SEIFSA NEWS

NOVEMBER / DECEMBER 2015

HISTORY MADE AS SEIFSA APPOINTS ITS FIRST WOMAN PRESIDENT

SEIFSA'S 72ND ANNUAL GENERAL MEETING AND PRESIDENTIAL BREAKFAST

ANNUAL SHUTDOWN: LEAVE PAY AND LEAVE ENHANCEMENT PAY CALCULATIONS 2015

SEIFSA

Steel and Engineering Industries Federation of Southern Africa

OUR PASSION, YOUR SUCCESS

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SEIFSA Learning Academy

The SEIFSA Learning Academy houses all training, workshops and seminar initiatives offered by SEIFSA's divisional experts. This includes legal, industrial relations, human capital and skills development, economics and commercial as well as safety, health, environment and quality.

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SEIFSA RESEARCH INSTITUTE
The SEIFSA Research Institute aims to undertake socio-economic research that is of interest to the metals and engineering sector and to the overall economy.

SEIFSA International

SEIFSA INTERNATIONAL
SEIFSA International is aimed at spreading the SEIFSA wings to the rest of the Southern African Development Community (SADC) region through the provision of products and services to steel and engineering companies operating within SADC.

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SEIFSA COMMERCIAL
Through the SEIFSA Commercial Unit, SEIFSA offers training and consulting on public procurement and tendering and services on drafting of business plans, submission of applications for funding to relevant financiers, and liaising with financiers, among others.

SEIFSA Small Business Hub

SEIFSA SMALL BUSINESS HUB
The SEIFSA Small Business Hub was specifically created to provide affordable and tailor-made services to small and micro-enterprises operating in the metals and engineering sector and beyond.

ECONOMIC & COMMERCIAL — EC

SAFETY, HEALTH, ENVIRONMENT & QUALITY — SHEQ

INDUSTRIAL RELATIONS — IR

LEGAL

HUMAN CAPITAL AND SKILLS DEVELOPMENT — HCSD

SEIFSA TRAINING CENTRE

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DEAR READERS

We would like to inform you of the new changes regarding our SEIFSA News publication.

We have changed the number of issues for SEIFSA News from 11 issues to 7 bumper issues annually. The changes will occur immediately, hence for this calendar year, we will have only two issues remaining: September/ October issue and the November/December issue.

These bumper issues will have both a printed and electronic format. We will be sending 2 400 printed issues to our targeted audience within our membership base. The electronic version will be sent to over 10 000 companies within the metals and engineering industry.

FROM THE CHIEF EXECUTIVE OFFICER'S DESK

There are probably not many South Africans who will look back upon 2015 as a year in which they made much economic progress. For many of us, this will go down as having been an annus horribilis on many levels.

For a start, most South Africans are poorer at the end of 2015 than they were this time last year or, indeed, at the beginning of this year. The terrible depreciation of the South African Rand has meant that South Africans' buying power has been considerably reduced when it comes to imports from the United States of America, the United Kingdom and the European Union, among other countries. Individually and collectively, we can buy less now than we could a year ago.

While a weak currency is supposed to be good for exports, South Africa Inc. has not really benefitted much during this period. Instead, the balance of payments has worsened, jobs have been lost in different sectors of the economy and Government debt has soared. Some sectors have been hardest hit than others, with the problem faced by the metals and engineering sector worsened by the glut of steel around the world as well as the poor performance of the mining sector locally and internationally as the Chinese economy cooled down.

On top of that, South Africa's international credit ratings and, therefore, creditworthiness deteriorated in the course of the year, with the country now merely a notch above junk status at the time of writing. We have also plunged on various indices that compare countries' performances in various areas, with South African schools placed last for performance in mathematics.

The metals and engineering sector has suffered probably its worst performance in years. As a result, some companies have folded, while others ended up in business rescue or barely surviving and having no option but to embark on retrenchments to reduce their

input costs. We at SEIFSA were similarly affected. With companies being liquidated or laying employees off, inevitably the Federation found itself with fewer companies being members of its affiliated Associations and with those companies employing fewer people at the end of 2015 compared to the same time last year.

As we get ready to bid 2015 farewell, many compatriots cannot wait for the year to end and for 2016 to begin in the hope that it will be a much better year. Judging by how far the country has regressed in many areas in the current calendar year, there is a good chance that we have reached a nadir as a nation and that things can only be better from here on. We can, but, only hope. After all, hope for a better tomorrow is all that makes today bearable.

While the global economic situation is anything but satisfactory, nevertheless our problems as a country are compounded by lack of visionary leadership and dogged commitment to long-discredited ideologies. Our country is crying out for visionary, inspirational political leadership that will reach out to business and labour in a living partnership that will propel South Africa on a new economic trajectory. Regrettably, there is no promise of such political leadership on the horizon at the moment.

However, we – as ordinary citizens and business leaders – are not entirely powerless. Our country needs all of us to do our bit, in our little corners, to speak out and to make a difference. This entails us accepting one another for who and what we are and working together and with other stakeholders in business, labour and government to bring about what little difference we can.

As you take time off to recover during the December holidays from the trials and tribulations of 2015, do the best that you can to focus not on the year that was, but on a hopefully much better year. Do not dwell on what was and might have been, but focus on what may still be.

Here is hoping for a safer, stabler and more prosperous 2016.

HISTORY MADE AS SEIFSA APPOINTS ITS FIRST WOMAN PRESIDENT

For the very first time in its 72-year history, the Steel and Engineering Industries Federation of Southern Africa (SEIFSA) has elected a woman as its President and Chairperson of its Board of Directors.

Transman founder and Chief Executive Officer Ms Angela Dick made history when she was elected President of SEIFSA at the organisation's annual general meeting held in Johannesburg on Friday, 9 October 2015. She replaced Scaw Metals Group Executive Chairman Mr Ufikile Khumalo, who was at the helm of the SEIFSA Board for two years.

Commenting on her appointment, the deeply appreciative Ms Dick – who is also the Vice President of the Confederation of Associations in the Private Employment Sector, a Director of Business Unity South Africa and for seven years Chairman of its Trade Policy Committee – said: "I am truly humbled that a giant such as SEIFSA would consider and ultimately appoint me to this important position. It is a task that I accept and will embrace wholeheartedly."

Incoming SEIFSA President, Angela Dick

Ms Dick said the appointment was news to her despite the fact that she was aware that she had been nominated for the position.

"I'm still in shock. But I feel honoured. It's a huge responsibility, this industry is so critical to the well-being of this country. Without it, how would we build the much needed infrastructure? How would we create jobs?" she asked.

Ms Dick takes the reigns at a time when the industry is in decline. According to statistics, the metals and engineering (M&E) sector represents 34% of manufacturing activity and contributes 6% to the country's gross domestic product; last year it added R123 billion of value to the economy.

But after growing by 2% in 2013, it contracted by the same proportion in 2014, and is not expected to show any growth during 2015. In October, Statistics South Africa released production data for the M&E sector revealing a 1.1% contraction in the 12 months ended July 2015. In isolation, the decline is marginal but given the low base effect of the five-month-long platinum sector strike, which was followed by a month-long steel and engineering strike in July 2014, it's a telling statistic.

The market for the M&E sector is largely made up of intermediate product suppliers to the mining (10%), construction (10%), machinery and equipment (45%) and auto sectors (8%) – all of which are facing troubles of their own.

Although Ms Dick acknowledges that the road ahead will not be easy given the challenges currently facing the M&E sector, she is adamant that as long as the Government, labour and business work together, there is hope that the fortunes of the sector can be turned around.

"I think every industry in this country, and all around the world, is facing challenges. The global economy is putting pressure on companies that are having to cut costs in order to survive. South Africa needs to find creative ways to stimulate the economy because we can't rely on the minerals in the ground any more. For me, it's about going back to the drawing board and looking at what we, as SEIFSA, have done right and where we might have gone wrong. Our primary responsibility is to advance the interest of our members but if there's any chance of reviving the industry, it's going to require a collective effort from all stakeholders, including government and the employees, whose livelihoods are at stake."

"The road ahead is certainly going to be a very challenging one, but the key is not to give up. We must work together with all the stakeholders within the sector to find solutions that will ensure growth and sustainability of the sector," Ms Dick said.

SEIFSA Chief Executive Officer Kaizer Nyatsumba welcomed Ms Dick's election and thanked Mr Khumalo for his excellent service to the Federation and the sector.

"Ms Dick is a very accomplished business leader who will certainly make a major contribution to the industry in her new capacity as President. SEIFSA will benefit immensely from her enormous experience and her wealth of contacts in various business sectors. My colleagues and I look forward to working with her. "In the same breath, I would like to thank Mr Khumalo for his excellent leadership of the Federation during his presidency," Mr Nyatsumba said.

Ms Dick's Vice Presidents are Babcock International Company Secretary Mr Neil Penson, Macsteel Services Centres Chief Executive Officer Mr Hannes van der Walt and Zimco Aluminium Company International Sales and Marketing Director Mr Bob Stone. Other board members are ABB South Africa CEO Mr Leon Viljoen, Scamont Engineering Director Mr Ross Williams and Southey Holdings Technical Director Mr Ben Garrad.

Ms Dick is very passionate about South Africa's unemployment crisis and hopes that her presidency will be remembered for making a meaningful contribution towards addressing that challenge. Ms Dick has made job creation her life's work, co-founding Transman, which is recognised as one of the largest independent temporary employment services providers in the country, and has since its inception found employment for millions of people.

MORE ABOUT ANGELA DICK

Ms Dick matriculated at Girls Collegiate in Pietermaritzburg, Natal, after which she completed a Natal Senior Teachers Diploma. She served as a Senior Teacher and was subsequently appointed as a lecturer to Edgewood College of Education with the Natal Education Department prior to embarking on a career as a Sales Executive in Gauteng.

In 1983, Ms Dick was a joint and equal founder of Transman. She was originally Sales and Marketing Executive, then its Managing Executive and ultimately has been Chief Executive Officer of Transman for the past thirty years.

Ms Dick's current and past achievements include:

- Member Executive Council NEDLAC since 2007
- Trade & Investment Chamber NEDLAC – Alternate Member
- Committee Member – Socpol (BUSA) – since 2007
- Most Influential Woman in Business and Government South Africa Award 2007
- Patron in Chief Business Women of Tomorrow -2007 - 2009
- Standard Bank Business Woman of the Year 2015
- Most Influential Woman in Business and Government Lifetime Achiever Award: Africa 2015/2016
- National and International Judge World Cup ENACTUS 2015
- Finalist in EY Entrepreneur of the World Award 2015.
- Ms Dick was invited to participate as an International Judge at the Enactus World Cup event in Beijing, China in October 2014.
- She has travelled extensively on the invitation of the Presidents and Deputy Presidents of South Africa as part of the South African Business Delegation to Australia, China, Mauritius and Korea amongst other countries.

SEIFSA'S 72ND ANNUAL GENERAL MEETING AND PRESIDENTIAL BREAKFAST

Outgoing SEIFSA President, Ufikile Khumalo

The Steel and Engineering Industries Federation of Southern Africa (SEIFSA) held its 72nd Annual General Meeting (AGM) and Presidential Breakfast on 9 October. The event, held at The Campus, in Bryanston was attended by Chairpersons of Associations federated to SEIFSA, industry movers and shakers, representatives of member companies, board members, and media representatives, among other esteemed guests.

Delivering his keynote address, outgoing SEIFSA President Ufikile Khumalo said that the metals and engineering sector remained a strategic sector of the general South African economy. The sector has important direct linkages with both the primary and tertiary sectors of the economy. SEIFSA, through its representation of over 20 Industry Associations in this sector, has provided active support for these Associations and lobbied for policies that seek to improve the business environment in which its members operate.

Mr Khumalo said that SEIFSA's key focus has always been on building strong employer associations reflecting the views of their respective memberships and supporting the needs, interests and transformation objectives of responsible employers in the industry.

"There is little doubt that during the period leading up to and beyond the 2014 wage negotiations, SEIFSA raised the public profile of the metals and engineering sector to levels never seen before. There is now recognition from both Government and labour that



SEIFSA is a reliable partner to assist with navigating our economy through the changing local and global economic landscapes.

BUSINESS AND ECONOMIC ENVIRONMENT

The metals and engineering sector truly experienced an annus horribilis over the review period. At the time of the AGM in 2014, we had just seen the end of the series of disruptive strikes and were hoping for recovery during the year ahead.

However, the reality turned out to be quite disappointing. Though unexpected at the time, the financial crisis of 2008/9 was nevertheless a total game changer, the small domestic metal sector revival around the World Cup activities was short-lived and the labour, electricity and international demand disruptions during 2014 threatened to be the proverbial last straw breaking the camel's back. Over the last year, metal sector production declined by 3,9%, profit margins dropped by 27%, employment declined by between 10000 and 16000 (and may continue to slide during the second half of 2015), fixed investment by the sector contracted by 16% and imports surged, leading to a sector trade deficit of R30 billion.

What does the future hold? Answering this question is not simple and it is useful to look at the short and longer-term separately.

The short-term is mainly about unfair competition from highly-subsidized Asian economies, which resulted in accelerated import penetration of their products into the South African market over the last year. This holds true for many producers over the whole spectrum of metals and engineering sector products.

The protection measures already approved and others in the pipeline for basic steel producers will help, but these will not be enough. Primary steel producers are in such distress that short-term downscaling is unavoidable. South African production costs, for various reasons, are higher than the lowest cost quantile of producers in the world, who are simply overrunning our market. Protection seems to be a choice between losing the entire sector (as happened more or less in Australia) or trying to ride the short-term storm and adjust for the future.

LONGER-TERM RECOVERY IS A DIFFERENT STORY.

The sector is intimately linked to the fortunes of the mining, construction and auto sectors which, as a group (all four), contributed 17% (R575 billion) to GDP in 2014 (directly) and, depending on the indirect and induced multipliers, up to twice this number. On its own, the metals and engineering sector contributed R123 billion to the GDP. These four sectors export and earn a huge proportion of the country's foreign exchange, and employ directly about 1,7 million people.

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Recovery in each of these three sectors and of export demand is crucial for the metals and engineering sector over the longer term:

- If the slowdown in domestic auto sales is severe and not compensated by sustained/growing exports, it could initiate another wave of lower demand for the metals and engineering sector and exacerbate the already bleak situation and hasten retrenchments.
- A similar symbiosis exists with mining, hence the sector waited with baited breath for the conclusion of the 2015 wage negotiations and to see whether it will lead to a repeat of the 2014 disruptions. Retrenchments and lower fixed investment in the mining sector as a result of lower commodity prices, cost pressures and losses have already had a very negative impact on metals and engineering demand. Any strike in the mining sector will delay recovery in the metals sector.
- The construction sector has been in dire straits for several years and only residential building (with the smallest impact on metals and engineering demand) has shown some life recently, but interest rate increases may stall the action. Both non-residential building and construction works have not had the expected impact on metals and engineering sector demand. The only possible explanation is that the current phases of the investment projects are at their highest import-intensive stages possible.
- Recovery in these core sectors of the domestic economy are further more heavily dependent on the resumption of export growth, primarily to Africa and the non-traditional US and EU markets. Recent shocks reverberating from the Chinese economy were not good news, and neither is the fact that the stock markets in all 30 of the next biggest emerging market economies are retreating.

Adjustment within the sector is also important. Investment in new and improved production capacity which will raise competitiveness must be paramount. Policy support and institutional renewal within general government can have important cost-savings results.

The Government has limited policy options. Economic growth has to improve, inflation has to be kept in check and the balance of payments dare not go into bigger deficit. However, the scope for fiscal stimulation is tighter than ever before due to lower tax income. Monetary stimulation through interest rate adjustments is not really an option either as international monetary policy in the US, EU, China and Japan has such a big influence on what the South African Reserve Bank can do.

Crises often enhance decision making. The process embarked on through the Industry Policy Forum after the last round of wage negotiations has inadvertently been given huge impetus by this period of massive and painful structural challenges.

"The excellent working relationship built first between labour and SEIFSA, and then with the Government as a result of the ferrous industry crisis has been enormously encouraging. We have to thank our social partners for joining hands during this time and putting the survival of the sector before any other objectives. We hope that we will be able to build on this sound foundation in future."

Crises often enhance decision making. The process embarked on through the Industry Policy Forum after the last round of wage negotiations has inadvertently been given huge impetus by this period of massive and painful structural challenges.

THE 2014-17 WAGE NEGOTIATIONS

Commenting on the 2014-2017 wage negotiations, Mr Khumalo said SEIFSA members would be painfully aware, following a particularly difficult round of negotiations and a violent, four-week strike, that SEIFSA eventually reached agreement with all the industry's trade unions on the terms and conditions of employment for a three-year period.

Although this final settlement agreement did not meet all the goals and objectives set by ourselves, we believe that, nevertheless, it does contain the following direct benefits to the membership:

- We managed to secure a three-year wage deal. This guarantees industrial peace, certainty and stability for all member companies from now until June 2017; and
- The agreed wage increases for next year are clear and not dependent on any further negotiations. Therefore, strike action on the increases is not

possible, and there are no other changes to employment conditions over these three years.

LABOUR DISPENSATION CHANGES

As industry observers and participants will know, the Minister of Labour published a range of proposed amendments to our labour legislation framework and the following pieces of legislation, in the form of amendments to existing legislation and the introduction of a new statute, regulating the temporary employment sector:

- The Labour Relations Amendment Bill;
- The Basic Conditions of Employment Amendment Bill;
- The Employment Equity Amendment Bill; and
- An Employment Services Bill.

There is little doubt that these legislative changes are complex and fundamental in nature. Through its Industrial Relations and Legal Services Division as well as the Human Capital and Skills Development Division, SEIFSA will do everything possible to ensure that the broad-ranging implications of these pieces of legislation are understood fully by its members and anybody who avails him/herself for the invaluable services that the Federation offers.

SEIFSA'S SUSTAINABILITY

Although we have every reason to be relieved that we do not face another round of negotiations in 2015/ 2016, challenges of different kinds remain. At the top of the list is our country's lacklustre economic performance, followed by the flood of imports and our manufacturing sector's inability to be internationally competitive.

POLICY AND REGULATORY UNCERTAINTY

Policy and regulatory uncertainty is a reality. The Bureau for Economic Research at the University of Stellenbosch has been surveying and publishing the collective responses of manufacturers on this matter since 1987 and the latest reading shows the highest level of dissatisfaction ever. Beneficiation and local procurement are cases in point.

The beneficiation debate has been raging since it featured in the Reconstruction and Development Programme (1994), the White Paper On Beneficiation (1998) and the Mineral and Petroleum Resources Development Amendment Act published in 2010, and then a policy document published by the Department of Minerals in 2011. Responsibility has shifted from one department to the other, and it is believed to be in the realm of the Department of Trade and Industry at the moment. The Act has been sent back to Parliament, with no outcome or any more certainty as yet.

Secondly, when analysing export and import data, it is quite clear that the basic metals and basic metals products are most successful in exploiting international markets. Simultaneously, the sector's higher value-added (beneficiated) products suffer more from international price distortion due to subsidies, etc. It is illogical to tax or force more basic industries essentially to compensate for international subsidies of prices of imported downstream products. This is apart from the fact that all these industries are very high electricity users, with South Africa currently in chronic short supply of electricity.

Local procurement of goods and services by the public sector is a specific objective of general government and was highlighted as the way in which the large infrastructure projects would benefit and stimulate the South African economy during the

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PRESIDENTIAL BREAKFAST SNIPPETS OF THE DAY










construction phases. Due to the fact that most of the expenditure for these projects is through State-owned enterprises, these companies are, to a large degree, the implementers of the policy.

All indications are that this is not happening nearly as much as was predicted. Production figures within the metals and engineering sector that ought to have benefited most from this endeavour are simply not showing the results. Furthermore, financial results of the large construction companies and structural metal contractors are dismal, with all of them having one refrain: delayed infrastructure spending.

These challenges will continue to stare us in the face, if not worsen, until such time that South Africa Incorporated – Government, business and labour – gets together to discuss things openly and constructively, putting the country's interests above all else.

Internally, Mr Khumalo said SEIFSA has to ensure that it continues to be equal to the challenges that confront it, including on its approach to collective bargaining and the mandating process. The Federation will have to demonstrate concretely that it has the interests of all players, big and small, in the metals and engineering sector and that it represents or speaks for all of them. To this end, the Board welcomed the management team's launch of the Small Business Hub during the year under review.

RETAINING AND GROWING MEMBERSHIP

Members will be aware that a large part of SEIFSA's revenue is derived from membership fees. Therefore, it is imperative for the Federation to develop strategies to retain existing members and to grow the membership base even under a contracting economy in which many companies face closure.

TRANSFORMATION

To our collective dismay, the 2013 KPMG annual survey on transformation found that the metals and engineering sector is the second least transformed in the country. A good two decades into our democracy, this is not something of which we can be proud. On the contrary, it is a situation that is deeply embarrassing and that should concern all of us in the sector.

While at times it may not readily appear so, the fact remains that transformation is in the fundamental interest not only of Government, but of all of us, including us as employers. It is when we make the best possible use of all the talents available to us as businesses, from men and women of all races, that we would be best placed to reduce friction at the workplace and improve our levels of competitiveness. More importantly, embracing transformation also places us, as companies, in a favourable position to compete for business from State-owned companies and the different tiers of government.

Transformation at the workplace also has the potential of moderating the currently-rising levels of racial polarisation in the country. As social studies have shown in different parts of the world, inclusive countries tend to be more cohesive than those which do not fully embrace and leverage the wealth offered by a country's diversity.

In closing, Mr Khumalo thanked the SEIFSA Council, the Associations, fellow Directors on the Board, and the Chief Executive Officer and his Executive Team for helping to navigate SEIFSA during the difficult 2014-17 wage negotiations. He welcomed the new Board members and wished the new SEIFSA President well.

Meanwhile, renowned and well respected independent political analyst, author and keynote speaker specializing in South African and international politics Daniel Silke, a guest speaker at the Presidential Breakfast delivered an address entitled "The State of the Nation: Critical economic and political issues facing South Africa in the future" in which he provided a glimpse into not only South Africa's future economic and political environment but the possible impact that international politics and economics could have on South Africa.

Daniel Silke: Independent political analyst, author and keynote speaker specializing in South African and international politics

INNOVATION KEY TO REVIVING SOUTH AFRICA'S MANUFACTURING SECTOR

Innovation was crucially important for the future survival of South Africa's manufacturing sector, the Steel and Engineering Industries Federation of Southern Africa said.

Speaking at the Industrial Development Conference held in Sandton recently, SEIFSA Chief Executive Officer Kaizer Nyatsumba said innovation would ultimately be the difference between thriving manufacturers and those that are merely surviving.

Mr Nyatsumba said that the South African manufacturing sector was going through a structural adjustment phase, rather than a cyclical downturn. A rethink of South Africa's approach to manufacturing was, therefore, most crucial.

"The metals and engineering sector is without doubt going through a fundamental structural adjustment, not just a cyclical correction. The sector almost doubled in size over a 14-year period from 1994 until the international financial crisis of 2008-2009 hit South Africa, resulting in a 21% contraction in output that year. Since then the sector expanded by about 6%, but the level of value added to the economy today is still 16% lower and output is 25% lower than it was during the peak of 2007/8," Mr Nyatsumba said.

The extreme volatility in the economic environment since 2007 made planning very difficult. In addition, prices for South African metal sector exports were also depressed and could continue to be so for a long time. Research showed that metal price cycles last on average 35 years. The latest cycle started in 1999 and reached its peak in 2007 and the downswing had already lasted seven years. This meant that there could still be another 10 to even 20 years of depressed markets ahead.

Domestically the sector was critically linked to the mining, construction and auto sectors, which as a group directly contributed 17% (R570 billion) to South Africa's GDP in 2014 and, depending on the indirect and induced multipliers, up to twice this number.

"These vital sectors are one another's customers and suppliers, which means that instability affecting one sector inevitably affects the others."

Furthermore, these four sectors were very electricity intensive and were almost equally hard hit by electricity outages which disrupt production, lead to under-utilisation of production capacity and higher costs, substitution of locally-manufactured products by imports, the threat of not fulfilling export orders and losing contracts, as well as uncertainty about the viability of fixed investment.

Innovation would ultimately be the difference between thriving manufacturers and those that are merely surviving

Mr Nyatsumba said that the consequences of the rise of China and India, as well as the structural adjustments taking place in those economies, will be significant.

"There are massive surpluses generated in those markets, which find their way onto the world market. The current rebalancing taking place will shift their input demand patterns downward permanently. Demand out of Africa could decline in sync, due to its dependence on Chinese demand for its commodities for its own growth."

For recovery to commence in the sector, export markets need to recover and domestic demand from mining, the automotive sector and construction has to resume. Far more important, however, was the need for South African manufacturing in general and the metals and engineering and related sectors in particular to be much more efficient in their production processes in order to be competitive internationally.

"While there are certain factors that are not within their control – such as the comparative cost of South African labour, power supply and various administered costs – local manufacturers will have to do more about those factors that are within their control. Inevitably this will mean embracing advanced manufacturing methods and processes and investing in latest, more efficient technologies. In the end, that will be the only way to ensure higher levels of international competitiveness than is the case at the moment," Mr Nyatsumba said.

Regrettably, higher levels of mechanisation would have adverse effects on job creation, at a time when South Africa needs more jobs to be created. It would, therefore, be vital for the Government and its various agencies like the SETAs to invest heavily in up-skilling and re-skilling the general South African workforce to place it in a position to operate high-technology machines and to get jobs in the resulting adjacent sectors.

Equally important to prevent the manufacturing sector from withering into oblivion were policy adjustments from Government and cohesion between business and labour.

"We are in uncharted waters. Cooperation amongst business, government and labour to find solutions is critical. We are encouraged by recent approaches to tackle the current steel crisis, and we can only hope for more such trilateral approaches in future. Only such an approach will stand a good chance of lasting success," Mr Nyatsumba concluded.

We are in uncharted waters. Cooperation amongst business, government and labour to find solutions is critical.

Only such an approach will stand a good chance of lasting success

MiTEK INDUSTRIES SOUTH AFRICA CELEBRATES 50 YEARS WITH SEIFSA

MiTek Industries South Africa is a member of the Light Engineering Industries Association that is federated to SEIFSA

MiTek Industries South Africa, a division of the international MiTek group, which boasts legendary investor, Warren Buffet as its owner has recently celebrated 50 years of being associated with the Steel and Engineering Industries Federation of Southern Africa (SEIFSA)

MiTek Industries South Africa, which also forms part of the international conglomerate, Berkshire Hathaway Incorporated, has through its network of licensed Truss suppliers, supplied the tried and trusted system of pre-fabricated timber roof trusses, manufactured with the company's renowned MiTek M20 nail plate connectors to the vast majority of South African roofs since 1964.

Since taking membership with the Light Engineering Industries Association that is federated to SEIFSA 50 years ago, the company has grown in leaps and bounds to become the leading roof truss system supplier in South Africa, serving over 160 roof truss manufacturers country-wide, and over 800 hardware and DIY markets.

MiTek South Africa is headquartered in Midrand, Gauteng. From this location it manufactures connector plates, builder's products and Ultra-Span® LGS roll-form products for the South African market. The company also exports to more than 20 African countries and has set up a joint venture in Kenya to distribute to the East African markets.

MiTek Industries South Africa's offices in Midrand, Cape Town, Durban and Port Elizabeth are strategically located to serve customers through MiTek's customer support teams, design services and machinery specialists.

"We are proud of our reputation as the best in the business – a reputation that is built on years of working closely with our customers," says Uwe Schlüter, the company's Marketing and Business Development Manager.

Mr Schlüter adds that MiTek Industries South Africa is equally proud of having been associated with SEIFSA for five decades.

"For over 70 years, SEIFSA has provided active support for employer associations and lobbied for policies that have improved the business environment in which its members operate and we as MiTek are very proud and privileged to be associated to this crucial industry body for 50 years," Mr Schlüter says.

MiTek constantly seeks to improve its own existing high standards. Its employees represent the industry at SABS, SASFA, ECSA, ITC, and numerous other platforms, placing a high priority on seeking more effective methodologies. It is also the only system supplier that manufactures its own nail plates and other truss hardware to hold an ISO 9001:2000 certification.

Additionally, MiTek Industries South Africa is the proud recipient of Dekra's international recognition for commitment to excellence.

SEIFSA is delighted to have journeyed with MiTek Industries South Africa for 50 years. We look forward to having them on board for another 50 years.

Some of the projects completed using Mitek Industries tried and tested products

Mediclinic mid-stream structure exposed

Mediclinic mid-stream structure complete

Boardwalk Casino Hotel completed

SEIFSA TRAINING CENTRE

NEXT INTAKE DATE:

JANUARY 05

MARCH 29

JUNE 21

The SEIFSA Training Centre is a state-of-the-art training centre that has both the resources of industry experts and equipment to offer specialised skills training

The training offered encompasses not only apprentice training but also training and development for the following training interventions:

- Learnerships
- Skills programmes
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SCHNEIDER ELECTRIC AND STEELCOR POWER SIGN WORLD'S FIRST PREMSET MANUFACTURING PARTNERSHIP AGREEMENT; SOLIDIFY LOCAL MANUFACTURING SUCCESS

Schneider Electric and Steelcor Power are members of the Electrical Engineering and Allied Industries Association that is federated to SEIFSA.

Schneider Electric, a global specialist in energy management, has entered into a production partnership agreement with Steelcor Power , a South African manufacturer of electrical products, to produce its next generation of smart grid-ready, medium voltage (MV) switchgear, Premset.

Built using a Shielded Solid Insulation System (2SIS), Premset lets MV network operators increase safety and efficiency while simultaneously minimising downtime and meeting the needs of the smart grid. 2SIS is a technical breakthrough that protects all the switchgear's live parts with earth-screened solid insulation, reducing the risk of internal arcing and facilitating top performance in practically any environment.

To prepare for production, Steelcor Power has added 900 square metres to its factory in Boksburg, an area that has been enhanced with a three-ton gantry crane, a new test bay with a partial discharge faraday cage, and specialised equipment to manufacture Premset.

The first unit is expected to roll off the line for inspection by Schneider Electric France at the end of October 2015. A further 14 units are planned for this year, and production for 2016 will scale up to 200 units with an annual increase of 20 percent.

Two Steelcor Power staff members responsible for the new production have received technical training on the manufacturing process of Premset from Schneider Electric personnel in France, and local Schneider Electric specialists have and continue to offer training in South Africa.

The production agreement has also seen Steelcor Power employ an additional three people this year, with a further seven employees to be appointed next year.

"We are excited about the prospects of Premset – both from a local manufacturing point of view and enhancing the value chain of this product for the benefit of our customers. Steelcor Power has a long history of excellence in manufacturing of electrical products, and we are confident that through our partnership, we will meet the demand for Premset in the African marketplace.

We are proud to be the first country in the world to manufacture Premset outside of Schneider Electric manufacturing plants and believe that this ground-breaking partnership presents many new opportunities for manufacturing on the African continent," said Eric Leger, Country President for Southern Africa at Schneider Electric, who was speaking at the signing of the licence agreement with Steelcor Power.

At the event, John Farren, CEO at Steelcor Power, added: "Steelcor and Steelcor Power have been business associates of Schneider Electric for the past 25 years. During this time, we have developed products for Schneider Electric locally, and have promoted the organisation's products for supply within our product range. Today, we are one of the major users of Schneider Electric MV switchgear in South Africa. Premset is a natural addition to our existing product range."

Left: John Farren, CEO at Steelcor Power
Right: Eric Leger, country president for Southern Africa at Schneider Electric

WORKING THE BOARD WALK – AN ACT OF INNOCENCE OR COMPLICITY?

METAPHORICALLY SPEAKING

These days I find my mind meandering to a time when playing on the board walk was just an innocent act of a child, occasionally interrupted by stern parental discipline for over-exuberance. The board walk of my childhood memories bears no resemblance to the corporate "board walk " where I played "the game" for the past few years.

It was a game of survival no different in many ways from those that saturate pay television channels and no less damaging to the human psyche and physique. If there is a lesson I learnt, it is that corporate governance, whilst a noble pursuit, is easily displaced like the participants on a "Survivor" reality show.

The reality is that the more you play the game the more perverted you have to become to survive or face expulsion by the other tribesmen keener on surviving than you. The alliances you build are no guarantee of survival.

The one thing that I can certainly confirm from my experience in corporate SA is that, indeed, the rot starts at the top! It is for this reason that this article focuses on the impact that Boards have on the corporate fabric.

It is disturbing to note how amoral conduct is marketed and syndicated around the world these days and has become the mainstream culture. Our subverted corporate culture in South Africa (SA) today is a sad reflection of the state of our broader society. What is manifestly evil is manifestly celebrated and lauded.

No surprises, then, that the behaviour that emulates survival in a snake pit is vigorously copied in our society at large and so, too, in corporate boardrooms. After all, our organisations are but microcosms of the larger system. To survive, you have to become either the snake or the snake charmer.

Ultimately, when you emerge, both roles will leave you feeling slimy. That's assuming you never were a snake or a charmer to begin with. My gut feel is that there is a Machiavellian part in all of us. It has a serendipitous birth when the conditions for it to flourish are created.

The past decade has seen a plethora of articles and a considerable body of work, inter alia, the King Codes on Corporate Governance saw the light of day. These important interventions were all designed with noble intent to fight the scourge of a lack of good governance. Whilst recognising that these have all stimulated debate and probably some improvements in the area of corporate governance, there is no doubt in my mind that we still have a long walk to free ourselves of the corruption and lack of ethical conduct that have beset corporate SA and government institutions alike. This is no more pronounced than in the environment of State-Owned Companies (SOCs), but it is by no means unique to the latter.

The one thing that I can certainly confirm from my experience in corporate SA is that, indeed, the rot starts at the top! It is for this reason that this article focuses on the impact that Boards have on the corporate fabric. Speak to executives, both past and present, and many of them will no doubt lament the often overt interference in the day-to-day running of the companies they are involved in by their respective Boards.

This has led to a plethora of bad executive decisions, but often heavily influenced by the overt involvement of Board members. The modern-day tragedy in business is that these regular sniping incursions into the realm of executive management which result in gross lapses of governance are never ever exposed. It is often the lone CEO or executive that has to walk the plank. Those who survive are often more adept at working the Board or end up selling their souls to the devil!

There are, of course, Board members who add value to the organisations they serve and who provide valuable insights to executives who heed their call. Such Board members understand the difference between the meanings of "oversight" and "interference". Those are such a rare breed that I doff my hat to them.

My experience has led me to ask where this scourge that besets corporate SA and especially SOCs has emanated from and why it is so pervasive that there are so few organisations left whose top tiers are not littered with people with dubious connections Today it has become hard to discern between the politician and the businessman or woman.

So, why all the fuss of "conflicts of interest" when we actually don't really give a damn? I suppose the answer is that it looks good in the company annual reports and periodic press statements we put out to fool the stakeholders who believe their investments to be in good hands. How did it get so bad that we end up chanting "cry, our beloved company"?

WHAT HAPPENED WHILE WE FELL ASLEEP AT THE WHEEL?

I wish the answer were as simple as "we fell asleep at the wheel" because that would partially absolve those of us who find ourselves ensnared in organisations but are at odds with their ethical fabric. The simple truth is that we have choices in life and, as uncomfortable as it may be, it is still a matter of choice. You chose to stay or you chose to go. Working on the Board Walk is no act of innocence.

There is a myriad of reasons why it got so bad and the rot has set in to the extent that it has, that we now witness companies brought to their virtual knees and reliant on state guarantees to remain in business. Whilst not all lapses of corporate governance can be blamed on Boards, certainly the large juicy ones had their grubby fingerprints all over it.

Many of these lapses, once manifested, offer manna from heaven for our daily tabloids which revel in dirt and whose journalists are often hardly discernible from politicians, Board members or corrupt executives in their cunning to get a handle on a juicy story. I guess we are all peddling something in the end – or does that make me a cynic?

However, to call these "lapses of governance" is euphemistic in the extreme and minimises what is often a deliberate act of destruction of value. I will attempt to shed light on some of the levers of this destruction. Please treat this segment as a survival guide of sorts; a literal "what not to do" manual, and maybe you will still see out your days in the corporate jungle.

"MASQUERADERS OF THE LOST ARK"

First up is the perpetual and nauseating interference by some Board members who masquerade as zealous advocates of oversight whilst actively interfering with the executive functions of the company.

The interference of Non-Executive Directors in the day-to-day running of the company spells the death knell for any self-respecting organisation. I contend that it singularly ranks as the top contributor to why your company will end up as the Lost Ark. From "Good to Not so Great", so to speak .There are no better examples in South Africa than many State-Owned Enterprises and other public institutions. Of course, private companies are not exempted from this behaviour.

Whilst elsewhere in the world it would appear to be largely the lack of oversight by Boards that has seen errant executives prosper whilst destroying the companies which pay them handsomely, in sunny South Africa it appears that the converse is true. Overt interference masquerading as oversight has seen some Board members emerging as the real power brokers.

The roots of this phenomena can be found in a number of cases and they include:

- political deployment,
- strongly vested personal interest,
- limited knowledge and experience of the industry, and
- executive creep.

POLITICAL DEPLOYMENT

On deployment of political cadres, it is fair to say that this is taking place across the board, so to speak. Its most overt manifestation these days is at Board level and it is the reason we see an increasing level of interference masquerading as "oversight". It is as if certain Board members have adopted the phrase "by hook or by crook" as their personal mantra and, sadly, it's often the latter part of the mantra that rings true.

Secondly, serving on Boards is no longer a past time reserved for retired company executives who wish to freely share their experience with the next generation of corporate upstarts. Instead, it is now a lucrative position that, when acquired, can be exploited to serve the self-interests of a few

I contend that deployment of cadres these days takes place largely, but not exclusively, at Board level. My sense is that this has been driven by a number of factors, amongst them the growing realisation that Boards can certainly influence the direction of a company, especially if one is able to align the interests of the company with one's own.

Secondly, serving on Boards is no longer a past time reserved for retired company executives who wish to freely share their experience with the next generation of corporate upstarts. Instead, it is now a lucrative position that, when acquired, can be exploited to serve the self-interests of a few. In fact, it has become an alternative career stream for persons who more often than not have not acquired experience at the coal face. Where they do have some experience, this gets unnaturally amplified by virtue of the position acquired. This spawns another Machiavellian creature: the executive who has to dumb down to survive the board walk.

VESTED PERSONAL INTERESTS

Whilst I have, to some extent, already started to reflect on vested personal interests, let me expand on this idea by demonstrating how this potentially manifests itself. The most obvious amongst these is the manipulation of the corporate plan and strategy to more closely align with personal agendas more so than with actual business needs. This is a corporate coup d'etat that literally takes place under the noses of the shareholder(s) and executive management who by now have been pummelled into submission and stripped of whatever self-confidence they may have had left.

Those who bravely continue to whinge and lament this subversion also recognise their own impotence in the situation and do so as a sort of warped catharsis to heal their own sense of hopelessness and, often, guilt. However, bleating about it will not absolve our consciences as we should have been more vigilant and taken action earlier. I suppose self-preservation is an entirely natural human phenomenon that overrides one's ability to do the right thing! After all, what is "the right thing" in a society whose conscience has become so warped that the abnormal has become the new normal!

The overriding or subverting of executive authority through the creation of parallel management structures is another "neat trick" in the bag of self-serving Board members adept at this skulduggery. It involves setting up committees outside the normal structures that have already been empowered to perform the functions that require subverting under the guise that speed of delivery is required; that the normal structures are inadequate and bogged down in other business; and, of course, claims of absolute criticality to the survival of the business.

"Things fall apart", Nigerian author Chinua Achebe once wrote, and here, too, they do. This kind of subversion can, indeed, become "a licence to loot", to borrow a phrase from Thuli Madonsela, our courageous Public Protector. It is no small wonder that procurement irregularities become the order of the day. There should be no surprises when we have created fertile conditions for this kind of behaviour to thrive. The list of tactics can be extended, but for now I will end here.

LIMITED KNOWLEDGE AND EXPERIENCE

Interference by Non-Executive Directors sprouting from ignorance, or lack of knowledge and experience, is not uncommon. A case of the "the Johari Window": I don't know what I don't know. Does this make sense?

Indeed, it does .We all have blind spots and, when enlightened through experience or education, we can also shift our behaviour. These situations are the ones that one can most forgive if one encounters them in one's corporate existence, depending on their basis. If it's genuine ignorance, then the problem of interference will disappear with enlightenment. If it's pseudo-ignorance, then you are dealing with self-interest and, to say the least, life becomes difficult.

EXECUTIVE CREEP

Whilst all these incursions into the realm of executive management in some form or fashion amount to a takeover of the executive's function, the one I found most lasting and pervasive was the total occupation of executive space. The chief perpetrator is often someone who held a similar position elsewhere and who saw the executive function in the company where he/she is a non-executive as an extension of their own personal fiefdom or current day job.

The lesson in this for good corporate governance is that Non-Executive Directors on a Board should not be holding similar executive portfolios elsewhere. This results in the same behaviour and is the reason why the Chairman/person should never be the previous CEO. They will always think they can do a better job. This is even more damaging when their experience does not outstrip the experience of the serving executive. One of you will be leaving the Boardroom – and I bet it will be the executive, depending on his/her own moral compass. As William Shakespeare's Hamlet put it: "To thine own self be true."

ACTS OF INNOCENCE OR COMPLICITY

In the same way that not all Non-Executive Directors are culpable of the above behaviour or find themselves in positions because of it, so, too, there are executives on either side of the fence. However, returning to executive acts of innocence, it is fair to say that ultimately we are all culpable by omission or commission. For evil to flourish, it has been said that good men must do nothing. Yes, indeed, it is true! Life was never meant to be simple, but when you live it authentically and honestly, it becomes simple.

There are many instances where Board interference has taken root and become par for the course because of the lack of decision-making by the serving cadre of executives. This leads to frustration at Board level and eventual direct involvement in its attempts to move the company forward. Instead of managing the poor performance of the delinquent executive(s), the Board assumes their responsibility, without giving thought to the implications thereof. They simply fill the vacuum in decision-making left by the executives. A good mate of mine once declared in wisdom far exceeding his age at the time: "If you act like a slave, someone will act like your boss".

"WHO LET THE DOGS OUT?"

It has been my experience that the selection of the wrong Board can spell the death knell for many companies. For all the good work done in improving corporate governance, this area remains sadly neglected.

The most obvious sign of how bereft our society has become of any imagination and morality, when it comes to doing business, is the overt tendency of private companies to load their Boards with people with perceived or real political connections. I suspect that this is done in the hope that their perceived influence will secure future business. This is no different to the political deployment you see on the Boards of public enterprises. Often these individuals hold multiple Board positions not remotely aligned to their experience. How much value can a person really add when they serve on so many Boards? How do you know a Board member has not read the Board pack? When they ask you a question that is answered in the Board pack.

For good corporate governance to prevail, we need a return to meritocracy. The idea of a meritocracy in business today is just that: "an idea" that has yet to materialise. Corporate SA and the Government have a lot to answer for, for the wanton erosion of the ethical fabric of our society since they have been both directly and indirectly complicit in acts of bad governance.

Cry, my beloved company!

NOTE ON THE AUTHOR:

Darrin G. Arendse is an Independent Consultant and has served on Executive Committees in both private and public organisations. He is a seasoned human resources and corporate affairs professional and serves on the human resources board of a national NGO in a voluntary not-for-pay capacity. His personal life philosophy is: "Be the change you want to see in the world."

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SEIFSA WELCOMES NEW MEMBERS

THE FOLLOWING COMPANIES BECAME MEMBERS OF ASSOCIATIONS FEDERATED TO SEIFSA DURING OCTOBER / NOVEMBER 2016.

BJP Industrial Services
Constructional Engineers Association (CEA Division)

Consulation Supplies
Electrical Engineering and Allied Industries Association

Eaton Hydraulics
South African Engineers & Founders Association

Ebutsi RSA (Pty) Ltd
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Lift Engineering Association of South Africa

Phoenix Component Services (Pty) LTD
South African Engineers & Founders Association

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Light Engineering Industries Association

SACH WARR CONSTRUCTION CC
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SEIFSA Associate Membership

Weir Minerals Africa (Pty) Ltd
South African Engineers & Founders Association

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Electrical Engineering and Allied Industries Association

BRITAIN

Britain's steel industry faces wipe out, the head of the World Steel Association warns

The British steel industry could be wiped out unless urgent action is taken to curb Chinese imports and cut energy costs, the head of the World Steel Association has warned.

The Association's Dr Wolfgang Eder says there could be just six months to save the European steel industry.

He says it faces "ruin" unless the European Union acts immediately to cut energy costs and block China from dumping cut-price goods on the market.

"It will be really difficult to keep steel operations in the UK," he said.

Dr Eder, who is also the chief executive of Voestalpine which employs more than 650 people in the United Kingdom (UK) told the Mirror in an exclusive interview he feared it may not be possible "in the long run" to produce steel in the UK.

"The overall conditions for steel production here in the UK have become more and more unfavourable and the problem on top now is the enormous pressure of imports of Chinese, Korean and Russian steel.

"And to be honest I am not sure it will be possible in the long run to produce steel here in the UK under the current conditions. But this is not only a UK specific problem - it is becoming more and more a problem for the whole of European steel industry," he said.

He added: "The production environment in Europe has become over the last 10 years extremely unfavourable.

"We have regulatory costs that are going up, up, up and we have the high cost of energy. Gas is three times more expensive than in the United States and we have the increasing cost of environmental protection and we have the higher cost of taxation.

"It will not be possible in the long run to produce in competition with countries like China, Russia Ukraine and Turkey steel commodities. The European cost structure does not allow the production of goods that can be cheaper produced in the countries I mentioned."

Dr Eder said energy costs was one of the key issues affecting the industry in Europe. Asked if there was any hope for UK steel, he replied: "You have to come down on energy cost, with environment cost, with administration, you have to come down more or less on all cost items.

"Two thirds of the problems' roots are in Brussels, not in London. Brussels must deregulate, over-administration must be reduced. Brussels must rethink energy policy in Europe. We have to rethink the position in terms of environmental and climate change regulation.

"I am not in favour of reducing standards what we need is a global level playing field, meaning the same conditions all over the world, not tough conditions in Europe and no conditions, or nearly none, in the rest of the world."

Dr Eder contrasted the reaction of Brussels with America, where the US government has taken action against Chinese imports.

"What has to be done immediately is the European Commission has to do the same things as their American colleagues are doing, meaning to come up with trade cases on unfair imports, to come up with anti-dumping duty.

"It is evident the American have done their homework...and the same has to be done in Europe. If it takes another 12 months or longer, the normal time frame for European action, it means the future of several European companies will be questioned. They cannot withstand more than half a year of this pressure.

"Quick action is necessary, quick political support is necessary. European politics has to change the position otherwise they will be ruining the steel industry. It cannot be that parts of the global steel industry are subsidised and other parts are not," he said.

He also had a broader message about manufacturing. The lesson from Britain and America was that economies could not survive solely on the service sector and they need to re-industrialise.

WalesOnlnie

CHINA

China's steel industry is going from bad to worse

While some who watch global energy markets may disagree, analysts at Macquarie bank believe that the global steel industry is currently the "poster child" for the malaise currently facing global commodities markets.

Aided by a once in a lifetime infrastructure stimulus program implemented by China to ward off the effects of the global financial crisis, capacity in the sector boomed, based on the belief that global steel demand would keep increasing at a phenomenal rate in the decades ahead.

China, followed by India, was going to power global steel production, creating near endless steel demand both nations transitioned away from developing to developed economies.

Analysts, miners and bankers bought into the story, putting out bullish price predictions, not only for the short-term but decades ahead, prompting a raft of lending to finance investment in the sector.

Capacity was installed, as were coking coal and iron ore mines used to fuel them. It was all too good to be true. New production couldn't come online quick enough.

That was five years ago.

Now the bullish forecasts have been overwhelmed by a dose of bearish reality. Not only does it not appear global steel demand will grow anywhere near the rate expected, but it may not grow at all.

Led by a global economic slowdown, a change of leadership in China and a massive glut of residential housing stock in smaller third and fourth tier Chinese cities, global steel demand is now contracting, wreaking havoc on a sector, and those that supply it, who based their investment decisions on bullish forecasts from several years ago.

"We are talking about an industry which expanded rapidly for demand which not only didn't come quickly, but increasingly looks like it might not come at all," wrote Macquarie.

"Many process industries have overcapacity in the world, but steel's demand problem and relative size make it front and centre in terms wider economic impact."

Falling global demand coupled with massive oversupply is seeing capacity utilisation rates fall across the sector.

"The global steel industry is currently operating at 75% capacity utilisation" wrote Macquarie.

"While we have seen sub-80% capacity utilisation rates in the past, these have tended to be temporary events. We have now averaged below 80% for the past seven years. With classical economics now being allowed to work, the normal self-adjustment mechanism of bankruptcies and capacity closures is not in place."

Macquarie points the figure at extremely loose monetary conditions as a reason why capacity in the sector remains weak, not only because it allowed marginal steelmaking facilities to be built but also because it keeps unprofitable firms operational at a time when they would normally be shuttered.

Clearly there is a big problem brewing for the sector. The interest bill on debts carried by most steelmakers are equal to or greater than total profits made. It's clearly unsustainable. Unless capacity declines, or an unlikely global pickup in demand ensues, operating conditions look set to remain bleak.

The sentiment expressed by Macquarie is similar to that of Xu Lejiang, chairman of China's second largest steel producer, Shanghai Baosteel Group. Speaking at an event recently, Xu stated that Chinese steelmakers were "bleeding cash", suggesting that steelmaking capacity in the nation – making up over 50% of total global production – could contract by as much as 20% in the years ahead due to chronic sector oversupply.

"The whole steel sector is struggling and no one can be insulated. The sector is facing increasing pressure on funding as banks have been tightening lending to the sector — both loans and the financing provided for steel and raw material stockpiles," he said.

The bearish outlook offered by Xu was echoed by a recent research report from Morgan Stanley in which they noted recent liaison with Chinese steel industry contacts left with them view that sentiment across the sector had never been so bearish.

Business Insider Australia

FIVE STEPS TO SAFE SHUT DOWN MAINTENANCE

It is that time of the year again when shut down maintenance must be performed. Performance of maintenance work can be inherently unsafe, depending on the extent to which the equipment and the working environments allow for safe maintenance activities to be performed. The following points should be considered during preparation for maintenance:

1. MACHINERY MAINTENANCE

Adjustment and maintenance points must be located outside danger zones. Ensure that adjustment, maintenance, repair, cleaning and servicing operations is carried out while machinery is at a standstill. If one or more of the above conditions cannot be satisfied for technical reasons, measures must be taken to ensure that these operations can be carried out safely.

Performance of maintenance work can be inherently unsafe, depending on the extent to which the equipment and the working environments allow for safe maintenance activities to be performed.

In the case of automated machinery and, where necessary, other machinery, ensure that fault-finding equipment is connected safely. Automated machinery components which have to be changed frequently must be capable of being removed and replaced easily and safely. Access to the components must enable these tasks to be carried out with the necessary technical means in accordance with a specified operating method.

2. ACCESS TO OPERATING POSITIONS AND SERVICING POINTS

Ensure that there is adequate safe access to all areas where intervention is necessary during operation, adjustment and maintenance of the machinery.

3. ISOLATION OF ENERGY SOURCES

The means to isolate machinery from all energy sources must be in working order. Such isolators must be clearly identified. They must be capable of being locked if reconnection could endanger persons. Isolators must also be capable of being locked where an operator is unable, from any of the points to which he/she has access, to check that the energy is still cut off.

In the case of machinery capable of being plugged into an electricity supply, removal of the plug is sufficient, provided that the operator can check from any of the points to which he has access that the plug remains removed. After the energy is cut off, it must be possible to dissipate normally any energy remaining or stored in the circuits of the machinery without risk to persons.

As an exception to the requirement laid down in the previous paragraphs, certain circuits may remain connected to their energy sources in order, for example, to hold parts, to protect information, to light interiors, etc. In this case, special steps must be taken to ensure operator safety.

4. OPERATOR INTERVENTION

Any operator intervention, where unavoidable, should be carried out easily and safely.

5. CLEANING OF INTERNAL PARTS

Cleaning internal parts which have contained dangerous substances or preparations should be made possible without entering them; any necessary unblocking must also be possible from the outside. If it is impossible to avoid entering the machinery, take necessary measures to ensure that the cleaning process takes place safely.

EN Official Journal of the European Union 9.6.2006

MANAGING HIV/AIDS IN YOUR WORKPLACE

A comprehensive and effective approach to communication will improve the chances of success of your company's HIV/AIDS prevention strategy. If you don't have one already you should consider setting up a strategy for communication – its primary focus should be on elevating the issue of HIV/AIDS to a top strategic priority.

SO, WHY HAVE A COMMUNICATION STRATEGY?

Communicating effectively can help you to manage the business impact of HIV/AIDS through improving relationships between management and employees with regards to HIV/AIDS issues – in turn, this can result in improved productivity, cost containment and reduced exposure to costly litigation.

A FEW GUIDING PRINCIPLES

When it comes to HIV/AIDS prevention strategies, we've often said that it's not 'one size fits all'; certain interventions or approaches may not apply to every company. It's the same with a communication strategy – while you will ultimately need to decide what can work for your company, here are a couple of aspects that are important:

- Ensure a two-way flow of communication – there must be highly-effective, practical and accessible feedback channels for the flow of communications to and from employees
- Focus on participatory communication to encourage debate and to engage employees in problem solving in order to create a sense of ownership and shared responsibility.
- Focus not only on knowledge, but also on behaviour improvement and prejudice
- A communication strategy should emphasise the importance of engaging employee attitudes and behaviour (not just improving knowledge or challenging intellect); preventing the spread of HIV as well as living positively with HIV/AIDS are both behaviour-related issues. Communications on an intellectual level alone is unlikely to challenge attitudes and encourage behaviour change.
- Communication strategies that challenge employees to take responsibility for their own health, and give them hope for the future, will overcome potential resistance to change.
- Lastly, decreasing the incidence of myths and misconceptions which negatively influence employee behaviour will work against discrimination.

In the next article we'll look at more components of an effective communication strategy.

Contact Redpeg for accredited HIV/AIDS workplace training, consulting and research. info@redpeg.co.za | (011) 794 5173 | www.redpeg.co.za

CHANGING SKILLS GRANT REGULATIONS WILL PROVIDE A CATALYST TO DEVELOP SKILLS REQUIRED BY INDUSTRY, ARGUES MUSTAK ALLY.

The decision by the Labour Court to set aside the 2012 sector education and training authority (Seta) grant regulations will go a long way towards addressing South Africa's skills crunch, but caution must be taken to ensure that we produce the right skills needed in the labour market.

On 7 August 2015 the Labour Court handed down judgement in the application brought by Business Unity South Africa (BUSA) to review and set aside certain aspects of the Seta grant regulations introduced in 2012. BUSA had specifically challenged the decision by the Department of Higher Education and Training to reduce the mandatory grant from 50% to 20% and to provide for the "sweeping" of unspent Seta funds to the National Skills Fund, which allowed the funds to be spent on national skills initiatives that were not necessarily related to workplace learning and development.

There is very little doubt that the Labour Court's decision to set aside and declare as invalid the Seta grant regulations, which would have limited the much-needed skills development and training, will go a long way in providing opportunities for companies to take up the mantle to train and develop their employees.

However, in a country where unemployment levels are at all-time high, not only because of the lack of opportunities in the labour market but also owing to a mismatch between the skills demanded in the labour market and the skills supplied, caution must be exercised to ensure that in their training and development initiatives, companies focus on producing skills that are required by the economy. This would go a long way towards alleviating the unemployment challenge currently facing South Africa.

The last thing that we need as a country is to create excess skills that the market is already saturated with. Evidence already suggests that our skilled youth with tertiary qualifications are finding it hard to acquire gainful employment due to lack of pertinent skills. Statistics South Africa, through the household survey on skills development and unemployment, informs us that the unemployment rate for individuals with tertiary qualifications has increased from 6% in 1994 to 14% in 2014. Research conducted by the Metals Chamber of the merSETA also suggests that there is a mismatch between skills being developed at institutions dealing with post-school education and the industry. Continuing to bombard the labour market with skills that it does not need poses a threat of adding further fury to the frustrations of the unemployed.

As much as one may be supportive of the thinking that the wider skills base of the country needs to be improved and one avenue for doing this was through the professional, vocational, technical and academic learning (PIVOTAL) grant mechanism, the focus of this route was once again on a skills supply initiative rather than focusing on skills demanded by industry.

In my view, a national skills agenda should be demand led and not supply driven. The danger of channeling skills development into a qualifications or part- qualifications environment, as is suggested through the PIVOTAL grant process, is that learners become prepared for employment in the formal job market. It is well known that opportunities in these markets are fast diminishing. Further to this, employers are in need of skills for workplace performance, and these may not necessarily reside in a partial or full qualification.

It is, therefore, of paramount importance that the Labour Court, through its judgement, made it possible for companies to get their 50% mandatory grants back. This would assist in ensuring that in the current challenging economic environment, financially-challenged organisations are empowered and able to invest on employee training and development that is relevant to the industry and their companies.

Of course, a legitimate concern will always remain as to whether the mandatory grant monies will, in fact, be used for training and development or for improving companies' bottom line. I do believe that with the added pressure of the Broad-Based Black Economic Empowerment scorecard, which has increased the training spend from 3% to 6%, companies would have no other option but to plough the mandatory grants into training. On 28 August, the Minister of Higher Education and Training lodged an appeal against the decision of the Labour Court. At the time of penning this article, the court was yet to decide on a date for the appeal to be heard. In the interest of skills development and job creation, one can only hope that the Labour Court's decision will be upheld.

Mustak Ally

Human Capital and Skills Development Executive

PRIVATE SECTOR PROMOTION OF ACCESS TO INFORMATION ACT (PAIA) MANUAL SUBMISSION EXTENSION

The Department of Justice and Constitutional Development has extended the exemption which was to have lapsed on 31 December 2011. Private companies within certain sectors are now exempted from compiling and submitting information manuals in terms of section 51 of the Promotion of Access to Information Act to the South African Human Rights Commission until 31 December 2015.

While these private companies no longer have to submit manuals during the period of the new exemption they are not exempted from complying with the rest of the Act. Please also note that if an entity is a private body but not a private company as defined in the Companies Act of 2008 e.g. an non-governmental organization, it will not have to comply with section 51 of the legislation until the end of the moratorium exempting such companies.

In terms of the Government notice no.34914 certain private bodies will still have to submit their manuals in terms of the legislation to the Human Rights Commission. These private bodies are those which operate in specific sectors, with 50 or more employees or operate in specific sectors and have an annual turnover equal to or exceeding specific amounts.

The particular sectors and turnover amounts are listed below:

SECTOR	EMPLOYEES	ANNUAL TURNOVER in millions ZAR
Agriculture	50 or more	2
Mining and Quarrying	50 or more	7
Manufacturing	50 or more	10
Electricity, Gas and Water	50 or more	10
Construction	50 or more	5
Retail, motor Trade and Repair Services	50 or more	15
Wholesale Trade, Commercial Agents, Allied Services	50 or more	25
Catering, Accommodation and other Trade	50 or more	5
Transport, Storage and Communications	50 or more	10
Financial and Business Services	50 or more	10
Community, Special and Personal Services	50 or more	5

It is important to note that the PAIA legislation creates the framework to the right to access information enshrined in section 32 of the Constitution of the Republic of South Africa, Act 108 of 1996. The purpose of this legislation is to promote a culture of transparency, accountability and good governance both in the private and public sectors. Therefore, the Act places specific compliance requirements on both state institutions and private sector.

PAIA entitles the requester with the right to lodge a request from the information officer (head) of a private body. A private body as defined in the Act includes juristic bodies. The Act further defines the head of a private body as "the Chief Executive Officer or equivalent officer of the juristic person or any person duly authorized by that office…."

In terms of section 51 of PAIA, the head of a private body must:

- Compile a section 51 manual which is a roadmap of the company;
- Submit the manual to the South African Human Rights Commission;
- Effect material changes if any each time these occur and resubmit to the South African Human Rights Commission;
- Annex a request form to the manual and also make request form available on the website and at the company premises access points; and
- there are penalties for non-compliance – please see section 90 of PAIA, the Human Rights Commission has not imposed fines for non-compliance to date but reserves the right to do.

The manual must among others, contain the following information:

- Details of the company's postal, email and street address, fax and phone of the company;
- The description of available records generated by the company stating those which are automatically available and those that are available on request.
- Outline the request procedure in terms of PAIA;
- State who the head of the company is (CEO is usually the Information Officer in terms of PAIA) ;
- Stipulate the fees applicable as legislated by the Act which are chargeable to requesters;
- Remedies available to requesters if their request for information has been refused; and
- details on facilitating request for access to a record etc.

ANNUAL SHUTDOWN: LEAVE PAY AND LEAVE ENHANCEMENT PAY CALCULATIONS 2015

Below are the main provisions regarding annual shutdown and the calculation of leave pay and leave enhancement pay (leave bonus):

- The dates of the annual shutdown are determined by the firm's management however, the shutdown must take place as close as possible to the previous year's shutdown, as stipulated in clause 16 of the Main Agreement.
- The three consecutive weeks' paid leave must be taken over an unbroken period and must include four weekends. In addition, the three weeks' leave must be extended with full pay for each public holiday which falls during the shutdown period and which would otherwise have been an ordinary working day. This year, depending on the start of the annual shutdown, the following public holidays fall into this category:

  - o Wednesday 16 December — Day of Reconciliation
  - o Friday 25 December — Christmas Day
  - o Saturday 26 December — Day of Goodwill
  - o Friday 1 January — New Year's Day

- All employees are entitled to their full leave pay and leave enhancement pay on completion of 234 shifts worked on a five-day week basis or 283 shifts on a six-day week basis, excluding overtime.

CALCULATING SHIFTS

Section 12 of the Main Agreement states that the qualification for paid leave shall be 234 shifts actually worked on a 5-day week basis or, 283 shifts actually worked on a 6-day week basis:

	5-day week	6-day week
Number of days in a year	365	365
Less: Saturdays and Sundays	104	52
Less: Three weeks' annual leave (working days)	15	18
Less: Public holidays	12	12
Total number of shifts	234	283

New employees and others who have not worked all available shifts during the year are entitled to pro-rata leave pay and pro-rata leave enhancement pay. However, since the dates of the annual shutdown change from year to year, an employee who works all available shifts during the year is entitled to full leave pay and a bonus, even where the shifts amount to fewer than 234 shifts (5-day week) or 283 shifts (6-day week) respectively.

LEAVE QUALIFYING SHIFTS

	5-day week worker	6-day week worker
Minimum number of shifts actually worked	234 shifts	283 shifts
Periods of absence because of sickness counting towards leave qualification purposes (provided that an employer may call upon the employee for a medical certificate in proof of cause of absence)	43 shifts	52 shifts
Periods of absence falling within the scope of the COID Act	Full number of shifts during absence	
Absences while on the additional week's paid leave or accumulated additional leave	Periods of absence while on this additional paid leave count as shifts worked	
Periods of absence on account of "lay-offs" totaling no more than 8 weeks	Full shifts	
Absences while on a protected strike in terms of section 64 of LRA	Full number of shifts while on protected strike	
Shop stewards training leave	Periods of absence while on shop steward training count as shifts worked	
Shop stewards elected as Trustees and/or representatives of MIBFA, MEIBC and/or MerSETA	Periods of absence while attending a MIBFA/MEIBC and/or MerSETA meeting count as shifts worked	

SHIFT ACCUMULATION AND SHORT TIME

- Short shifts worked while working short-time count as shifts actually worked. Employees working 24 hours or more spread over three or four days and employees on a three-shift system working three or four shifts per week:
  - must be credited with the full shifts for an ordinary week for purposes of paid leave for up to three months in any calendar year; and
  - thereafter, must be credited with one additional shift per week over and above shifts actually worked for purposes of paid leave.

An employee who worked all available shifts from the first day after the previous year's annual shutdown up to and including the last shift preceding the current shutdown is entitled to full leave pay and a bonus.

An employee qualifies for an additional week's paid leave from his fourth and subsequent consecutive periods of annual leave and, by mutual arrangement between the employer and employee, the annual shutdown may be extended by an extra week or the employee may be paid out the monetary value of this extra week's leave. Alternatively, and again by mutual agreement, the extra week's leave may be accumulated until the employee qualifies for such extra three weeks' paid leave.

In cases where employees doing essential work continue working during the shutdown, the relevant MEIBC regional office must be informed of the names of these employees at least one month in advance. These employees must be given their paid leave within four months of the date of the shutdown.

LEAVE PAY:

Every employee is entitled to leave pay calculated on the following basis:

Normal weekly wage rates (excluding allowance)

x

3 weeks
(4 weeks where employee is entitled to additional leave)

x

$$\frac{\textbf{Number of Shifts worked}}{\textbf{234 shifts (5 day week worker)}}$$

LEAVE ENHANCEMENT PAY:

Every employee is entitled to leave enhancement pay calculated on the basis of 8,33 percent of actual earnings, excluding allowances (calculated on a 40-hour work week or upon actual normal hours worked) on the date the employee actually goes on leave, and in the case of termination, at the actual rate at the date of termination.

Normal weekly wage rates (excluding allowance)

x

52 weeks

x

8,33%

x

$$\frac{\textbf{Number of shifts worked}}{\textbf{234 shifts (5 day week worker)}}$$

Queries

Should you have any queries please contact SEIFSA Industrial Relations & Legal Services on 011 298 9400.

SEEKING EXEMPTION FROM PAYING THE LEAVE ENHANCEMENT PAY (LEAVE BONUS) IN DECEMBER – WHERE YOU COULD EFFECTIVELY REDUCE YOUR DECEMBER WAGE BILL BY 50%

SEIFSA is acutely aware that the current economic environment may pose severe constraints on certain member companies, particularly insofar as the payment of Leave Enhancement Pay (LEP) is concerned. These members are advised that the industry's current exemption procedure insofar as the leave enhancement pay or the leave bonus, continues to apply.

A company which is unable to afford the LEP may submit an application to its local regional council for exemption from paying the LEP to its employees.

Companies do not only have the choice of applying for a full exemption to the LEP, but may choose to apply for total exemption, partial payment and / or a deferred or staggered payment.

Management's attention is drawn to the importance of the council's requirement that an application must be accompanied by the following important information in order for the application to be considered:

- A fully detailed motivation explaining the difficulties that the company is experiencing and hence the need for the application.
- Audited Financial Statements for the financial year ending 2014/2015. In the case of a closed corporation - a full set of financial statements which are to be signed by an Accounting Officer and the latest management accounts for the last three months. If the financial statements are older than six months, then the management accounts for the recent three months are required.
- Formal confirmation that employees were informed of the company's decision to make an application for exemption.
- Where employees reject the company's approach, they are to be informed of their right to submit written reasons for objecting to the exemption application and such reasons should be attached as an annexure to the company's application.
- The signature of at least two employees who accept being the representatives for the workforce and who will be affected by the application. Representatives of the workforce are to sign the form, contained in the exemption application questionnaire, consenting to this.
- The signatures of employees accepting that they have been informed of the implications of what the firm is proposing to the Council.
- Where the employees are trade union members, the company should inform the local trade union office of the intention to apply for an exemption and request, in writing, a meeting with the local official to discuss the impact of the exemption on the company and the members of the union.
- Where employees have elected a trade union representative or representatives (shop stewards) these persons should be requested to sign that they were consulted and that they understand the need for applying for the exemption. Where the local trade union official and/or shop stewards have been consulted and where they reject the application, such refusal must be recorded in the application and countersigned by at least two witnesses.
- Where the local trade union official and/or shop stewards and affected employees support the exemption application, this signed agreement should be included with the application.
- It is recommended that all meetings in this regard between management, employees, shop stewards and union officials have signed attendance registers, and that the minutes of such meetings be submitted with the exemption application.
- The application itself is to be signed by either a director of the firm, member, owner or a senior accountant - neither a bookkeeper nor the human resources manager's signatures will be acceptable.

Any member wishing to apply for exemption is encouraged to contact the SEIFSA Industrial Relations and Legal Division for advice and assistance. Alternatively download the SEIFSA Management Brief and Pro-Forma Questionnaire on Applying for Exemption from the LEP at www.seifsa.co.za.

SEIFSA'S SBH HELPING BUSINESSES IMPROVE THEIR B-BBEE SCORES THROUGH ENTERPRISE AND SUPPLIER DEVELOPMENT

The SEIFSA Small Business Hub (SBH) is a vital link between big and small businesses and following its successful launch in May 2015, we are proud to announce a new initiative that will be facilitated by the Hub, which is the management of Enterprise and Supplier Development programs on behalf of larger companies.

In order to maximize their potential in line with the Broad-Based Black Economic Empowerment (B-BBEE) Codes of Good Practice, large companies are required, among other things, to spend 3% of their net profit after tax on supplier and enterprise development. Apart from the money itself, managing a supplier and/or an enterprise development program can be taxing on any organization's resources, resulting in current employees needing to divert attention from core operations in order to manage the supplier/enterprise development program, or in some instances companies have had to bring in additional capacity, in the form of headcount, to manage the programs, which of-course come at a cost.

As a solution SEIFSA through the SBH has developed the capacity in which it takes the role of a "Project Manager" and assists large companies with the facilitation of their supplier and enterprise development programs from start to finish. This in turn allows the larger company to focus on its core operations, being the line of business in which they are in, while appointing SEIFSA to manage the enterprise and supplier development program. The result is the larger company deriving the benefit of an improved B-BBEE score without the cost of diverting resources and/or any additional costs.

The initiative is set out as follows, (including the parties to the agreement;)

1. The measured entity (larger company) – required by the B-BBEE codes of good practice to spend 3% of net profit after tax (NPAT) on developing its suppliers, through enterprise and supplier development.
2. Beneficiaries (smaller companies) – are the current suppliers to the measured entity. They are required to be majority black owned (51%)
3. Project Manager – SEIFSA – appointed by the measured entity in order to facilitate the program. The agreement is packaged as an end to end solution in which facilitation of the supplier and enterprise development program by SEIFSA entails;
   - Identifying and vetting the beneficiary companies (alternatively, the larger company may put forward companies it would like to develop);
   - Performing a detailed needs analysis on these beneficiary companies;
   - Preparing a detailed risk analysis and risk mitigating measures – this is done on behalf and presented to the measured entity;
   - Preparing an implementation plan;
   - Drawing up all the necessary documentation required (contracts, Service Level Agreements, etc).
   - Facilitation of the actual work, (i.e. meeting the identified needs of the beneficiaries)
   - Regular meetings and updates to the measured entity.

SEIFSA's in-house expertise in all matters related to B-BBEE also ensures that the money is spent on programs that will qualify for supplier and enterprise development, thus eliminating the risk of a company spending the required amount on initiatives that would not count toward their B-BBEE scorecard.

One of the most exciting aspects of the SBH is that, while it is a brainchild of SEIFSA, the solutions designed, stakeholders involved and overall coverage of its work is not limited to companies in the metals and engineering industry only. Instead, it is intended to serve any and all small businesses in South Africa. This is exciting because it gives the SBH the necessary scale in order to take on substantial initiatives that will result in a meaningful impact on the broader South Africa.

For more information on this exciting new initiative and to hear how we can be of assistance to you, please contact any of the following individuals:

- Henk Langenhoven, SEIFSA Chief Economist (henk@seifsa.co.za – 011 298 9408)
- Taffie Chibanguza, SEIFSA Economist (Taffie@seifsa.co.za – 011 298 9432)
- Faith Mabaso, SEIFSA Marketing Manager (faith@seifsa.co.za – 011 298 9456)

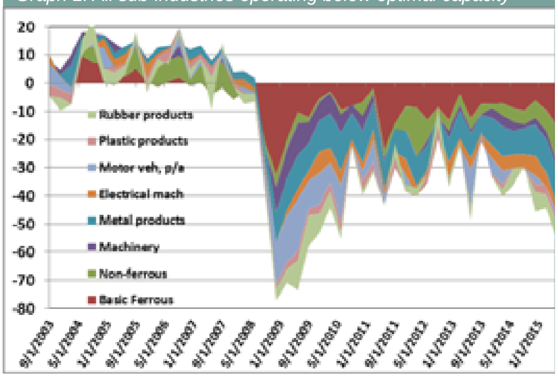
For more information on the Small Business Hub, please visit our website, www.seifsasmallbusinesshub.com.

OUTLOOK FOR THE STEEL AND ENGINEERING SECTOR 2016 - 2017

The metals and engineering sector experienced a truly annus horribilis during 2015.The outlook for 2016 is also bleak, and the sector may quite possibly experience a no growth scenario, with conditions only starting to improve towards the end of 2016, early 2017.

At the time of writing, production had dropped by 2%, the third consecutive year of decline; employment numbers had dropped by 1,8% or 7000 people, profit margins had been under severe strain with many companies making losses, capacity utilization was at 75% against a benchmark of 85% and investment in the sector had stagnated (-16%) and imports surged. The sector went into recession in the middle of 2014.

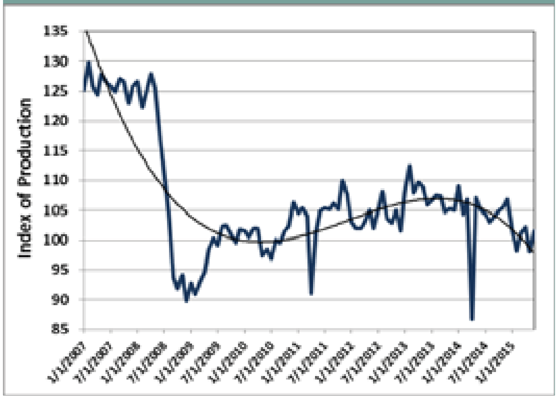
Graph 1: All sub-industries operating below optimal capacity



Source: Statistics South Africa, 2015

However, these trends have now been consistent for seven years. The financial crisis of 2008/9 was a totally unexpected event and 'game changer', the small domestic metal sector revival around the World Cup activities (2009/10) was short-lived, and the labour, electricity and international demand disruptions during 2014 threatened to be the proverbial last straw breaking the camel's back. The conclusion is that the sector is experiencing a structural change and not only a cyclical decline.

Graph 2: Metals and Engineering Production (2010 = 100)



Source: Statistics South Africa, 2015

What does the future hold? Answering this question is not simple and it is useful to look at the short and longer-term separately.

The short-term is mainly about unfair competition from highly-subsidized Asian economies which resulted in accelerated import penetration of their products into the South African market over the last year. This holds true for many producers over the whole spectrum of metals and engineering sector products.

The protection measures already approved and others in the pipeline for basic steel producers will help, but will not be enough. The producers are in such distress that short-term downscaling is unavoidable. South African production costs, for various reasons, are higher than the lowest cost quantile of producers in the world, who are simply overrunning our market. Protection seems to be a choice between losing the entire sector, as happened more or less in Australia, or trying to 'ride the short-term storm' and adjust for the future.

Longer-term recovery will depend on many variables that in part or overall must turn favourable. It depends on the international environment, as spelt out above, and equally so on domestic economic adjustment and recovery.

Domestically, the sector is intimately linked to the fortunes of the mining, construction and auto sectors, which as a group contributes 17% of South Africa's gross domestic product (GDP) and depending on the indirect and induced multipliers, up to twice this number. The metals sector is estimated to have contributed R125 billion to GDP of its own in 2015. These four sectors export and earn a huge proportion of the country's foreign exchange, and employ directly about 1,7 million people.

Graph 3: Inter-relationships amongst mining, auto, construction and metals & engineering sectors

Sources: Statistics South Africa, SA Reserve Bank, Quantec, 2015

Recovery in each of these three sectors and of export demand is crucial for the metals and engineering sector over the longer-term.

If the slowdown in domestic auto sales is severe and recent declines in exports continue, it can initiate another wave of lower demand for the metals and engineering sector next year. Great practical efforts are being made to secure the African Growth and Opportunity Act access to the United States markets, which will support auto exports, and indirectly the sector. Work done at ITAC and other departments in this regard is reassuring. In November the Department of Trade and Industry (Dti) announced an adjusted and more favourable dispensation around accessibility for investors to the Automotive Production and Development Programme incentives.

A similar symbiosis exists with mining and the apparent successful conclusion of 2015 wage negotiations in that sector bodes well. However, retrenchments and lower fixed investment in the mining sector as a result of lower commodity prices, cost pressures and losses have already had a very negative impact on metals and engineering demand. The Mining Phakisa process started in August 2015 will, hopefully, distil real and effective plans to set the mining sector on a course for growth.

The construction sector has been in dire straits for several years and all components of this sector (residential building, non-residential; building and construction works) are not growing. Analyses of data on the sub-industries that should have benefitted most

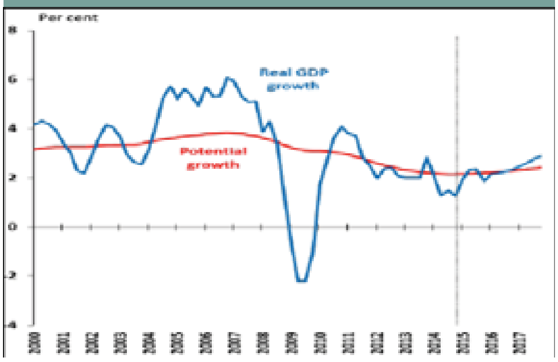
Continues on page 38

from the infrastructure projects, shows that 'electrical machinery and equipment', 'special machinery' and 'fabricated metal products' are better off. In contrast production of 'structural metal' and 'general machinery' is 15% below 2010 levels. If future projects (Transnet, gas developments, etc) are not designed and implemented better to have domestic demand stimulation, then the impact will remain varied.

Recovery in these 'hard' core sectors of the domestic economy are furthermore heavily dependent on the resumption of export growth, primarily to Africa and the non-traditional US and EU markets. The general restructuring in the Chinese economy will not see it re-emerge as the demand driver for many of the exports South Africa rely on. Recent financial shocks reverberating from the Chinese economy were not good news, and neither is the fact that the stock markets in all 30 of the 'next biggest' emerging market economies were retreating at the time of writing. All indications are that the international environment for metals and engineering will be subdued for the medium-term. It increased uncertainty for sector exports, and makes it more difficult to even maintain international market share whereas growth in market share will remain extremely hard to achieve.

Nationally, economic growth has to improve, inflation kept in check and the balance of payments dare not go into bigger deficit. But, the scope for fiscal stimulation is tighter than ever before due to lower tax income. Monetary stimulation through interest rate adjustments is not really an option either, as international monetary policy in the US, EU, China and Japan has such a big influence on what the South African Reserve Bank can, and has to do to keep inflation in check.

Graph 4: Real (actual) gross domestic product growth vs Potential growth



Source: SA Reserve Bank, 2015

Crises often enhance decision-making. Adjustment within the sector is of great importance. Companies will have to take serious decisions regarding investment in new and improved production capacity which will raise competitiveness.

Institutionally, the predicament has forged very positive dynamics amongst role-players. There is a much higher level of understanding amongst the stakeholders (industry, government and labour) about the gravity of the situation. Full agreement on what measures need to be taken does not exist, but cooperation amongst sector organisations has increased, and the same is happening between industry and labour.

From government's side a great deal of effort is going into finding solutions. Minister Patel constituted a 'steel panel of experts' to advise him and Minister Davis has declared the sector as distressed but simultaneously as a growth sector for the future. Some policy signals are still confusing; an extra R300 million has been made available from the Dti's Medium-Term Expenditure budget towards the sector, but Manufacturing Competitiveness Enhancement Programme applications have been closed because of budget constraints. Domestic demand generated from the infrastructure projects is better understood and big efforts are made to make certain that a larger portion of this demand actually come to South African suppliers. There is no clear holistic indication how beneficiation would work, but lots of effort is going into refining the policy stance (on the platinum group metals, iron and steel, and capital equipment. When the gas initiative gains momentum, metals will also benefit.

The short-term survival remains of utmost importance. All indications are that no or meagre growth can be expected for 2016, with hope for a better 2017 as consolation. Many initiatives are afoot to change the medium to longer-term outlook though, and companies should view the current situation as a structural adjustment and strategise accordingly.

Henk Langenhoven

SEIFSA: Chief Economist

The SEIFSA office closes for the festive season

Dear Valued Member/s,

Please note that the SEIFSA's head office in Johannesburg will close from 24 December 2015 and re-open at 08h00 on Monday, 4 January 2016.

Companies requiring urgent assistance during this period should phone the SEIFSA switchboard on (011) 298-9400 for a recorded message that will provide telephone numbers of staff members who can be contacted on their cell phones.

On behalf of SEIFSA,
we wish you joy and happiness over the festive season and a prosperous 2016.

SEIFSA

Steel and Engineering Industries Federation of Southern Africa

OUR PASSION, YOUR SUCCESS

ECONOMIC & COMMERCIAL — EC

SAFETY, HEALTH, ENVIRONMENT & QUALITY — SHEQ

LEGAL

INDUSTRIAL RELATIONS — IR

HUMAN CAPITAL AND SKILLS DEVELOPMENT — HCSD

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