SEIFSA NEWS

M&E industry looks to energy efficiency as erratic supply hurts business

DEFY LAUNCHES SOLAR-POWERED FRIDGES AS PART OF RESPONSE TO SOUTH AFRICA'S ENERGY CRISIS

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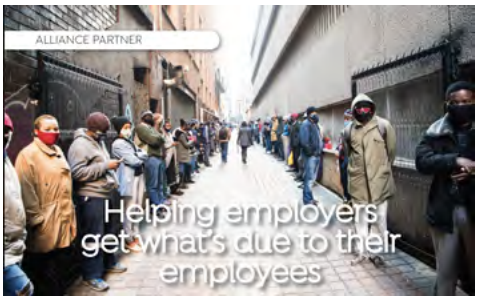

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There was an acute shortage of steel in the local market since last year's lockdown, which affected just about all industries. It is also true that, given that situation, steel prices shot up over the past few months. The reality, though, is that SA was not the only country to be similarly affected. Similar steel shortages were also experienced in other parts of the world and global steel prices increased by as much as 50% on average, given the severe disruptions in steel production

At the beginning of this year, there was a raging debate about the Metals and Engineering sector, but particularly steel, in the columns of Business Day. Although at times it left me with the uncomfortable impression that it was largely driven by emotions and some unstated agendas, nevertheless I welcomed the debate. After all, it is only when things are discussed openly and robustly that we may hope to emerge with some consensus and, in the process, persuade our policy makers to adopt and implement economic policies which are appropriate for present-day South Africa and its challenges.

Eventually I entered the debate with reluctance in order to provide context and to ensure that we all work from the same set of facts. I did so because SEIFSA is an employers' organisation which sits right in the middle of the steel value chain. By virtue of its location in that value chain, SEIFSA – which counts among its members both the primary steel producers, steel merchants and downstream fabricators – has the best interests of the entire sector, and not just some parts of it, as has been the case with some of the participants in this debate.

As members know, this is a very diverse sector of the economy, which has 13 sub-sectors of its own and boasts players with different interests and agendas, some of which are hidden but are often presented as being in the best interests of the entire sector. Therefore, caution is always advised in evaluating some of the wild claims which are made from time to time, in which some intermediaries with interest in making a quick buck through arbitrage may be prominent protagonists.

We at SEIFSA want a prosperous country which boasts an internationally competitive M&E sector, which is of strategic importance to the economy, and we work daily with all stakeholders who have the same objective in mind, be they in government, labour or even other employer organisations. Our approach to issues, then, is more nuanced and less emotional.

My response was triggered by Peter Bruce's column in that newspaper ("Nothing to fear from losing ArcelorMittal", Business Day, 25 February 2021). As a former journalist who once worked with Bruce, I have known him to be a campaigning man who writes with presumed authority on a wide range of topics. Personally, I limited myself to dispassionate commentary on politics, which was the area of my speciality then, and in 2009 I had occasion, during a joint appearance with him on a TV programme, to defend his right to endorse Bantu Holomisa's United Democratic Front for the 1999 elections. As a fellow Editor at the time, I had not endorsed any political party or individual for that election – and never did so during my 15-year stay in that profession, or since.

Over the past seven years during which I have headed this organisation, I also got to meet and know NEASA's Gerhard Papenfus whom, judging from his aforementioned column, Bruce presents as a reliable commentator on the fortunes of this sector. Alas, I know Papenfus as a man who holds strong views on a number of contentious issues and who excels at levelling criticism at everybody – the Government, labour and especially ourselves – in his effort to paint himself as a champion of small business.

Unlike Papenfus and his organisation, we do not believe that solutions to South Africa's problems lie in hankering after some form of the past, nor do we see labour as an inherent enemy. Instead, we believe in constructive dialogue (to the extent that we can have such dialogue) with all stakeholders, including labour, in a joint search for solutions to the myriad of challenges confronting our sector. His oft-repeated mantra is simple: big is a problem, small is good; mutual accommodation is bad, labour annihilation is good; talking to those with whom you disagree is a weakness, but shouting from the rooftops is a strength! If only life were so simple!

Unlike NEASA, we are not selective in our acceptance and use of facts while discarding those we find inconvenient. Although some of the largest players in the M&E sector are among our members, by far the vast majority (66%) of companies affiliated to associations which are members of SEIFSA are small, employing fewer than 50 people. Therefore, we always seek to present the interests of all companies in this sector (or as many of them as possible), rather than a small – and perhaps more vocal – section of them.

So, what were the facts in February 2021 regarding steel shortage, expensive prices and ArcelorMittal SA's role in it? Firstly, SEIFSA believes that a country of South Africa's size and economic development definitely needs a primary steel producer. We do not believe that relying on imports as a solution to the country's steel needs would be wise. Apart from long delivery lead times which would negatively affect the country, economics informs us that, over a relatively short period, the steel imported into the country – whose quality is sometimes suspect – would rise considerably in price from what it was at the time and we would be hostage to the vicissitudes of the international market.

Secondly, it is important to keep in mind that a formally protected industry, which had hidden behind the protective high walls erected by punitive sanctions imposed against apartheid South Africa, was recklessly thrown open to international competition overnight, without being given a chance to gird itself for that competition. It is also worth bearing in mind that most of the countries from which the majority of steel and steel products imported into South Africa originate offer both production and export incentives, in different forms, to their companies. A marginally bankrupt South Africa, which has some of the highest input and administered costs in the world, cannot match those incentives.

Yes, there was an acute shortage of steel in the local market since last year's lockdown, which affected just about all industries. It is also true that, given that situation, steel prices shot up over the past few months. The reality, though, is that SA was not the only country to be similarly affected. Similar steel shortages were also experienced in other parts of the world and global steel prices increased by as much as 50% on average, given the severe disruptions in steel production.

On 24 February 2021 our Chief Economist, CEOs of some member companies and I had a meeting with AMSA CEO Kobus Verster, during which he assured us that steel production should be back to pre-lockdown levels by mid-year and that prices should be similarly adjusted.

Our view remains that, until we are proved otherwise, we continue to accept the bona fides of Trade, Industry and Competition Minister Ebrahim Patel and wait eagerly to make our inputs into the final version of the Steel Master Plan, which we hope will soon be finalised. Like SEIFSA, Minister Patel and his team have to balance the interests of the entire steel value chain, and not only those of the people who happen to make the loudest noise or to have clever connections. That is not an easy job to do, but done it must be.

Kaizer M Nyatsumba

Chief Executive Officer

M&E industry looks to energy efficiency as erratic supply hurts business

South Africa's latest bout of load shedding, along with steep increases in electricity tariffs, highlights once again the long road facing South Africa as it tries to reboot its economy.

Electricity is an essential input for production in South Africa, hence is critical for the competitiveness of the country's industrial performance. Currently, though, it remains one of the biggest obstacles to economic recovery, with a Council for Scientific and Industrial Research (CSIR) report released early last year showing that in 2019, load-shedding cost the economy between R60 billion and R120 billion. A separate CSIR report found that 10% of last year was under load shedding this was despite the COVID-19 lockdown.

For businesses, this erratic power supply is coupled with a nearly 15% electricity price hike for the 2021/2022 financial year. And companies in the energy-intensive Metals and Engineering sector will feel the pressure of constrained supply over the next few years as Eskom and the Government work to bring more power to the grid.

SEIFSA Chief Economist Chifipa Mhango said during the launch of The State of the Metals and Engineering Sector Report that since 2016, companies in the industry had been seeing a discouraging trend of generally decreasing price patterns in intermediate manufactured goods, but rising input costs, including high electricity prices which has negatively impacted on local producers' operations.

But some companies in the industry are trying to take the power crisis in their stride.

ArcelorMittal South Africa (AMSA) and Duferco Steel, though cognisant of the impact of power disruptions on their operations, have opted to focus on energy efficiency initiatives rather than turn to renewable energy, with Duferco Marketing Manager Nico van Wyk saying that Eskom is on the right trick with its interventions. He said, however, that in the short term, the power utility should stabilise output from current facilities.

AMSA too has no immediate plans to get off the grid. In August last year, there were reports that primary steel producer had invited IPPs to submit project proposals for solar parks with a minimum size of 10MW for six sites in the country.

AMSA CEO Kobus Verster told reporters at the time that the company aimed to introduce renewable energy into its energy mix to significantly reduce the price of electricity and ensure a stable and secure supply of electricity for its operations.

But speaking to SEIFSA News, Group Manager of Stakeholder Engagement and Communications Tami Didiza said while access to affordable and stable electricity supply is critical to ensuring the sustainability AMSA's South African operations, alternative energy sources are not feasible at this time. Instead, the company is focused on reducing its energy usage and improving efficiencies. "There are several energy efficiency projects across AMSA's plants and the company will continue to valorise off-gasses and waste heat to increase its own internal co-generation of electricity," Mr Didiza said.

ENERGY EFFICIENCY MAKES BUSINESS SENSE

Barry Bredenkamp, the General Manager Energy Efficiency at the South African National Energy Development Institute (SANEDI), said that it makes sense for companies to explore and address any energy savings potential within their facilities, no matter how big or small.

Responding to questions from SEIFSA News earlier this year, Mr Bredenkamp said the logical next step would be to take as many parts of the facility "off grid" through the installation of renewable energy technologies, such as solar panels with battery storage.

"The International Energy Agency (IEA) is firmly of the view that Energy Efficiency is the 'first fuel' and that all energy efficiency interventions first be adequately addressed, before taking the next big step towards going off the grid. This will allow for the specification of a smaller (and cheaper), fit-for-purpose solar installation to meet the company's energy efficient demands and together, this will save the company a lot of cash in the process," Mr Bredenkamp said.

"Technologies across the spectrum, from lighting to motors and pumps, and everything else, are evolving at a rapid rate and need to be embraced, to ensure maximum benefit and cost savings. All of this is being further accelerated by the underlying transition towards digitalisation, where all technologies and devices are easily integrated and connected, through the installation of sensors and other advanced technology interfaces, which are making it easier to track and monitor energy consumption and to synchronise processes within plants, to allow for maximum efficiency and savings," he said.

It appears that companies are heeding the call to be more energy efficient. "We at SANEDI have seen a huge uptake in energy-efficiency projects in multiple industries over the past three to four years, through the variety of applications received for the Section 12L Energy Efficiency Savings tax incentive," he said.

"Similarly, the energy efficiency component of the Section 12I manufacturing tax incentive has seen a lot of new and innovative energy efficient technologies being installed, in an effort to keep South African industries more resilient, environmentally conscious and internationally competitive," he said.

Fortunately for business, being energy efficient as not as costly as many businesses assume. "The prices of most technologies are reducing drastically, due to more improved design and manufacturing costs, as well as economies of scale due to the recent uptake of these technologies, to combat rising energy costs and to address pressing environmental concerns, such as the implementation of the Carbon Tax in South Africa in 2019. This, coupled with the rapidly increasing cost of energy in the country, is making simple Return on Investment calculations much more attractive and energy efficiency interventions a lot easier to motivate for investment from capital budgets," he said.

Mr Bredenkamp said SANEDI is committed to supporting energy efficient drives as part of its mandate. "SANEDI fully embraces the concept of forging partnerships with other key stakeholders within the energy industry, both locally and internationally, to seek and offer world-class energy efficient solutions to industry, which includes working with manufacturers, technology solutions providers, financial institutions, government agencies, Energy Service Companies (ESCos), tertiary institutions and many other," he said.

In direct support, SANEDI administers and offers the Section 12L Energy Efficiency Savings tax incentive, as well as a Technical Assistance Facility (TAF) for potential customers wanting to make use of the AFD-funded SUNREF "green credit facility" at the Industrial Development Corporation.

SANEDI is also working with the Department of Mineral Resources and Energy, the German Development Agency, the World Bank, the ESCo Association of Southern Africa and others, to develop a more robust ESCo-market in South Africa, based on global best practice, to stimulate the demand for these professional energy efficiency services in both the public and private sector, which could potentially lead to a significant increase in jobs in the sector," he said.

Defy launches solar-powered fridges as part of response to South Africa's energy crisis

As the cost of electricity continues to rise and load-shedding becomes par for the course in South Africa, energy efficiency and alternative sources of power are increasingly becoming priorities for businesses and homes in South Africa, with several companies finding a gap in the market to respond to these needs.

One such company is Defy, one of South Africa's oldest electrical appliance manufacturers, which earlier this year launched a range of Solar Hybrid appliances.

"Over the years, the cost of electricity has increased by more than five times in South Africa. The new Defy Solar Hybrid range – comprising a fridge and freer – uses a combination of electricity and solar energy, reducing electricity consumption," the manufacturer said on its website. "The product range is game changer by lowering energy costs by up to 44%," it said at the launch of the range earlier this year.

The products connect directly to solar panels and the electrical grid and work off solar during daytime and prioritises solar energy and runs off-grid when there is no sunshine. No inverters or batteries needed.

Evren Albas, CEO of Defy Appliances, said there are two challenges facing South Africans almost daily. These are access to a reliable – and affordable – source of power; and unnecessary food spoilage due to lack of proper storage, and again, lack of a reliable and continuous power supply. "We decided to do something about it and developed our Designed for Africa Solar Hybrid range that makes use of Africa's most abundant resource – sunshine," he said.

Importantly, Defy decided to make the solar fridges affordable to more South Africans, with the fridges costing less than R6,000 each.

"Traditionally, solar refrigerators are high-cost items and require expensive batteries or inverters," explained Albas. "However, the Solar Hybrid range provides a built-in intelligent electronics solution aimed at providing this innovative technology to a wider market at an affordable price to help save on electricity costs. This while at the same time making it easier for more people to live a greener life by increasing sustainable solar power usage," he said.

"The rising cost of electricity coupled with disruptions in power supply such as loadshedding and lengthy unplanned power outages are affecting everyone in Africa," Albas said. "It is these challenges that inspired us to democratise the cost of solar products to make this innovation available to more communities."

Defy marks the launch of their Solar Hybrid range as a social innovation, just one step in the long journey towards a more sustainable Africa where technology is more readily available to all consumers.

"As a technology-driven brand, we prioritise investment in solutions that have a direct impact on the lives of our consumers. Our brand purpose, which is 'pioneering our future together', is our North Star to bring more innovations to positively transform social and economic challenges in the markets that we operate in South Africa and the rest of Africa," concludes Albas.

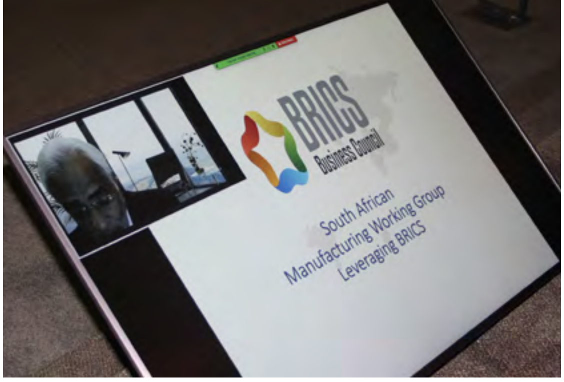
BRICS Grouping is an opportunity that should not be wasted

South Africa's membership within the BRICS alignment is an opportunity that should not be wasted if the country is to turn around its strained economy. This was the key takeaway at the BRICS Manufacturing Conference that took place at the end of March at the IDC Auditorium in Sandton, Johannesburg.

The conference, sponsored by the Industrial Development Corporation, AMKA Products, Aquelle and Rand Mutual Assurance, was well attended by manufacturing stakeholders from Government, business and civil society and became a platform for lively discussion on how to revive and stimulate the manufacturing industry, in particular, as it is a key driver of the economy.

"There is no doubt for a declining economy like ours, manufacturing is the one segment that can turn the fortunes of the economy around because of its multiplier effect, Dr Stravros Nicolaou, Senior Executive of Strategic Trade of Aspen Pharmacare and a member of the BRICS Business Council in South Africa, said at the conference during a discussion on how business can better leverage South Africa's membership in BRICS.

He said South Africa has many levers to grow manufacturing in the country, such as tax allowances and local content designation, but they are not being applied effectively. Still, he said, there remains a significant opportunity for the sector through South Africa's membership of the BRICS alignment, using the BRICS Business Council as a platform for facilitating trade and investment among the member countries – Brazil, Russia, India, China and South Africa.



Mr Nicolaou gave the practical example of the COVID-19 crisis that had seen increased unilateralism, which had resulted in vaccine nationalisation.

With South Africa having been caught at the tail end of the vaccine race, Mr Nicolaou said South Africa is better off collaborating with its BRICS partners to access vaccines. "While it is good that we can access Russian and Chinese vaccines, we should use our own manufacturing strength to produce components of vaccines with our partners," he said.

He said South Africa's membership in BRICS had assisted the country to access from India drugs that could possibly help in fight against the virus. India had imposed export restrictions on those drugs last year, but when those were lifted, South Africa was able to unlock a percentage of product.

MWG deputy chairman, Nizam Kalla, who is also the Managing Director of AMKA, provided his interpretation of the role of the MWG, saying its role is to reimagine the South African manufacturing industry by networking on a global basis and collaborating with international partners. He said the industry needs to be seen as a sunrise, not sunset industry, with Government and business working together to take advantage of opportunities to trade with BRICS countries.

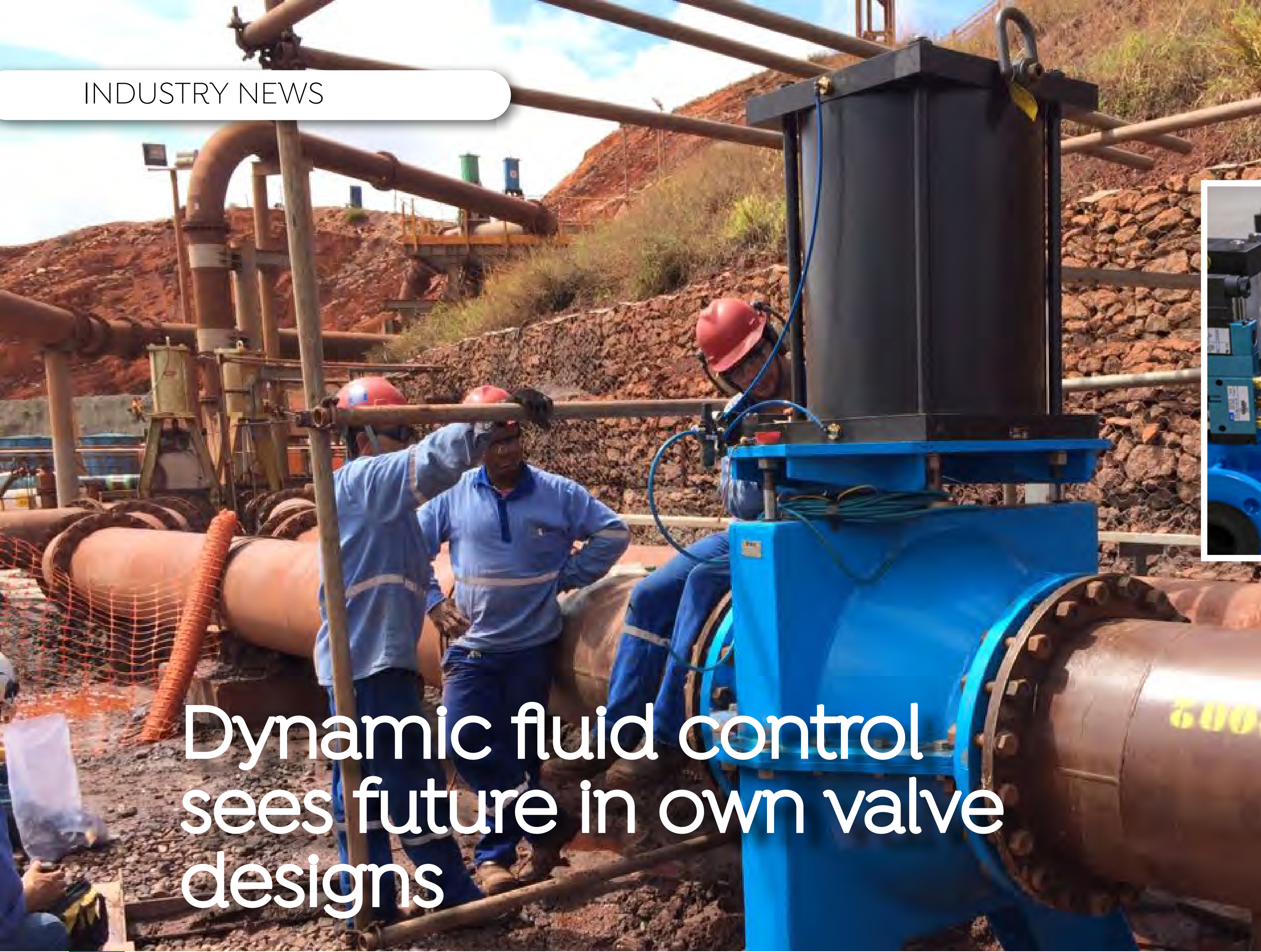
Opportunities for collaboration were highlighted in a session that provided feedback on some of the MWG's key projects. The medical clusters project, for example, would allow the pharmaceutical industry to manufacture components of drugs manufactured by BRICS member countries. The exponential manufacturing project allows South Africa to focus on new technologies to create 10 transformative industry leaders within the BRICS alignment, while Special Economic Zones, designed to stimulate job creation by creating entrepreneurship opportunities, offers incentives for potential investment by BRICS companies.

However, there was a call for caution. Government intervention was welcomed and encouraged at the Conference, with Minister of Trade, Industry and Competition Ebrahim Patel extending a helping hand during his opening address. He said is willing and ready to enable competition flexibility to assist the local manufacturing industry too woo investors from BRICS countries.

However, Pierre Voges, Acting CEO of the Atlantis Special Economic Zone (SEZ), said while Government support in the form of tax incentives and other state interventions was important, the State needed to eventually stand back and let the industry stand on its own.

Speaking during a panel discussion focusing on some of the planned new SEZ programmes in the country, Mr Voges said that too much government intervention would lead to the private sector holding back investment.

The conference ended on a positive note, with the speakers recommending continued engagements on platforms such as the BRICS Business Conference to spur conversations on how to grow the economy.

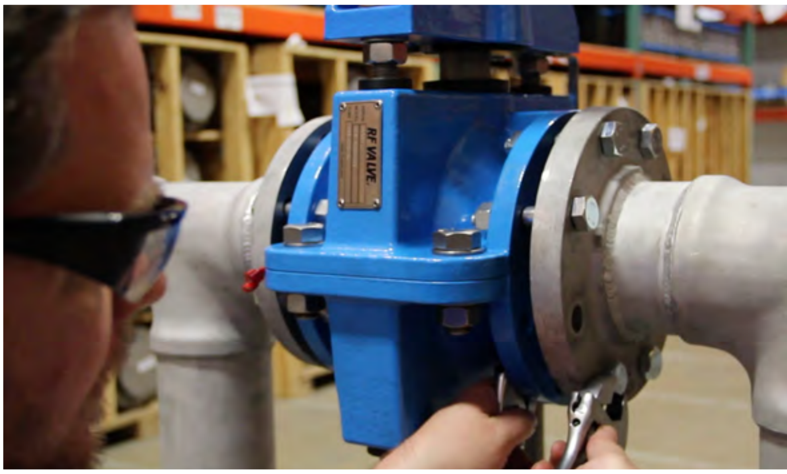


Dynamic fluid control sees future in own valve designs

Dynamic Fluid Control, a 100% black-owned and managed manufacturer of valves for the water, effluent and mineral processing industries, is urging water utilities to seek out public private partnerships to modernise and expand their water and sanitation infrastructure and improve the efficiency of water systems. The Benoni based manufacturer employs over 300 staff and currently exports products to 129 countries.

While water covers 70% of the surface of the planet, only 3% of this is suitable for human consumption and irrigation. Of this, two-thirds is effectively unavailable and mostly locked in frozen glaciers. Of the remainder that gets piped to homes globally, about 35% to 60% is lost to leaks. In South Africa, 1.1 million litres of expensive treated water are lost annually, some of it to leaks on the country's 290,000km of underground infrastructure.

"Leaks are a great equaliser and it is not just a third world problem," Tumi Tsehlo, CEO of DFC, said. He said development actors need to come together to find ways to minimise water losses, build efficiencies in the distribution systems, and improve existing technologies.



He said many people took water for granted and this was highlighted in 2017, when drought-ravaged Cape Town nearly became the first country in the world to run completely dry. Mr Tsehlo said the burden of making sure that this does not happen again largely depends on the Government's ability to cut down on water losses and promote responsible usage.

"DFC is open to sharing its expertise with the Government and other role-players in water and collaborating on developing technologies tailored to driving distribution efficiencies. The main priority is to get water utilities to audit their systems and install and upgrade valves where needed. Valves on the network don't get much credit," he said.

Managing water pressure in one of the most cost-effective leakage management strategies. The higher the pressure, the more water lost through bursts or leakages. Most pipe bursts occur not only because of high pressure, but rather due to ongoing pressure fluctuations forcing the pipes to continuously expand and contract, resulting in stress fractures.

Valves play a critical role in water distribution systems for flow or pressure control and subsystem isolation. Subsystem isolation is key to repair and rehabilitation of broken sections of the network and can be done by shutting off valves. The efficient placement of valves improves the reliability of water distribution systems and can limit the loss of non-revenue water (NRW). NRW is not used or paid for, affecting local economies as well as local resources. Some of DFC's critical valves installed on the country's water distribution infrastructure have proven their reliability and continue to deliver a return on investment even after more than 20 years.

"We are not satisfied being a manufacturer of world-class products. We believe strong design can be at the heart of both disruptive and sustained commercial success and will be the focus of our investments over the next few years," said Mr Tsehlo.

"With over 70 years of experience in manufacturing valves we understand the needs of the water sector. Our design team is currently engineering valves that can limit water losses while upholding the best conditions for the network, provide state of the art water control and is homegrown offering compelling competition to imported alternatives that neither contribute to the local economy or job creation."

Following years of despair, the outlook for manufacturing in South Africa is looking more optimistic. Global supply chain disruptions due to COVID-19 accelerated the trend toward increased domestic manufacturing. ABSA's latest Purchasing Managers' Index (PMI) rose to 53.0 points in February from 50.9 points in January, remaining above the 50-point mark signalling an expansion of manufacturing activity in the country.

"While the uptick in manufacturing output is welcome, we need manufacturing to also favour South African ingenuity. At DFC we are fundamentally relooking at the way our products are designed, putting a premium on innovation and training workers to move up the value chain," Mr Tsehlo said in conclusion.

It's time SA had a serious talk about rail

By Mesela Nhlapo, CEO of the African Rail Industry

Mesela Nhlapo

As President Cyril Ramaphosa highlighted in his presentation of the Economic Reconstruction and Recovery Plan (ERRP) to parliament in October last year, rail lies at the heart of reviving South Africa's economy. In fact, the Government's move to introduce third-party access to the country's railway network is one of the most significant policy developments in recent years.

Finance Minister Tito Mboweni is clear: rail has supported the economy for decades. Now, with infrastructure needing repairs or replacement, partnerships with the private sector and other players are critical.

Rail has long been the backbone of the South African logistics and transport value chain, and will become even more critical in a post COVID-19 environment. It is cheaper, cleaner and more efficient than road transport, and lends itself to carrying cargo in a sanitised, minimal-contact environment.

The case for rail, we believe, is clear and compelling. Rail remains the most viable option for the transportation of freight like grain, automotive components and fully built car units and minerals. It will reduce road congestion, and free our roads up to carry commuter traffic and sensitive cargo like perishables and cold storage items.

Rail infrastructure has been a neglected area of infrastructure investment for decades. It has lagged behind in areas such as energy, which has seen the construction of new power stations, and has had to compete with other infrastructure sectors for investment.

In the meantime, the continent is looking to South Africa for leadership. At the African Union's 24th ordinary session in Addis Ababa in 2015, South Africa was identified as a manufacturing hub for railway and rolling stock equipment. The formation and operationalisation of the African Continental Free Trade Agreement of the African will require the support of a vibrant rail sector to be fully realised. It is time for us to lead.

At the African Rail Industry Association (ARIA), we're busy engaging government to restart an overdue conversation about railway infrastructure. ARIA represents a range of rail industry stakeholders, including original equipment manufacturers, rail component manufacturers, operators and services companies.

ARIA's proposal is to create a formal structure, the Rail Advisory Committee (RAC), which would bring together the rail industry, government, development and the private finance community, as well as labour and the skills development and training fraternity.

The RAC would support government's efforts in areas to shape policy and legislation to guide the evolution of rail operations and safety standards. It would address legacy issues affecting the size and structure of the rail industry in South Africa, and obstacles to the growth of the industry. It would boost Transnet and the Passenger Rail Agency of South Africa's ability to drive economic growth and transformation. It would assist in ensuring freight's third-party access to Transnet's network, which is a key element of government's Economic Reconstruction, becomes a reality.

It is time to get all stakeholders around the table to get our rail industry driving our economy forward. It is a conversation we cannot afford to delay.

INDUSTRY REPORT BACK: SEIFSA ENGAGES WITH AMSA ON STEEL SHORTAGE

As the voice of employers in the Metals and Engineering (M&E) sector, SEIFSA has been tirelessly engaging with the Government and other relevant parties to find solutions to the challenges the sector is experiencing as a result of not only the COVID-19 pandemic and the national lockdowns to curb its spread, but also the now seemingly perennial challenges faced by many businesses, such as the high cost and unreliability of South Africa's power supply, reduced demand for our products and rising imports.

In February, SEIFSA was made aware of a critical shortage of steel in the country being experienced by its member companies and decided to engage with key primary steel supplier ArcelorMittal South Africa (AMSA) and the Government through the Department of Trade, Industry and Competition on how to resolve this challenge.

Following a poll among member companies that revealed the depth of the problem, SEIFSA assembled a committee comprising SEIFSA CEO Kaizer Nyatsumba, SEIFSA Chief Economist Chifipa Mhango, DEFY CEO Evran Albas, Reinforcing Steel Contractors Shareholder and Operations Director Ernest E Volschenk, and Structa Group Director Carlo Martemucci. The committee met with AMSA CEO Kobus Verster on 24 February 2021 at the primary steel producer's head office in Vandebijlpark.

Following a fruitful engagement, these were the key takeaways:

Steel matters – and South Africa needs a primary steel producer

Steel is a significant and integral part of the industrialisation process and is important in infrastructure development for any economy. Having a primary steel producer in our own economy works to the advantage of the economy, hence the presence of producers such as AMSA is very key. It takes away the frustration of importing; on average, it can take up to three months for stock to arrive in the country, despite its origin.

Lockdown restrictions affected operations at AMSA

During lockdown level 5 in March 2020, production was completely halted. AMSA had to switch off its furnaces. As lockdown restrictions were eased, production resumed. However, a blast furnace is not like an oven – when it is switched back on, it takes six to eight weeks to heat up again. This caused supply problems for AMSA as demand outpaced supply as feeder market segments in the downstream also resumed operations under more relaxed lockdown levels later in the year.

Local steel is subject to global prices

A key fact about steel prices is that these are internationally priced. Globally, steel prices increased by almost 50% during this period. This trend is similar to that of most commodity prices. AMSA's prices are monitored by the Government as part of the agreement entered into when import tariffs were initially put in place. The price basket of countries being followed by the primary steel producer has a formula, and the factors have followed international price trends.

Supply will normalise

Normal supply of flat steel products will be achieved by the end of March as AMSA has ramped up production to address the lag caused by the lockdown. Regarding long steel, the blast furnace is currently under maintenance. Supply will return to normal by June.

AMSA confident that it produces quality steel

The quality of steel being supplied by AMSA meets SABS compliance standards and has been tested on key national projects.

Communication channels are open

AMSA said it communicates regularly with its customers through its sales and marketing team. Since customers had forecast low demand during the lockdown period, ArcelorMittal South Africa had accordingly reduced production capacity.

Why not import from AMSA's global operations?

Lockdown measures are not unique to South Africa. Other countries are facing supply constraints similar to South Africa's. At this stage, there is no extra capacity in the producer's global operations. Even if there was the possibility to import, this would not address the challenge as on average, the waiting period for imports is three months.

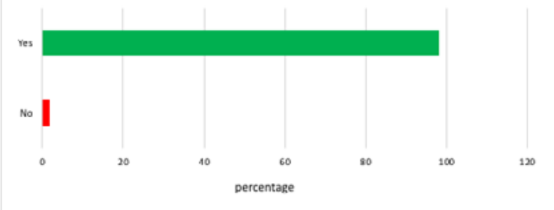
Conclusion

SEIFSA is encouraged that AMSA is committed to resolving its supply challenges by ramping up production to address the backlog. The company has will keep the industry informed on the progress being made to deal with the steel shortages.

Steel shortage survey and

1 Has your business experienced any shortages of steel?

98.5% = Yes
1.5% = No



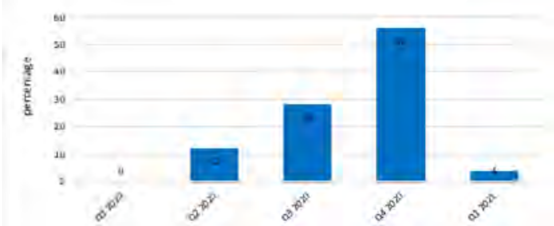
According to survey results, 98.5% of the respondents indicated that they had experienced shortage of steel, with only 1.5% indicating no.

2 If yes, which steel products have you experienced a shortage of?

The steel products varied from flats to long steel, with the dominant steel products in short supply being galvanized products, hot rolled steel, cold rolled steel and sheets, among others.

3 When did you experience this shortage?

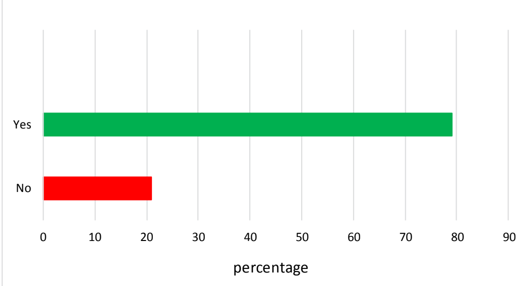
56% said on Q4: 2020



The majority of member companies who responded (56%) said they had felt the biggest impact of the shortage in the fourth quarter of last year. It is to be noted that this increased demand was as a result of relaxed lockdown measures, with the demand exceeding ArcelorMittal South Africa's supply, as the primary producer had not resumed its blast furnaces to full capacity.

4 Did the supplier communicate the reasons behind the shortage of steel products?

79.1% = Yes
20.9% = No



According to the survey results, 79.1% of the respondents indicated that the supplier had communicated on the shortages of steel amid the regular engagements with the Sales and Marketing team at ArcelorMittal South Africa, with 20.9% indicating no communication from the supplier.

5 What has been the impact of the steel shortage on your business?

Over 40% reported disruption

The impact on businesses varied across companies. However, the disruptions caused to the production was evident. Over 40% of the respondents indicated major disruptions in production, supply and lead times. There were also companies that opted to retrench their workforce.

responses

6 What has been your approach in addressing the shortage for your business?

A number of companies took some strategic decisions to deal with the shortage of steel. These decisions included the following actions:

- Buying extra stock;
- Using alternative steel, where possible;
- Importing steel, even though tariffs were high;
- Increased stock holding;
- Manufacturing with available material;
- Extensive networking for alternative supply;
- Prioritising production;
- Used alternative sources, but at high cost;
- Reduced confirmed order supply;
- Increased stock on hand (intermediary parts and raw materials);
- Overstocked;
- Absorbed price increases; and
- Product design changes.

7 If you had the opportunity to engage with your supplier, what would be your proposal to find a solution to this shortage?

Several proposals were put forward to the supplier in dealing with the shortage. These proposals included:

- Suppliers should source material overseas;
- Regular maintenance of furnaces;
- Local production must be able to satisfy local demand;
- Be competitive;
- Increase production; and
- Offer reasonable stock prices.

8 Do you have any other comments that need attention with regards to the steel industry?

- In the responses by companies on other matters that need attention, the following stood out:
- The quality/output of ArcelorMittal South Africa is getting worse and needs more attention;
- Regulation needs to be fair and create a competitive market;
- The issue of steel shortage requires urgent attention since it is opening doors for international competitors;
- Transformation of the industry is required to increase the participation of small to medium enterprises;
- The critical shortage of material will be the single biggest cause for medium-sized companies to close down, since South Africa experiences a monopoly in the supply of material;
- The steel industry has promised to make up the supply shortfall, but so far this has been unsuccessful;
- Either create incentives for the industry to get cheaper steel or for exporting local manufactured products;
- More companies want to purchase products that are manufactured in South Africa rather than importing them, but the Government does not incentivise them to do so;
- Government needs to intervene to assist in boosting the economy by keeping manufacturing in-house;
- The unstable increases of steel prices need to be addressed;
- The impact on mining customers' needs should also be addressed urgently;
- Clear communication to help define future risk is required;
- Steep price increases, coupled with uncertain supply, are simply the issue at hand;
- Employee costs appear to be the highest of all industries in South Africa;
- Enormous steel prices increase should be addressed; and
- Improving manufacturing capacity and competitiveness.

9 If you had the opportunity to engage with the Department of Trade, Industry and Competition (DTIC), what would be your policy suggestion around the steel shortage?

Suggestions being proposed to the DTIC are the following:

- Remove import duties and levies;
- DTIC to engage all stakeholders and plan how to keep the steel supply constant in South Africa;
- Afford opportunities of alternative sources of supply;
- Allow imports and keep pricing in the market competitive;
- Open more local mills;
- Curb steel import flood from China; and
- Ensure that the local steel industry has proper sustainable plans to upgrade to new technology to reduce steel production price.

Sources:

SEIFSA Survey February 2021

Get the **right type of funding** for your business

By Ben Volkwyn

The world has been going through quite a tumultuous time. Largely due to the global pandemic, we find ourselves isolated and with little room to grow. We have seen large global contractions, across the board. Current forecasts on global growth have been revised lower and according to the latest World Bank estimates, it is expected that the world economy would contract by 5.2% in 2020. That is the baseline case.

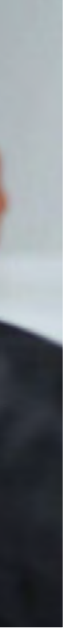
When the focus shifts to South Africa we find that the contraction is even grimmer. The latest figures by the United Nations Development Programme expects the South African economy to contract by at least 8%. Furthermore, the report highlights that without significant intervention it could take South Africa at least five years to return to pre-COVID economic levels.

Looking through the dire numbers we do find that there has been a sharp increase in South Africa's Absa Manufacturing Purchasing Managers' Index (PMI) numbers. These numbers capture business activity, new orders, employment, supplier deliveries as well as inventory levels. Any value above 50 would indicate an increased level of activity. As seen in the chart below the PMI rose sharply to 57.3 in August of 2020 from 51.2 in the prior month and is now well above pre-pandemic levels. This is mainly attributed to the easing of restrictions. Business sentiment hit has also risen to the highest in 18 months.

Beyond all the doom and gloom, companies are still producing and some even have intentions of expanding their business activities. The question is where to obtain funding and how to position oneself during the current landscape.

Funding is a necessity for early-stage, growth-stage as well as the established-stage companies. The application of the funds may differ significantly, however, the means of obtaining the funds are closely related. There are various types of funding beyond the use of personal savings and loans from family and friends.

Each of these funding types will come with its advantages and disadvantages and it is imperative to add expert advice to your research and implementation process. The requirements might have become more stringent and investors are taking a second look before pulling the trigger, however, that does not mean there is not a solution that fits your needs.



The funding types available include:

- **Bank loans**

These are conventional bank loans. These loans often require the owners to show current profits, revenue sources as well as a detailed business plan. They are usually limited to businesses that can prove a strong financial position. In most cases, loans require security in the form of qualified assets. The loan would be only a fraction of the asset value. Over the last decade, the metrics have become more stringent and have moved beyond the grasp of most start-up business ideas. For more established businesses this might be a good alternative as this would allow for predictable fixed payments and could also include an extended payback period.

- **Government incentives, loans, and grants**

Many countries globally offer business incentives to try and stimulate their economies. South Africa offers a wide variety of narrowly defined programmes. These programs range from agro-processing all the way through to special COVID-19 relief funding. These funding mechanisms require well-documented processes and financial implementations. They can require five-year financial forecasts, detailed business plans, and guaranteed offtake agreements. Obtaining expert advice could greatly enhance your application.

- **Angel Investors**

These types of investors are typical high-net-worth individuals (HNWI). They lend their funds with the anticipation of obtaining an ownership stake in the business. Most angel investors are well versed in private equity and would require current financial statements or forecasts, a detailed business plan, and a possible exit plan. The investors are usually attracted to businesses that have high growth potential and offer easy exit opportunities. These high growth and exit requirements are usually expressed as multiples or IRR values. From our experience angel investors have different targets with the average investor aiming at an IRR of 25% or a multiple of 3x investment over 5-years.

- **Private Equity**

Private Equity is usually structured around a fund. The fund is pooled from both institutional and accredited investors. The general partner of the fund then manages and executes the investments of the fund according to the fund's mandate. It could be quite tedious to find the right fund to match with your business. Getting an expert opinion that is familiar with the process and available funds could be your fastest root in leveraging this fund-type. Experts tend to have built relationships with these funds and have a better understanding of the various fund mandates.

- **Venture Capital**

Venture capitalists are very similar to angel investors. They are also more focused on start-up businesses with high growth potential. This type of funding is more organized than angel investors in the sense that HNWI funds are pooled and managed by the firm. Some venture capital firms also tend to lend technical or managerial expertise. These companies will offer aggressive terms and will in most cases expect regular feedback on progress.

- **Crowdfunding**

It is the youngest type of funding source and leverages social media to obtain awareness. The promotion of the funding usually occurs on an online platform and allows investments to flow from family, friends, strangers, and businesses. This is a unique form of obtaining funds and is not a form of funding that is suitable for most businesses. One of the largest hurdles in this mechanism is regulatory requirements.

It is critical that you understand each type of funding. These investments can have long-lasting effects on your business and the growth that it can sustain.

VennCap offers access and assistance to all types of funding solutions. We pride ourselves on the relationships we have built and the quality of products we offer both businesses and investors. Feel free to contact one of our experts for more information.

SEIFSA has partnered with VennCap Business Solutions to assist companies to successfully secure financing for their businesses. For more information or assistance on funding, please contact info@seifsa.co.za

Helping employers get what's due to their employees

With the implementation of the TERS (Temporary Employer/Employee Relief Scheme) during the lockdown period last year, there were numerous adjustments made by the Department of Employment and Labour. These adjustments were made as a result of the immediate implementation of the online TERS system, which needed to be tweaked and amended in order to build in various security measures. Unfortunately, the result was that many employers were unable to keep up with the changes, resulting in a significant number of employees' TERS claims left unprocessed and unpaid.

With many TERS payments still stuck, Niche Consulting Services has partnered with SEIFSA to provide a TERS claim resolution service for employers.

"Niche Consulting Services is able to go into the TERS system, investigate what the actual issues are around the non-payment of the claims, and then make the necessary adjustments and corrections. This ensures that claims already logged in the system are processed for payment," said Niche Consulting Services Director Paul West.

As a SEIFSA Alliance Partner, Niche is committed to assisting both member and non-member companies with their TERs payments. It will only charge employers upon successful resolution of the claims.

"The process is sometimes tricky to navigate and the requirements can be complex, however our small but dedicated team have almost a year's experience and our success rate speaks for itself," said Mr West.

"We are committed to ensuring that companies are able to remain operational and sustainable, and that employers and employees that had their revenue streams affected by the lockdown are remunerated according to the TERS payment guidelines," he concluded.

For more information on the TERS resolution service, please contact Paul West at paul@nicheservices.co.za for a no-obligation consultation.

ACCREDITED TEMPORARY EMPLOYMENT SERVICE PROVIDERS

Accredited Temporary Employment Service Providers as at 08 March 2021

- Adcorp Blu a division of Adcorp Staffing Solutions (Pty) Ltd
- Adcorp BLU a div of Adcorp Workforce Solutions (Pty) Ltd
- Alos Business Solutions (Pty) Ltd
- AMT Placement Services
- Bathusi Staffing Services (Pty) Ltd
- CAP Personnel Placements (Pty) Ltd
- CDR Contracts (Pty) Ltd
- Eduardo Construction (Pty) Ltd
- EFS Labour Consultants cc
- ESG Recruitment cc
- Fempower Personnel (Pty) Ltd
- Gee 2 Kay (Pty) Ltd
- Impact Human Resources
- International Task Labour cc
- Ithemba Langemphela
- JLH Group (Pty) Ltd
- Lavoro Matkri (Pty) Ltd
- Lekang Projects & Security Services cc
- Mabhele and Associates cc
- Madobra (Pty) Ltd
- MECS Growth (Pty) Ltd
- Molapo Quyn Outsourcing
- On Time Boiler And Engineering Support Services cc
- Phakisa Holdings (Pty) Ltd
- Phakisa MSP (PTY) Ltd
- Primeserv Denverdraft (Pty) Ltd
- Primeserv Staff Dynamix (Pty) Ltd
- Quyn International Outsourcing (Pty) Ltd
- Scribante Labour Consultants (Pty) Ltd
- Sindawonye Services
- STAFFATACLICK (PTY) LTD
- Themba Njalo Camden
- Tributum Emawi (Pty) Ltd
- Vusithemba Mpumalanga
- Workforce Staffing (Pty) Ltd

China's crude steel output to peak around 2025, says State consultancy

China's crude steel output will peak at around 1.16 billion tons in 2025, when carbon emissions in the sector will also reach a peak, a government consultancy said in late March.

The steel sector accounts for 15% of China's total greenhouse gas emissions, making it a key focus after President Xi Jinping pledged last year to pass the peak of China's carbon emissions in the next 10 years.

"The output figure is just an estimation, but it's a trend," Li Xinchuang, chairman of the China Metallurgical Industry Planning and Research Institute told an industry conference in Beijing.

By 2030, carbon emissions in the steel sector is forecast to fall by 30% from its peak, and the industry aims to cut emissions by 420 million tons.

"The target is very challenging," Li said, adding that state-owned mills should take the lead.

China's top two steelmakers China Baowu Steel Group and HBIS Group had set individual goals to reach carbon emission peaks in 2023 and 2022 respectively.

The industry should change its "northern steel shipping to southern market" situation and largely cut long-processing steel capacity in the Beijing-Tianjin-Hebei area, according to Li.

He also suggested improving raw material structure and developing low-carbon technology, "hydrogen metallurgy and reducing costs are key points".

China churned out 1.065 billion tons of crude steel in 2020, accounting for 57% of the world's total output.

Source : https://www.hellenicshippingnews.com
www.metaljunction.com

Nigeria
SON orders removal of substandard steel products

The Director General of the Standards Organisation of Nigeria (SON), Mr. Farouk Salim, has ordered manufacturers and importers of steel products to evacuate fake and substandard steel products in Nigerian market and prepare themselves for harmonised steel standard across West Africa.

Salim noted that the required Nigerian Industrial Standard (NIS) 117 must be adhered to because steel products are key materials used in building bridges and must pass the quality threshold to safeguard lives and property.

He also revealed that steps were underway to harmonise standards for steel production across West Africa sub-region to avail steel manufacturers the opportunity to produce and export to different countries within the region.

He added: "We want to also warn that any steel manufacturer caught circumventing quality assurance requirements will be prosecuted in line with the SON Act 14 of 2015.

"We are giving this warning because the life of every Nigeria is important; any product that will destroy lives and property is not worthy to be in the Nigerian market."

The director general also stated that compliance to quality and standards would guarantee local and international patronage of Nigerian steel products.

"I understand that the steel manufacturers undermine one another through the production of substandard steel reinforcement bars under the name and code of rival firms and competitors.

"Such act is not acceptable and it is to the detriment of the unsuspecting end-users who buy and use the products.

"We also warn you to desist from tampering with any consignment put on hold by officials of the agency for suspected infractions during investigation and quality verifications, such acts by anyone in the steel or other sectors will attract the wrath of the law," he warned.

Salim also warned that the agency will stop at nothing to bring sanity to Nigeria's steel sector as the federal government has been working tirelessly to support and expand the exportation of steel products in order to improve the country's foreign exchange earnings.

"We are assuring genuine manufacturers of SON's resilience and doggedness to protect local production from unfair competition.

"We urge manufacturers to imbibe the culture of self-regulation and monitoring, it will help to prevent standards infractions," Salim added.

He recalled that the federal government through the Federal Ministry of Works and Housing and its Transportation counterpart recently directed SON to commence calibration of all axle load weighbridges in Nigeria as part of measures to protect the roads from excessive loads by cargo trucks and trailers. - Dike Onwuamaeze

Source: www.thisdaylive.com

China – Tangshan steel curbs could have ripple effect on steel, iron ore

The recent curbs on steel making by the local government in one of China's largest steel-producing cities, Tangshan, may have a cascading effect on steel procurement and demand, as well on iron ore supplies, some experts believe.

The Tangshan restrictions are in effect from 20 March to 31 December 2021. Among other things, the restrictions penalise steel mills there that fail to meet emission control regulations.

The curbs are in line with China's fresh efforts to cut emissions meet carbon-neutrality targets. China aims to reach carbon neutrality by 2060.

Already, iron ore prices felt effects from the restrictions. Meanwhile, the long-term effect on the import-export of steel from China remains to be seen.

Daily iron ore consumption in Tangshan is also likely to drop drastically. The restrictions had led to the drop in iron ore futures but boosted hot-rolled coil (HRC) futures.

Seven Tangshan mills have been asked to lower emissions by 50% between now and June 30 this year, followed by another 30% cuts from July 1 until the end of the year. Sixteen other mills have also been told to cut down their emissions by 30% from now till the end of the year. Meanwhile, Shougang Qian'an Steel and Shougang Jingtang Steel plants in the region received exemptions.

Experts in China, India and Vietnam say the move will reduce pig iron output and deplete HRC supply in China. The Hellenic Shipping News quoted an analyst from research firm Care Ratings as saying the reduction could lead to a short-term drop in China's iron ore consumption. Overall, though, on iron ore, opinions seem to be divided on the aftermath of the Tangshan restrictions.

China's iron ore imports during January-February 2021 were up 5 million tons to 181.5 million tons compared with the same period a year ago, according to the report.

Others in China say the production cut could lead to a drop in pig iron and iron ore demand this year.

Some reports indicated the China Chamber of Commerce for Metallurgical Enterprises (CCCME), a representative organisation of private mills, had said China should seriously consider cutting down steel exports and simultaneously increase steel imports that would, in turn, cut iron ore imports. The CCCME recommended that the country reduce its steel exports by 50% year over year to 30 million tons. In addition, it advised it to increase imports of semi-finished and finished steel by 5 million tons.

China accounts for more than half of the world's steel output. Experts are still analysing the short-term effects of the Tangshan restrictions on markets in Europe, which are witnessing steel shortages, and where foreign sellers are coming back of late.

Steel demand in Europe is up. Much of that demand is being met by imports. Whether China would be able to continue to supply this market now remains to be seen.

IMPACT ON NEARBY INDIA

When asked to respond to the restrictions and their effect on India, Seshagiri Rao, joint managing director and CFO of JSW Steel, and Group Chief Financial Officer, told The Hindu Business Line that Indian steel companies may face problems in maintaining steel exports at current levels in the new financial year.

Rao noted domestic production will just about meet demand within the country. India's domestic steel production this fiscal year is about 103 million tons (MT). About 94 million tons of that total went to domestic consumption, Rao added.

India's economy is coming back to normal after being hit by the COVID-19 pandemic. Steel consumption topped 10 million tons in December and January. At the current level, consumption will be 120 MT next fiscal year, Rao told The Hindu Business Line. – Sohrab Darabshaw

Source: https://agmetalminer.com

A sector in distress:

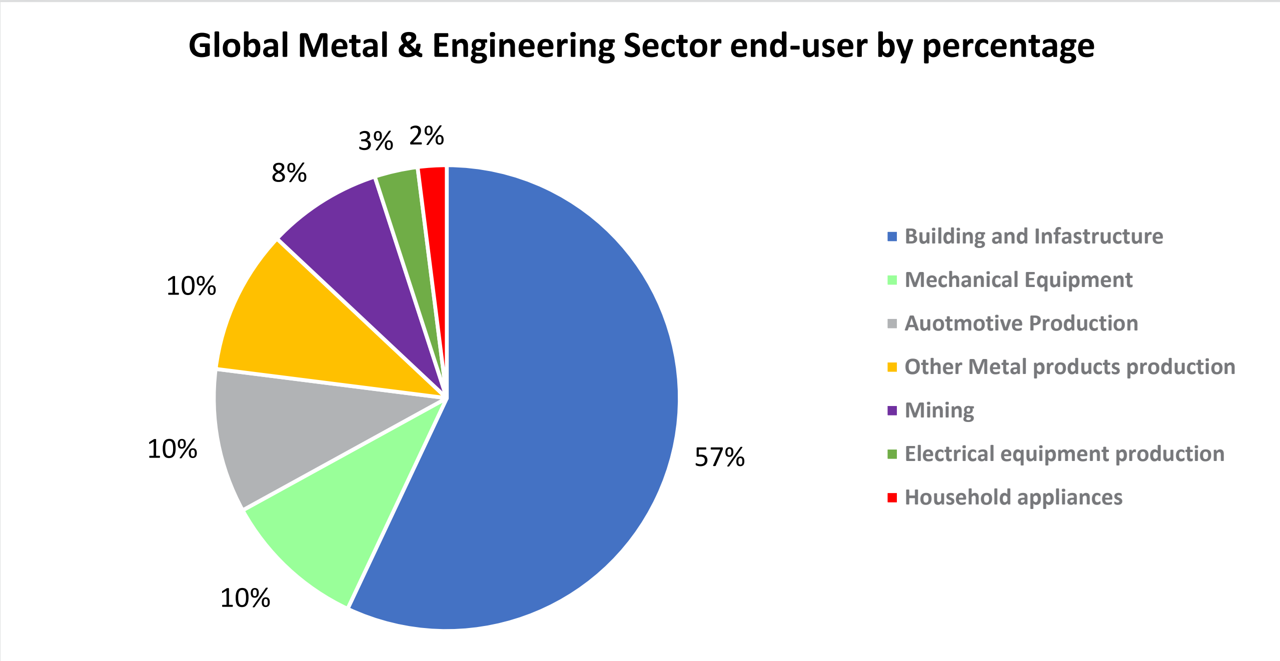
Effective Government policy support is essential for the recovery of the sector

Through its Economic and Commercial Division, SEIFSA annually publishes The State of the Metals and Engineering Sector Report. In the 2021-22 edition of the report, we have taken a deep dive into the sector to cover all elements to understand the sector's performance.

The overall view is that the global economy was under enormous pressure last year, mainly due to the impact of COVID-19 lockdown measures across many countries. This affected both industrial production and trading around the globe.

The Metals and Engineering (M&E) sector is a key part of the global economy for its livelihood and economic development. Any disruptions in the sector's industrial activity feed into other sectors of the global economy. From the end-user's perspective, the sector is a crucial supplier of inputs into major sectors such as construction and other manufacturing sub-industries.

An estimated view of the M&E sector shows the following picture as below, in terms of product end-users across other sectors, with 57% of its products being used in the building and infrastructure sector of the global economies.



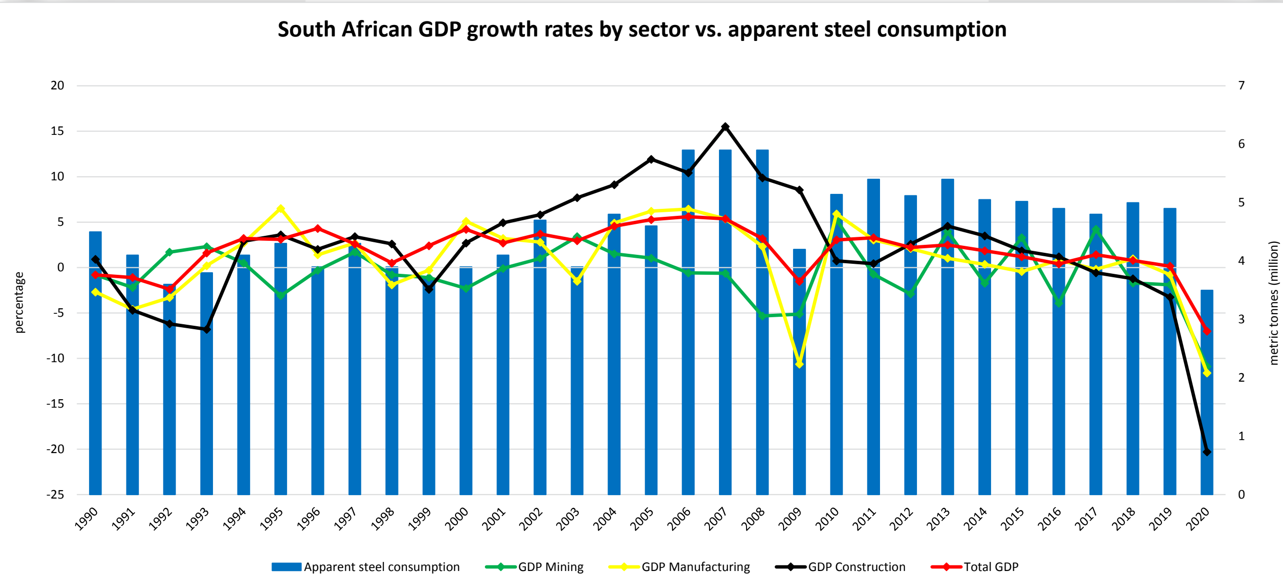
Source: World Steel Association

The impact of lockdown measures led to a decline in production of products such as steel, as well as a significant drop in its trade. Steel is one of the key sub-sectors within the M&E sector. Global commodity prices are influenced by production in this sector, and lockdown measures implemented in March last year also affected commodity prices, which dropped to their lowest levels in April last year.

As countries relaxed the COVID-19 lockdown measures, commodity prices picked up in the later months of the year, and the return of industrial activity stimulated more demand for metals and commodities. The revival of industrial activity thus led to an uptick in the global Purchasing Managers' Index. Data showed a rise from the low levels of April last year, reaching levels of above 50 index, which is a reflection of expansion of manufacturing sector industrial activity. Overall, the global economy is estimated to have declined by 3.5% last year, according to the International Monetary Fund.

On the domestic front, the South African economy was not spared. It also faced massive challenges, with the key sectors of construction, manufacturing and mining all registering declines in value addition. The South African economy is declined by a massive 7% last year, according to Statistics SA data.

The M&E sector is heavily reliant on the performance of key sectors of the economy such as construction, mining, other manufacturing sub-sectors like the automotive industry and the agriculture sector in relation to its market segment. One of the key indicators to this is demonstrated in the graph below, showing overall GDP growth rates of the overall South African economy and key M&E market segments of construction, mining and manufacturing in relation to apparent steel consumption, a major sub-sector within the M&E Sector.



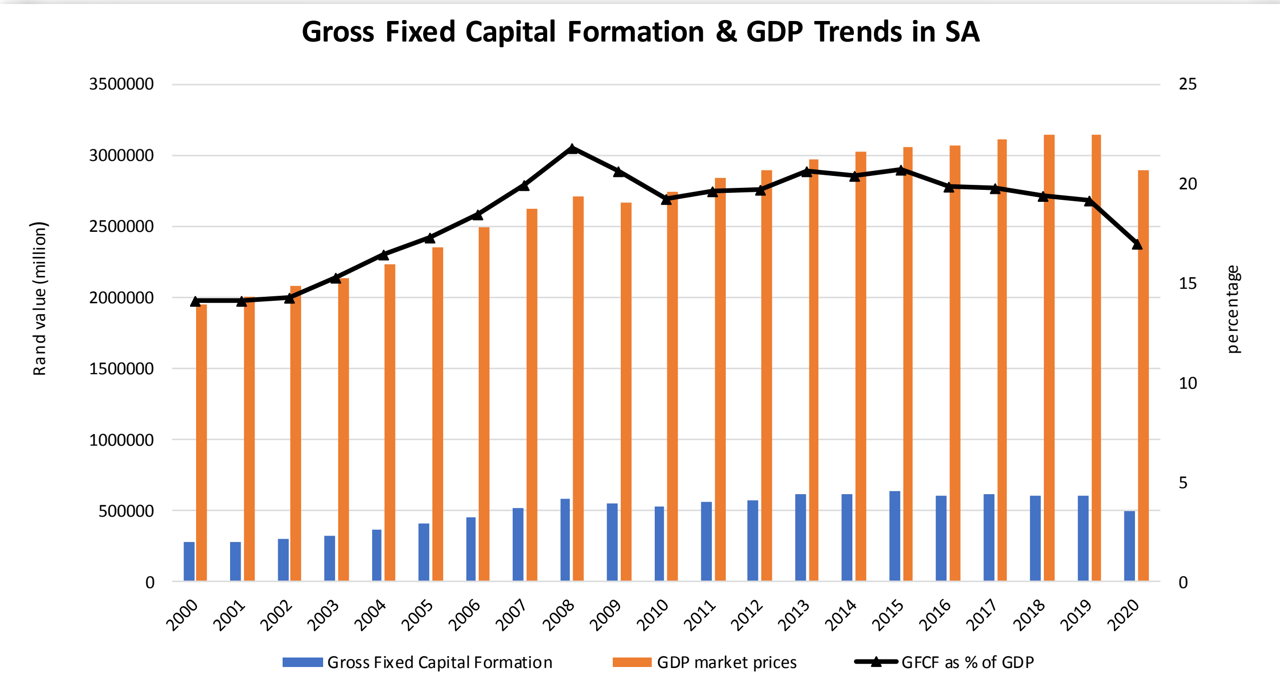
Source: World Steel Association

It is disappointing to note that the construction sector is also under pressure and has been declining since 2017, thus demonstrating lack of activity to drive growth in steel demand. The other key sectors of manufacturing and mining have also been on the decline since 2010.

Government infrastructure projects are a key demand driver for the steel industry and overall economic activity. During the period 2002 to 2010, massive infrastructure investments into the local economy led to the construction sector growing at an average rate of 11% during this period, reaching a peak of 15% in 2007, while fixed investment grew by almost 12% on average. Business confidence was also relatively high during this period and stimulated growth in other sectors of the economy such as manufacturing and mining sectors. Overall, the South African economy was growing at an average of 5%, levels which have not been reached in recent years, as infrastructure investment activities slowed down.

These key infrastructure projects being implemented were mainly energy projects such as Medupi and Kusile, coupled with the Gautrain project as well as 2010 Soccer World Cup-related projects. Since the completion of most of these infrastructure projects, demand for M&E sector products such as steel has also declined.

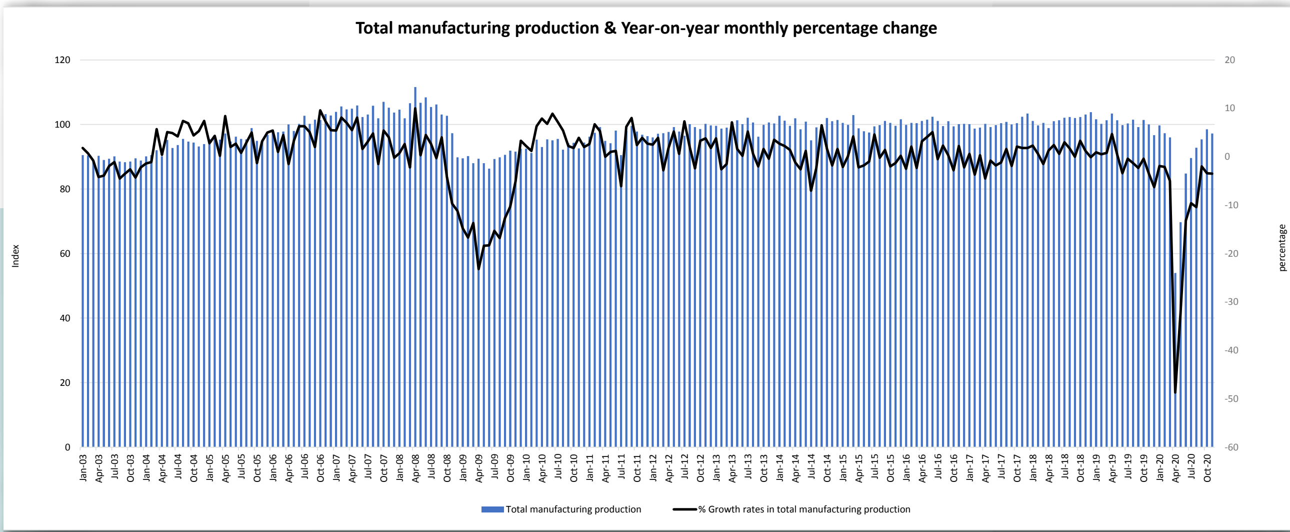
Gross Fixed Capital Formation (GFCF), which is a measure of infrastructure activity in the country, remains below 30% as a share of the total Gross Domestic Product (GDP), despite the measures taken by the Government in recent years to stimulate the economy and to boost growth, with massive expenditure towards infrastructure investment.



Source: StatsSA

For the M&E sector, key positives to note in the third and fourth quarter of last year were the rise in demand for construction and building material sales from the low level of R1.9 billion in April last year, due to COVID-19 lockdown restrictions, to reach R12 billion in November last year. Business confidence also picked up to an index measure of 40 in the third quarter of last year.

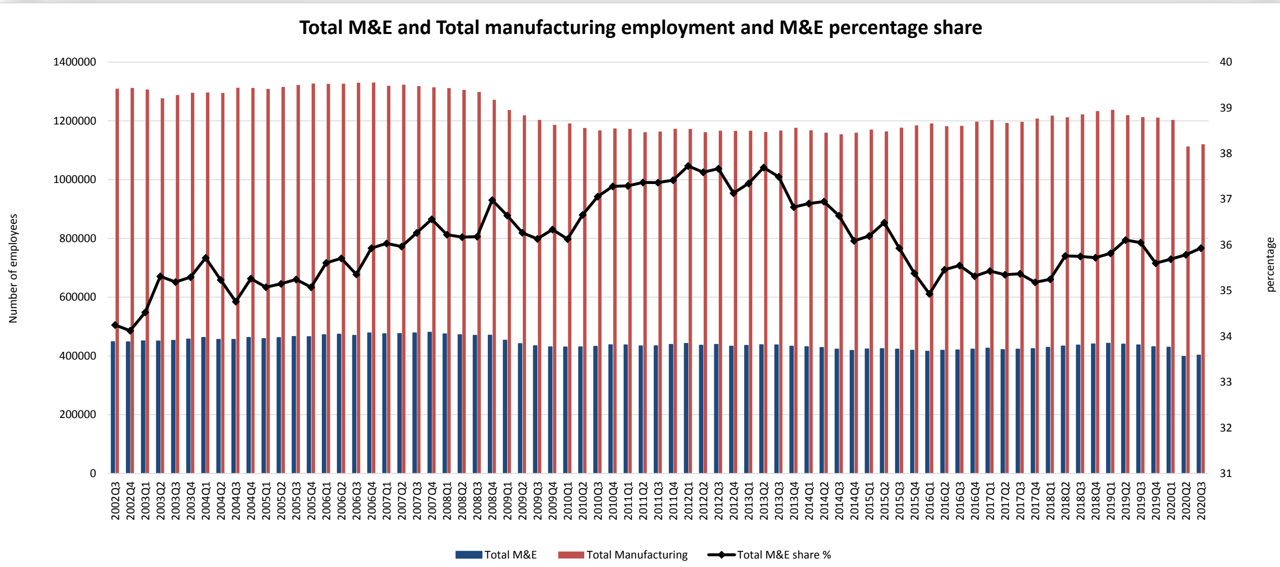
However, the M&E sector was under pressure last year. Production remained weak throughout the year due to the impact of COVID-19 lockdown regulations, with a total production decline of 15.3% year on year. Production sales were also affected by the restrictions, as demand from key market segments declined. Total sales to November last year amounted to R668 billion, which was lower by 13.4% year on year.



Source: Quantec

Capacity utilisation last year was also at its lowest level in a decade. Since the start of the lockdown in March last year, total manufacturing capacity utilisation dipped to 59.8% in the second quarter of last year within the M&E sector, and capacity utilisation was at the lowest level of 52.8%. Manufacturing capacity utilisation in increased to 72.9% in the third quarter of last year from 59.8% in the second quarter, while that of the M&E sector increased from 52.8% to 66%. This explains the improvement in production patterns.

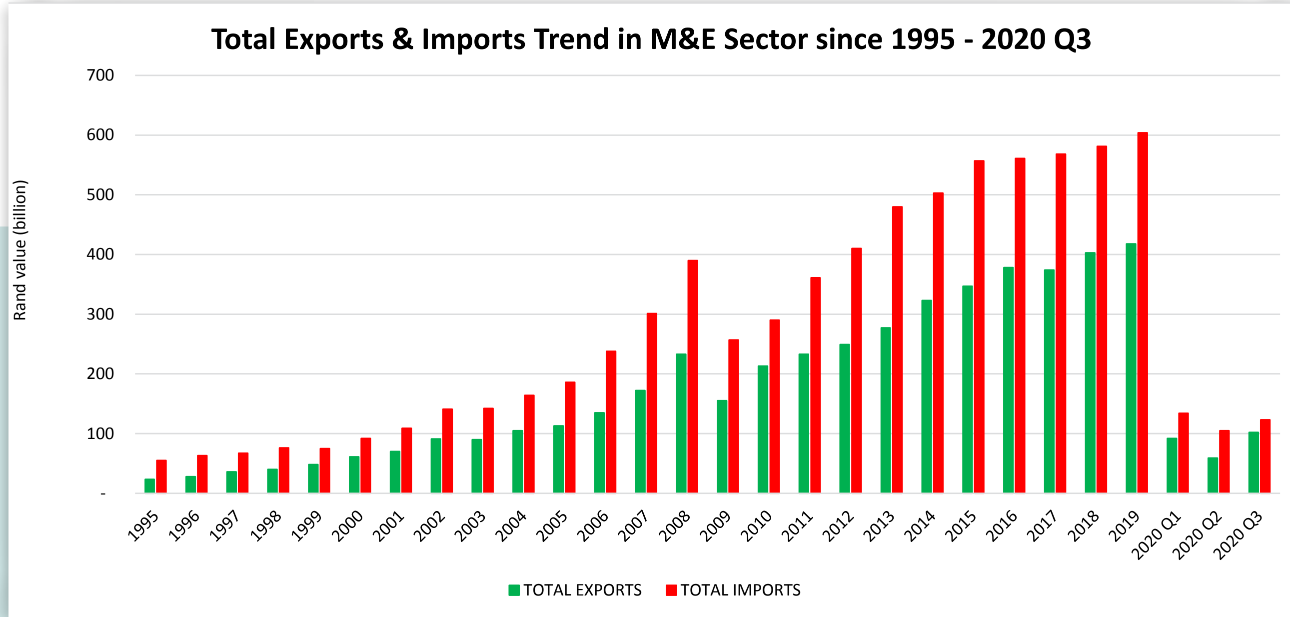
Employment in the overall manufacturing sector declined from 1.3 million in the third quarter of 2002 to 1.1 million in the third quarter of last year. During the same period, total employment within the M&E sector declined by 10%, from 448,532 to 402,760. Total manufacturing employment dropped from 1.2 million in the first quarter of last year to reach 1.1 million in the third quarter, with almost 100,000 jobs being lost during lockdown. Within the M&E sector, 25,857 jobs were lost during the same period.



Source: Quantec

During the same period, the wage bill increased considerably. The level of increase in the wage bill varies across sub-sectors. Real per capita earnings in the entire manufacturing sector increased by 30%, from R35,072.48 in the third quarter of 2002 to reach R50,437.21 in the third quarter of last year. During that time, real per capital income in the entire M&E sector also increased from R36,864.92 to reach R54,670.61, representing a 33% increase. The highest increase in the wage bill during the period under review was in the non-ferrous metal products sub-sector at 47%, followed by the motor vehicle parts and accessories sub-sector at 43%. The lowest increases were recorded in the other fabricated metal products sub-sector at 13%, followed by the bodies for motor vehicles, trailers, and semi-trailers sub-sector at 15%.

Total trade in the M&E sector has favoured imports since 1995. The South African net trade balance in the M&E sector averaged –R102 billion since 1995 to the third quarter of last year. Imports continued to rise, reaching a peak of R604 billion in 2019, with exports reaching a peak of R418 billion in the same year. Between the first and second quarters of last year, the values of both imports and exports dropped. Imports dropped from R134 billion to R105 billion, while exports dropped from R92 billion to R59 billion, thus indicating a slowdown in trading activities caused by lockdown measures across countries.

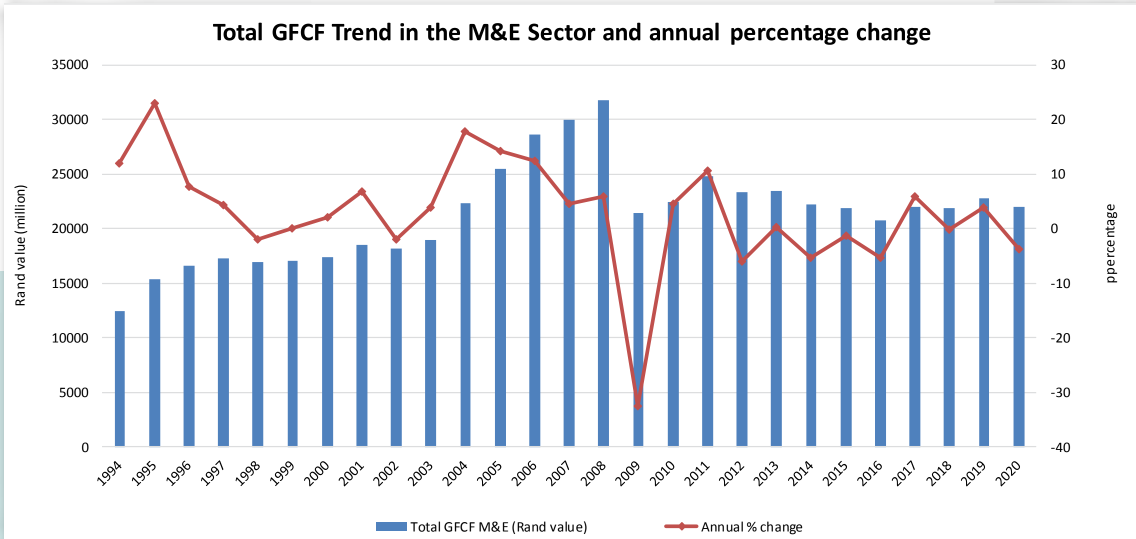


Source: Quantec

" Imports continued to rise, reaching a peak of R604 billion in 2019, with exports reaching a peak of R418 billion in the same year. Between the first and second quarters of last year, the values of both imports and exports dropped."

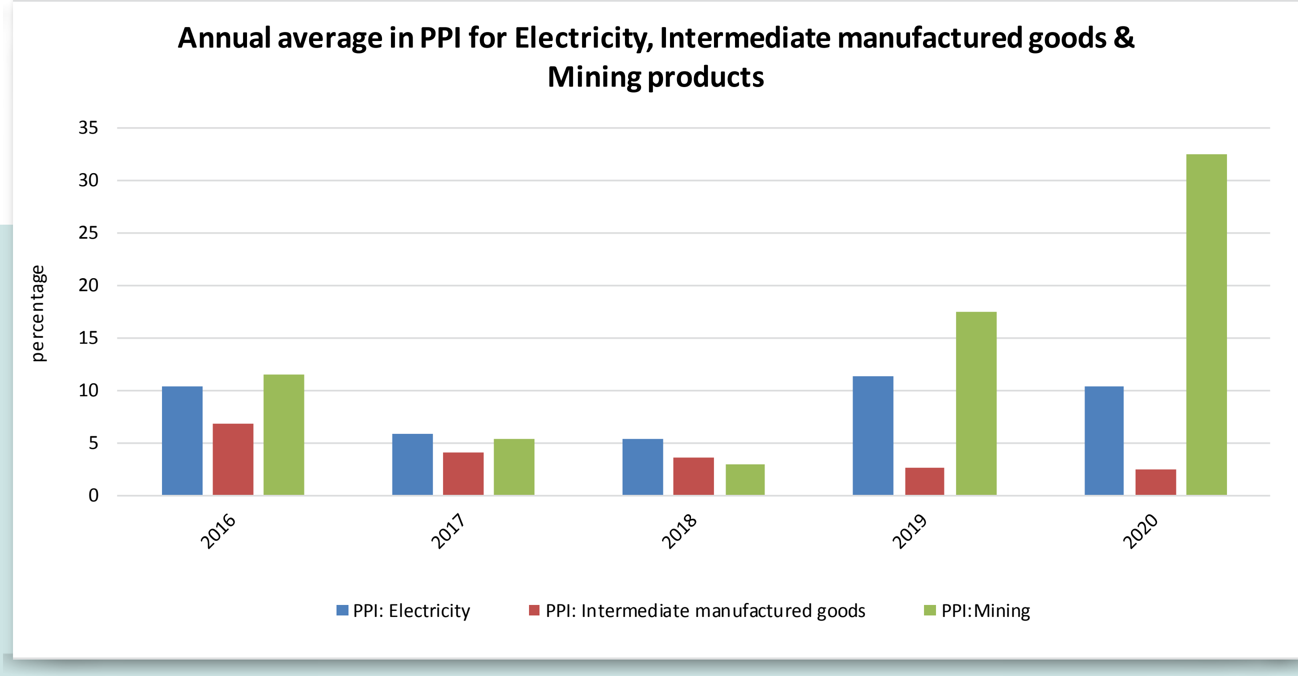
South Africa continues to have a favourable net trade balance with the African region than any other region across the global in terms of trading in the M&E sector. Up in until the third quarter of last year, South Africa's net trade balance with the rest of the African region was R64 billion. This suggests that local South African producers have more opportunities to increase their market footprint on the continent, especially when it comes to taking advantage of the African Continental Free Trade Area agreement which came into effect in January.

Total GFCF by value for the M&E sector increased from 1994 to 2008, from R1.3 billion to R3.2 billion in value. The massive projects implemented in the run-up to the 2010 Soccer World Cup in South Africa were a huge boost for the sector. Since then, the levels of GFCF into the sector have remained lower than during the 2008 peak, reaching R2.2 billion last year. The GFCF across the entire M&E sector followed similar patterns into third quarter of last year, with all sub-sectors experiencing a massive drop in investment levels in 2009. The investment levels achieved in 2008 have not been experienced since, demonstrating the lack of attractiveness to invest into the sector due to challenging market conditions.



Source: Quantec

There is a prevailing discouraging trend of generally decreasing price patterns of intermediate manufactured goods purchasing price index (PPI) since 2016. The high electricity prices have compounded the existing gap between the selling prices for M&E intermediate goods and production. The massive surge in prices of mining input products to 32.5% last year, which is above prices increases of intermediate manufactured goods, is a concern for the survival of the M&E sector.



Source: Quantec

As outlined, the M&E sector is facing several pressures which have resulted in poor performance, according to most indicators. To address the challenges, the report also proposes areas of intervention from Government.

The allocation of R791.2 billion for public infrastructure spending, as announced during this year's budget speech in February, is a boost for the M&E sector. The plans for the rolling out of COVID-19 vaccines as well as other investment incentives for the manufacturing sector provide a platform to bring business confidence back to much higher levels to return industrial activity to full production. Taking that into consideration, SEIFSA envisages projected growth of 0.5% for M&E sector production in 2021 and 0.9% for total manufacturing.

Retrenchments, short-time and lay-off – a quick guide

The year 2020 was a difficult one for many companies on the back of restricted economic activity due to the COVID-19 pandemic and its associated lockdowns. Many are still dealing with the fallout of the pandemic, with jobs being lost, businesses being closed and salaries being cut.

Many companies, in trying to stay afloat, have had to put in place strategies to stay afloat. Some of these strategies are not easy to implement and are chosen only as an option of last resort.

The Main Agreement provides for strategies which companies can consider during difficult times. These include:

- Retrenchment – Annexure A of the Main Agreement
- Lay-off, including job rotation – Annexure A of the Main Agreement
- Short-time – Section 7 of the Main Agreement
- Flexible working time arrangements – Section 4 of the Main Agreement
- Exemption from wage increases and the leave enhancement pay – Section 23 of the Main Agreement

It must be noted that all of these processes include a notification and consultation process.

Retrenchment, as you know, is a permanent termination from the work place and can be a costly exercise once all the severance payments have been made.

The lesser used lay-off is easier to implement, and leads to the temporary unpaid suspension from work of employees from at least one week for up to eight weeks. It is legally permissible to have more than one lay-off period, whether they run concurrently or not. Importantly, this is not a termination but an unpaid suspension. There are no costs involved in implementing the suspension, including severance pay or wages during the lay-off period.

Short-time is widely known and used as a means to avoid retrenchments and lay-offs, it is not complicated to implement and there are no costs to implement the short-time. The short-time allows the employer to reduce the days per week and/or the hours per day and employees are only paid for the hours that they work. In extreme situations of financial crises and where there is no work, it is possible to reduce the working hours from 40 in a week to a minimum of four consecutive hours per week.

It is important to be fully aware of the procedures to follow as outlined in the Main Agreement.

Retrenchments

Employers often don't seem to understand the rights of employees in terms of section 189 / 189(a) of the Labour Relations Act, which the Main Agreement reflects in Annexure A. Some employers are under the impression that retrenching an employee is as simple as issuing a notice of termination of the employment relationship based on the operational requirements of the company. Another common mistake is to selectively nominate "problem" employees for retrenchment instead of using fair selection criteria, such as the LIFO (Last in First Out) principle recommended by the Labour Relations Act (LRA).

It is important that employers follow the correct procedures because the incorrect application of the acceptable processes could result in a retrenched employee alleging an unfair termination and referring the dispute to the CCMA, or to the Labour Court if more than one employee was retrenched. Compensation of up to 12 months of the employee's normal remuneration may be awarded if the process is not deemed fair.

In order to ensure fairness towards both employer and employee, it is necessary to better understand section 189 of the Labour Relations Act.

When may an employer retrench employees?

Employers may dismiss employees based on operational requirement as defined in section 213 of the LRA. "Operational requirements" means requirements based on the economic, technological, structural, or similar needs of an employer.

It must be remembered that the onus will be on the employer to prove that a genuine operational requirement existed. For example, an employer that says the company is not making money and therefore it has to retrench will need to produce evidence of such a financial crisis.

The consultation process

The consultation process can at times be a long and complex one, and it is best to get assistance from someone who is skilled in these processes. The LRA places an obligation on employers to engage in a meaningful joint consensus-seeking process in an attempt to reach consensus on, inter alia, appropriate measures to avoid and/or minimise the number of dismissals. Implementation of section 189 often results in changes in terms and conditions of employment. Such changes are justified if they are made in the course of a bona-fide retrenchment exercise and as an alternative to retrenchment.

The Labour Appeal Court (LAC) further imposes a duty on an employer to take all steps to avoid dismissals. Although the case concerned the redundancy of a position, the principles remain relevant.

In Oosthuizen v Telkom SA Ltd (2007) 28 ILJ 2531 (LAC) the LAC found as follows at para 8:

"In my view an employer has an obligation not to dismiss an employee for operational requirements if that employer has work which such employee can perform either without any additional training or with minimal training. This is because that is a measure that can be employed to avoid the dismissal and the employer has an obligation to take appropriate measures to avoid an employee's dismissal for operational requirements. ... In such a case the dismissal is a dismissal that could have been avoided. A dismissal that could have been avoided but was not avoided is a dismissal that is without a fair reason."

The judgment above places a duty on an employer to implement alternatives which are likely to save jobs. Conversely, an employer that neglects or refuses to implement alternatives could be said to have acted unfairly.

When severance pay is not obligatory

The employer does not have to pay severance pay if an employee unreasonably refuses to accept an offer of employment with the current employer or another employer (sections 41(2), 41(4) of the Basic Conditions of Employment Act). This has also been confirmed in a ruling of the LAC in matter between Astrapak and CEPPWAWU.

A further question, however, arises in regard to whether the alternative that will be implemented needs to be reasonable. Section 41(4) of the Basic Conditions of Employment Act 75 of 1997, as amended (the BCEA) relieves an employer of the duty to pay severance pay in circumstances where the employee who is dismissed for operational requirements "unreasonably refuses to accept the employer's offer of alternative employment".

In Irvin and Johnson Ltd v Commission for Conciliation, Mediation and Arbitration and Others (2006) 27 ILJ 935 (LAC) the LAC found that the purpose of this provision was to promote employment and to incentivise employers to take the necessary steps to provide alternative employment for all employees facing dismissal for operational requirements. While this provision clearly underscores the importance of job preservation, it is also important to point out that an employee's refusal of an unreasonable offer of alternative employment would not absolve the employer from having to pay a severance package. The labour court, as a court of fairness and equity, will inevitably inquire into the fairness and reasonableness of the employer's chosen alternative as well as the final decision to implement the alternative unilaterally.

Stay in touch with your experts

Members should feel free to discuss any course of action with SEIFSA's Industrial Relations and Legal Services Division staff members, who are available to provide advice or assistance.

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How to implement an efficient performance management system

By Neetu Moodley

You may be using the most sophisticated Performance Management Model, tools and online interface there is but, if you are not having the right conversations, you are not addressing your employee's performance nor are you addressing your business challenges. **Performance management** plays a critical role in driving employee productivity, engagement and commitment, especially during this chaotic challenging time.

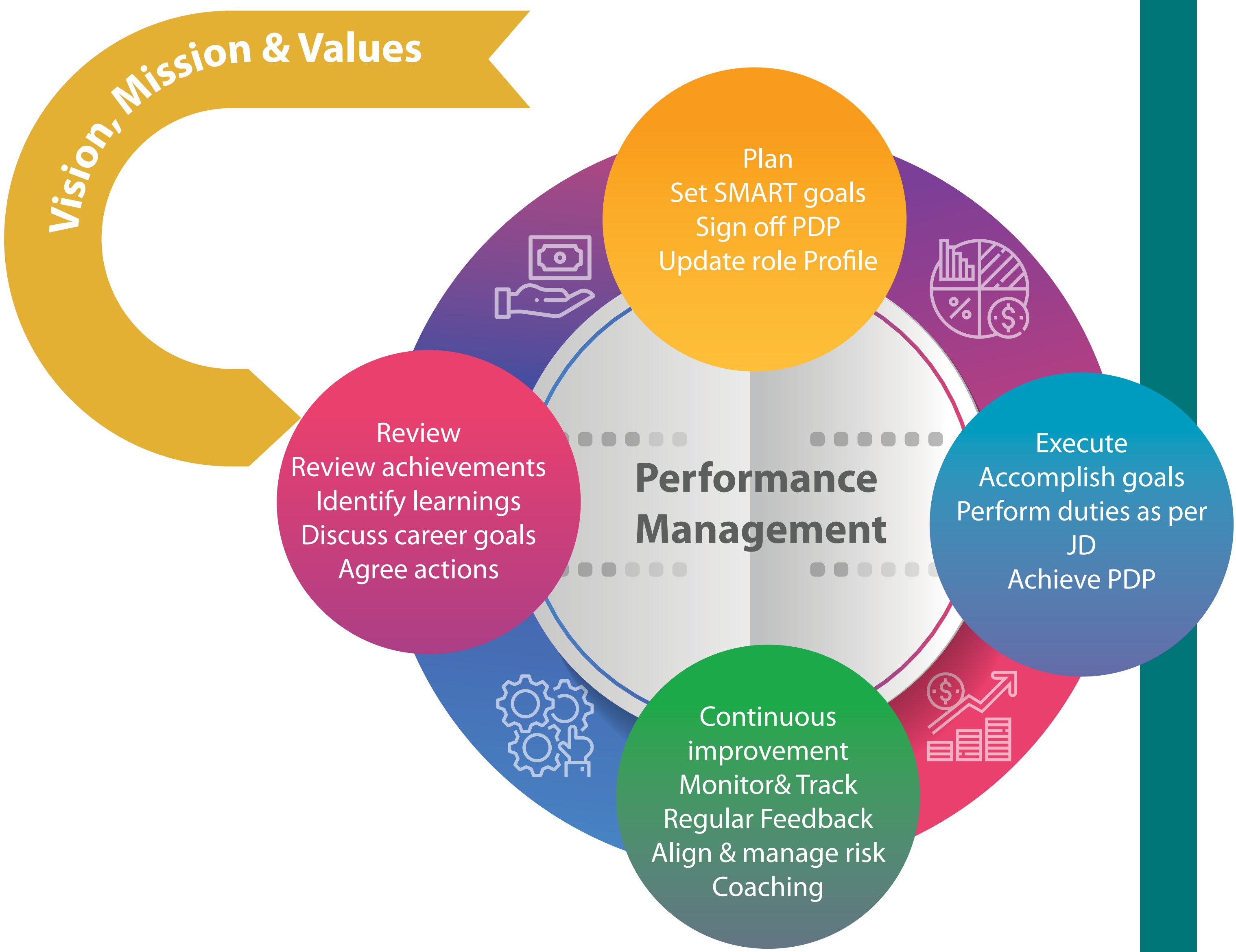
PerformWance Management in its simplistic form is all about continuous improvement – how to do things better and faster; how to improve profit margins while still keeping employees and clients satisfied.

But how do you ensure that you have an efficient performance management system?

I recommend starting at the beginning

Review your Vision, Mission and Values. Talk to your people, talk to your clients. Ask the same questions but use "WE" start with… how can we reduce costs and increase turnover… you may be surprised by the diversity in thought and ideas from your people. Review ways of working. Majority of the new workforce knows that in order for you to get paid you need to deliver. It's not about pitching up for work anymore, because some of us can't go into the office due to COVID, it's all about delivering against your agreed goals and targets. This is where performance management becomes the lifeline of your business. I recommend that you put in place a performance management system to prioritize your business needs based on your workforce model.

When you think performance management you think, annual performance review process, or as getting a reward for meeting your targets or goals. Performance management is a continuous process – not an annual activity that you tick off on your calendar. A quality performance management process should integrate several activities to form a continuous performance management cycle illustrated below.



The performance management process provides a vehicle through which employees and their supervisors collaborate to enhance work results and satisfaction. This process is most effective when both the employee and the reviewer take an active role and work together throughout the process.

The employee performance review process is a cyclical process of positioning, coaching, developing, assessing performance and feedback, being a continuous improvement management process.

What employees want (according to Gallup research)

Through research efforts to discover what motivates employee engagement, the Gallup organisation identified the following 12 factors. According to these findings, most professionals want:

1. To know what is expected of them
2. To have the opportunity to do best every day
3. To receive recognition and praise for doing good work
4. To be seen and valued as people (not just job functions)
5. To have someone encourage their development
6. To have their opinions count
7. To feel that what they do is important and worthwhile
8. To have co-workers who are committed to quality work
9. To have positive work relationships
10. To talk about their progress and receive feedback
11. To have opportunities to learn and develop

The importance of managing individual performance, as an element of organisational performance, is recognised. However, a system is just as good as it user.

The simple corrective action process within performance reviewing allows for real-time resolution of problems in achieving the desired organisational goals and targets. The benefits of a continuous cycle of performance and goals management allows one to identify obstacles and problems that may challenge the goal achievement. By correcting underlying issues that negate achievement of employee performance, a culture of achievement is built within the organisation. The process also links seamlessly with the identification of potential within the organisation for further employee development. By implementing a continuous cycle of performance and goals management within your organization, Human Resources practitioners are also able to measure the impact of competency and skills within your organization.

This allows for the learning and development divisions to support learning effectiveness and impact measurement, by tracking the impact of development interventions on performance improvement. Through the process of planning and review of performance objectives, skill, knowledge and competency gaps to achieve organisational objectives would be identified. Some development required may be individual but others may signal development needs on an employee collective level. This allows an organisation to achieve maximum potential within the organisation and align resources on focused training. Besides the integration with the learning and development system, the review process provides a valuable repository of in-time information to link into the human resources systems of Talent Management and retention. It provides feedback into an organisations, onboarding and induction programmes and provides a basis for recognition and rewarding performance within the organisation.

This allows Human resources practitioners to proactively plan for the future with a comprehensive view of your organization and the talent and skills within to face potential future challenges for the business.

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HUMAN CAPITAL & SKILL DEVELOPMENT HCSD

Four forms of violence and harassment in the work place

About the training:

The draft Code of Good Practice on the Prevention and Elimination of Violence and Harassment in the World of Work outlines the obligations of employers to ensure the fair treatment of employees as framed by the Employment Equity Act, the International Labour Organisation and the constitution, among various other conventions and legislation.

This training will capacitate organisations to legally and effectively prevent and manage violence and Harassment in the workplace, including GBV, Sexual Violence and Bullying.

You will learn the following:

- The legal framework and objectives of the draft Code of Good Practice on the prevention and elimination of Violence and Harassment in the World of Work;
- The four forms of violence and harassment in the workplace;
- The prevention, elimination and management of violence and harassment in the work place;
- Procedures for the management of violence and harassment in the workplace; and
- Relevant case law.

We call on all HR and IR Managers to enroll now.

Upcoming Dates:

13/05/2021	Derrick Thilaivirassan	1 Day	Webinar
22/07/2021	Derrick Thilaivirassan	1 Day	Face-to-Face
23/09/2021	Derrick Thilaivirassan	1 Day	Webinar
24/11/2021	Derrick Thilaivirassan	1 Day	Face-to-Face