

Further analysis of job champions and job losers found that twelve out of eighteen job champions were focused on the domestic market, with less than 10% of their product destined for exports.

7.3 Drivers of employment growth

7.3.1 Industrial strategy

Tariff liberalisation

Although import penetration has increased over the last decade, the overall balance of trade has not shifted dramatically. It would appear that much of the import penetration has resulted from the discontinuation of certain product lines by major South African producers, thereby compelling downstream manufacturers to import these products.

However, the players constituting the majority of the sector's output and employment have not been affected by tariff liberalisation in the same way as other sub sectors in the metals and engineering industry. While other sectors have seen large numbers of companies closing in the face of import competition, this sector has instead seen a considerable restructuring, driven in large part by an extensive recapitalisation programme by those companies operating in markets that could be vulnerable to imports. In so doing, these companies have adapted to and indeed increased sales under a programme of tariff liberalisation, however this same restructuring has undoubtedly come at a cost to the level of employment in the sector.

Likewise the general programme has had a less significant impact on the export propensity of the sector. This is unsurprising given the relatively high levels of export that existed even before South Africa became a signatory to the Uruguay Round.

As described in Section 2 above, very few small companies are exporters in this sector, with exports dominated by a few large players. Large companies, on the other hand, are increasingly focusing their efforts on the export market. This export drive is a result of a number of factors including the devaluation of the Rand and the increasingly international nature of ownership in the sector. The revaluation of the Rand is expected to erode this growth, although companies should be able to maintain levels of current levels of exports.

Government support schemes

The General Export Incentive Scheme (GEIS) played an important supportive role to the basic metal sub-sector as well as downstream industries. Between 1992 and 1995, more than R4.4 billion was disbursed to exporters through this scheme. In 1997, the GEIS was

terminated. The Department of Trade and Industry replaced this programme with a number of supply side measures, such as a Small Business Development Programme, Export marketing Assistance, Pre-Shipment Export Guarantee Scheme MIDP etc.

Table 10. Level of awareness, use of, growth and employment results of various government support schemes (in %)

	Awareness	Made use of	Resulted in growth	Resulted in employment creation
Competitiveness fund	2.1%	0.7%	2.1%	0.7%
Sector partnership fund	2.8%	0.0%	0.0%	0.0%
Small, Medium Enterprise Development programme (SMEDP)	12.8%	1.4%	0.7%	0.7%
Venture capital scheme	1.4%	0.0%	0.0%	0.0%
Technology and Human Resources for Industry Programme (THRIPP)	1.4%	0.0%	0.0%	0.0%
Innovation fund	1.4%	0.0%	0.0%	0.0%
Support Programme for Industrial Innovation (SPII)	2.1%	0.0%	0.0%	0.0%
Standard leased factor building schemes	0.7%	0.0%	0.0%	0.0%
Export finance guarantee scheme	2.1%	0.0%	0.0%	0.0%
Export marketing and investment scheme	2.8%	0.0%	0.0%	0.0%

Table 10 highlights the relatively low level of awareness among the basic metals sector regarding the various government support schemes that are presently available. As with the other sub sectors within the metals and engineering industry, the Small, Medium Enterprise Development programme (SMEDP) recorded the highest level of awareness of 12.8%. However, it still had a very low level of usage, namely 1.4%, which resulted in the low incidences of growth and employment creation.

Other initiatives include a fund administered by South African Iron and Steel Institute (SAISI), which aims to promote the development of the secondary steel processing sub-sector. The fund provides financial assistance to exporters of fabricated steel products who export outside the Southern African Custom Union, with the prerequisite that the article must be produced

from South African steel and that a minimum of 25% of Rand value is added. Currently an amount of R110 per ton used is paid out upon proof of export. Assistance paid out for the financial year-end 1996 was in excess of R82 million and over the previous seven years, assistance paid out amounted to R456 million. South African primary producers also provide financial assistance to exporters of secondary steel products, provided downstream producers add 25% of value. According to Iscor, rebates given are approximately R200 million per year, or just more than 1% of turnover. The problem with these rebates is that smaller companies do not benefit from these incentives, as they do not meet the criteria. Furthermore, according to interviews, rebates are also linked to an agreement by purchasers that they will not import competing product for a three year period.

In conclusion, the survey results show a relatively low awareness and usage of the supply side measures that have replaced GEIS, which further underpins the sector's sense of having had substantial amounts of government support withdrawn.

Beneficiation

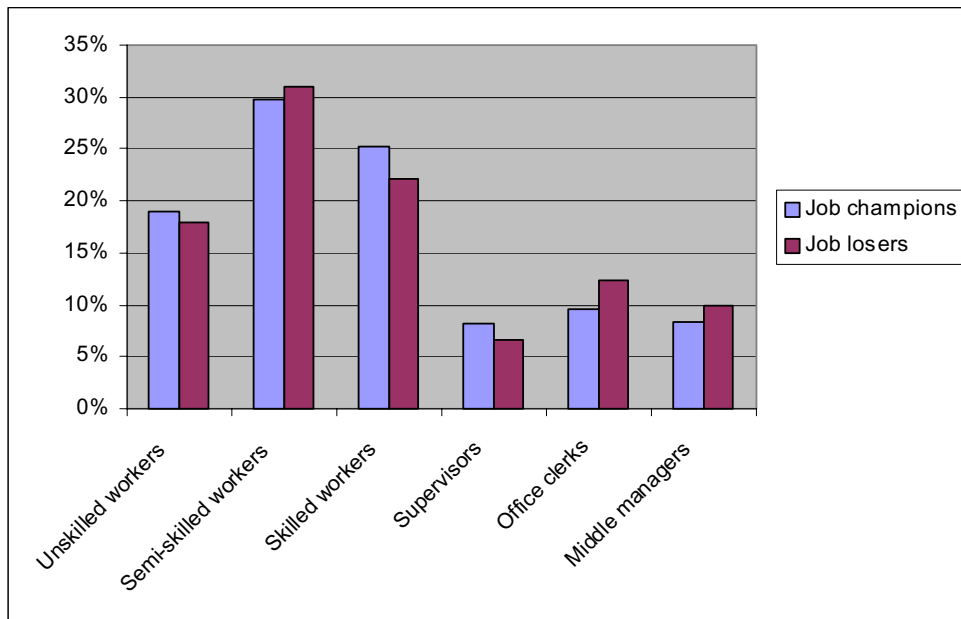
The development of South Africa's basic metals sector is tied fundamentally to the development of the country's mining and quarrying activities. In many cases, the transformation of mineral ore and concentrate – or at least the further refining of these mining products – are integrated with operations involving the formation of basic metals.

During 1999, only 7.3 million tons of the 29.5 million tons of iron ore mined in South Africa were converted into crude steel. Most of the un-beneficiated iron ore was exported. Massive increase in demand from China is driving the export of iron ore (*Business Day*, 11 January 2002) and exacerbating the trend of lack of beneficiation.

Labour market conditions

Job champions and job losers exhibit similar skills profiles. This implies no correlation between companies' employment performance and their skills profiles.

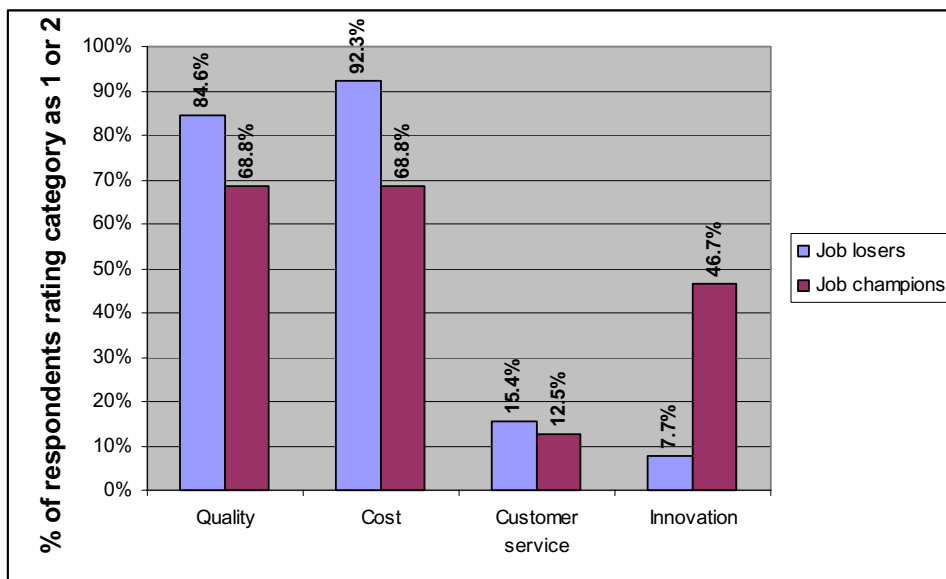
Figure 32: Breakdown of workforce profile among job champions and losers



7.3.2 Company strategies

Unsurprisingly, job losers have predominantly emphasised cost competitiveness as their primary strategy for competing which undoubtedly impacted on their search for more efficient and cheaper ways to undertake production – including reducing employment. Offering innovative products as a strategy to capture market share registers higher amongst job champions.

Figure 33: Perceived importance of various drivers of growth among job champions and losers



International alliances

As previously mentioned, the steel industry has been characterised by a considerable amount of consolidation both locally and internationally. This has tended to take the form of mergers, which are aimed at reducing excess capacity while enhancing competitiveness (Makhaya T., et al, 2002). Examples of these moves towards consolidation include the merger between Acerinox and Columbus Joint Venture. Acerinox currently has a 64% stake in Columbus Joint Venture. Approval for this merger was given on the basis that it would not lessen competition while improving the company's competitiveness in international markets. Other important acquisitions include the recent case of Iscor, in which foreign partner LNM Holdings, a member of the world's second largest steel producer the LNM Group, increased its stake in Iscor from its current 21% to 47%.

Most of the benefits of mergers take the form of technological transfers or efficiency gains, procurement benefits, access to capital, improved usage or productive capacity, research and development and improved access to global markets.

By definition, international alliances are relevant to companies with an export focus. Such companies identified these alliances as an important driver for growth. However, alliances do not lead to the creation of employment. Only in one instance, Highveld Steel and Vanadium Corp Ltd did the employer mention that an international alliance was likely to lead to job creation, although on a tiny scale, representing approximately 1.5% of its workforce. In most instances international alliances resulted in job losses, given the introduction of technology, but more importantly the introduction of best practice work methods and the benchmarking of operations to other operations overseas, which were often less capital intensive.

The rise of FDI into the sector has facilitated both technology transfer and a strengthening of managerial skills. Much of this has underpinned the ability of both sub-sectors to substantially increase efficiencies while reducing costs.

As mentioned above, benefits from international alliances centre largely on work practices, technical skills related to production processes and new technology. In the case of the partnership between Columbus Joint Venture and Acerinox (the third largest stainless steel producer in the world), the major benefit has been the continuous increase in capital expenditure. Columbus Joint Venture also states that their link with Acerinox has improved their credibility in international markets as they are no longer seen as a "third world producer". An important advantage of this international alliance is gaining access to global markets through Acerinox's markets. If for example, there is a shortage of a particular grade of stainless steel in Acerinox's American plant; Columbus Joint Venture is able to supply that particular grade of steel to the USA. The size of Acerinox also means that Columbus Joint

Venture is able to sell at a discount on the international market, as they are able to secure a discount on their inputs and do not have to pay for the transport differential.

Niche markets

As in all the other metal and engineering sub-sectors, some companies within the basic metals sector are able to compete on the basis of flexibility that they derive from doing smaller production runs or being more labour intensive than bigger manufacturers. This is the case for a metal works company based in Durban, who stated that they enjoy a competitive advantage due to the versatility that they have compared to bigger non-ferrous foundries. Their furnaces are able to cope economically with half a ton, thereby enabling them to produce smaller short production runs. This advantage stems from the fact that they are using 1990s and not 2000 machines.

Rand depreciation

An important driver of the sector has been the depreciation of the Rand, as previously discussed sales for iron and steel products, boosted by a 36.5% growth in sales last year, representing an increase of R12.9 billion (Seria N, 2003).

However, the benefit of the depreciation of the Rand only went to those companies whose inputs are Rand denominated. Companies in the secondary aluminium sub-sector which are reliant on scrap aluminium were negatively affected as the price of scrap aluminium is determined on the London Metal Exchange and is thus dollar denominated.

A major concern for companies was not so much the actual exchange rate, but rather the volatility of the exchange rate, which complicates planning and costing.

7.3.3 Domestic market prospects

Steel consumption in South Africa rose by 16% to an estimated 4.7 million tones for the year 2002, the highest level since 1989 (Engineering News, 13/02/03).

Despite these record increases in sales both domestically and overseas, many of the companies interviewed predicted greater increases in their domestic sales (albeit off a small base in some cases, such as stainless steel) as opposed to export growth. Steel is an important input into capital goods. In particular steel manufacturers were optimistic about the upgrading, expansion and opening of new mining operations, particularly that of platinum in South Africa and the growth of the pipe industry (including large projects such as the Temane natural gas pipeline and a new water pipeline).

The Department of Trade and Industry is currently promoting a number of new projects, namely, new smelters, auto parts, the building sector, beverage cans, rolling mill expansion

and an auto wheel plant. If these projects get the go-ahead, they will create significant domestic demand.

7.4 Conclusion

The sector has achieved levels of stability that are quite promising. Whether this stability is converted into job growth remains to be seen but it seems likely that the sector promises job stability in the short to medium term. However, it is its role as a major producer of intermediaries for downstream sectors, where the sector's job-creating potential needs to be measured. The issue of import parity pricing and low levels of beneficiation remain a problem if the broader job-creating potential of this sector is to be realised. These issues are discussed in the next section which considers impediments to employment creation.

8 IMPEDIMENTS TO EMPLOYMENT GROWTH

8.1 Import penetration

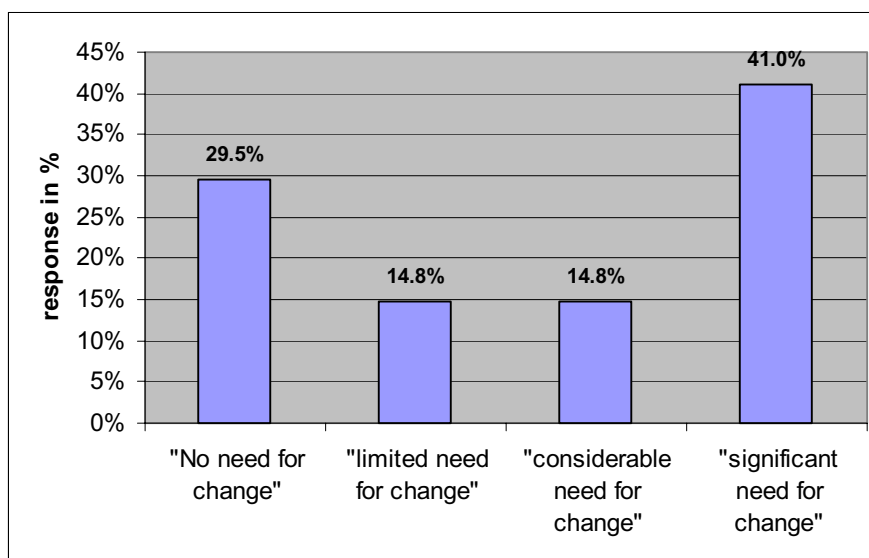
At an aggregate level it is difficult to point to import penetration as an impediment to job loss as most job losses have come from major producers that have undertaken restructuring exercises in order to increase their competitiveness in export markets. However our research has indicated that smaller companies in the sector are experiencing some pressure from imports and thus may be under threat.

8.2 Export markets

The sector has a high export orientation. Up to June 2001, South African steel had been subject to six anti-dumping or countervailing actions instituted by the US, while it accounted for approximately 2.5% of total USA imports of steel by volume (Makhaya T. et al, 2002).

Access to export markets is a major concern for the sector. Employers in the iron and steel sub-sector were particularly concerned by the shift towards increasing protectionism of domestic steel markets around the world. South Africa being one of the lowest cost producers in the world and indeed the lowest cost producer for certain steel products; makes it particularly vulnerable with respect to anti-dumping actions. For this reason it is unsurprising that the majority of companies in the sector prioritised the need for export intelligence.

Figure 34. Perceived need for change with respect to export market and competitor intelligence in the basic metals sub sector



8.3 Logistics

The performance, or lack thereof with regard to railway transport as well as its high costs, were one of the biggest complaints from companies interviewed. Not only is there no guarantee regarding delivery but sometimes products are damaged or disappear. Furthermore, while rail transport should be significantly cheaper than road, it is not. Time delays in delivery of inputs, means that companies are required to carry greater stockpiles of raw material inputs resulting in a higher cost of production. Unreliable railway transport also has a negative impact on meeting export orders, so much so that producers often prefer to use road transport, as the costs of not meeting an export order are incalculable, as that order may be lost forever.

The issue of transport costs is a serious impediment to beneficiation and export growth, one employer claimed that transport costs represent as much as 15% of his total costs.

8.4 Scrap metal

Scrap metal is regarded as a resource by the basic metals sector. The availability and price of scrap metal is an important production cost determinant. Columbus Joint Venture is reliant on scrap metal for their production process. In recent months they have experienced an increase in the price of scrap steel. Similar difficulties have been experienced by SCAW metals, although they are less reliant on scrap metal. The amount of scrap metal used is dependent on the product being produced, with some production processes allowing for greater usage of scrap. Smaller foundries are also experiencing difficulties in obtaining scrap, and those at the coast are charged an additional inland transport charge irrespective of the origin of the scrap, although most does originate inland. Nevertheless, large proportions of scrap make their way to Durban for export.

The major difficulties in relation to scrap are being experienced in the secondary non-ferrous basic metals sector. This is due to the higher value to weight ratio of non-ferrous scrap compared with iron and steel scrap, making it more desirable for export.

The issue of the availability and price of scrap is the single biggest problem for the secondary non-ferrous metals sector. Unlike iron and steel scrap, non-ferrous scrap's price is determined on the London Metal Exchange. It is also a dollar denominated price, making it volatile to the Rand dollar exchange rate. It should be noted that the secondary non-ferrous metals sub-sector was placed under severe pressure when the South African Rand lost almost 40% of its value during 2002.

The unregulated export of scrap metal resource has on a macroeconomic basis, increased the cost of the raw material input and had a negative impact on the competitiveness of downstream products, thereby making incremental exports nonviable.

In essence the domestic market must compete with inflated export parity and foreign currency kick-backs, a situation which is aggravated during times of currency depreciation.

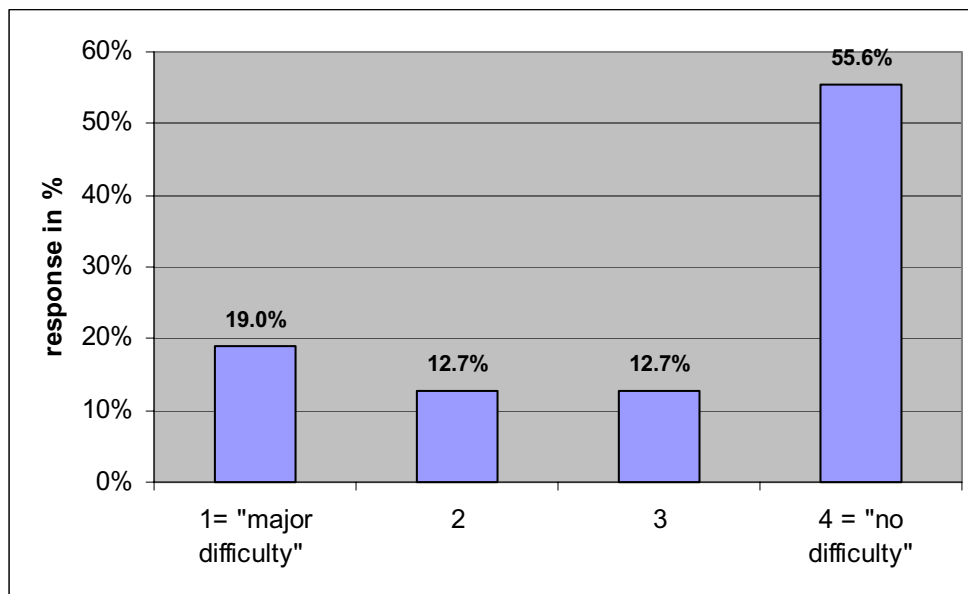
8.5 Labour legislation

In qualitative interviews, employers at less technology intensive plants or those who relied on less skilled workers, referred to the retrenchment requirements of labour legislation as an impediment to hiring people in response to what may be temporary increases in output. Accordingly, they have chosen to draw on the flexibility that exists within labour law to follow an outsourcing or subcontracting route when required to increase production, rather than expand their permanent workforce.

8.6 Skills

Interviews with employers suggest an acute shortage of certain skills, e.g. pattern makers, millwrights, engineers and metallurgists. However as figure 14 below indicates, for the most part the sector has not experienced any difficulty in accessing skills.

Figure 35. Difficulty experienced when accessing appropriate skills (expressed as a % of the total sample)



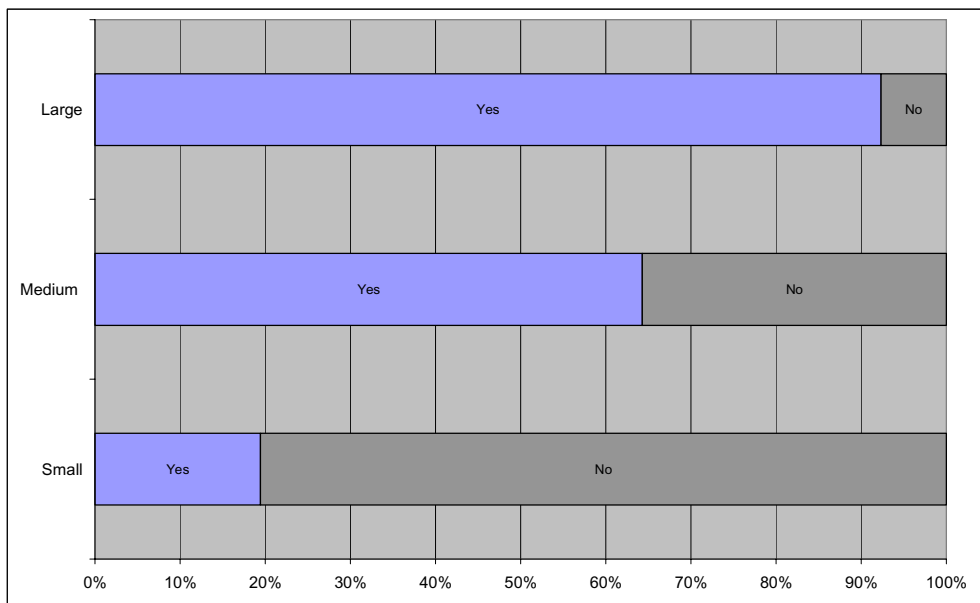
The companies and relevant associations interviewed expressed commitment to the new skills development system and had all established skills development committees within their plants. However, while companies were committed to the new skills development approach,

larger companies suggested that they were not reliant on the Merseta for training and were self-sufficient in developing their own skills internally. There was however a general feeling of dissatisfaction with the Merseta, especially amongst small and medium companies. Some of the concerns raised included:

- The bureaucratic requirements of the new system, i.e. excessive amounts of administration
- That the Merseta did not cater for the specialised training and skills needs of the basic metal sector, e.g. metallurgy and pattern making
- Administrative difficulties in claiming back levies was not always worth the effort
- The Merseta had not completed developing unit standards, which meant that companies could not access accredited training.

The problems associated with the Merseta were exacerbated for smaller companies and are reflected in the satisfaction levels as depicted in the figure below. The conclusion drawn from this set of opinions and results is that the “red tape” of the new skills system requires companies to set up infrastructure that may not be appropriate for smaller companies in terms of costs and results.

Figure 36: Respondent's view on whether the Merseta is effective



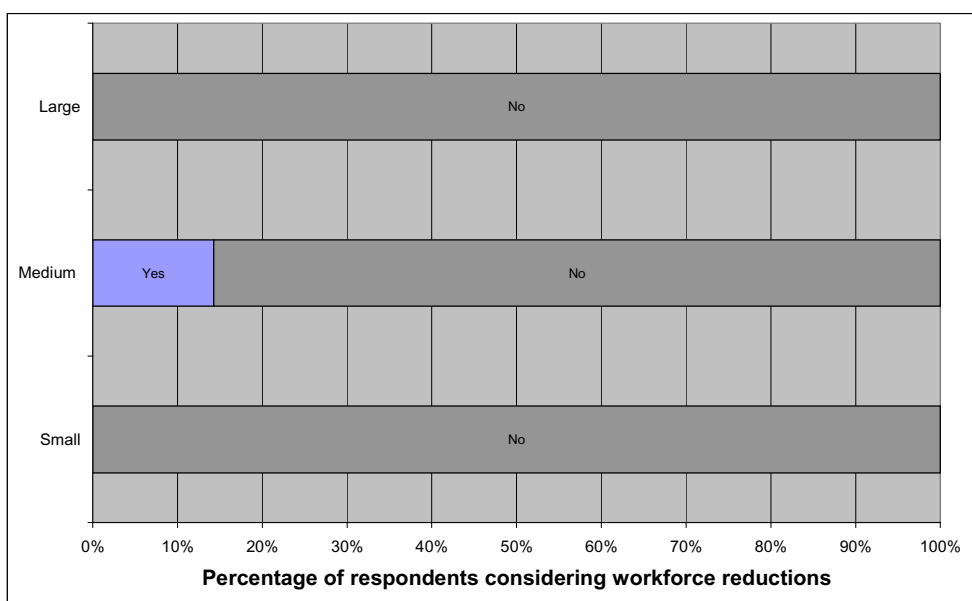
8.7 Import parity pricing

Because it is a practice that affects other sub-sectors and the development of the sector as a whole, the issue of import parity pricing has been covered in the overarching section of this report. Throughout the process of research and consultation, upstream producers in both the basic iron and steel and non-ferrous sub-sectors have been accused of stifling the growth of the downstream domestic sector with prejudicial pricing practices. In turn, producers accused of this practice point to the need to achieve good returns on the domestic market (due to instability in global markets), the fact that moves against their pricing structures would threaten their profitability and the fact that their products need to be considered as international goods, even when purchased within the national boundary. As increased domestic beneficiation is in the interest of the large producers and there is an expressed desire from their part to increase the amount of product entering the domestic market for further processing, we believe that there is a middle ground that we have tried to accommodate in our recommendations. Suffice to say here that the issue is one that requires action in the short term.

9 CONCLUSION

The figure below confirms that the sector has achieved a measure of stability with a very small minority reporting that they plan workforce reductions. The issue of the availability and the pricing of scrap is the single biggest problem for the secondary non-ferrous metals sub-sector and remains a problem in other industries. There is also a need to ensure that the Merseta and other institutions involved in skills development work together with companies to satisfy the need for skills identified in the research.

Figure 37: The extent of organisations considering workforce reductions in the short-term (1 year)



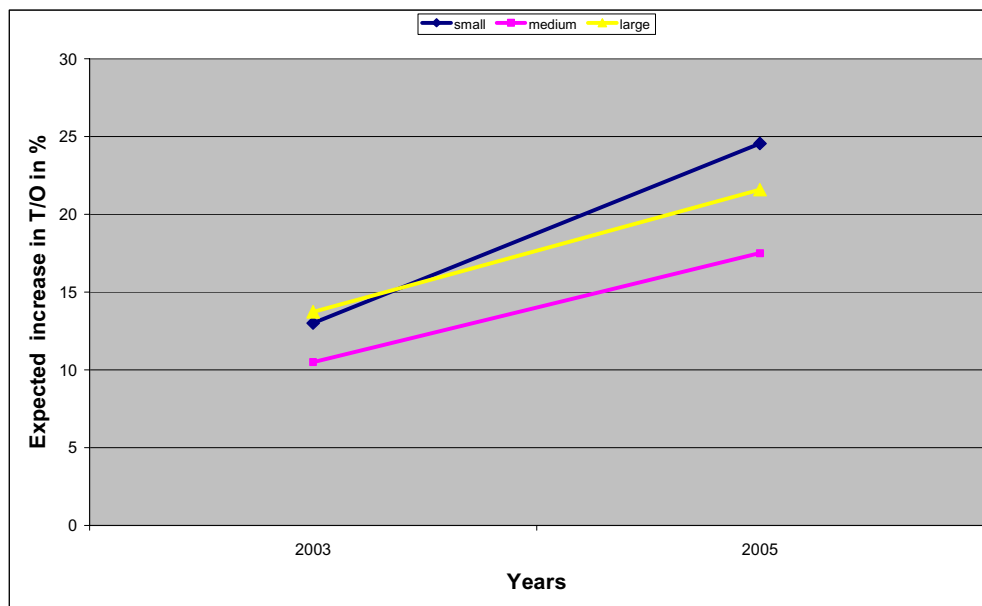
Employers were extremely positive about turnover growth over the next 3 years when interviewed. However, given the relative capital intensity of the sector together with its proven ability to grow sales while shedding jobs, there will not be many jobs created in this sector in the short to medium term.

As expected, larger organisations are more likely to be process based and run on 24-hour cycles. Table 11 reflects aggregate results from the survey, showing increased capacity utilisation for medium and large companies. The low levels of capacity utilisation within small companies points to a situation where there is an ability to meet new demand in the sector but not with any corresponding increase in employment.

Table 11: Average shift number, length and capacity utilisation by firm size

Company size	Number of shifts in 24 hrs	Length of each shift (hrs)	Capacity utilisation of each shift (%)
Small	1.2	8.0	62.6
Medium	1.3	8.0	72.6
Large	2.3	8.2	82.9
Average	1.5	8.1	69.9

Figure 38: Basic metal's sector perception of turnover growth to 2005, by organisation size



The sector predicts that export levels are likely to remain more or less constant over the next 3-year period with large companies continuing to dominate exports in the international market. Based on the timing of the survey (December 2002), a dampening of the sector outlook can be expected, based on the fact that exports, which were identified as a major source of turnover growth, would be negatively impacted on by the revaluation of the Rand. Having said that, industry representatives in the survey continually pointed to the fact that in many ways currency stability was more important than a drastically fluctuating currency.

10 KEY ISSUES FOR CONSIDERATION IN STRATEGY AND POLICY FORMULATION

A number of key issues were identified that are considered in the formulation of an appropriate strategy for this sector.

For the purposes of policy analysis it is important to consider its various dimensions. The sector can be divided up into basic iron and steel products and the non-ferrous metal products sub-sectors. Iron and steel has a longer history in South Africa and non-ferrous has grown dramatically over the last decade. Non-ferrous is dominated by aluminium products and, in general, has higher value added content than iron and steel. Both of the sub-sectors are providers of raw material inputs to both the domestic and international markets. The sub-sectors both have a similar division between, on the one hand, large corporations which have grown their export focus over the last decade while maintaining dominant positions within the domestic industry and, on the other hand, smaller companies that are mainly focused on supplying product to local downstream consumers in small batches.

As a means of summary, we turn now to key issues within this sector that are considered to be **key drivers of employment**.

Even companies with established export markets consider the growth of the domestic market as the key to their long-term success. Corporations point to a desire to garner more of the domestic market in favour of volatile exports. In this respect, delivery on a number of key private and public infrastructure developments will provide vital impetus to this. **Co-ordination that maximises the benefits of domestic demand in favour of the local industry is therefore a key goal of the basic metals strategy.**

The importance of continued export success, especially amongst the large companies is a key to their survival. Global markets are unpredictable, volatile and prone to protection in this sub-sector. Where companies have managed to access international partnerships it has led to a better integration of domestic companies into global markets. This situation has been recently assisted by the relative weakness of the Rand, especially in the basic iron and steel sub-sector due to its Rand-denominated inputs. **Strengthening access to export markets would be a key goal of any strategy.**

Small and medium companies in the sector with a more employment-intensive profile have proven an ability to maintain domestic market share. The ability of smaller producers to compete on the basis of flexibility with small production runs, whether for the global or domestic market is one of their strengths. **A key consideration would be to create an**

enabling environment to the growth and further development of small and medium domestic players.

The research has also identified a range of **potential impediments to job creation in this sector that would also need to be addressed.** We consider these now, before turning to the recommendations section.

The nature of restructuring within large firms, particularly those that are competing on global markets, has focused on higher levels of automation at the expense of un-skilled and semi-skilled workers. This restructuring has led to increased output with fewer workers. The current structure of the sector does not enable it to be a large creator of jobs. Policy would have to consider the fact that **the bulk of the sector is in the bottoming-out of a round of employment loss and will not be a major creator of employment in the short to medium term.**

In common with other sub-sectors, logistics, in particular rail transport remains a serious impediment to competitiveness. **As transport constitutes a larger proportion of costs in this sector, the issue of addressing logistics costs is a serious short-term consideration.**

The export of scrap metal is a problem in the iron and steel sub-sector but a major impediment to the growth of non-ferrous down stream processors. As these sub-sectors are relatively labour-intensive, this is a major impediment to job growth. **Addressing the export of a vital domestic resource will be central to the strategy.**

Limited awareness of incentive schemes (such as the SAISI-administered rebate scheme to secondary steel processors) by company representatives interviewed implies that there is limited uptake of competitiveness enhancing support. **Where government can provide support that is relevant and utilised by the sector is another consideration of our strategy.**

It was established that where new investment is to take place in this sector, prospects for job growth are limited. In addition, firms are utilising the flexibility that exists in the labour legislation to allay perceived risks with employing full time workers. Increases in employment figures are more likely to be focused on atypical forms of labour as opposed to permanent workers. While recognising the international growth of atypical employment and the necessity for seasonal fluctuations in employment, **this policy aims to generate permanent employment growth as a key goal.**

There is a shortage of very skilled workers; in particular pattern makers, millwrights, engineers and metallurgists with no apparent solution in the near future. Semi and unskilled

workers, who are mostly black, have borne the brunt of retrenchments that have come about as a result of restructuring. Especially in the case of smaller firms, the transition to the new skills development regime has been slow and difficult. To bridge skills gaps and as a means of seeking to redress the imbalances within the labour market, **strategies to transform the current labour regime and deliver skills are key goals.**

Lack of beneficiation remains an impediment to growth for this sector. The job creating potential of the sector should be measured in terms of its role as a major producer of raw material inputs for downstream industries. The issue of import parity pricing and the low levels of beneficiation remain a problem if the broader job-creating potential of this sector is to be realised. Through policy and co-ordination, **this policy seeks to address the concerns of downstream consumers of this sector's product.**

11 RECOMMENDATIONS

The recommendations section here is to be read in conjunction with the overarching recommendations section that considers the metals and engineering industry a whole. If the reader has not read this section, she/he is urged to do so now. To avoid repetition, this section here seeks to emphasise specific areas that are unique to the sector in relation to the overarching metals and engineering recommendations. Consequently, the key recommendations are not included in detail here.

A co-ordinated, holistic strategy aimed at retaining and growing the current level of employment within the sector is recommended, which will in turn facilitate the achievement of the overall vision for the sector.

The medium to long term vision for the basic metals sector is to stem the employment loss that has taken place in companies integrated into the global economy, while enhancing their ability to achieve future growth and competitiveness and at the same time enabling all companies to defend and grow domestic market share by increasing horizontal and vertical collaboration, reducing input impediments and increasing the focus on process and product innovation. *In addition the strategy must take cognisance of the role the sector plays as a major provider of raw material inputs to downstream sectors.*

Accomplishing this vision will require strengthening the drivers of employment and overcoming the impediments to employment identified in the above report.

In particular, this involves addressing the following key issues:

- Co-ordination that maximises the benefits of domestic demand in favour of the local industry
- Strengthening access to export markets
- Creating an enabling environment for the further development of small and medium domestic players
- Addressing logistics costs
- Providing government support that is relevant and utilised by the sector
- Implementing strategies to transform the current labour regime and deliver skills

Before we go in to the details of how these issues are to be addressed, it is important to note that the bulk of the sector is in the “bottoming-out” of a round of employment loss and is thus

unlikely to be a major creator of employment in the short to medium term. As a key supplier of downstream sectors, however, the basic metals sector has a key role to play in the development of the metals and engineering industry as a whole.

11.1 Supply Side Factors

11.1.1 Input costs

Collaboration to reduce input costs

The key example of collaboration utilised in the overarching recommendations involves the basic metals sector and concerns the win-win partnership between the South African Tank Containers Association and Columbus in their efforts to garner the lion's share of the international stainless steel container industry. The nature of this partnership has seen tank container manufacturers reduce the number of grades that they require from Columbus. Columbus has in turn passed on the savings accrued from the improved economies of scale to their consumers. We hope companies within the sector as a whole will exemplify such collaboration. We believe that this is not only a downstream issue, but that the basic metals sector will be greatly enhanced by increased local beneficiation of their product. In addition, the performance, or lack thereof with regard to railway transport as well as its high costs, were one of the biggest complaints from companies interviewed and we hope that this is a further area that can be addressed by collaborative efforts between interested parties.

Responsibility: Industry associations, upstream producers, Spoornet

Policy interventions to reduce input costs

While collaboration between suppliers of raw materials and the consumers of their products is a first prize, we have considered in our overarching strategies a more interventionist line of policies. Our first is to remove the tariff on basic metals imports and thereby remove at least part of the import/parity price cost. We believe that this is a recommendation that falls in line with the current trade regime policies of Government, namely the reduction of tariffs on inputs to manufacturing. More direct interventions are only to be considered once an in-depth cost/benefit analysis has been done on the impact of such measures on companies within this sector that currently employ import parity pricing structures. This would require a study of a more in-depth nature outside of this study's scope.

Responsibility: dti, Nedlac

Make scrap metal available to local industry

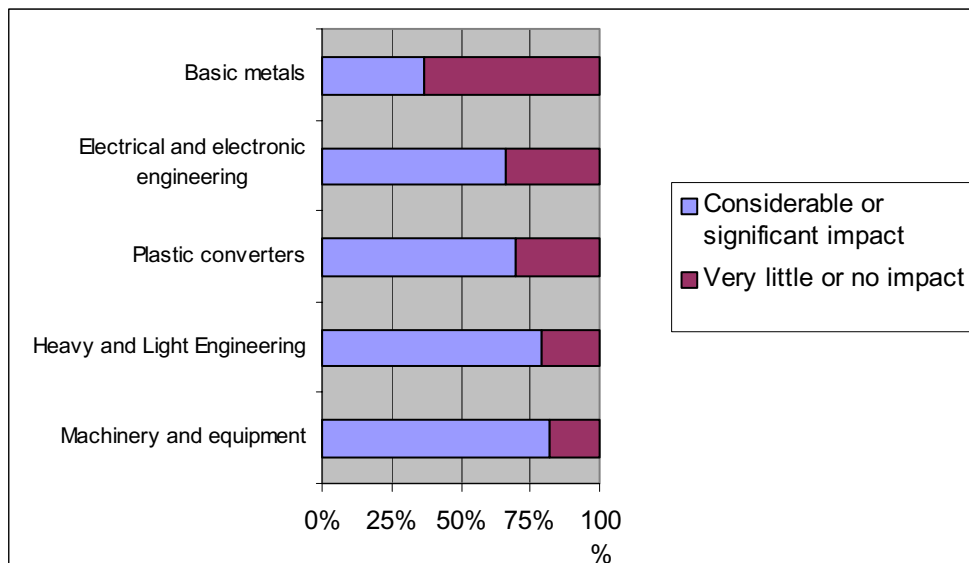
The export of scrap metal was consistently identified as a constraint to a large proportion of this sector, but in particular the employment creating potential of non-ferrous metals converters. Accordingly we support the recently announced changes to scrap metal policy that attempt to ensure that domestic manufacturers’ requirements are met before scrap is exported.

Responsibility: ITAC, industry associations, dti, Customs and excise

Proactively manage atypical labour

Although employers in the basic metals sector did not perceive wages and salary costs to have a major impact on employment as compared to other sectors (see Figure 39), recommendations that address the increase in atypical employment as a proportion of total employment within the overarching report remain pertinent to this sector as well. This is particularly the case for small and medium-sized companies which have increased atypical employment at a faster rate than large companies and expressed a reluctance to increase their permanent employee component.

Figure 39: Employers’ perceptions of the impact of salary and wage costs on employment creation



Accordingly the recommendation that the social partners – government, labour and business – institute a series of mechanisms to proactively manage the atypical segment of the labour market will be pertinent to this sector as well. These mechanisms could well be the outcome of the upcoming sector jobs summit. We suggest that either a ‘stick’ or a ‘carrot’ option may be pursued in managing increases in atypical employment; both of which are elaborated upon in the overarching recommendations section.

We believe that these proposals provide a basis for managing the relationship between permanent employment, wage rates and flexibility in a dynamic way, balancing the needs of employers and employees in an ongoing manner.

Responsibility: the Merseta, the MEIBC, DoL, industry associations, trade unions

11.1.2 Enhance skills to increase competitiveness and transform the labour market

This sector has, in common with other sectors, a lack of skilled and highly skilled employees. In particular, there is a shortage of pattern makers, millwrights, engineers and metallurgists. In addition, the nature of restructuring in large corporations has seen the shedding of semi- and unskilled labour, creating an extra imperative to enhance the skills of existing labour to ensure that employees are able to retain their jobs in the sector. For this reason there is a need to focus both on the high end of skills as well as a concerted programme to improve the skills level of un-skilled and semi-skilled workers in the sector. In particular, due to rapid decline in employment in basic metals, the latter process, linked to a concerted ABET training programme, should be fast-tracked in the short-term.

It is therefore of vital importance that this sector ensures that the measures proposed in the overarching recommendations chapter around the enhancement of the skills training regime are adopted. Particular learnerships in areas where there is a shortage of skills should be undertaken in the short-term. To establish these needs may require that a skills audit is done within the sector in the short-term.

Responsibility: the Merseta, industry associations, DoL, DoE

11.2 Enhance the manufacturing processes to enhance process and product innovation

Although the sector is not as design-intensive as other sectors within the metals and engineering industry, we believe it will benefit from the general recommendations that we have crafted at the overarching level. In particular, the ability of companies to respond flexibly to changing market demands has been an important feature of successful small and medium firms in this sector and has been borne out by their ability to restrain market penetration by

foreign competitors. By developing flexibility in their manufacturing processes, they have been able to offer shorter runs, quicker turnarounds and/or other customer-friendly solutions that have helped them to maintain market share. Our recommendations that focus on tweaking these strengths are of particular relevance for small and medium-sized companies in this sector and should be instituted in the short to medium term.

Responsibility: TISA

11.3 Demand conditions

11.3.1 Enhance and secure domestic demand

For most of the companies in this sector, even those with a strong export focus, our study has found that domestic demand continues to be an important and in some cases, dominant driver of employment. Indeed, it is true to say that the drive for international competitiveness amongst export-focused companies has actually been a dominant driver of employment loss in the sector. In addition, we have identified that this sector, in particular, is highly dependent on developments within downstream sectors that are major consumers of its products as well as major capital investments (whether public or private). Therefore, although measures proposed at the overarching level around the protection of the domestic market may not be as important for basic metals due to low levels of import penetration, the overarching measures that are aimed at bolstering and stimulating domestic demand and ensuring that benefits from these processes accrue to local companies is vital for future growth within the sector.

Responsibility: TISA, industry associations

11.3.2 Secure and enhance export demand

There is a dichotomy in the sector with some companies focused almost exclusively on the domestic market and others almost exclusively on the export market. Large companies that have become cost competitive on the international market have engaged in restructuring that has seen their workforces drastically reduced. Although these export-focused companies are not going to be significant creators of jobs, they remain key employers and are particularly vulnerable to protectionism in international markets. All the overarching recommendations around stimulating and securing exports are therefore of importance to this sector and in the light of exchange rate volatility, which is already having an adverse effect on these companies, need to be implemented in the short term.

In addition, because the sector is perceived by many governments to have strategic importance and therefore worthy of increased tariff and non-tariff protection (for example of a 30% tariff on certain grades of steel recently introduced in the USA), there is an urgent need

to increase the capacity of international trade representation that can effectively represent this sector. Finally, the setting up of an export council for this sector should be investigated if industry perceives a need.

Responsibility: TISA, industry associations