTI.

A Technology and Innovation Plan as well as the issue of Broad-Based Black Economic Empowerment will be addressed during the course of the year.

The planned review of input costs along the value chain entails the stringent review by the International Trade Administration Commission (ITAC) of import duties on textiles that are not manufactured locally or are not manufactured in sufficient quantities. 

The Production Incentive Programme to improve competitiveness and to support working capital requirements is now open for application...



Rob Burton
IDEC Consulting

Regulating quality ensures credibility



Wade van Rooyen
IQuad BEE Verification

With the deadline for regulating B-BBEE certificates now passed, many companies are asking the inevitable question “Is the certificate issued to my company still valid, and if not, where do I go from here?”

A government notice, effective 1 February 2010 brought an end to a period where almost anyone could issue a B-BBEE certificate and which had created a situation where no-one was accountable for information certified on a B-BBEE certificate. The new legislation ushers in much stricter regulation and as a consequence, enhanced credibility of the verification industry. It prohibits the issuing of B-BBEE certificates by anyone other than a verification agency that is accredited, or in possession of an authorized pre-assessment letter.

The key purpose of accreditation is to ensure credibility, consistency and competence within the verification industry and to establish quality standards that all agencies can strive towards.


“Regulation of the verification industry is critical to instill confidence in future B-BBEE certificates,” says Wade van Rooyen, Managing Director of IQuad BEE Verification. “Users of the B-BBEE certificates should be relieved that the regulation of accrediting verification agencies is finally in effect.”

Companies, in possession of certificates issued prior to 1 February 2010, will be pleased to know that their certificates

will be valid for a full 12 months from date of issue. However, some accredited verification agencies have adopted a strict interpretation of the government notice, and interpreted the term ‘verification agency’ as referring to someone who is seeking accreditation. Companies would be well advised to understand their respective verification agencies’ application of the notice prior to February 2010, as this could have a material impact on the procurement scorecard.


In summary, a company seeking verification of their B-BBEE scorecard, must ensure that they engage a SANAS accredited verification agency, or a verification agency with an authorised pre-assessment letter, also called a Letter of Acknowledgement (LoA), from SANAS.

Is this really a crucial matter? The answer is a resounding yes, because it guarantees quality of service to clients, confidence in the credibility of B-BBEE certificates and assurance that the principles of impartiality, competence, confidentiality and responsibility for verification decisions are applied. Moreover failure to do so will result in their B-BBEE certificate not being accepted as evidence of B-BBEE contributions.

For more information, or to see a list of all accredited verification agencies as well as those in possession of a valid pre-assessment letter, go to one of the following websites: www.abva.co.za, www.thedti.gov.za or www.sanas.co.za 

Executive Profile: Allan Corbett

Appointed Managing Director of IQuad Global Trade Solutions (Pty) Ltd in March 2010, Allan has 19 years experience in banking, including international trade, with specific experience in import and export processes. He was previously Regional Manager for Absa Bank, International Banking Division, for the Eastern and Southern Cape. Prior to that he gained experience as a customs duty assessing officer and as a forex trader in a Bank dealing room.

Allan’s qualifications include diplomas in Import Management, Financial Markets and Instruments and General Marketing. A past Chairman of the Eastern Cape Exporters Club, an office he held for 4 years, Allan has been instrumental in developing Process Assist, a web based proprietary export management tool that promises to ease the onerous requirements that exporters and importers face on a daily basis. 



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