SEIFSA NEWS

SEIFSA welcomes NEW BOARD at Annual General Meeting

WAGE NEGOTIATIONS 2021 RULES OF ENGAGEMENT

FOCUS ON LEAVE ENHANCEMENT PAY EXEMPTIONS

THE STATE OF THE METALS AND ENGINEERING SECTOR REPORT: 2021 HALF-YEAR REVIEW

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SEIFSA welcomes new board at Annual General Meet

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FROM THE CEO'S DESK

As the Metals and Engineering sector finds itself another strike, it seems this is an appropriate time to reflect on what this means for our industry. There is little doubt that from many an employer's perspective, the future of collective bargaining has been called into question for a number of reasons.

These range from the fact that industrial action related to collective bargaining has become protracted and so violent that businesses now feel that they reach agreements under duress and are subsequently saddled with unaffordable wage increases, to wondering what is the root cause of the violence, damage to property and intimidation that we experience time and again.

In many instances, and not always directly linked to our negotiations, strike action is no longer necessarily just about bread and butter issues; rather, it is a symptom of deeper underlying problems.

The problems in question are undoubtedly poverty, inequality and unemployment. If left unaddressed, these problems will continue to be the trigger points for protracted, violent and on-going industrial action. More and more social issues such as housing and access to quality medical care are finding their way onto letters of demand

before employers sitting at the bargaining table.

Undoubtedly, addressing inequality, poverty and unemployment will lead to a decrease in the anger, frustration and desperation that underpins today's violent strike action. One is not suggesting that issues that should be addressed by the State must be solved by the private sector, or vice versa, but that the starting point to addressing the problem is acknowledging its true nature.

One is also not suggesting that any sort of violence is justified. However, as long as striking workers feel the need to resort to violence, very real problems will continue to plague the labour relations landscape.

Suggestions that new legislation, specifically in the form of amendments to the Labour Relations Act, will result in peaceful industrial action are short-sighted. The government bungled the amendments to the LRA making balloting of union members a precondition before going on strike, the CCMA-imposed picketing rules have, on the main, served no or little purpose and the violence and intimidation in the face of an inept and in many cases, under trained and under resourced police force continuous unchecked.

This growing level of anger and frustration can clearly be seen in the experience of the Metals and Engineersing industry. In 1992 the industry experienced a four-week strike which was mostly peaceful. There was then a period of industrial relations peace for 12 years during the so-called rainbow nation period immediately following the transition to democracy in 1994. That continued to be the case until 2007 when the industry experience a one-week strike which was characterised by relatively low levels of violence, with no real infringement on other employees' right to work.

However, in 2011 the industry was shocked by a two-week strike characterised by high levels of violence and intimidation, with huge infringement on the right of fellow employees to work. In 2014, we believed that employers had learned from the past and were better prepared, but we were again shocked by a four-week strike characterised by unprecedented levels of violence and the complete and utter infringement of all other employees' rights to work, regardless of whether they fell within the bargaining unit.

Compounding these challenges, in our sector, is the actions by certain employer organisations to stop the extension of collective agreements to non-parties and as many of these legal actions have succeeded, the industrial relations consequences, as we are now witnessing, are turning out to be extremely damaging.

Exacerbating this industrial relations climate is undoubtedly the position adopted by our competitor employer organisations in this year's round of bargaining, which in a nutshell amounts to unashamed and exploitative down-varying of various terms and conditions of employment, that the unions have strongly argued, they have fought for, sacrificed and achieved.

There is general consensus among stakeholders that the viability and sustainability of the current collective bargaining structures and processes are under threat from two key, socio-economic forces: the enhanced requirement for increased competitiveness in a global market, coupled with the urgent need to address the social living conditions of employees in an environment worsened by both inequality and poor service delivery and the growing marginalisation of thousands of employees that fall outside the net of the main agreement.

Until this balance is found, our industrial relations climate will remain seriously problematic and tragically continue to erode investor confidence and direct investment in the economy.

Lucio Trentini
Chief Executive Officer

SEIFSA welcomes new board at Annual General Meeting

SEIFSA this month named its new board at the SEIFSA Annual General Meeting.

Elias Monage
President

Nonhlanhla Ngwenya
Vice-President

Andrea Moz
Vice-President

EICO Engineering CEO Elias Monage, who is also a member of the Steel Master Plan Oversight Council, Chairperson and Founder of the Steel Industry Compliance and Support Fund, as well as the recently elected President of the Black Business Council, has been re-elected SEIFSA President.

Nonhlanhla Ngwenya, Managing Director at MphoNo Energies and Board Member at KSB Pumps & Valves, has been named Vice-President along with Auto Industrial Group CEO Steel Master Plan Council member **Andrea Moz.**

Tumi Tsehlo
Non-Executive Director

Ryan Haynes
Non-Executive Director

Honey Mamabolo
Non-Executive Director

Malcolm Mcculloch
Non-Executive Director

Ernest Volschenk
Non-Executive Director

Mervyn Naidoo
Non-Executive Director

Arun Chadha
Non-Executive Director

Other Board members are Dynamic Fluid Contro CEO **Tumi Tsehlo**, Frigoglass South Africa HR Executive **Ryan Haynes,** Reinforcing Steel Contractors Director **Ernest Volschenk,** South African Mint Company Managing Director **Honey Mamabolo,** M&E Industry veteran **Malcolm Mcculloch,** Actom Group CEO **Mervyn Naidoo** and Allied Steelrode Group CEO **Arun Chadha.**

The appointment of the new board comes a time when the Metals and Engineering sector is in throes of tough wage negotiations, with SEIFSA trying to secure a much-needed settlement that will ensure stability and peace in the sector, while being beneficial to both labour and employers.

Welcoming new the board members, Mr Monage said the next coming period will be extremely challenging and will require robust leadership to tackle the policy, regulatory and legislation and socio-economic environment in order to entrench the position of SEIFSA as the leading voice of employers the M&E sector.

Speaking of the challenges currently besetting the sector, he said transformation in the M&E sector is moving too slowly, but that in order to address this, other challenges holding back the industry will need to be addressed in order to speed up transformation.

He stressed that with the country having emerged from a decade in which the moral fabric of society, government and business had been compromised, SEIFSA will need to continue to encourage businesses to conduct themselves ethically.

He said SEIFSA will be following the local government elections with keen interest, with the hope that the newly elected leaders will root out corruption at local level and punish the perpertrators since the scourge negatively impacts on the companies that conduct businesses with municipalities.

Following the successful conclusion of the AGM, SEIFSA was honoured to host renowned futurologist and scenario planner Clem Sunter who emphasised the importance of scenario planning for businesses and organisations.

Wage negotiations 2021 rules of engagement

With wage negotiations in the Metals and Engineering (M&E) sector currently deadlocked, SEIFSA News shares Strike, Picketing and Lock-Out Handling Guidelines: Main Agreement Negotiations 2021

INTRODUCTION

One of the important objectives of the Labour Relations Act, 66 of 1995, as amended ("the LRA") is to "regulate the right to strike ... in conformity with the Constitution".

Strikes are no longer distinguished as being "illegal" or "legal" because the LRA, when it was introduced in 1996, sought to de-criminalize participation in strike action.

The purpose of these strike handling guidelines is to distinguish a strike from a work stoppage, unprotected strike action from protected strike action, and to provide a strike plan in order to deal with misconduct during a strike, sympathy strike action, picketing and when it is appropriate to approach the Labour Court for urgent relief.

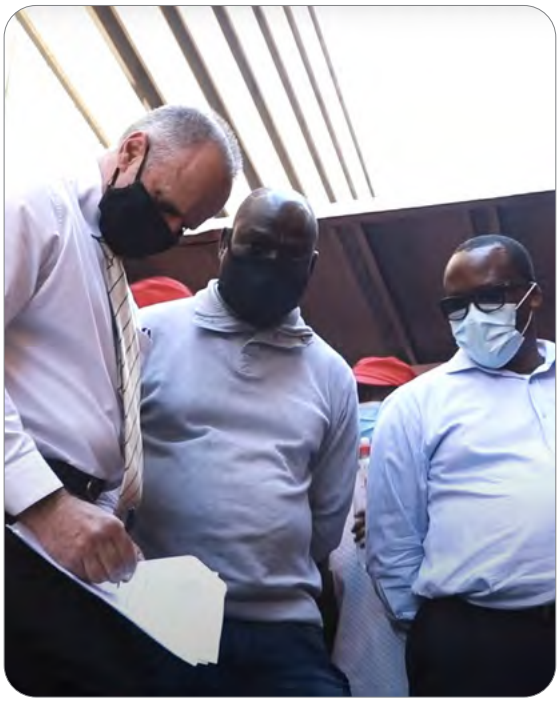
These guidelines are intended to provide employers with a practical strategy which is sufficiently flexible to allow them to achieve their primary objective of persuading employees to remain at work and not participate in the industrial action, alternatively to achieve the earliest possible return to normal work.

Industrial action can take a number of different forms and it is essential that employers identify whether the industrial action constitutes a strike or whether the action is a work stoppage only. This is important in assisting employers to co-ordinate proper responses to the industrial action in conjunction with the SEIFSA Industrial Relations and Legal Services Team.

Members of management ("designated officials"), who are tasked with various duties in handling the industrial action, need to be familiar with this plan as it saves valuable time and assists the employer effectively to decide its best course of action in response to a strike or work stoppage.

THE AIM OF THE STRIKE PLAN IS TO IDENTIFY:

- The nature of the possible industrial action;
- Establish managerial objectives;
- Establish a strike handling committee and a command centre, together with report line structures, roles and responsibilities;
- Implement techniques to gather precise information and the articulation of grievances;
- Tips on how to maintain a strike diary;
- Dealing with the SA Police Services; and
- Dealing with the media, communicating information to the relevant trade unions and the strikers, which includes keeping precise contact details of relevant parties.



INDUSTRIAL ACTION STRIKE VS WORK STOPPAGE

The starting point is to understand what constitutes a strike. Section 213 of the LRA defines a strike to mean:

"The partial or complete concerted refusal to work, or the retardation or obstruction of work, by persons who are or have been employed by the same employer or by different employers, for the purpose of remedying a grievance or resolving a dispute in respect of any matter of mutual interest between employer and employee ..."

Importantly, what distinguishes a strike from a work stoppage is that a demand is made by strikers which is rejected by the employer associations. A demand which is not met gives rise to a dispute between the parties. Where the industrial action takes the form of a work stoppage only, the distinguishing factor is that no demand is made by the participants. For example, a work stoppage in response to an employer's breach of contract does not constitute a strike as contemplated by the LRA. The work stoppage must be for the purpose of remedying a grievance or resolving a dispute if it is to conform to the definition of a strike contained in Section 213 of the LRA. If no evidence of the purpose of the work stoppage is tendered then the employer associations may not be able to claim that it constitutes a strike. It may amount to nothing more than a breach of contractual obligations, unless indirectly the industrial action aims to exert pressure on an employer to perform a particular act or refrain therefrom

This distinction is relevant if employer associations intend to pursue an interdict in the Labour Court to declare a strike unprotected and to force a return to work by obtaining an appropriate Order of Court. If the work stoppage does not constitute a strike, it means that such an interdict could fail. This places a direct obligation on any strike handling team to ensure that they gather sufficient information to prove the existence of the grievance or dispute giving rise to the industrial action.

PROTECTED VS UNPROTECTED STRIKE ACTION

For a strike to be protected in terms of Section 64 of the LRA, the dispute must have been referred to the MEIBC for conciliation. Where a certificate, confirming that the dispute remains unresolved, has been issued by the MEIBC, alternatively 30 days has lapsed since the dispute was first referred to it (or such longer period as has been agreed upon by the parties), the relevant trade unions and their members can give 48 hours' notice to commence a protected strike.

There are limitations placed on the right to participate in a protected strike. If the strike does not comply with Section 64 it will be an unlawful strike. If the strike contravenes a collective agreement that limits the opportunity to strike on the issue in dispute, the strike will be unprotected. Likewise where the strike concerns a rights dispute (e.g. an unfair labour practice or unfair dismissal) and the LRA prescribes that the dispute is capable of arbitration or adjudication, such a strike about a rights issue will be unprotected.

These distinctions are important in order to understand when an employer is entitled to opt for an urgent interdict to prevent a threatened strike or to put an end to a strike that is in progress. Unlawful conduct during a protected strike can also be interdicted.

If a strike is protected, then participation in the strike does not in itself constitute misconduct. However, unacceptable behaviour during the course of a protected strike should obviously be the subject of appropriate discipline. Please bear in mind that an employer's disciplinary code and procedure is not suspended during a protected strike.

A strike may not necessarily take the form of an entire withdrawal of labour by the workforce. The definition of "strike" in the LRA also covers partial strikes, overtime bans or go slows in which only a section of the workforce might participate.

Under the old LRA, the question whether, and in what circumstances, strikers could be fairly dismissed spawned a wealth of complex and frequently inconsistent jurisprudence. The current LRA has attempted to codify what is regarded as best practice contained in the Code of Good Practice:

Dismissal ("The Code") and, in particular, Item 6 thereof which deals with dismissals for participation in industrial action:

"Item 6: Dismissals and Industrial Action

Participation in a strike that does not comply with the provisions of Chapter IV (of the LRA) is misconduct. However, like any other act of misconduct, it does not always deserve dismissal. The substantive fairness of dismissal in these circumstances must be determined in the light of the facts of the case, including –

- the seriousness of the contravention of this Act;
- attempts to comply with this Act; and
- whether or not the strike was in response to unjustified conduct by the employer."

When does a strike qualify as a protected strike:

LOCK-OUTS: DEFENSIVE OR OFFENSIVE

The LRA does not create the distinction between an "offensive and a defensive lock-out". However, informal practice has evolved to describe a defensive lock-out as a situation where the lock-out is effected in response to a strike notice, where the "offensive lock-out" predates any declaration of a dispute by the employees.

The distinction between these concepts is vital, in that an employer can utilize replacement labour in a situation where the lock-out is imposed in response to a strike. Where the lock-out is used as an offensive tool, this right is not afforded to employers.

Section 76 of the LRA, dealing with this issue, stipulates as follows:

"(1) An employer may not take into employment any person –

- to continue or maintain production during a protected strike if the whole or part of the employer's service has been designated a maintenance service; or
- for the purpose of performing the work of any employee who is locked out, unless the lock-out is in response to a strike.

(2) For the purpose of this section 'take into employment' includes engaging the services of a temporary employment service, or an independent contractor."

It is obviously vital to obtain clarity on when a lock-out will be imposed "in response to a strike". The Labour Appeal Court, in the judgment on point of Technicon SA vs. NUTESA 1 BLLR 58 (LAC) states that the lock-out notice must be done in response to the strike notice of the union. Accordingly, it is irrelevant whether the actual strike action contemplated by the employees in their Section 64 notice has commenced. The moment that the strike notice is issued, the employer can issue a defensive lock-out notice. The lock-out may thus commence before, simultaneously with, or after the commencement of the strike. The employer should take care to ensure that it complies with the provisions of Section 64(1)(b) i.e. the employer must in any event give 48 hours' notice.

The Labour Appeal Court issued a warning to employees in the NUTESA judgment; if the employees embark on power play, they must be prepared to bear the consequences of their decision.

DURATION OF LOCK-OUTS

A lock-out, if legal, will continue until such time as an agreement on the issue or issues in dispute has been reached, alternatively until the lock-out is terminated by the employer.

Accordingly, and even if the lock-out is declared in response to a strike notice by the employees, and the employees subsequently abandon their strike action and tender their services to the employer, the employer is not obliged to accept that tender. It can do so for the duration that the employer's demands have not been met by the employees. Also, the nature of the lock-out does not change from "defensive" to "offensive" if the primary strike of the employees has been abandoned. The right to utilize replacement labour will be determined at the time that the lock-out notice is issued. If the employer has the right to utilize replacement labour at that time, the employer will remain entitled to that right, notwithstanding the abandonment of the strike action by the employees.

PARTIAL TENDER OF SERVICE

Instances occur where a strike has been called by the union, but the employees indicate that they are willing to tender partial, but not complete services to their employer.

The definition of strike action in the LRA includes "the partial or complete concerted refusal to work, or the retardation or obstruction of work ..."

The Labour Appeal Court, in the matter of 3M (Pty) Limited vs. SACCAWU 5 BLLR 483 (LAC) has endorsed the right of the employer to refuse to accept a partial tender of services. The employer has the right to refuse a partial tender, and not pay the striking employees any remuneration, in accordance with the principle of "no work, no pay". Significantly, however, the employer may refuse only for so long as the tender is partial. Once a total tender of services has been made, and the employer rejects that tender in the absence of a legally protected lock-out, the employer becomes liable to remunerate the employees from the time that the tender is made.

SHUT-OUTS

A shut-out can be effected by an employer without relying on any of the provisions of the LRA. In essence, a shut-out amounts to no more than an employer refusing the right of access to those employees who have indicated, through strike action, an intention not to tender their services in accordance with their contracts of service.

This position will be altered if there is a valid picketing agreement (either agreed to collectively between the employer and its employees, or imposed by the CCMA). Should the picketing agreement provide that employees are entitled access to the premises (albeit on a limited basis) such agreement must be adhered to.

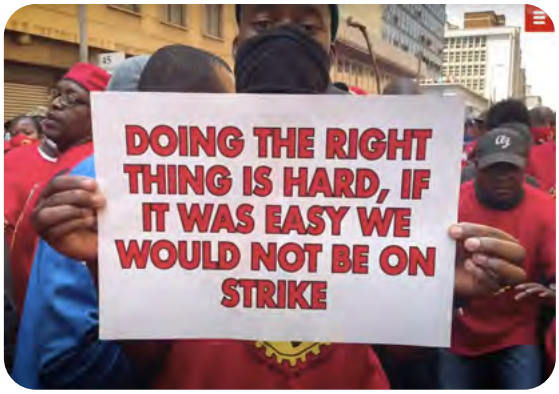
The shut-out is reactive in nature and application. The shut-out can only be implemented when it is clear that the employees will not tender their services. As soon as the employees tender services (even if there is no undertaking to discontinue the strike action totally), the employer must accept that tender, alternatively pay employees for the period from which the tender was made.

Critically, no demand may accompany this shut-out procedure. The moment the employer issues a demand (I will not allow you access, until you accept an X% wage increase and unconditionally call off the strike), the nature of the action of the employer changes from a shut-out to a lock-out. If the employer has not complied with all the statutory requirements, alternatively if the demand is different to that raised by the union initially, the lock-out will be unlawful. In such event, the lock-out can be interdicted, alternatively the employees are entitled to claim from the employer the wages they would have earned from the time their services were tendered.

The utilisation of a shut-out also makes the employer vulnerable to the concept of "grasshopper" strikes, alternatively the consequences of "go slow" action. Grasshopper action is where the strike will run for a certain number of days, employees will then return to work for a number of days without terminating the strike itself, and later continue with the strike action. This process can be repeated until such time as the employees' demands are met. The advantage for the employees is that they could earn some income, but severely affect the economic viability of the employer. The possibility of sabotage in these circumstances is also enhanced.

Go slow action is similarly problematic as the employer will be unable to accurately gauge whether employees are on the premises to work in accordance with their employment contract, or whether they intend to participate in the industrial action.

For the reasons stated above, the "shut-out" should be used as a short-term reactive measure, primarily in a situation where there is a full strike, and the employer wishes to prevent access to its premises because of fear of violence or damage to property.



SECONDARY STRIKE ACTION

Picketing

First and foremost, the issue of where the picket takes place is something that may be agreed on by the employer and the union in picketing rules. The LRA unequivocally places this responsibility for drawing up picketing rules on the employer and the union. But given the fact that the parties are locked in conflict, reaching consensus on where and how the picket will be conducted may be easier said than done.

If no consensus can be reached, Section 69(4) and (5) of the LRA provides that either the employer or the union may then approach the CCMA for assistance, the CCMA must attempt to secure an agreement between the parties on the picketing rules.

The relevant provisions of Section 69 of the LRA read as follows:

"(2) Despite any law regulating the right of assembly, a picket authorised in terms of subsection (1), may be held:

- in any place to which the public has access but outside the premises of an employer; or
- with the permission of the employer, inside the employer's premises.

(3) The permission referred to in subsection (2)(b) may not be unreasonably withheld.

(4) If requested to do so by the registered trade union or the employer, the Commission must attempt to secure an agreement between the parties to the dispute on rules that should apply to any picket in relation to that strike or lock-out.

(5) If there is no agreement, the Commission must establish picketing rules, and in doing so must take account of –

- the particular circumstances of the workplace or other premises where it is intended that the right to picket is to be exercised; and
- any relevant code of good practice.

(6) The rules established by the Commission may provide for picketing by employees on their employer's premises if the Commission

is satisfied that the employer's permission has been unreasonably witheld."The Labour Court has indicated that the processes described in these provisions does not amount to conciliation and arbitration. The Section 69 procedure commences with a consensus-seeking exercise. Rules can be made only if this process fails, but this rule-making is also a flexible process of decision making. It entails a rational decision being made by a CCMA commissioner, a decision based on relevant and reliable information placed before the commissioner.

Evidence may be led to ensure that the information is reliable. The rule-making process flows from the consensus-seeking process and the deliberations during the first process are not automatically confidential or without prejudice. Parties should know that the information disclosed during the first stage of the process may be taken into account to reach a decision in the rule-making stage.

In respect of where the picket should be held, the Labour Court has indicated that the union bears the onus of proving that the employer's refusal to grant permission to picket inside the employers premises is unreasonable. Before a commissioner can make a decision permitting picketing on the employers premises, there must be an enquiry into the reasonableness (and a finding of unreasonableness) of the employer's refusal to permit picketing on its premises.

In the interests of all parties concerned, it is suggested that prior to the commencement of a protected strike, a picketing agreement should be reached with the affected union/s. It is in the employer's interests that it is not prevented from carrying on its business, and that non striking employees, the production process and customers are not interfered with. It is in the interests of picketing strikers, however, to get as much exposure in terms of support for the strike, as possible. Since the recent amendment of the Rules of the CCMA, it does not issue a strike certificate in instances where Picketing Rules have not as yet been established.

An agreement dealing with picketing at the company should cover:

- Specific provisions for authorisation, notice and control;
- What is acceptable behaviour;
- Numbers of pickets and their location; and
- Communication between marshals, employers and police.

Strikes are by their nature unique and can be highly unpredictable. The time, rate, scale and sequence of events are infinitely variable. It is impossible to develop rigid guidelines for handling these events and there is no replacing the sensitive and sensible judgement of managers actually in the situation.

Strikes are fundamentally emotional events. Workers often initiate a strike in a mood of high emotion. This tends to elicit an emotional response from management. A strike is an expression of power; hence the parties act and react under pressure. It is often difficult to retain a rational perspective under these circumstances, and for this reason it is vital that strike guidelines are discussed, adjusted to an employer's situation and internalised by management before a strike takes place.

Ultimately the objectives in handling a strike are to:

- arrive at a settlement acceptable to both the industry and the striking employees in the shortest possible time;
- restore order in production;
- prevent injury to persons and damage to property;
- diffuse management/employee tensions; and
- emerge from the strike better equipped to handle similar future disputes.

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APPOINTMENTS

National Energy Regulator of South Africa (NERSA) appoints CEO

The National Energy Regulator of South Africa (NERSA) announced in September that Advocate Nomalanga Petronella Sithole has been appointed CEO effective from 25 August 2021.

Adv. Sithole holds B Proc and LLB degrees, as well as a Diploma in Company Direction. She has 24 years of experience in energy regulation, having been employed by the then National Electricity Regulator (NER) that regulated the electricity industry, which was transformed in 2005 into the National Energy Regulator of South Africa that regulates the electricity, piped-gas and petroleum pipelines industries.

She has held various positions at the NER and NERSA, which included, among others, Board Secretary, Legal Advisor, Head of Licensing and Legal Services, Head of the Board Secretariat, Legal Counsel, Executive Manager: Support Services, as well as Executive Manager: Corporate Services.

Additionally, she represents NERSA on some energy structures within the South African Development Community (SADC) region and on the continent.

NERSA Part-Time Regulator Member, Mr Fungai Sibanda, congratulated Adv. Sithole on her appointment. "Advocate Sithole's immense experience in energy regulation will greatly contribute towards the execution of NERSA's mandate to ensure the sustainable development of the energy sector by balancing the economic interests of all stakeholders, and to ensure the sustainablesocio-economic development of South Africa," he said.

Arcelor Mittal South Africa appoints interim Chief Financial Officer

Arcelor Mittal South Africa (Amsa) has appointed Senior Manager of Statutory Reporting Suretha Van Wyk as interim Chief Financial Officer. The appointment is effective from 1 October 2021 for a maximum period of six to 12 months.

The appointment follows the resignation of Desmond Maharaj, who left the company at the end of September. Amsa said in a Sens announcement released late in September that attempts to identify a suitable successor had not yet been concluded despite attempts to do so. It added that the audit and risk committee and board were comfortable that Ms Van Wyk was well qualified and had the necessary experience and expertise to fulfil this role effectively.

"Ms Van Wyk has 32 years of relevant experience and has been employed by ArcelorMittal South Africa for a combined period of 12 years, (initially during – 2002 to 2012 and then in 2019 to date in an auditing and statutory reporting capacity)," the company said.

Luthando Vutula named CEO of Bigen

Bigen, a leading African infrastructure development group of companies, has announced that Luthando Vutula will succeed CEO Dr Snowy Khoza, who has decided to retire. Vutula's appointment is effective from 1 October, 2021.

Kelepile Dintwe, non-executive chair of the Bigen board said Mr Vutula was a revered and successful business leader with extensive years of experience in similar markets to Bigen. "We look forward to him building on the solid foundation and momentum achieved by the outgoing CEO and the Bigen leadership team," she said.

Vutuka was previously CEO of financial services provider Ubank, Head of Sectors at Absa Retail and Business Bank, Managing Executive at Absa Home Loans, and Managing Director of Absa DEVCO. Prior to joining Absa, he served on the executive level at the National Housing Finance Corporation, where he was responsible for a number of portfolios. He chaired several boards in both the private and public sectors.

Vutula holds a Master's Degree in Development Finance from the University of Stellenbosch, a BA Honours Degree in Business Administration from the University of Stellenbosch and a Bachelor's Degree in Economics and Accounting from the University of Botswana.

Fun-filled day on the greens with a dose of healthy competition at **SEIFSA Golf Day**

SEIFSA is proud to have once again hosted another successful day of networking, building relationships and sharing ideas on the greens. The 71ST annual Golf Day was held on 17 September 2021 at the Reading Golf Club in Alberton, Johannesburg.

The oversubscribed event was attended by a diverse group of SEIFSA stakeholders, including the senior leaderships and owners of some of SEIFSA member companies and was a resounding success. It was fun-filled day with a dose of healthy competition as the four-member golf teams competed for the highest score over 18 holes.

Winners

This year, the prestigious SL Hodgson Memorial Trophy went to Sanlam Investment Management, who were the first-prize winners of our golf tournament.

The second prize went to Momotheka OHS Training, with the third prize going to CBi Electric Telecom Cables.

We extend our gratitude to our sponsors for helping us host yet another exciting day of golfing fun!

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Electricity 4.0 – a greener future through convergence

By Taru Madangombe, Vice-President, Power Systems, Schneider Electric

Taru Madangombe

With recent media reports indicating that officials from US, UK, France, and Germany are pursuing an agreement with Eskom to shut down the majority of its coal-fired plants, the spotlight has again been placed on South Africa's energy provision and usage.

Furthermore, the impending 2021 United Nations Climate Change Conference, also known as the COP26 summit, will seek feasible ways of moving towards the decarbonisation of the electricity mix throughout the world, particularly in the major emerging countries.

Against this backdrop, South Africa, more than ever, needs to rethink its relationship with energy which accounts for 33% of the Africa's s overall carbon emissions contribution.

Fortunately, there are attainable solutions that can set the country on a path of optimise and sustainable energy management and usage. One of these solutions is the convergence of electrical and digital at scale. It is, in fact, the fastest route clear, smarter, and more efficient energy.

To contextualise the above, it's important that we take one step back. Whilst most are familiar with Industry 4.0, the globe has, in fact, gone through four technology-driven revolutions, impacting simultaneously the worlds of industry and electricity.

The solution is, therefore, a world that is more electric and more digital. An efficient, sustainable, and resilient electric world that merges digital and electric to ultimately mitigate the impact of climate change. At Schneider Electric we call this Electricity 4.0.

Electricity 4.0 can play an invaluable role in South Africa considering the country's level of carbon emission contribution. The time is now to start looking at how we can move towards Electricity 4.0, realising an economy built on sustainable practices whilst mitigating climate change.

Against this backdrop, South Africa, more than ever, needs to rethink its relationship with energy which accounts for 33% of the Africa's s overall carbon emissions contribution

WHY ELECTRICITY 4.0?

THE CONVERGENCE

One of the biggest challenges is to make electricity efficient and visible. We need to look at how the electric world is merging with digital and, importantly, how this could lead to sustainability electricity provision.

The world's energy demand continues to be met by fossil fuels that are distributed by systems that are passive and outdated. This means that we need to upgrade each stage of the value chain; from generation with cleaner energy production, to distribution that include microgrids closer to the point consumption, and energy usage that incorporates metering and smart technology.

When we then bring Electricity 4.0 into the equation, we start making real strides. For one, electricity is the most efficient energy (proven to be three to five times more efficient than other sources) and it is also the best vector for decarbonisation. It offers near 100% maximum thermal efficiency when it comes to "useful energy".

Also, while electricity demand is projected to double by 2040, six times more electricity will also come from renewables which translates to massive jump from 6 to 40% in the next 20 years.

At its core, Electricity 4.0 represents the convergence of electricity and digital; today's digital technologies exist to achieve widespread electrification. A good example is the move towards electric vehicles.

Importantly, is the convergence of electrical and digital's role in establishing smart energy measurement and waste reduction. These are two critical points that are relevant to SA and our grid's energy provision challenge.

The technology already exists to digitalise electrical distribution, making it visible to grid operator, providing insight into how it's used.

When you then add smart devices, apps, analytics, and software, we can then deploy energy more efficiently which results in massive saving.

Ultimately, Electricity 4.0 allows us to become more efficient and to transmit electricity with less loss and waste. However, for us to gain the most from Electricity 4.0, we must upgrade our transmission grid. This will entail substantial commitment and investment which can only be achieved through public private partnership.

State reforms will unlock SA rail's potential, says ARIA

The South African government's proposed structural reforms to the rail sector, which will see private rail operators operating on the country's core rail network, will breathe new life into an industry which is currently under severe pressure, says industry body the African Rail Industry Association (ARIA).

The reforms, announced by President Cyril Ramaphosa in October 2020 as part of the country's Economic Reconstruction and Recovery Plan, aim to supplement Transnet's capacity, migrate freight volumes from road to rail and stimulate broader economic growth. The plan initially proposed a deadline of October 2021 for its introduction. Speaking at the recent ARIA webinar Dr Sean Phillips, head of the National Treasury's Operation Vulindlela unit, said that the current target date for enabling third-party operators in the freight sector was August 2022, with ongoing efforts under way to accelerate the time frame put on the table by Transnet.

ARIA estimates that only 17% of South Africa's general freight currently moves by rail. Transnet moved 215-million tonnes in 2019, down 5% from 2018, with vandalism often paralysing the country's electric fleet. However more than 80% of the country's 36,000km network has "significant capacity", says ARIA CEO Mesela Nhlapo.

ARIA research shows that 190-million tons of intercity freight and 20-million tons of bulk commodities currently move by road every year. Of this, around 58-million tonnes could move to rail almost immediately, with the sectors that would benefit including agricultural commodities, metals and minerals, cars, containers, hazardous chemicals and liquid bulk.

An estimated R45-billion in rolling stock alone would be required to service this volume requirement, which would provide a massive boost to the local rail manufacturing industry, with significant locomotive and wagon build programmes on the cards. Unlocking this capacity would also grow the rail services segment, finance markets and the advisory market, as specialist advisors would be required across the supply chain.

MsNhlapo said it is important to note that third-party access in this context did not mean privatisation, but rather the use of the rail network by private sector rail operators at a fee, similar to how trucks pay toll fees to access roads to move freight across the country. Importantly, no new regulation is required to enable third-party access. Regional trading partners have already moved to this model, supporting interoperability and regional trade for pan-African operations.

"The value of this move to the state and Transnet would be significant. Right now, we have a massive network with excess capacity, which could unlock significant incremental cash flows through access fees from private operators. In addition, the existing infrastructure requires no extra state investment, as track maintenance costs should be largely fixed costs," said Ms Nhlapo.

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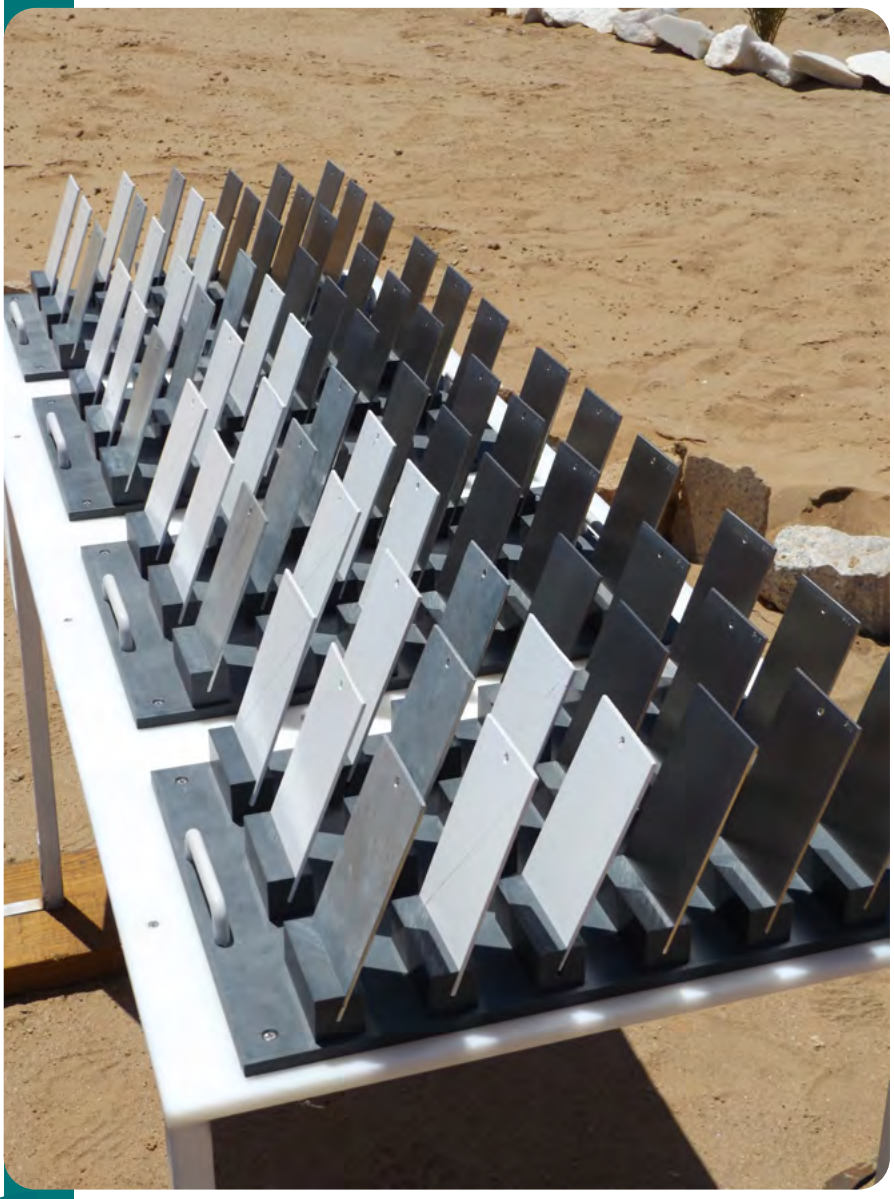
ISO 9001 2015

Hot dip galvanizing versus zinc-rich paint

By Simon Norton, International Zinc Association, Africa Desk



Engineering and technical staff often get confused over the various terms bandied about in South African industry such as "galvanized" or "cold galvanizing" or "zinc-rich paints". So, what's the difference?

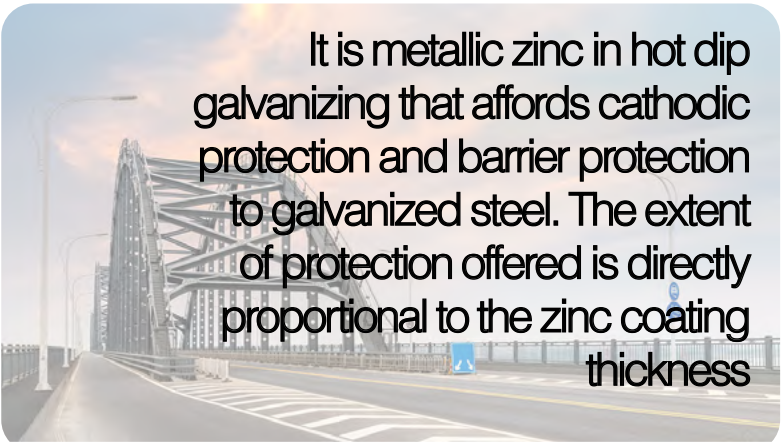
It is metallic zinc in hot dip galvanizing that affords cathodic protection and barrier protection to galvanized steel. The extent of protection offered is directly proportional to the zinc coating thickness.

This is not so for zinc-rich paint, which consists of fine zinc powder dispersed in a dry film of paint resins. A further factor to be considered is the environment to which these coatings would be exposed. Paint coatings are notorious for having pinholes that allow the external environment to penetrate the coating, something hot dip galvanizing avoids.

The key difference is that hot dip galvanizing results in the zinc coating forming a metallurgical bond with the underlying steel, whereas zinc-rich paints (cold galvanizing) merely adhere to the steel surface. Each has its place in corrosion-protection applications.

Care should therefore be taken when selecting zinc-based coating systems for chemically-aggressive environments. Zinc, being an amphoteric metal, is attacked by both acids and alkalis. Zinc coatings should only be used in the pH range of 6 to 12. Zinc phosphate and zinc chromate containing paints do not provide cathodic protection as they are corrosion inhibitors rather than sacrificial coatings and provide protection by a totally different mechanism.

When considering zinc-rich paints, only those that contain sufficient quantities of metallic zinc dust provide cathodic protection. There must obviously be sufficient zinc particles present to ensure that they are in electrical contact with each other in order to provide a common anode. Individual isolated zinc particles dispersed in the paint binder or resin will not provide protection, as they would essentially be insulated from the steel substrate and each other.



On the other hand, if too much zinc dust is added to the paint, there may be insufficient binder available to glue these particles together, giving a weak coating with poor adhesion and cohesion. In accordance with ISO 12944, all zinc-rich paints should contain a minimum of 80% zinc in the dry film in order to function as sacrificial primers. From the point of view of zinc content, hot dip galvanizing is the ultimate zinc-rich primer. However, there are occasions where a zinc-rich paint is the answer.

Duplex coating systems (galvanized steel plus coating) provide synergy by virtue of the fact that the durability of the combined hot dip galvanized and organic coating system is greater than the sum of the separate durability of the hot dip galvanizing and the coating layer. In some circumstances, such as with design restrictions, size of component, geographical location of the fabricator in relation to the galvanizer, or where hot dip galvanizing is physically impractical or impossible, it may have to be substituted by either inorganic or organic (epoxy) zinc-rich paint.

Looking at the pros and cons of hot dip galvanizing versus zinc-rich paints, one of the considerations is cost. The essential difference is that hot dip galvanizing costs are calculated by the mass of the steel that is hot dip galvanized, while painting costs are based on the area painted. Tables are available for most steel sections giving surface area by mass. As a rule of thumb, the following can be used:

- Extra light steel: More than 40m2/ton
- Light steel: 30 to 40 m2/ton
- Medium steel: 20 to 30 m2/ton
- Heavy steel: Less than 20 m2/ton

In the case of hot dip galvanizing, steel is subjected to a specific cleaning process, including degreasing, acid pickling and fluxing, with intermediate water rinsing, thereby creating a thoroughly clean surface, which is essential for hot dip galvanizing to take place.

The resultant coating thickness is dependent on several factors, including chemical composition of the steel, steel thickness and surface roughness. In steel of thickness equal to or greater than 3mm but less than 6mm, the mean coating thickness is required to be at least 70 microns by SANS 121. However, on steel thickness greater than 6mm, the coating must be 85 microns.

In the case of zinc-rich paint, the painter will abrasively blast clean the steel and then apply a suitable 75 micron thick (inorganic or organic) zinc-rich primer coat for a protective coating system at a cost based on the total area of steel painted.

It can be argued that the hot dip galvanized coating contains more zinc and will therefore last longer than the 75 micron paint (with 80% zinc in the dry film). On the other hand, the hot dip galvanizing requires thorough cleaning before the primer or intermediate coat can be applied.

However, both methods of providing the required metallic zinc primer can be cost-effective, depending upon circumstances. It is for this reason that in recent years both options have been given in protective coating specifications, leaving the final decision whether to hot dip galvanize or paint up to market forces. Clearly, hot dip galvanized coatings and paint coatings complement each other in the protective coatings industry.

Stricter reporting and enforcement on local empowerment in Africa

By Lerato Thahane and Ashleigh Hale

All indications are that more stringent reporting and enforcement of local empowerment requirements are on the way across much of Sub-Saharan Africa.

On the face of it, this prospect might seem likely to pose further challenges for governments' efforts to attract investors, but there could be an upside. Better and more detailed reporting on local ownership and empowerment potentially means greater transparency and clarity on what regulators expect from investors. And if there is one condition that gives investors comfort, it is certainty in the business, regulatory and policy environments in which they operate.

It seems clear from developments in the local ownership and empowerment landscape across Sub-Saharan Africa that there is a trend towards increased reporting obligations and, by extension, enforcement. We saw this in the analysis of regulatory and legislative developments across 14 countries that we did in preparation for the publication of our Local Empowerment in Africa Guide late last year.

In the past, regulators mainly wanted companies to report on their performance against local ownership targets at key milestones, such as when a fundamental transaction was on the cards.

The trend we are seeing now is towards reporting on a wider spectrum of indicators and in more detail than before, mostly annually, but in some cases more frequently.

REPORTING ON LOCAL OWNERSHIP GAINS GROUND

In Ethiopia all investors are required to submit a quarterly progress report on the implementation of their investment projects to the Ethiopian Investment Commission (EIC). If an investor fails to submit a report on time, the EIC has the option to suspend its investment licence.

Other jurisdictions with specific local empowerment reporting requirements are Tanzania, where mining companies must submit an annual local content report, and Nigeria, where oil and gas operators must report annually to the Nigerian Content Development and Monitoring Board.

In South Africa, where JSE-listed companies have been required to submit annual compliance reports to the B-BBEE Commission since 2018, other regulators, too, have stepped up their reporting requirements. Among them are the Competition Commission of South Africa and sector regulators such as the Independent Communications Authority of South Africa (ICASA) and the Department of Mineral Resources and Energy (DMRE).

Several other Sub-Saharan African jurisdictions do not (yet) have specific empowerment reporting requirements, although they do 'reserve the right', so to speak, to require accountability from investors.

For example, Kenyan sector regulators may conduct inspections to establish the extent of compliance with local ownership rules, and in Zimbabwe, the Minister of Indigenisation may require any business to submit an indigenisation assessment for an empowerment assessment rating.

REGULATORS AND BUSINESS COULD BENEFIT

There is method in the additional reporting requirements on localisation and ownership. Regulators are aware of the benefits of increased reporting in helping them better understand what is happening on the ground.

Armed with that insight, they can identify where there might be a need for future policy change and legislative amendments. In some cases, this could be used to tighten compliance and clamp down on investors perceived as perhaps not pulling their weight. In others, it might mean possibly amending requirements that in practice have proved to be too onerous.

The latter point is important. Regulation is seldom all stick and no carrot, or vice versa. Regulators do not set out to make it difficult for companies to do business and in our experience, they tend to be willing to engage and open to listening to other points of view.

Hence, rather than seeing increased reporting obligations as burdensome, companies could use their reports as an opportunity to bring issues of importance to the attention of the regulators. Clear and comprehensive reporting could be as potentially beneficial to business as to the regulatory authorities.

TOE THE LINE OR ELSE ...

During our 14-country empowerment analysis, we observed various changes in the way regulators are enforcing compliance with empowerment regulations, particularly with ownership requirements.

There is a focus, especially in South Africa, on substantive compliance and genuine empowerment. In South Africa, companies could face fines of up to 10% of annual revenue and criminal sanction if they are found guilty of "fronting".

Fronting is broadly defined to mean misrepresenting a company's true empowerment status. The regulator, the B-BBBE Commission, is taking a more active role investigating ownership structures to ensure the substance of such structures matches the legal form.

It is also more common for regulators in the various countries we reviewed to enforce local ownership through licensing conditions or other approval processes. This is evident for example in the licensing and foreign investment approvals required in Ethiopia, Kenya, Nigeria and South Africa in respect of investment in the technology, media and telecommunications sector.

The South African Competition Commission has been active in considering the impact of mergers on the level of ownership by historically disadvantaged persons in target firms. This forms part of its public interest mandate. The most recent example is the controversial 'Burger King' decision, in terms of which the Commission blocked ECP Africa's proposed acquisition of Burger King South Africa because this would reduce the shareholding of historically disadvantaged persons from 68% to 0%.

The Burger King decision, although still likely to be tested in the courts, illustrates the range of tools at the disposal of regulators in ensuring compliance with local ownership and empowerment requirements. If ever there was any doubt that the authorities meant business over B-BBEE, this particular ruling has hammered that point home.

While few would argue that there should be consequences when it comes to enforcing local ownership and empowerment requirements, this must be tempered by a consideration of the commercial constraints faced by investors and their ability to contribute to the overall goal of developing industries and economies.

Source: Bowmans Gilfillan

WORKING WITH

Stainless steel (INOX) is often a first choice material to work with because of its corrosion resistance, longevity and cost-effectiveness. Working with INOX, however, does pose some challenges—especially if incorrect tools and processes are used

STAINLESS STEEL

As part of their service to customers, PFERD South Africa, the manufacturer of products for surface preparation, finishing and cutting, offers guidance on working with stainless steel and ensure customers benefit from everything this versatile material has to offer.

Marius Steyn, Training Manager at PFERD South Africa explains: "The South African stainless steel and steel industries are well established in the supply of high-quality steel. Stainless steel applications can be found in all of the major industrial sectors, be it food, beverage, pharmaceutical or automotive and it is important to achieve the specified surface conditions and finishing. In order to obtain a high standard, certain tools and in-situ arrangements need to be adhered to for the process to be successful and cost-efficient."

ESTABLISH THE FUNCTION

Differing surface functions determine the final surface roughness and finish of the stainless steel. Industrial applications, for example, may require a surface definition that prevents bacterial growth to ensure a safe and hygienic environment as well as to maintain corrosion and wear resistance in order to prevent structural damage.

In the retail or architectural sector, aesthetics take precedence and priority is placed on the stainless steel's final appearance. Therefore, it is important to establish what function the finished stainless steel surface will perform.

ELIMINATE CROSS CONTAMINATION

Stainless steel is an alloy of iron with a minimum of 10.5 percent chromium. Chromium produces a thin layer of oxide on the surface of the steel—the "passive" layer—this prevents surface corrosion.

Damage to the passive chromium layer, caused by incorrect working methods can lead to the stainless steel rusting. Cross-contamination of INOX is one form of damage that can cause it to rust.

"The prevention of cross contamination of non-stainless with stainless steel is a crucial factor when working with stainless steel in workshops. PFERD advises customers to protect the work components at hand from surface contamination and contamination from other materials", Steyn said.

Sparks from close by metal cutting and grinding operations can embed themselves in the stainless steel and lead to its eventual deterioration. This can occur sometime after installation of the stainless steel products and would then require costly repairs in accordance to best practises.

Only specialised grinding and polishing components for stainless steel should be used and all non-stainless consumables should be avoided due to the possibility of contamination.

Mr Steyn added, "The protection of the stainless steel operation goes as far as recommending the establishment of dedicated stainless steel working

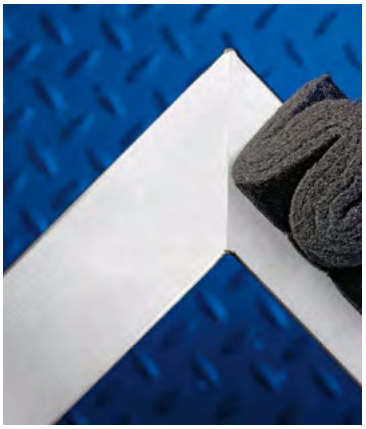
bays and separate storage facilities for materials and components that are specifically designed for stainless steel operations. A clean environment as well as ensuring the stainless steel itself is clean, by using dedicated cleaning agents, is recommended".

"Similarly, it is important to select grinding tools without any ferrous, chlorinated or sulphurous fillers. Wire brushes with stainless steel or Silicon Carbide (SiC) filaments are specifically designed to be stainless steel compatible", said Steyn, adding, "PFERD have conducted enormous research into stainless steel best working practice, which is readily available on our website".

being a bad conductor of heat, can alter the metal's metallurgical compound and reduce its corrosion resistance.

To prevent this, PFERD's POLIFAN CO-FREEZE INOX flap discs which feature ceramic oxide (CO) grain with an active grinding and cooling coating (FREEZE), reduces heat build-up and heat discolouration when grinding stainless steel.

Mr Steyn further adds, "The cutting of stainless steel is optimised with the use of our high-performance thin cut-off wheels. These 1mm wheels cut faster, thereby producing less heat



TOOL SELECTION

Factors that play a role in the correct tool selection for stainless steel use include dimensions of the surface and its condition, accessibility, the result required as well as the application method.

Small and tight spaces require different tools compared to surfaces that are more accessible. The cleaning and smoothing of a steel weld seam requires completely different tools to those used for brush matting or finishing of stainless steel.

Achieving a mirror finish is one of the more demanding requests as mechanical scratches should be removed and the surface structured systematically.

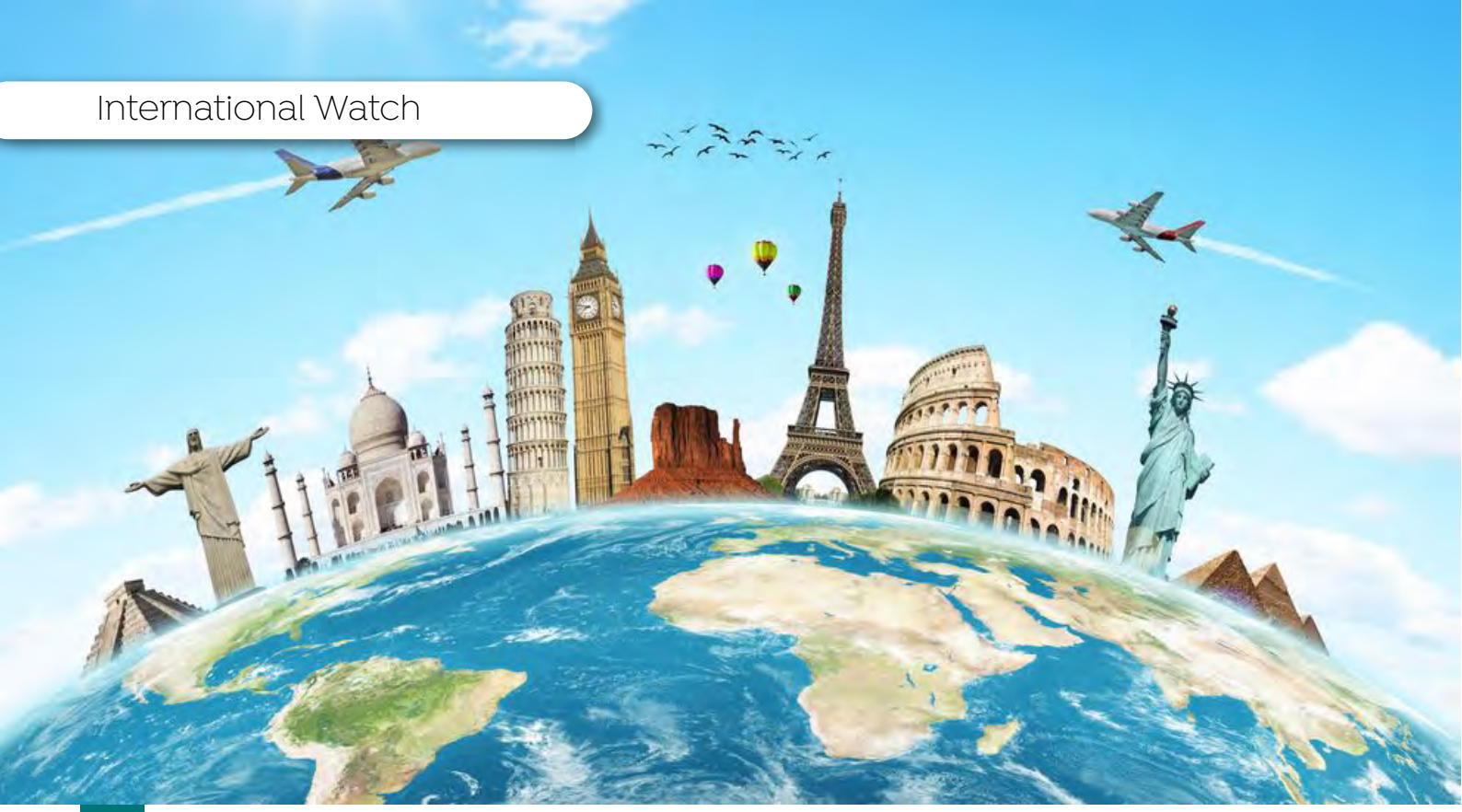
Technological advances in grinding and polishing tools for INOX help eliminate many of the material's challenges. Heat discolouration in the grinding area, which occurs due to stainless steel

and heat discolouration. Burr formation is also minimised which in turn requires less rework to remove."

PFERD Tungsten Carbide burrs with INOX cut offer an extremely high stock removal rate thanks to its innovative tooth geometry leading to significantly less heat, heat discolouration and vibration.

"The POLIFAN CO-FREEZE, INOX Cut TC Burrs and Thin Cut-off wheels are but a few of the 8 500 products in our product range," says Mr Steyn, adding, "Greater understanding of the correct tool selection and application of how they interact with stainless steel is a conversation PFERD welcomes."

PFERD is available to assess your application and provide you with the optimum product and machine combination to ensure the ideal and most cost-effective solution.



GLOBAL

Souring iron ore outlook set to persist into 2022

The outlook for iron ore prices has soured as China slashed steel production, one of its largest property developers defaulted and the country advanced its work to decarbonise its economy.

Iron ore prices plummeted through August, falling about $100 per tonne to as low as $94/t by mid-September for S&P Global IODEX 62% Fe and near $100/t for NYMEX 62% Fe after China called for caps on steel output as it sought to cool prices in metal markets and decrease pollution from the steel industry. They had traded at over $200/t until late July in part due to strong Chinese steel production in the first half of the year amid economic growth of 12.7% in China.

"We're going to see prices struggle and go back to around the $100/t level," said Tom Price, head of commodity strategies at Liberum Capital, commenting on fourth-quarter expectations.

S&P Global Market Intelligence dropped its fourth-quarter forecast to $110/t from an earlier forecast of $145/t.

"The demand and price outlook is a lot weaker," S&P Global Market Intelligence analyst Ronnie Cecil said.

Prices could slide further as iron ore output typically increases in the back half of the year, Cecil said.

With lower Chinese iron ore demand in play, Cecil said pricing risk is to the downside. Liberum's Price holds the same view, seeing iron ore prices in the $90/t range over the next few months as possible.

As for 2022, analysts said they largely expect prices in the low $100/t range to persist, though iron ore supply shocks could add to volatility.

"It's a tricky one," Cecil said on forecasting next year.

Analyst John Tumazos with Very Independent Research expects China's curbs to steel production to remain in place through 2022.

"I think it suits their purposes to keep output low in 2022 and let it rebound in 2023, 2024," Tumazos said.

One added factor that could weigh on Chinese steel output next year is the 2022 Beijing Winter Olympics set to be held in February. During major events like the Olympics, China often curbs industrial production to improve air quality.

"I'm sure that's likely to happen again," Cecil said.

While China's steel sector curbs may remain in place, Price also noted steel producers typically restock in the early part of the year and that could buoy prices in the first quarter.

"I'm expecting the old seasonal upswing to play out and that'll probably offer a bit of relief to the companies at the top end of the cost curve," Price said.

Next year could also see China loosen its grip on the steel sector. Credit Suisse analyst Matthew Hope noted in a September 28 research report that China continues to rapidly urbanize, while infrastructure expansion remains a core part of its latest five-year plan.

"We expect Beijing may have to drive infrastructure hard next year to reach five-year targets, and that should help steel demand," Hope said.

Market Intelligence forecasts 2022 iron ore prices at an average of $115/t, but there could be gyrations in the market. Major miners are largely not expanding production, leading to tight supplies. Iron ore prices could jump if supply disruptions emerge, Cecil said, pointing to project delays due to environmental, social and governance issues and interruptions at iron ore operations and shipping hubs due to bad weather.

"It wouldn't take much on the supply side to cause another spike in prices," Cecil said.

Market Intelligence forecast 2021 global iron ore supply at 2.4 billion tonnes and crude steel production at 1.98 billion tonnes, with China accounting for about half the world's steel output.

With iron ore prices in the $100/t range, analysts doubt major iron ore miners like BHP Group, Rio Tinto Group, Fortescue Metals Group Ltd. and Vale SA will cut supply as they continue to generate profits around that mark. But they see higher-cost producers in China curbing output where the cost of production is about $100/t.

"They would be in a world of pain at the moment," said Price, referring to domestic Chinese iron ore operations and some small operations in Australia.

Source: S&P Global Market Intelligence

GERMANY

German steel pricing sentiment bearish, higher stocks seen for Q4: Survey

German steel producers, end-buyers, distributors and traders were found to be mostly bearish on pricing over October, according to a monthly survey of sentiment in the country's steel sector conducted by S&P Global Platts for October.

Most participants also agreed on expectations for higher inventories as lack of automotive demand, with a build-up of imports at European ports leaving steel mills fearful amid slow buying activity, according to the survey data.

The survey, which is used to compile an index demonstrating pricing sentiment, was conducted at the beginning of this month and showed the overall expectation for steel prices at 25, down a whopping 31 points from the previous month, with all participants largely in tune over the direction of prices.

Steel pricing sentiment has taken a downturn since the summer slowdown and has struggled to recover since then, with cheap imports and a semiconductor shortage hindering the automotive industry from consuming previously agreed steel volumes, leading to higher availability of steel.

Back in September, the European market remained very uncertain about prices and inventories, as the semiconductor shortage forced carmakers into intermittent production, with one known

manufacturer Stellantis having to cut production from 24/7 to just five days a week and two major European original equipment manufacturers announcing a cease in production.

Since then, market participants have been very cautious to divulge workable prices at a time when transaction activity has been minimal, with buyers choosing to hold off spot purchases in fear of imminent lower prices as more import material clears European ports.

"Imports are a serious threat in this period and given the semiconductor issue remaining unresolved for the foreseeable future, auto demand will remain under pressure," a European trader said. "We are in a buyers' market now."

With producers still in long-term contract negotiations with manufacturers, Western European mills are keen to keep spot prices firm, while Visegrad mills have finalized deals reportedly below Eur1,000/mt ex-works Ruhr.

"Currently, the barrier is at Eur1,050/mt ex-works Ruhr," a German distributor said. "I see a potential towards Eur1,000/mt."

Hot-rolled coil prices have dropped considerably since their peak toward the end of June 2021. The daily Platts HRC assessment stood at Eur1,047.50/mt EXW Ruhr Oct 8, down nearly Eur143/mt from a record high of Eur1,190/mt June 25.

UNWANTED AUTOS

As domestic prices rise, European inventories are starting to pile up as unwanted automotive volumes – coupled with recently cleared imports – flood the market.

While some mills stand confident that peripheral sectors like the heavy machinery and construction industries will be able to soak up the steel surplus, some European mills were heard to be channeling available steel volumes into exports.

"The cancellation of orders by automotive has forced EU mills to try and move volumes to export markets in order to not contaminate domestic prices," a European mill source said.

A German distributor said: "Lack of automotive demand across Europe is causing increasing stocks. The availability makes mills nervous – there are no real transactions, inventories are growing, and no one needs to buy. People are sitting and waiting, mills are giving discounts to secure volumes."

Stockholders and distributors were still busy with outstanding orders and assessing what orders they could cancel amid depressive sentiment.

The index for inventory sentiment stood at 77, suggesting a very aggressive rise in stored volumes from September, when the index stood at 57. End-buyers were the most bullish on inventory increases with an index of 75, while producers stood at 58 and traders at 38.

CAPACITY FEARS

Production forecasts for October were rather muted with the overall index at 51, denoting stability. Most bullish in this category were producers at 56, followed by end-buyers at 50 and traders at 46.

The European market has been expecting some additional production, with Thyssenkrupp having restarted its biggest blast furnace October 1 after a reline. Salzgitter said in August it would restart its Blast Furnace C in November, which had been idled in 2019. A Salzgitter spokesperson said earlier this week the restart would be "under consideration."

As inventories rise, market players have expressed their doubt about mills potentially adding more unneeded capacity to the market.

"I don't know what to think of those mills restarting. It's risky, but perhaps they want to catch as much volume as possible before there is a real collapse," the European trader said. "We also have to consider that [steel body] Eurofer's demands for quotas/tariffs are a bit unfair if there are unused European capacity falsely inflating prices."

Source: Hellenic Shipping News

NIGERIA

Russia ready to assist Nigeria revamp Ajaokuta Steel – Okonkwo

President, Nigeria-Russia Chamber of Commerce and Industry, Dr Obiora Okonkwo has expressed the readiness of the Russian Federation to assist the Federal Government in revamping the near-moribund Ajaokuta Steel Company, saying the onus was on Nigeria to take the first step.

Dr Okonkwo disclosed in September in Abuja at a news conference to announce the inauguration of the Nigeria-Russia Chamber of Commerce and Industry.

He said; "Russia has made itself available to the Nigerian government that should they decide to bring back the original equipment manufacturer, they are ready to assist.

"Revamping Ajaokuta has a lot more to do with Nigeria and not Russia. It is more of our policy somersault and a whole lot of conflicting international interests.

"Nigeria's Ministry of Mines and Steel Development is in talks with the Russian Ministry of Trade and Investments and they are willing to help Nigeria in that regard."

Okonkwo recalled that a Russian-African summit had taken place in Sochi, Russia in 2019 as part of efforts to open up a new era of Africa-Russia relationship.

One of the deliverables from the summit, he said, is the inauguration of the chamber of commerce.

He said the inauguration of the chamber is the beginning of a new journey that will enable "Nigeria explore business relations with the Russian Federation which, we believe, will promote economic growth, technology transfer, development and also foster better understanding for both countries".

"As you may be aware, the Nigeria-Russia Chamber of Commerce and Industry (NRCCI) was founded by my humble self. It is incorporated under the Companies and Allied Matters Act 1990, and has established beneficial relationships and contacts with numerous economic development organisations in Russia.

"Our aim is to promote commerce, industry, education and training between the two countries.

The principal objectives of NRCCI is to promote commerce, industry, trade and ancillary services; foster, advance and protect commercial, industrial, trade and professional enterprises and, without limitation, other activities and business undertakings of all kinds in the locality and elsewhere.

"Our collaboration with the Russian Federation, as the name of the Chamber suggests, is predicated on our interest in the vast opportunities which the Russian economy presents. We are therefore seeking to establish an industrial development mechanism built on the principle of mutual beneficial relationships with their own business groups. The strategy is to establish and sustain business contacts with the existing numerous economic development organizations in Russia and Nigeria.

The Russian business delegation was led by an Ambassador-at-Large, Oleg Ozerov, an Envoy of the Ministry of Foreign Affairs of the Russian Federation and Head of the Secretariat of Russia-Africa Partnership Forum.

Mr Ozerov said the delegation had earlier paid a courtesy call on Vice President Yemi Osinbajo at the Presidential Villa.

He said; "We are impressed with the meeting we had with the vice president of Nigeria. Nigeria has the will to build a better future and we hope that we can build this future together". Omeiza Ajayi

Source: The Vanguard

ACCREDITED
TEMPORARY EMPLOYMENT
SERVICE PROVIDERS

Accredited Temporary Employment Service Providers as at 12 October 2021

- Adcorp Blu a division of Adcorp Staffing Solutions (Pty) Ltd
- Adcorp BLU a division of Adcorp Workforce Solutions (Pty) Ltd
- AMT Africa Recruitment
- AMT Placement Services
- Bathusi Staffing Services (Pty) Ltd
- CAP Personnel Placements (Pty) Ltd
- CDR Contracts (Pty) Ltd
- CSG Resourcing (PTY) Ltd
- CSS Labour (Pty) Ltd
- Eduardo Construction (Pty) Ltd
- ESG Recruitment cc
- Fempower Personnel (Pty) Ltd
- Gee 2 Kay (Pty) Ltd
- Global Isizwe Placements (Pty) Ltd
- Impact Human Resources Pty Ltd
- International Task Labour (Pty) Ltd
- Ithemba Langemphela
- JLH Group (Pty) Ltd
- Lavoro Matkri (Pty) Ltd
- Mabhele and Associates (Pty) Ltd
- Madobra (Pty) Ltd
- MECS Growth (Pty) Ltd
- Molapo Quyn Outsourcing
- Nelso Africa (Pty) Ltd
- On Time Boiler And Engineering Support Services cc
- Pachedu Trading (Pty) Ltd T/A People Dynamics Human Solutions
- Phakisa Holdings (Pty) Ltd
- Phakisa MSP (Pty) Ltd
- Primeserv Denverdraft (Pty) Ltd
- Primeserv Staff Dynamix (Pty) Ltd
- Qunu Staffing (Pty) Ltd
- Quyn International Outsourcing (Pty) Ltd
- Scribante Labour Consultants (Pty) Ltd
- Sindawonye Services
- Sivulamtfuba Construction and Projects
- Southey Personnel Services
- STAFFATACLICK (PTY) LTD
- Themba Njalo Camden
- Tributum Emawi (Pty) Ltd
- Vusithemba Mpumalanga

Focus on Leave enhancement pay exemptions

With the South African economy still struggling to get back to normal levels of productivity, many SEIFSA member companies have been seeking ways to contain their cost pressures. Options many of these companies have considered include retrenchments, lay-offs and short-time. Others have considered seeking exemption from paying leave enhancement pay. SEIFSA's Industrial Manager **MICHAEL LAVENDER** provides insights on applying for exemptions.

Members of Associations affiliated to SEIFSA are able to submit an application for exemption to their Local Regional Bargaining Council, against any conditions of the Main Agreement, including wages and the leave enhancement pay or bonus.

The Main Agreement provides that every employee is entitled to leave enhancement pay, also known as the leave bonus, when they proceed on their annual leave. The vast majority of companies have an annual shutdown over December and January, usually commencing on December 16, which this year falls on a Friday.

The leave enhancement pay is calculated on the basis of 8.33% of actual normal ordinary time earnings, this excludes allowances and any overtime. This pay is calculated on a 40-hour work week or upon the actual normal hours worked on the date that the employee actually goes on leave, and is effectively a 13th cheque or a month's salary.

EXEMPTIONS PROCEDURE

A company that is unable to pay the leave enhancement pay must submit an application to its local Regional Council for exemption from paying the leave enhancement pay. Any company that is unable to pay leave enhancement pay apply to its local Regional Council to not pay leave enhancement pay. If the application is rejected, an appeal can be lodged with the Bargaining Council's Independent Exemption Appeals Board, which is an independent body established in terms of the Labour Relations Act.

The exemption application document which clearly states the information required and the exemption application procedure can be found in the Main Agreement Handbook.

It is important to note that an exemption application would normall be lodged with the Bargaining Council by no later than 31 October but with this years extended wage negotiations the deadline will be within 30 days of signature of the settlement agreement.

This means that companies wishing to apply for exemption must do so without delay, failing which the trade unions may argue that any such late applications should not be considered. In the event of a late submission, a company can submit a condonation for the late application with a motivation, supported by an affidavit signed by a commissioner of oaths and the exemption application document.

A pro-forma exemption application questionnaire is contained in the exemption application document, and states: "A company wishing to apply for an exemption must complete the questionnaire in its entirety and return all the necessary documentation to the Bargaining Council."

In order to an application for exemption to be considered, it needs to be accompanied by the following important information:

A fully detailed motivation explaining the difficulties that the company is experiencing and hence the need for the application. This motivation is not the same as the business plan (see point 2 below).

Audited Financial Statement for the financial year ending 2020/ 2021. 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 be minuted 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.

IT IS IMPORTANT TO NOTE THAT:

- The exemption application will not be considered or processed by the Bargaining Council unless all the above requirements are met.
- It is not a condition of the exemption that employees accept the proposed exemption. All that is required is that employees and their representatives are fully informed of the company's intention to apply for exemption and that this consultation process and their response thereto is formally recorded and submitted with the application.
- If granted, the employer shall then be obliged to become a compulsory contributor to the Bargaining Council's monthly contribution scheme.

The Bargaining Council is obliged to consider all applications for exemption irrespective of the basis on which they are founded. This effectively means that financial reasons are not the only criteria which must be considered. Employers may apply for an exemption on any one or more of the following reasons (but not limited to):

- Increased competitive threats;
- Inability of employer to pass on cost increases to final customers;
- Technological changes threatening business survival;
- Inherently high difference between wage rates actually paid and current affordability of market competitive considerations facing an employer;
- Market decline, projections, etc.;
- Loss or potential loss of business;
- Existing/ current unprofitable contracts the consequences of which are only likely to manifest themselves in future/ current (unreported) accounting periods;
- Expansion opportunities (including capital investments) where cheaper labour costs could influence investment decisions; and/ or
- New ventures/ operations which justify retention or creation of job opportunities at reduced wage costs.

One, nevertheless, anticipates that application for exemption will primarily be founded on the grounds of affordability, job retention and/or job creation.

SEIFSA's Industrial Relations and Legal Services division is available to assist companies to complete the exemptions questionnaire and other related areas.

Employers cannot "buy their way out" of retrenchment procedures

In the recent South African Labour Appeal Court ("LAC") decision of Total South Africa v Meyer and others, the LAC, in addressing the issue of whether the decision to grant maximum compensation for a substantively and procedurally unfair retrenchment was exercised judicially, made significant remarks in respect of an employer's obligation to comply with the procedural and substantive requirements of section 189 of the Labour Relations Act, 1995 ("LRA") prior to deciding to retrench.

The one purpose of the LRA is to give effect to employees' constitutional right to fair labour practices. Sections 189 and 189A of the LRA give effect to this right in the context of retrenchments. Section 189 provides that if an employer contemplates retrenching employees, the employer must consult with the employees. It is trite that the provisions of section 189 are primarily concerned with procedural fairness, this section also serves a substantive purpose in that it seeks to ensure that the ultimate decision on retrenchment is properly and genuinely justifiable by a commercial rationale, taking into account what emerged during the consultation process. The consultation process is significant and must precede the decision to retrench.

BACKGROUND

Reon Meyer was employed by Total South Africa from 1 May 1987. In 1993, Mr Meyer was seconded to the then Total Exploration South Africa, later renamed Total Coal South Africa, a subsidiary of Total SA.

Approximately 20 years after his secondment, Total SA decided to sell Total Coal to Exxaro. As the only seconded employee at Total Coal, Mr Meyer reached out to Total SA with concerns as to whether Exxaro would honour his secondment agreement with Total SA. A series of meetings took place between the executives of Total SA and Total Coal, where an alternative position for Mr Meyer within Total Coal was discussed.

Ultimately, Mr Meyer was informed that there were no suitable positions for him within Total SA and he would consequently be retrenched. Mr Meyer was offered a severance package of 2.9-million. No joint consensus-seeking consultation process as envisaged in section 189 took place between Mr Meyer and Total SA. His retrenchment came into effect on 31 December 2014 and he entered into a new contract of employment with Total Coal as from 1 January 2015, which did not recognise his previous length of service at Total SA.

Mr Meyer challenged his retrenchment on the basis that it had been both substantively and procedurally unfair and also challenged the decision to grant him a post-retirement medical aid benefit for only two years. This article only focuses on the outcome of the unfair dismissal dispute and not the unfair labour practice dispute related to the provision of the post-retirement medical aid benefit.

At the Commission for Conciliation, Mediation and Arbitration ("CCMA"), the arbitrator dismissed Mr Meyer's case and held that the dismissal was both substantively and procedurally fair on the basis that Total SA had complied with its obligations by "transferring" him to Total Coal, which had the effect of avoiding a retrenchment.

However, upon review, the Labour Court differed from this view. The Labour Court held that Mr Meyer had been retrenched in circumstances where Total SA never engaged with him in a joint consensus-seeking consultation process designed to avoid

the retrenchment and that he had not been provided with any alternatives to consider prior to taking a decision to retrench. In short, there was no meaningful consultation between the parties and Total SA had failed to comply with the provisions of section 189 of the LRA prior to retrenching Mr Meyer. The Labour Court ordered that Total SA pay him the maximum compensation permitted by the LRA for having suffered unfair treatment.

On appeal to the LAC, Total SA conceded that Mr Meyer's dismissal had been substantively and procedurally unfair but argued that the Labour Court had erred in granting the maximum compensation that could be paid to Mr Meyer in terms of the LRA. Total SA argued that Mr Meyer had only secured employment at Total Coal in 2015 because of his previous employment with Total SA and that the severance package of R2.9-million ought to have dictated that a different outcome be reached in awarding compensation. Because this amounted to more than four times the severance pay payable in terms of the Basic Conditions of Employment Act, 1995, Total SA argued that it was manifestly unfair not to take into account the quantum of the severance package when the court awarded maximum compensation.

The LAC dismissed this argument and held that the award of compensation "cannot be equated to the staunching of patrimonial loss suffered by an employee as a consequence of an unfair dismissal". An award for compensation constitutes a payment in lieu of an impairment of an employee's dignity. Importantly, the LAC remarked that Mr Meyer's "[r]ights to be treated fairly, with care and concern and to enjoy the benefits of an adequate consultation process, as provided for in the LRA, before being retrenched, were ignored by a large and powerful employer, which unquestionably had the resources to ensure that its human relations management policy was congruent with the clear objectives of the LRA". Thus, the award of compensation represents a monetary response to a clear breach of an employee's rights and cannot be equated with the amount awarded in respect of patrimonial loss suffered by an employee.

This is an important point, particularly in light of the current economic circumstances, where employers are embarking on retrenchments to reduce labour costs in order for the business to keep afloat.

An employer is free to conclude a mutual separation agreement ("MSA") in terms of which an employee will be paid a sum of money which, at least in part, is aimed at avoiding the necessity to embark on a consultation process. But if no such agreement is concluded, the payment of a generous severance package will not be enough to completely buy out an employee's right to a meaningful consultation prior to taking the decision to retrench.

The quantum of the severance pay may, depending on the facts, constitute a factor to be considered in the assessment of what constitutes "just and equitable" compensation in accordance with section 194 of the LRA. In this case, the LAC reduced the award of compensation to six months on the basis that this case did not involve the kind of egregious conduct by an employer which would justify a maximum award of compensation. However, this conclusion should not take away from the key principle that employers must comply with the requirements of section 189 of the LRA prior to retrenching employees.

CONCLUSION

Although it is mandatory to comply with the requirements of sections 189 and 189A of the LRA, an employer may, by agreement enter into a MSA which "buys out" the right to consult. However, in the absence of such mutual agreement, employers must beware that South African courts will not promote unfair conduct and may impose penalties in the form of compensation, which serves as consolation for having suffered the loss of their rights. These MSAs should be clearly and carefully drafted and legal advice should be sought in this regard.

This case also reiterates the important principle that compensation in the hands of the employee cannot be equated to patrimonial loss but constitutes solatium awarded for the indignity suffered due to unfair dismissal.

Source: ENS Africa
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THE WORLD OF ALUMINIUM

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Raizcorp and **Aluminium Beneficiary South Africa (ABI)** are once again partnering to bring you an event titled *The World of Aluminium*, where we delve deeper into aluminium and its growing place in fabrication, manufacturing and trade. **Reynold Easthorpe**, industry expert, will discuss future growth in the industry, industry updates and arising opportunities.

You'll also meet Nokuthula Mpunzana from Noteful Engineering, and hear about her journey in the world of aluminium and her journey on the Raizcorp programme.

The event will be a blend of physical and digital; you can attend either at the Raizcorp offices in Johannesburg or via the online webinar.

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Time: 10:00–11:45
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ECONOMIC AND COMMERCIAL

The State of the Metals and Engineering Sector Report: 2021 Half-year review

INTRODUCTION

The Metals and Engineering (M&E) sector is important in global economic dynamics. It is a key integral part of the global economy for its livelihood and economic development. Any disruptions in the sector's industrial activity feeds through to the rest of other sectors of the global economy.

In 2020, the M&E sector faced enormous challenges both globally and in South Africa, including supply chain disruptions, declining market and disruptions in trade.

GLOBAL ECONOMIC LANDSCAPE

The global economy is expected to rebound in 2021 on expansive fiscal and monetary stances and the vaccine rollout. According to the International Monetary Fund (IMF) the global economy is projected to grow by 6.0% in 2021. However, the fast-spreading COVID-19 variants will lead to stop-start restrictions in some countries, weighing on activity. Recoveries in emerging market and developing economies are expected to lag those in advanced economies, due to a slower pace of vaccinations. The global economic recovery from the COVID-19 pandemic remains strong, yet uneven. The uneven progress is increasing economic tensions that could undermine the recovery if not well managed by policymakers. Rising commodity and shipping prices and stretched supply chains as economies reopen rapidly are pushing up inflation everywhere, but this is expected to be temporary.

LOCAL ECONOMIC LANDSCAPE

The South African industrial landscape has been dominated by a shrinking domestic market, declining production, low-capacity utilisation levels, weak production sales, declining contribution to the overall total economy, declining employment numbers, increasing real per capita income, increasing levels of imports, weak global trade position, low investment levels and low product price increase in relation to input prices. The COVID-19 pandemic aggravated the situation, with the industry shedding more jobs in 2020 and productivity being constricted by the various lockdowns to curb the spread of the coronavirus.

However, in the first six months of 2021, green shoots in the economy such as improved sales of construction and building material, a productivity uptick in the manufacturing and mining sectors, and a rise in the Purchasing Managers' Index (PMI).

In terms of domestic industrial activity, figure 1 indicates that the South Africa manufacturing PMI returned to growth for the first-time in 18 months in the fourth quarter of 2020. In the first six months of 2021, PMI for South Africa improved from 50.9 index points in January 2021 to reach 57.4 index points in June, with the country's industrial activity averaging at 55.5 index points in the first six months of 2021. Thus, demonstrating the green shoots in the economy from the industrial activity perspective.

Figure 1: SA PMI

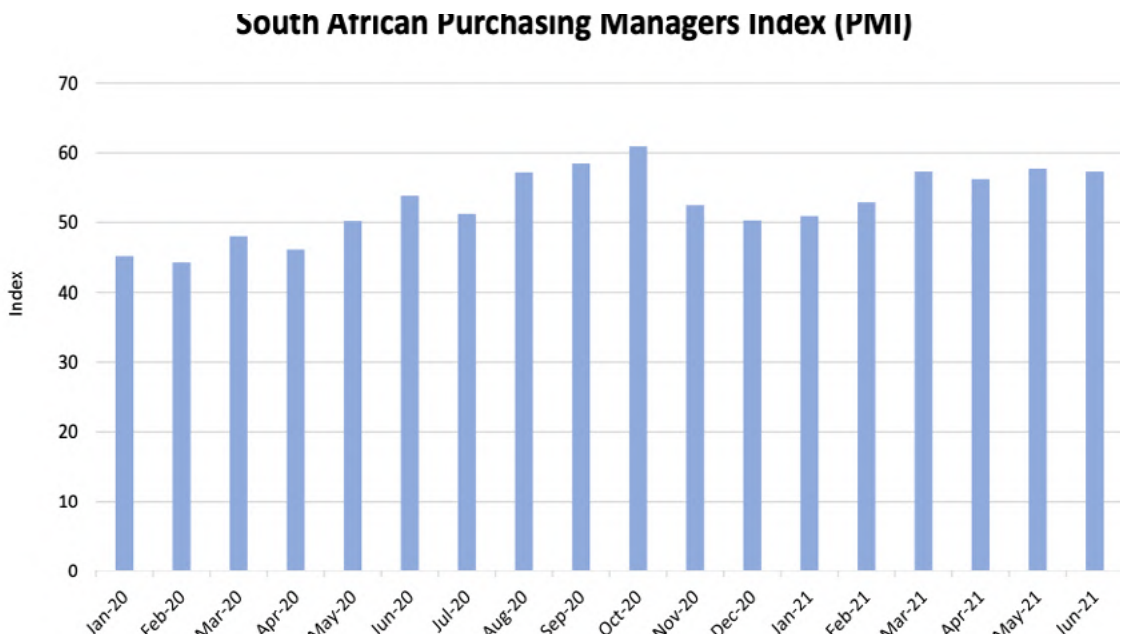
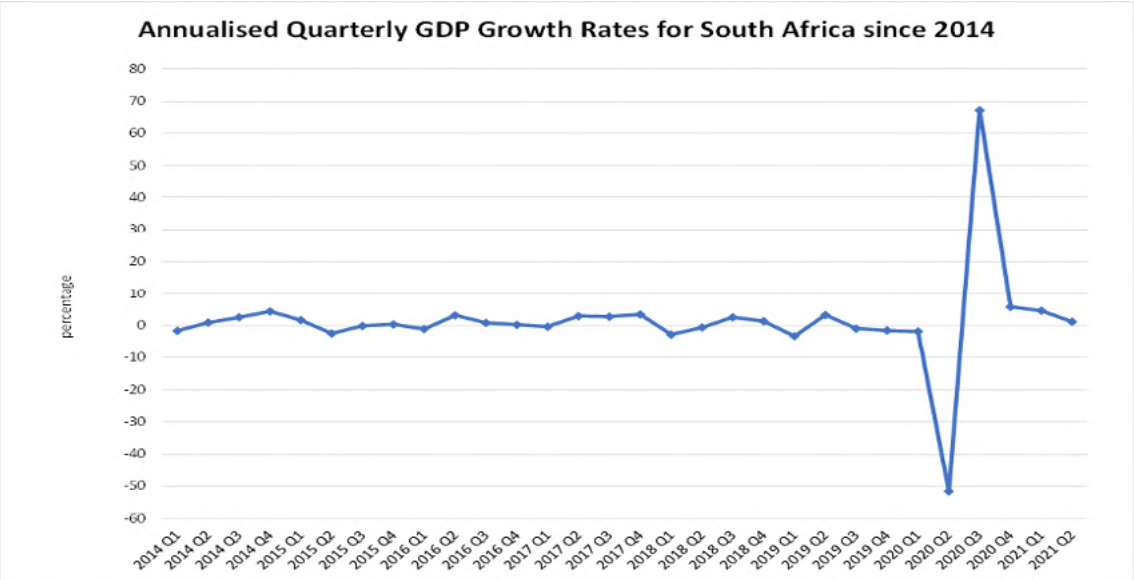


Figure 2: SA GDP



According to figure 2, Rebased Gross Domestic Product (GDP) data released by Statistics South Africa (Stats SA) for the second quarter affirmed an uptick in economic growth in the second quarter of 2021. According to Stats SA, real gross domestic product (measured by production) increased by 1.2% in the second quarter of 2021, following an increase of 1% in the first quarter of 2021. Second-quarter growth was mainly attributed to six sectors recording positive growth between the first quarter and second quarter of 2021.

THE M&E SECTOR OVERVIEW

The State of the Metals and Engineering Sector Report released in February presented a sector in distress, however, the half-year of 2021 review provides insights of green-shoots in the sector from January to June 2021.

Table 1. Dashboard of the M&E sector in South Africa

Dashboard of the M&E Sector in South Africa

Comparison of the first six-months to June

Economic variable	2019	2020	2021
M&E Production (% growth)	-0.7%	-23.0%	179.9%
M&E Share of Manufacturing production (%)	28.99%	28.99%	29.04%
M&E Production sales (Rand value)	R404.2 billion	R318.9 billion	R457.1 billion
M&E capacity utilisation (%)	79.5%	64.9%	77.0%
M&E employment (number)	440 321	398 257	397 586
M&E Export value (Rand value)	R201.6 billion	R150.4 billion	R226.7 billion
M&E Import value (Rand value)	R250.5 billion	R203.2 billion	R254.1 billion
M&E Net trade balance (Rand value)	-R48.9 billion	-R52.8 billion	-R27.4 billion
M&E Real per capita income	R56 920.70	R46 867.52	R55 296.66
PPI: Intermediate goods (%)	5.3%	1.1%	12.1%
Construction and building material sales (Rand value)	R56.5 billion	R41.3 billion	R69.9 billion

The manufacturing sector has remained under pressure since 2010, after the completion of mega infrastructure projects related to the 2010 Soccer World. However, latest data shows that the manufacturing sector has been improving since March 2021, with an average year-on-year growth rate of 36%. Stats SA data shows that total manufacturing production improved to 12.5% year on year in June 2021, when compared to June 2020, despite a monthly decline of 0.7% from May 2021.

Table 2: Manufacturing production year-on-year growth rates by sub-sectors

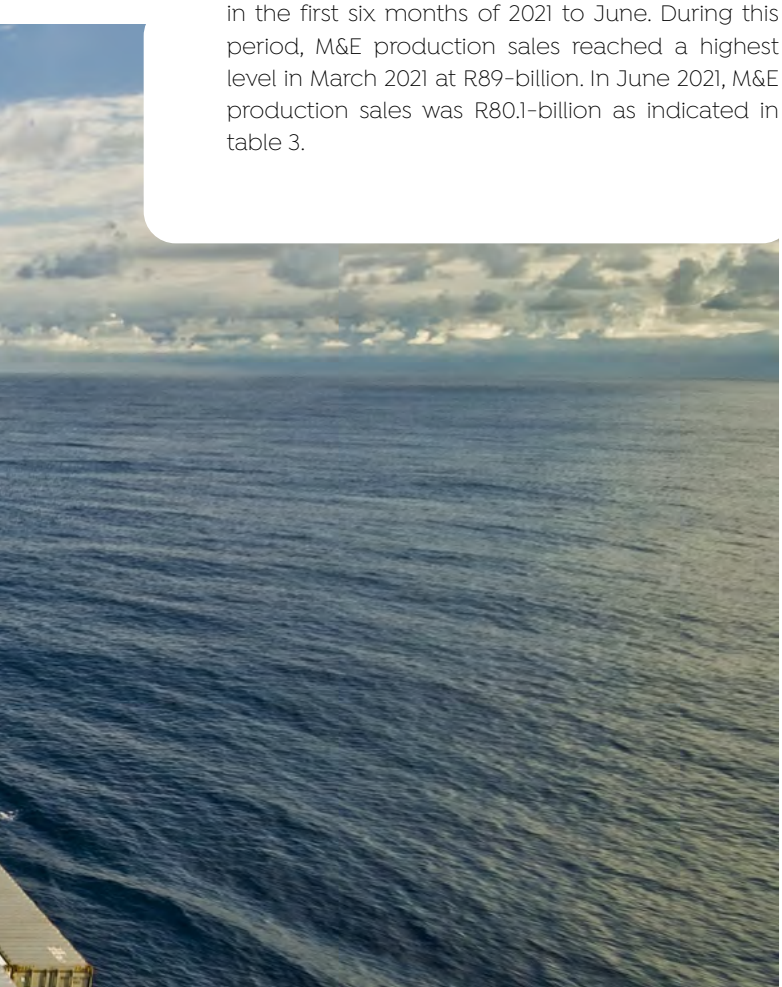
13 Metals and Engineering M&E) Sub-components	Year-on-year percentage change in production of M&E products						
	2020	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
Rubber products	-14.4	11.1	-9.6	13.9	275.7	60.7	8.2
Plastic products	-6.4	-3.4	-3.5	-1.3	48	14.8	1
Basic iron andsteel products	-23.4	-16.4	-24.3	-9.2	337.9	71.2	41.1
Non-ferrous metal products	-7.9	1.1	0.8	5.6	22.5	11.6	2.2
Structural metal products	-14.4	-1.9	-7.7	2.1	499.2	65.4	3.1
Other fabricatedmetal products	-8.1	13.7	0	17.5	291.7	33.7	11.2
General purpose machinery	-8.7	-4.4	0.1	0.1	189.1	49.6	20.7
Special purpose machinery	-12.4	4.8	10.8	3.2	105	34.8	27.5
Household Appliances	17.4	-8.9	-7.4	-6.7	217.2	135.1	55.2
Electrical machinery and apparatus	-16.3	10.1	2.2	0.3	198	31.2	17.1
Bodies for motor vehicles, trailers and semi-trailers	-7.3	9.9	29.1	27.2	872.9	86.4	9.9
Parts and accessories (Motor Vehicle)	-19.3	40.7	23.9	44.3	8605.9	278.4	104.5
Other transport equipment	-22.2	-8.8	12.7	-7.4	926.7	72.3	56.6
AVERAGE	**-1.47**	**3.69**	**0.13**	**6.89**	**968.45**	**72.71**	**27.56**

Since lockdown measures were implemented at level 5 in March 2020, production in the M&E sector dropped by its lowest level of 70.7% in April 2020, thus ending the 2020 with a decline of 13.7%. From January 2021, we have observed improvements in M&E production, with year-on-year growth averaging by 179.9% in the first six months of 2021. The M&E production growth rate reached a highest level in April 2021 compared to April 2020, demonstrating that recovery from the hard lockdown of last year is on the way in the sector. In the month of June 2021, the production growth rate was 27.6% year on year as indicated in table 2 above.

Table 3: Manufacturing sales by value across sub-sectors

13 Metals and Engineering M&E) Sub-components	Production sales of M&E products (Rand million)						
	2020	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
Rubber products	**16 030**	1269	1 665	1 591	1 382	1 547	1 612
Plastic products	**66 434**	4 946	5 818	6 297	5 977	6 438	6 454
Basic iron andsteel products	**98 880**	9 238	9 155	12 489	12 059	11 783	13 013
Non-ferrous metal products	**161 974**	15 032	15 356	24 259	17 239	18 174	19 144
Structural metal products	**32 461**	2 296	3 130	3 816	2 980	3 482	3 555
Other fabricatedmetal products	**69 661**	5 770	6 422	7 500	7 132	7 381	7 196
General purpose machinery	**44 179**	2 976	3 832	4 273	4 028	4 314	4 552
Special purpose machinery	**58 097**	4 319	5 506	6 582	5 231	5 986	5 924
Household Appliances	**12 170**	1 111	1 188	1 291	1 193	1 267	1 266
Electrical machinery and apparatus	**50 486**	3 734	4 835	5 089	4 468	4 702	4 926
Bodies for motor vehicles, trailers and semi-trailers	**11 819**	807	1 171	1 268	1 229	1 230	1 356
Parts and accessories (Motor Vehicle)	**79 311**	8 612	10 138	11 563	10 484	10 425	9 388
Other transport equipment	**25 104**	2 031	2 299	2 942	2 166	2 214	2 568
AVERAGE	**726 606**	**62 141**	**70 515**	**88 960**	**75 568**	**78 943**	**80 954**

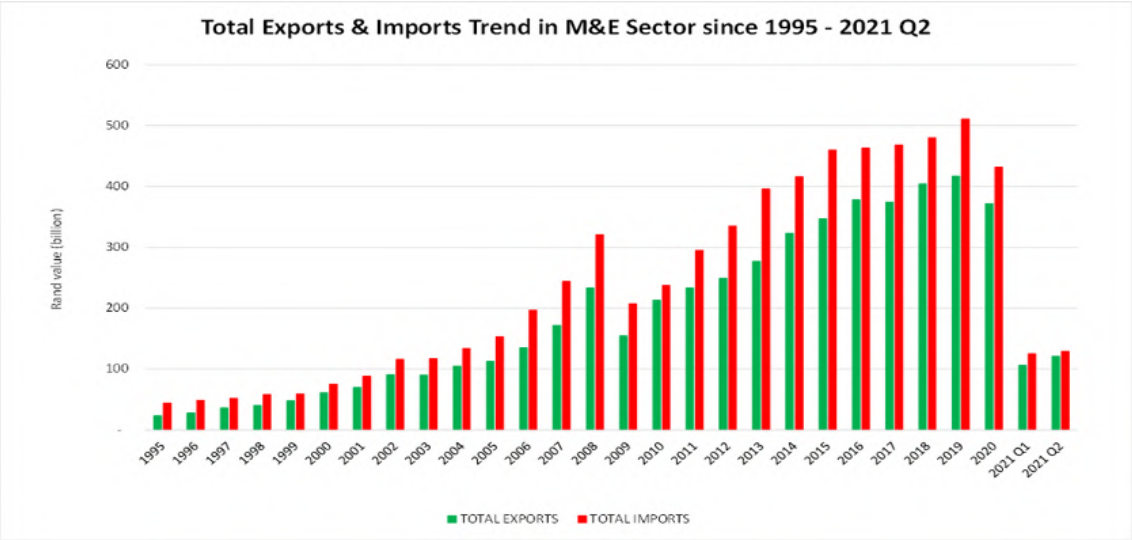
In the aftermath of the level 5 lockdown measures in March 2020, production sales in the M&E sector dropped to their lowest level of R24-billion in April 2020. From January 2021, we have observed improvements in M&E production sales values, with a monthly average of R76.2-billion in the first six months of 2021 to June. During this period, M&E production sales reached a highest level in March 2021 at R89-billion. In June 2021, M&E production sales was R80.1-billion as indicated in table 3.



TOTAL SA IMPORTS AND EXPORTS (M&E)

Total trade in the M&E sector has favoured imports since 1995. South Africa's net trade balance in the M&E sector averaged –R52-billion to second quarter of 2021. Figure 3 shows that imports continued to rise, reaching a peak of R604-billion in 2019. Total exports have also increased over the same period, reaching a peak of R418-billion in 2019. During the year 2020, Quantec data suggests that imports dropped to R432-billion from R511-billion in 2019 and exports dropped to R372-billion from R417-billion in 2019, thus indicating a slowdown in trading activities caused by lockdown measures across countries. In the first six months of 2021 to June, both exports and imports values improved from the first quarter to the second quarter by 14.2% and 3.2% in value terms. However, the total net trade balance in the period was -R27-billion, showing that imports continue to dominate SA.

Figure 3: Total Exports & Imports in M&E sector



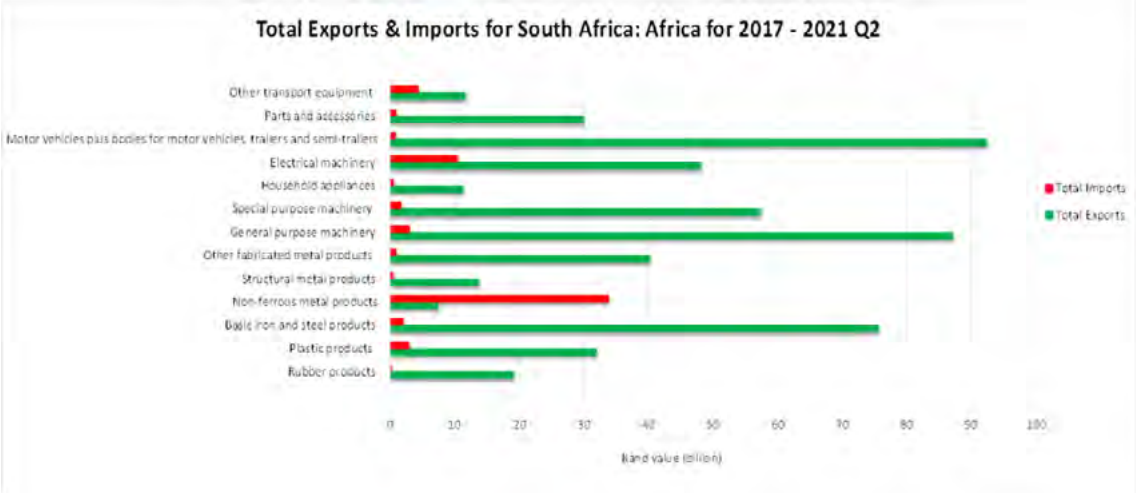
South Africa continued to have a favourable net trade balance with the African region in the M&E sector. In the first six months of 2021 alone, the net trade balance for South Africa with the rest of the African region was R51.9-billion in total. This suggests that South Africa's local producers have more opportunities to increase their market footprint on the continent, especially by taking advantage of the African Continental Free Trade Area agreement which came into effect in January 2021.

South Africa's total net trade balance in the M&E sector in the period 2017 to the second quarter of in the African region was R463.9-billion. Figure 4 shows that the country continues to export more than it imports in the African region. Total exports for the African region during this period were R525.5-billion, with imports at R61.6-billion.

South Africa continued to export more motor vehicles plus bodies for motor vehicles, trailers and semi-trailers (R92.4-billion), followed by general purpose machinery (R87.1-billion) and basic iron and steel products (R75.6-billion) from 2017 to the second quarter of 2021.

On the import side, the top three imports were non-ferrous metal products (R33.8-billion), electrical machinery (R10.4-billion) and other transport equipment (R4.3-billion).

Figure 4: Total Africa: Exports & Imports in M&E sector



COST OF INPUTS AND PRODUCT PRICES IN THE M&E SECTOR

Prices are a key component of the decision-making process in business to guide how revenue will be generated, either taking the approach of increasing price or volume.

In 2020, PPI data suggests that electricity prices increased at a much faster pace than those of prices for intermediate manufactured goods. However, prices of mining products increased more than those of both electricity and intermediate manufactured goods during the period of January 2020 to December 2020. This reflects the prevailing difficulty in the operating environment, characterised by rising intermediate inputs costs from the mining sector.

In the first six months of 2021 to June, PPI showed a rise from 7.4% in May 2021 to 7.7% in the month of June 2021 for final manufactured goods, with metals products, food products and computing equipment being among the largest contributors to the increase. This rise in PPI is concerning for the overall domestic inflation outlook as producers pass on costs increases to consumers in a retail market.

Prices for intermediate manufactured goods increased to a highest level of 16.4% in the year in June 2021. This is the category within which most products within the M&E sector fall in. In a depressed market, this may have negative implications in terms of affordability from the customer base, thus affecting sales volumes.

The mining sector remains the key raw material supplier to the M&E sector and mining PPI data highlights some of the input cost pressures faced by the M&E sector. Mining PPI increases remain above the 20% level from May 2021, averaging 17% in the first six months of 2021 to June.

Currently, the global economy is also taking a similar trend, with global producer price inflation picking up to levels averaging above 5%, for the Euro area, China and the US, amid resurgent global demand and supply constraints.

PROJECTIONS FOR THE MANUFACTURING AND M&E SECTOR TO 2023

Table 4: Projections for the Manufacturing and M&E sector

Macroeconomic performance and projections

INDICATOR	2018	2019	2020	2021				2021	2022	2023
				Q1	Q2	Q3	Q4			
Manufacturing production (y-y %)	1.1	-0.01	10.9	0.5	45.6	16.4	15.1	19.4	1.1	1.3
Manufacturing capacity utilisation (%)	81.4	80.9	72.3	76.3	78.6	76	79.7	77.7	78.8	83.0
M&E production (y-y %)	1.1	1	13.7	13.7	356.2	94.9	58.9	128.4	0.9	1.0
M&E capacity utilisation (%)	79.9	78.6	67.6	67.9	77.1	75.2	78.6	77.0	79.2	82.0

The year 2020 was a rough year for the manufacturing sector and the economy in general, amid COVID-19 lockdown regulations. It is important to reiterate that the industry was under strain even before the pandemic hit. South African industrial base cannot be eroded any further. Fixed investment remains key to the revival of the sector. Yet South Africa's level of Gross Fixed Investment to total GDP has been below 20% on average since 1994. To grow the industrial base of South Africa, the fixed investment share of GDP needs to move to levels above 40%, similar to other countries such as China at 42%. Government's commitment to spur investment is commendable. This includes the R791.2 billion that is to spent on infrastructure projects over the next three fiscal years.

The M&E sector is heavily reliant on demand from key Government projects to boost its production and sales, especially for products such as steel and other related downstream products such as roofing material. We applaud Government efforts to address the challenges in the industry through the Steel Master Plan.

SEIFSA expects improved market conditions, which will improve production patterns and capacity utilisation for the total manufacturing and the M&E sectors, with the vaccine roll-out bringing further confidence in the economy for industry to operate at full capacity.

As noted, there are some green-shoots in the economy, as demonstrated with data to June 2021 such as improving business confidence, improved sales of construction and building materials in recent months, as well as improving production volume and production sales in M&E sector products, we present the following revised projections to 2023.

SEIFSA projections are under the assumptions of the following:

- Implementation of the Government's economic recovery plan (infrastructure investments);
- A stable labour market environment;
- A stable monetary policy environment (low interest rates and inflation rates);
- A continued pick-up in construction and building material demand (> 10%);
- Low import penetration of related goods into the local market;
- Stable electricity supply; and
- Improved investment conditions into the sector

CONCLUSION

As has been demonstrated, the M&E sector in South Africa is in a recovery phase from the negative effects of COVID-19 lockdown measures.

In the latest view of the first six months of 2021, the sector has experienced the following challenges: a shrinking domestic market size of key markets, low-capacity utilisation levels (below 80%), declining contribution to the bigger manufacturing sector, declining employment numbers, increasing real per capital income, cost pressures; increasing levels of imports, weak global trade balance and low fixed investment levels.

However, green-shoots have appeared, with an improved trading picture with some regions, improvements in production volumes patterns from last year, as well as production sales. We have also observed improvements in construction and building material sales in the first six months of 2021, and improvements in product prices despite being lower than increases of input prices on average.

Our areas of concern, which we continue to monitor, remain as follows:

- Low-capacity utilisation;
- rising imports;
- rising energy cost and reliability;
- rising logistical costs and inefficiencies ;
- raw material availability;
- pool of skilled labour;
- declining trade position footprint; and
- and liquidity challenges.