PRESENTED BY:

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COLLOQUIUM ON BENEFICIATION

Portfolio Committee on Trade & Industry

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www.seifsa.co.za

The views expressed in this presentation do not necessarily represent the views of our members

THE STEEL AND ENGINEERING INDUSTRIES FEDERATION OF SOUTHERN AFRICA

SEIFSA is a National Federation representing 27 independent employer Associations in the metal and engineering industries, with a combined membership of over 2 000 companies employing over 210 000 employees. The Federation was formed in 1943 and companies in Associations federated to it range from giant steel-making corporations to micro-enterprises employing fewer than 50 people.

CORE BUSINESS

SEIFSA's Core Business is to represent and promote the interests of business in Southern Africa, in particular the metals and engineering industries, through lobbying and capacity building, provision of related services and building of good relations with key stakeholders

SEIFSA SERVICES

- **Skills Development and Human Capital**
- **Health, Safety, Quality and Environment**
- **Economic and Commercial**
- **Legal**
- **Industrial Relations**
- **Marketing and Communications**
- **Administration and Accounting for Associations**
- **SEIFSA Training Centre**

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SEIFSA TRAINING CENTRE

- Situated in Benoni, East Gauteng, the SEIFSA Training Centre is accredited by merSETA, CHIETA and EWSETA
- It provides quality, competency-based training in:
- Apprenticeships
- Learnerships (NQF 2-4)
- Instrumentation Courses
- Basic Safety Courses
- Multi-skilling of Artisans

Other services include:

- Trade testing
- Assessments

DISCLAIMER

The views expressed in this presentation do not necessarily represent those of SEIFSA Associations and/or their member-companies

INTRODUCTION

- SEIFSA welcomes the opportunity to contribute to the debate;
- Beneficiation, which is the ability to move up the value chain, is a complex endeavour that requires a coordinated policy approach;
- The SA market is too small to support the scale of production needed in the sector;
- The metals and engineering sector is highly exposed to the international market: 60% of its products are exported and imports also constitute 60% of the products in South Africa;
- International supply chains are complex and are driven by global cost optimization (e.g. catalytic converters);
- Approaching sector dynamics holistically has a better chance of success than an approach based on stages of production;
- There is a need for higher levels of policy coordination than is the case at the moment;
- Logistics, energy and administered prices are additional key determinants of success.

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TYPES OF PRODUCTS MANUFACTURED

- Plastics
- Rubber
- Basic Ferrous (iron and steel)
- Basic Non-Ferrous (aluminium, copper, zinc, etc)
- Metal Products (structural metal and other metal products)
- Machinery & Equipment (general purpose)
- Machinery & Equipment (special purpose)
- Electrical Machinery & Equipment
- Manufacture of Parts & Accessories for the Motor industry
- Other Transport Equipment (Boat & Shipbuilding and Rolling stock for Railway applications)

COMPOSITION OF PRODUCTION

- INTERMEDIATE INPUTS
- VALUE ADDITION (contribution to GDP)
  - Remuneration
  - Capital/depreciation
  - Profits

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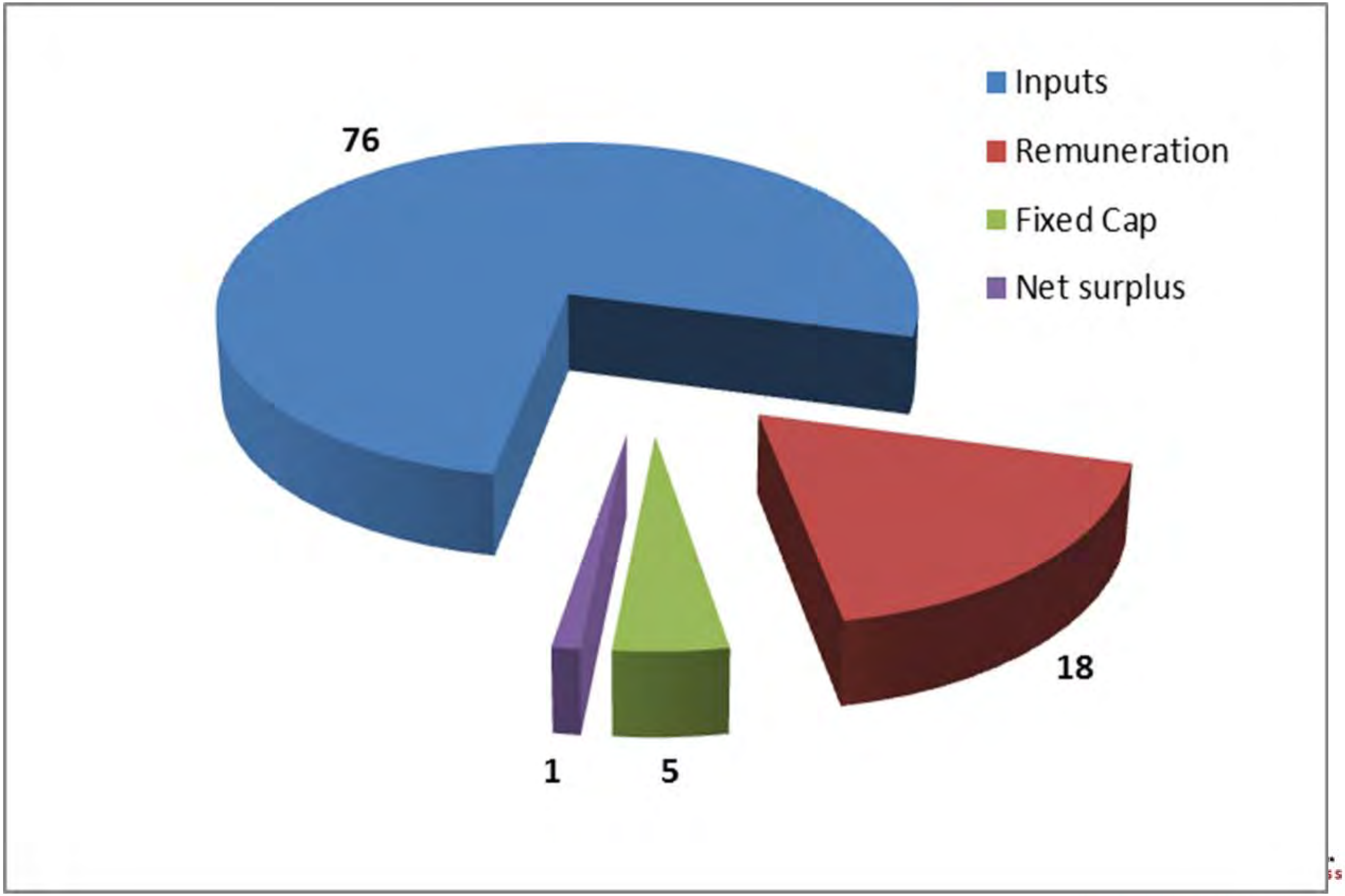
INPUT STRUCTURE



INTERMEDIARY INPUTS

Sectors	Rand Bill	%
Primary industries	97,286	34.6
Petroleum, chemicals, rubber & plastic	10,851	3.9
Basic iron & steel	43,516	15.5
Basic non-ferrous metals	18,229	6.5
Metal products excluding machinery	16,681	5.9
Machinery & equipment	18,282	6.5
Electrical machinery & apparatus	2,959	1.1
Electricity, gas & water	11,510	4.1
Rest of Manufact	3,128.3	1.1
Trade, catering & accommodation services	20,889	7.4
Transport, storage & communication	10,659	3.8
Finance, insurance, real estate & bus services	22,192	7.9
Rest of Tertiary Sector	5,376	1.9
TOTAL	**281,559**	**100**
Imports	97,662.4	34.7

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SECTOR DYNAMIC vs STAGES-OF-PRODUCTION APPROACH

- The sector is complex and trades with itself,

- It is virtually impossible to follow a commodity through its stages of production to a final product, and

- It is a massive challenge to set up policy to achieve this end.

- The Sector is

- dependent on long and expensive logistics routes,
- heavily dependent on energy,
- and heavily dependent on local government services.

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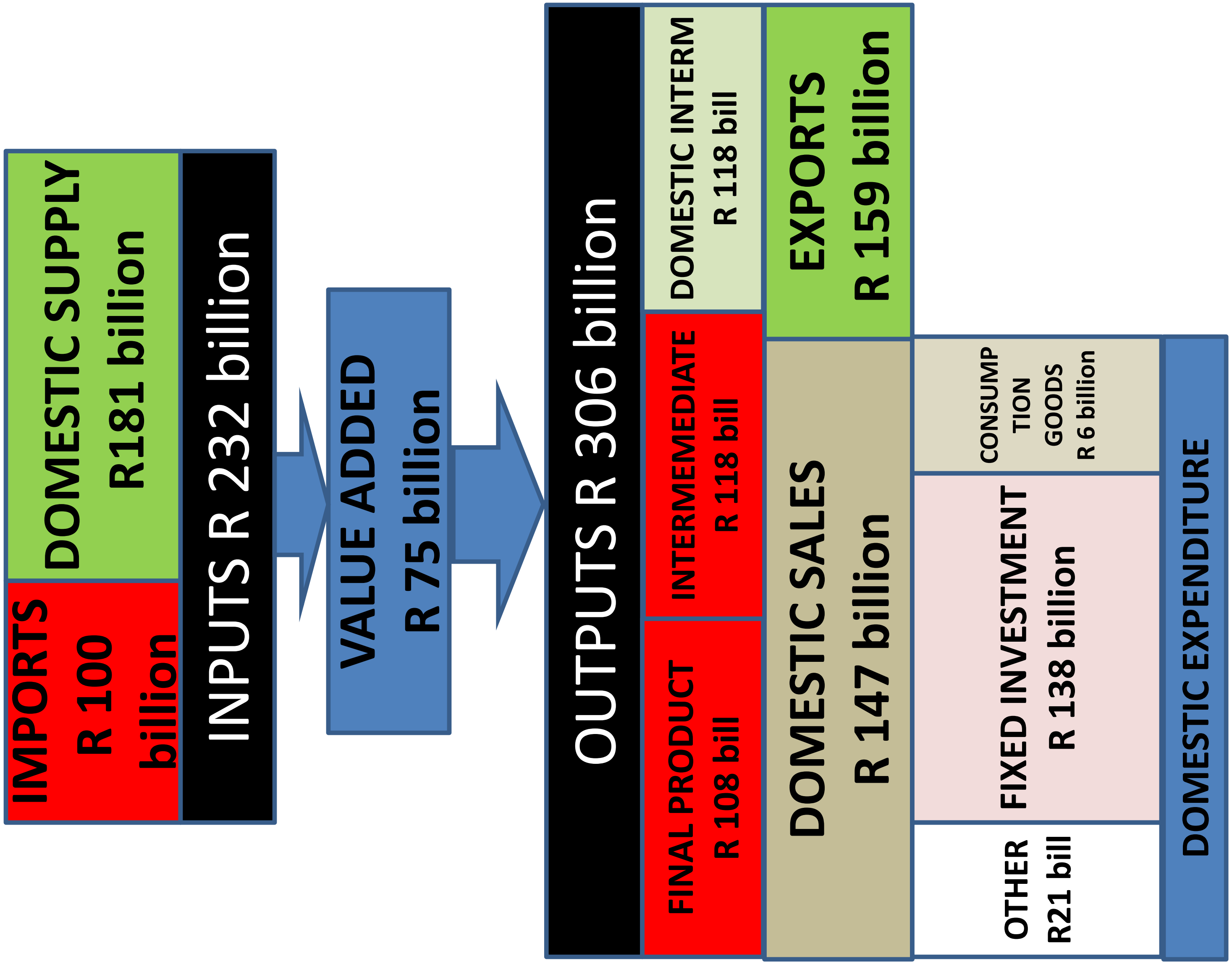
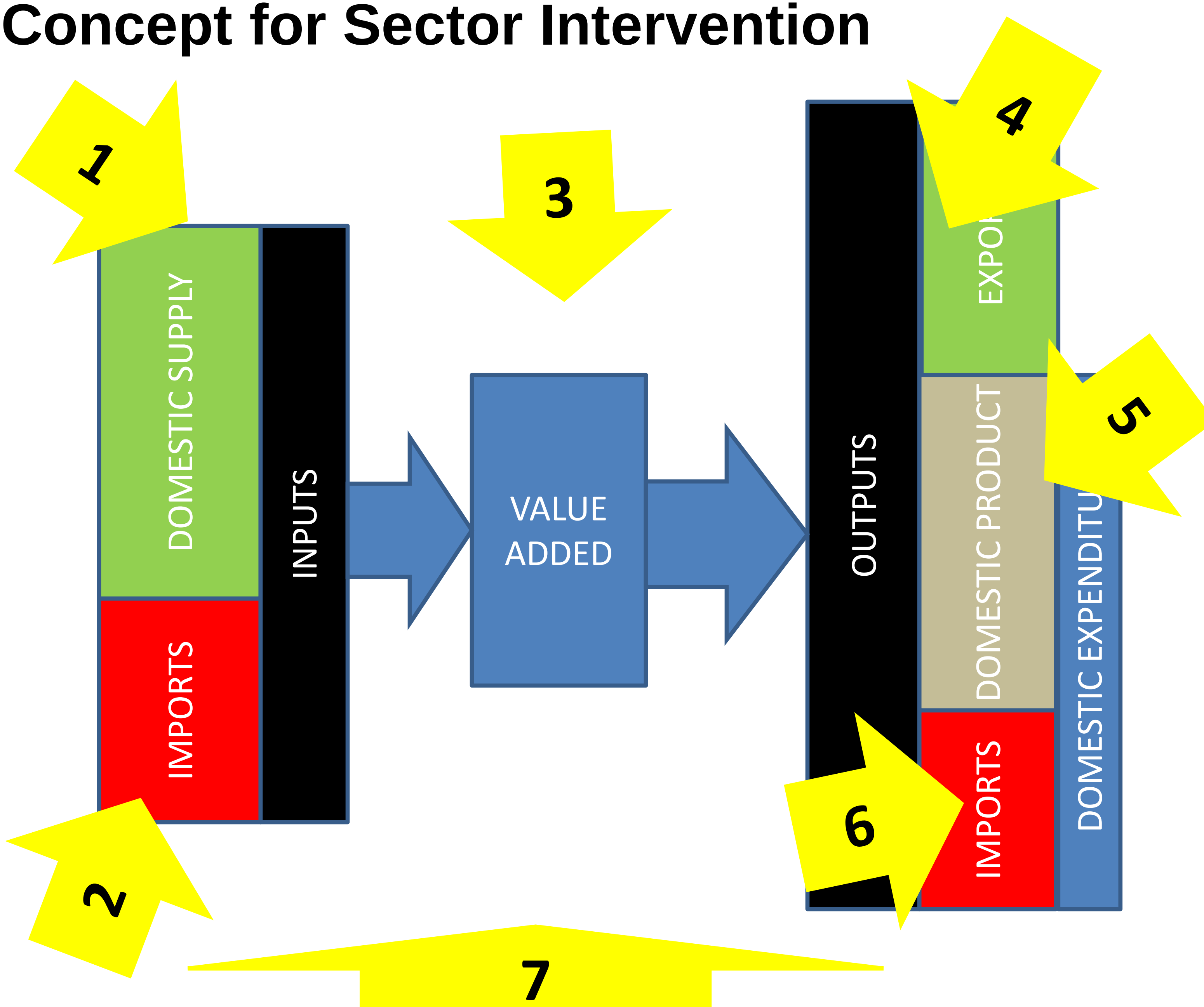
SECTOR DYNAMIC APPROACH



Concept for Sector Intervention



SECTOR DYNAMIC vs STAGES OF PRODUCTION APPROACH

	Possible Intervention Point	Intervention
1	Secure domestic supply of input products	Incentivise production, Prevent exports of scrap, Tax exports, supply below export prices
2	Secure import supply of input products	Tariffs, quotas, Exchange rate levels Import Parity Pricing subsidies
3	Build Capacity	Incentivise Investment, Incentivise human capital development, Invite competition
4	Enhance exports	Enhance competitiveness
5	Enhance domestic procurement	Enhance competitiveness
6	Protect against imports, designation	Tariffs, quotas
7	Infrastructure	Intellectual (Education & Training) Physical (road, rail, electricity) Research Incentives

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SECTOR DYNAMIC: SALIENT FEATURES (1)

- **Capacity Utilization has been below optimum for many years and is shown in the next slide ("full capacity" is normally taken to be 85%);**

- **Costs pressures from Intermediate Input price escalation are eroding profitability: metals and engineering represent 70% of intermediate costs and these are rising much faster than headline PPI;**

- **Administered prices have a major influence and account for more than 10%of the impact on cost escalation**

- **The sector faces competing imports and is itself importing "repetitive-type" inputs and assemble products in SA to save costs. This is confirmed by skills intensification.**

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SECTOR DYNAMIC: SALIENT FEATURES (2)

- The weak exchange rate is a double-edged sword accounting for higher export margins and higher input costs

- The combination of rising domestic cost structures and competition from imports have had two results.

  – Import competition resulted in Gross Fixed Investment, and therefor the Value of Production Capacity (Fixed Capital Stock) in the Sector declining due to low capacity utilization thereof

  – The Sector itself is replacing domestically produced Intermediary Inputs with cheaper imported components for assembly in South Africa to save costs and stay competitive

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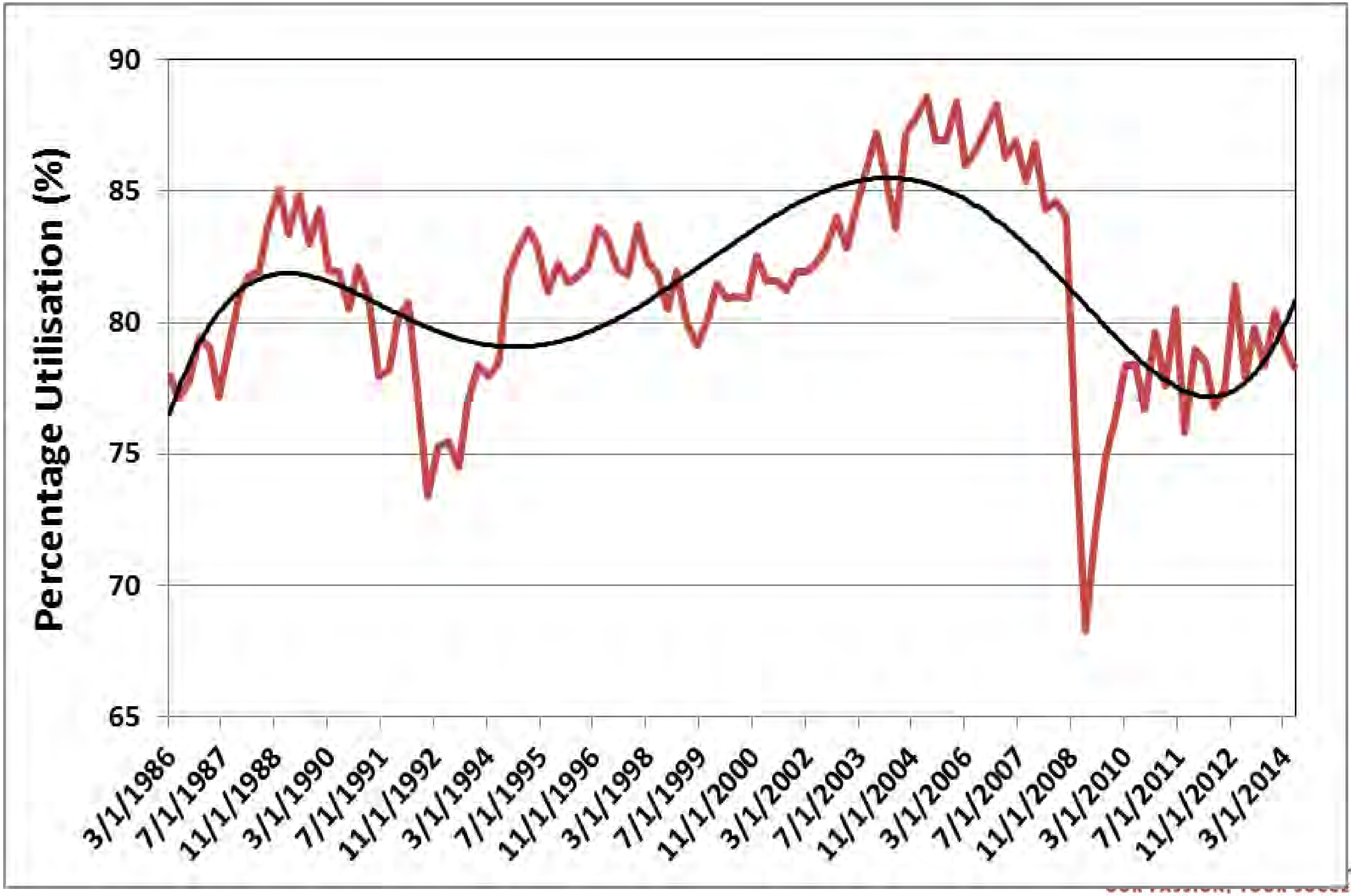
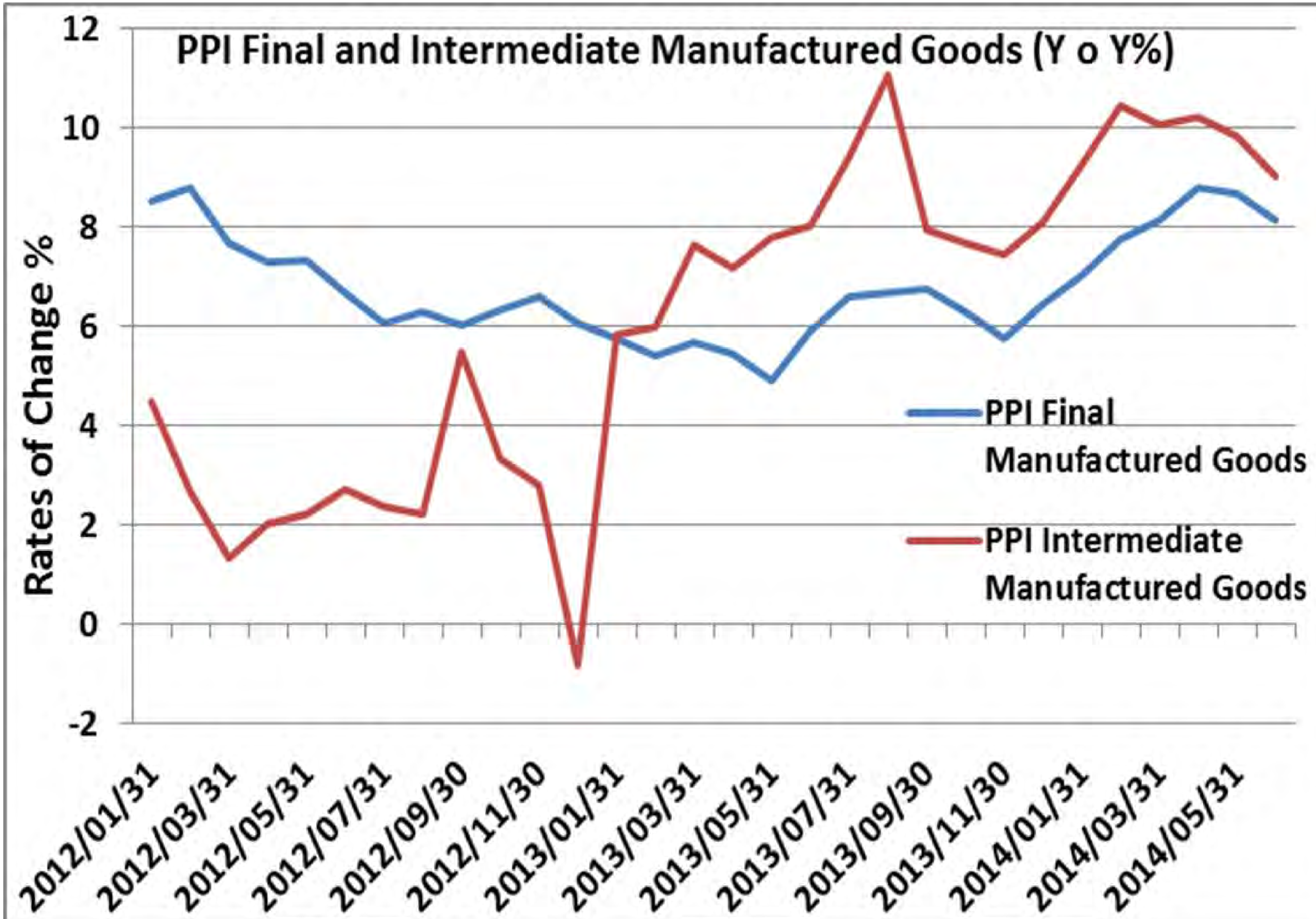
CAPACITY UTILISATION IN METALS AND ENGINEERING



COST ESCALATION IN MANUFACTURING



ADMINISTERED PRICES

Consumer Price Index: StatsSA

Weighting of between 18% & 20%

Input costs in Metals & Engineering: SEIFSA

Weighting +/- 12% comprising (Input-Output est.)

• Fuel	1%
• Electricity	3,5%
• Communication	0,5%
• Training	0,4%
• Transport	3,5%
• Water	0,05%
• Sanitation	0,05%
• Govt Services	3%

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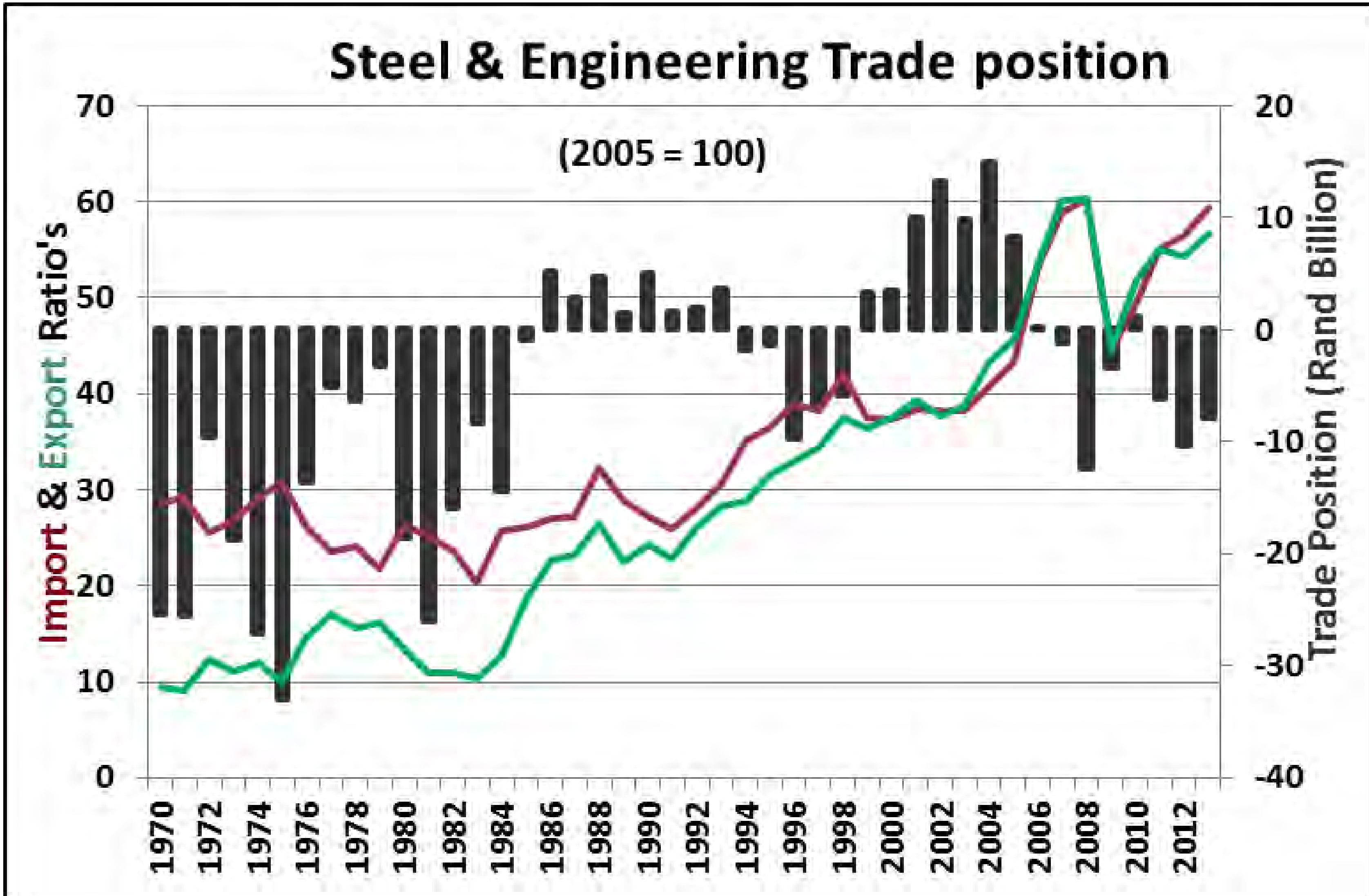
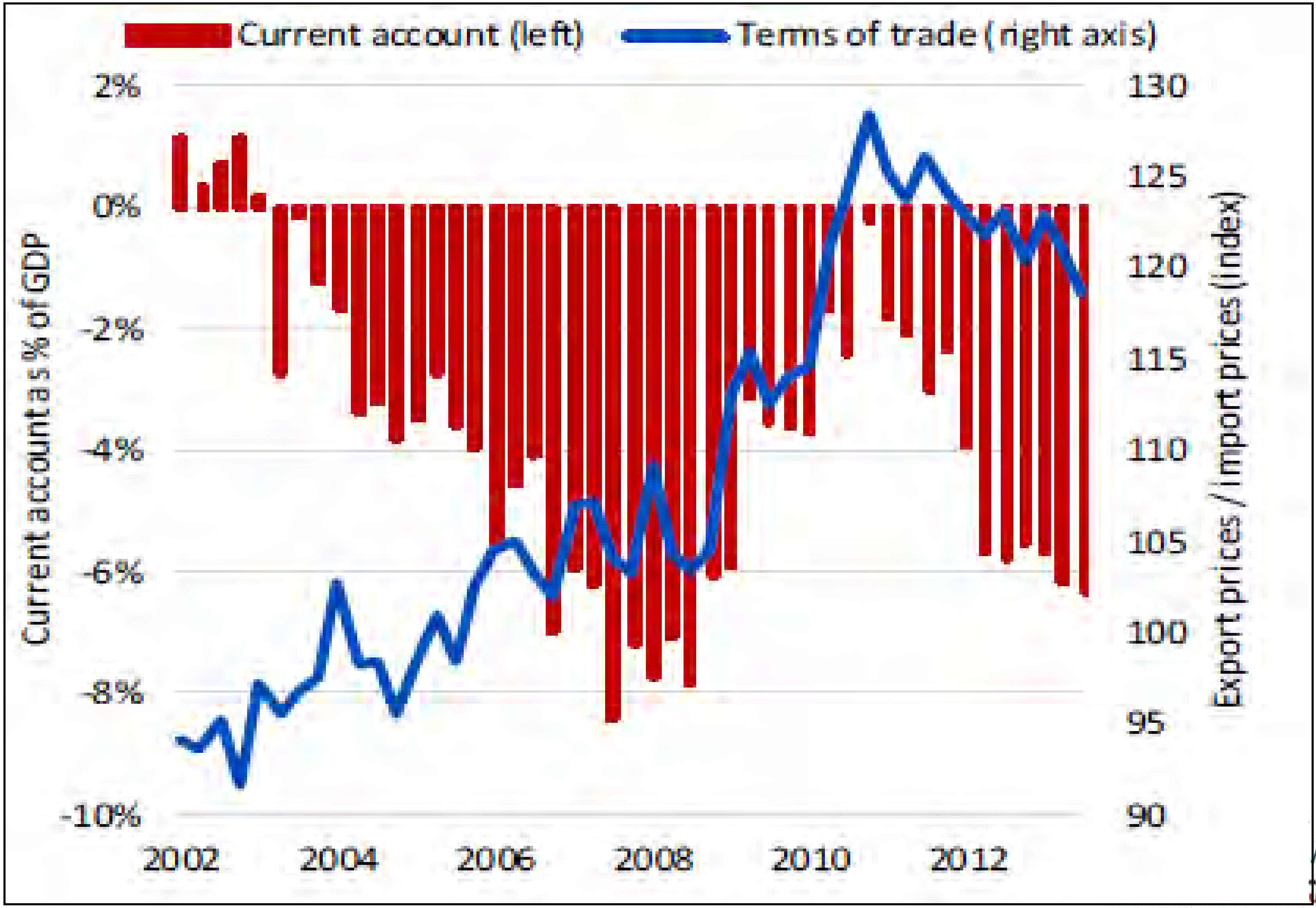
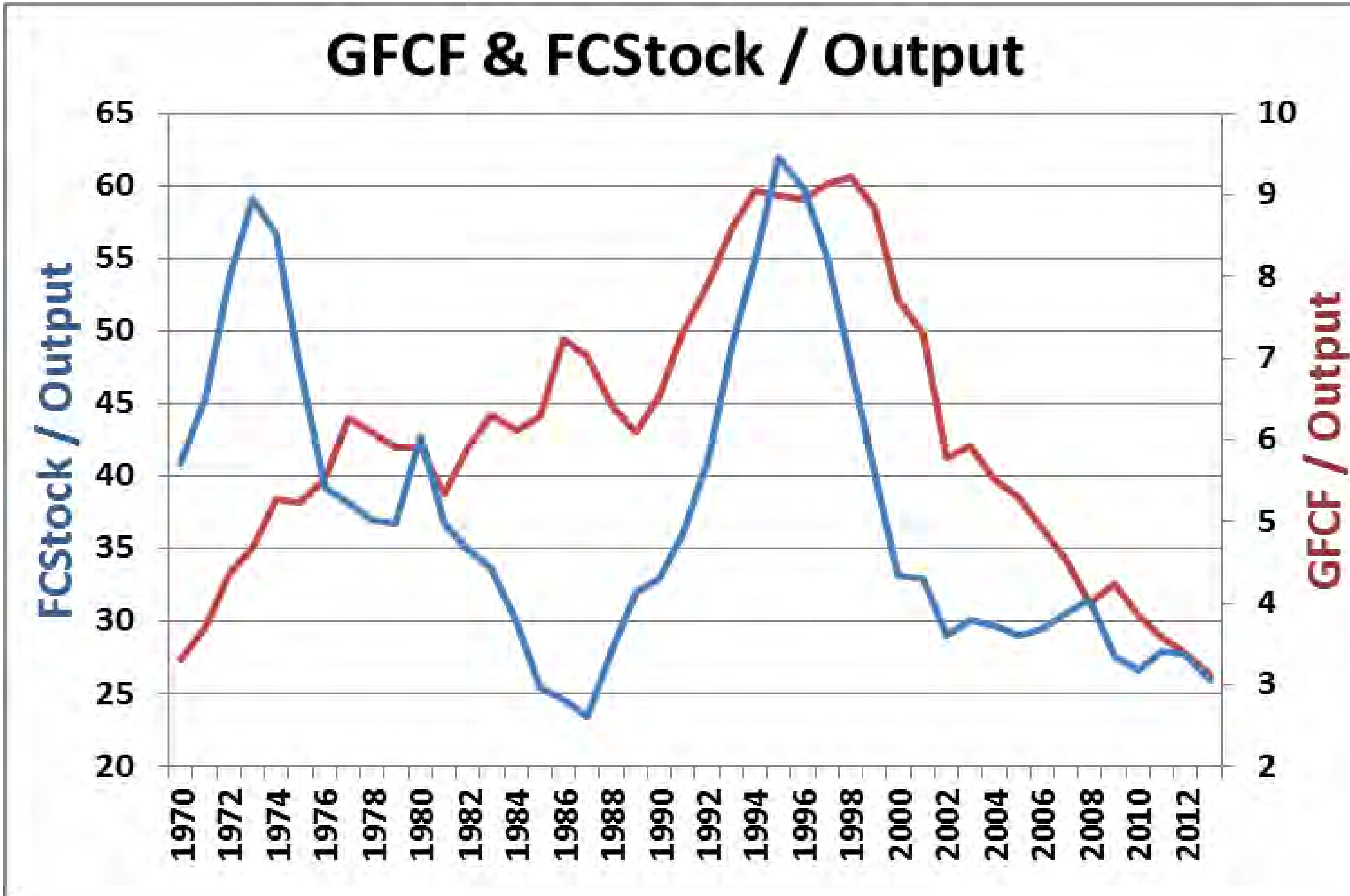
INTERNATIONAL TRADE EXPOSURE



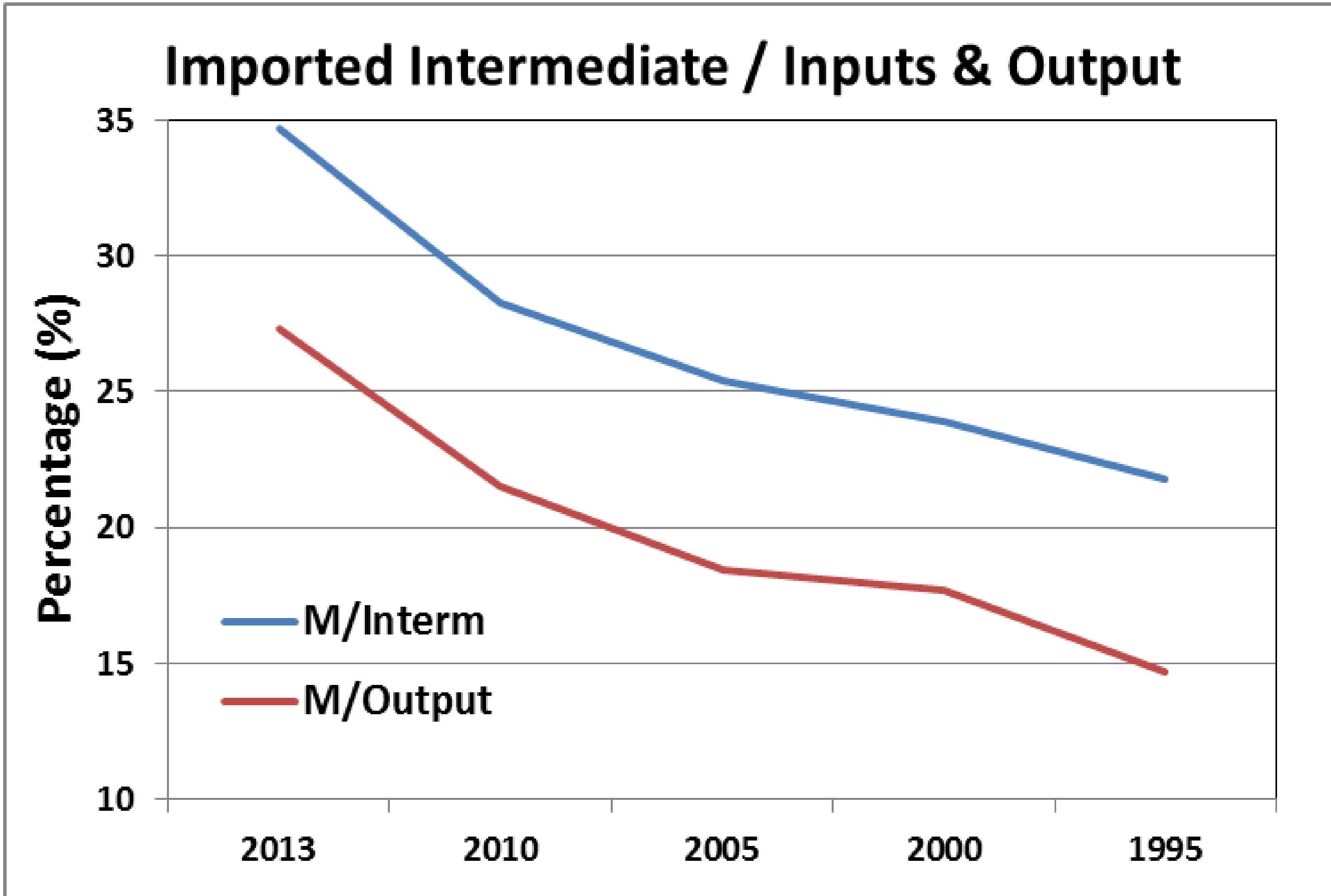
SA COMPETITIVENESS: TERMS OF TRADE



GROSS FIXED INVESTMENT SUFFERING



IMPORTED INTERMEDIATE INPUTS



CONCLUSION

- Manufacturing is critically important if our economy is to grow at higher rates than it has done over the past few years.
- It is vital that the Government plays its part to stimulate or incentivise manufacturing and to be competitive internationally.
- International supply chains are complex and driven by global cost optimization. Therefore, policy measures should facilitate the exploitation of these opportunities.

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CONCLUSIONS Cont'd

- Approaching sector dynamics holistically has a better chance of success than an approach based on stages of production.

- Administered prices (cost) and physical infrastructure constraints (growth) are often under-estimated as significant inhibitors.

- Higher levels of policy coordination are needed urgently.

SEIFSA SERVICES

SKILLS DEVELOPMENT AND HUMAN CAPITAL

- **Skills auditing and needs analysis**
- **Consultancy and Training in all areas of Skills Development and HRD**
- **Consulting and training in the complete Human Capital value chain, e.g. Performance Management, Talent Management, Succession Planning**

HEALTH, SAFETY, QUALITY AND ENVIRONMENT

- **Environment Impact Assessments**
- **Compliance health and safety auditing**
- **Consultation service covering all Health, Safety, Health and Quality matters**

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ECONOMIC AND COMMERCIAL

- Economic Impact Assessments
- Price and Index Pages statistics subscription and training
- BBBEE Training

LEGAL

- Labour Law consulting and training
- Commercial Law consulting and training
- Environmental Law consulting and training

INDUSTRIAL RELATIONS

- General industrial relations and labour law issues
- IR policies, procedures and practices
- Dispute resolution, conciliation and arbitration proceedings

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THANK YOU