

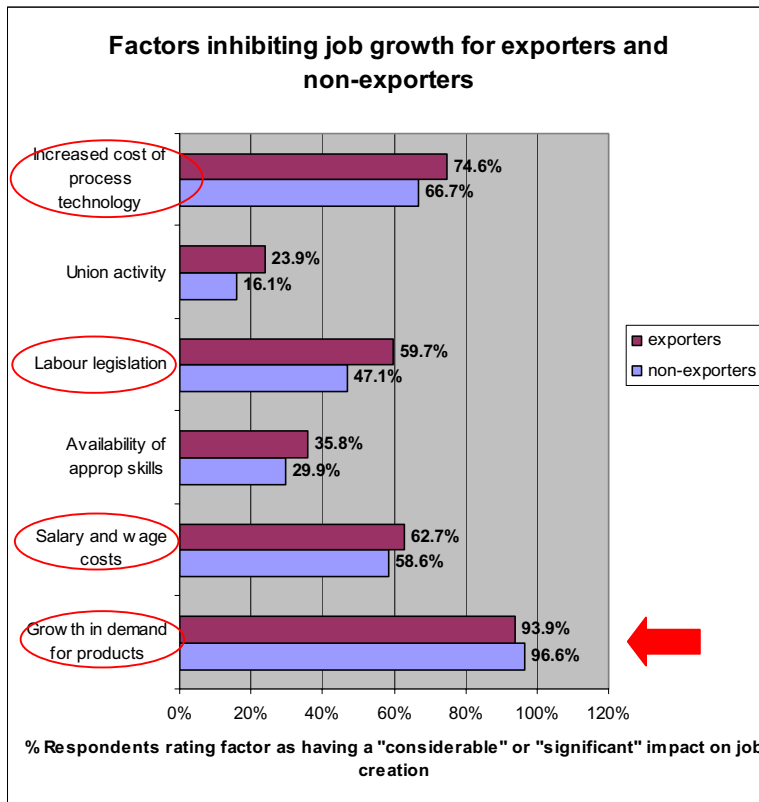
demand for products / services. Interviewees stressed that the only incentive that would entice them to employ more people, would be increased market demand. This highlights the need for programmes that identify markets, products and promotes South African converters.

Notably union activity and the availability of appropriate skills do not seem to be seen by employers as factors that hinder employment creation. This despite the fact that many interviews noted the requirement for a more skilled workforce in the future.

Differences between exporters and non-exporters regarding factors inhibiting job creation

The research sample was segmented into companies who exported versus companies that that did not.

Figure 155: Factors that inhibit job creation according to exporters and non-exporters



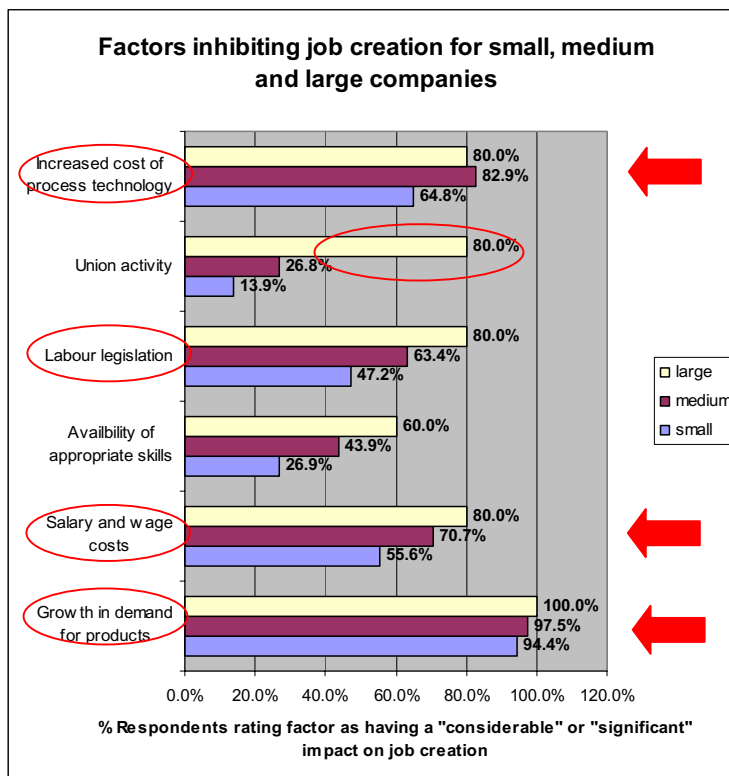
Once again, growth in demand for products is the most inhibiting factor for both exporters and non-exporters. Exporters generally perceive all factors to be more constraining than non-

exporters, which highlights the specific challenges companies face when entering the global market place.

Differences between small, medium and large companies regarding factors inhibiting job creation

The research sample was segmented by company size to determine the extent of constraint for each of the identified factors.

Figure 156: Factors that inhibit job creation according to company size



When analysing by company size, four factors emerge as the most constraining to growth, namely growth in demand for products, increased cost of process technology, labour legislation and the cost of salaries and wages. Labour legislation is less constraining than salary and wage costs for small and medium companies, whilst it has the same importance for large companies. Salary and wage costs are certainly generally more prohibitive to smaller companies. Interestingly enough, only when considering the factors by company size does union activity and availability of appropriate skills emerge as major inhibiting factors for large companies.

As indicated before, no interviewees indicated labour legislation as a constraint to growth. However, many smaller companies spontaneously mentioned that they were not intending to grow beyond the 50 permanent employees. Our survey, however, did not find evidence that this sentiment was being acted upon; of our sample of 39 medium companies (those with 50 to 249 employees) eight had expanded from below 50 permanent employees to above 50 permanent employees during the three year period from 1999 to 2002. There were also two companies that had started up during the time period with over 50 employees.

6.1.1 Factors inhibiting growth

When considering the factors that facilitate growth, it becomes clear that there are a number of aspects that require considerable or significant amount of change to facilitate growth within the plastics sector. Three different categories were considered, namely output (quality of products and services, customer service and innovation of products), internal operations (operational / process efficiency, work methods such as multi-skilling, inventory management, domestic and export market and competitor intelligence) and operating environment (domestic tariffs, international tariffs, labour legislation and government support schemes).

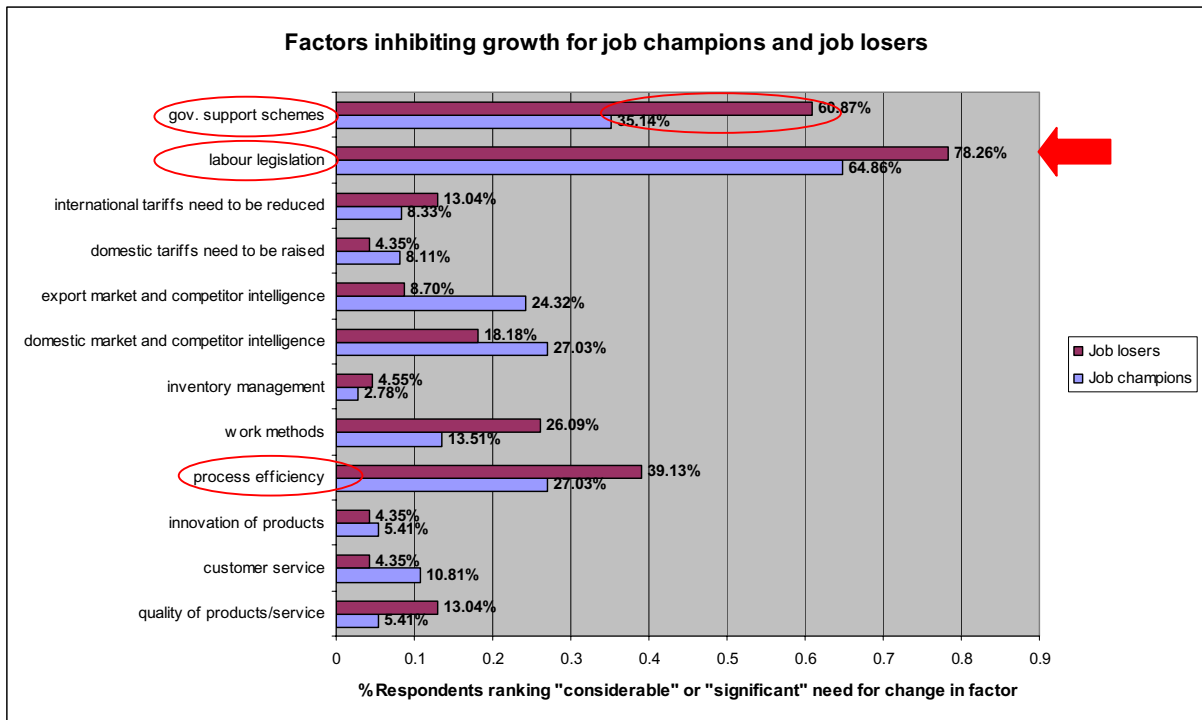
In general, increased government support schemes, labour legislation and process efficiency were the most prohibitive factors to growth for all companies. Notably all companies experience labour legislation as the most prohibitive factor followed by government support schemes. Increased cost of process efficiencies and work methods is the next most prohibitive factor for job losers and exporters and large companies.

The sections below provide more detail relating to the differences between job losers and champions, exporters and non-exporters as well as small, medium and large companies.

Differences between job champions and job losers regarding factors to facilitate growth

The research sample was segmented into companies who created jobs versus companies that shed jobs.

Figure 157: Factors that inhibit growth according to job champions and job losers

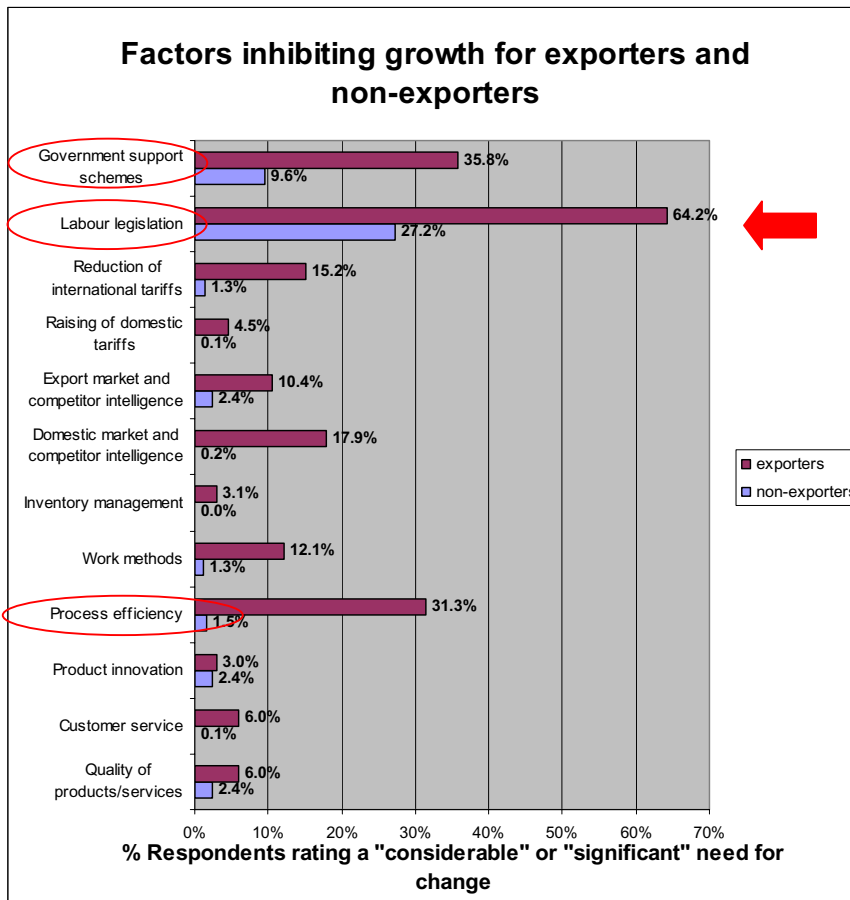


Although government support schemes and the labour legislation was seen as the most important factors that require change to facilitate growth, it is interesting to note that job losers experienced the need to change these inhibitors even more, suggesting that they were either not able to access the support programmes or that labour legislation inhibited their growth. In addition, although job losers and job champions experience similar factors as prohibitive to growth, it is notable that job losers experience labour legislation as more prohibitive whilst job champions experience the increased cost of process technology as prohibitive.

Differences between exporters and non-exporters regarding factors to facilitate growth

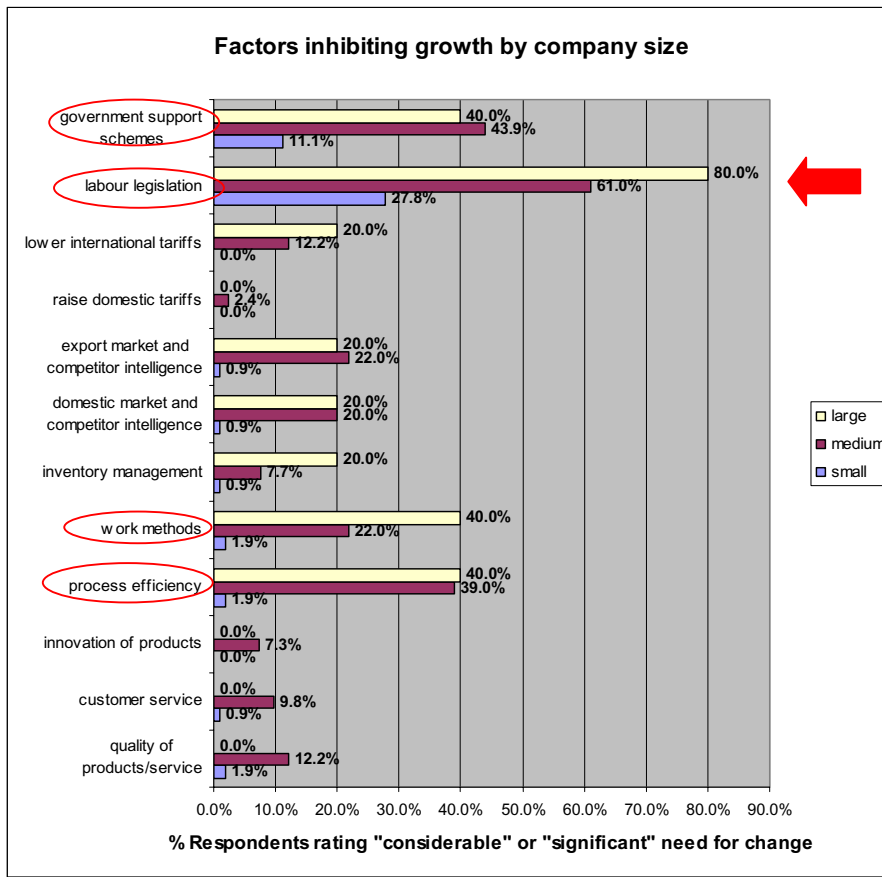
The research sample was segmented into companies who exported products or services out of South Africa and those who did not. Exporters overall perceived a greater need for change in many business areas (such as quality for products and services, customer service, innovation of products and inventory management). In particular the need for change in process efficiencies, work methods and labour legislation, although notable factors were much higher than non-exporters. **Competing in global markets requires global behaviour,** and should exports be identified as the most significant area for growth for South African plastic converters, employment creation strategies will have to focus on enhancing these two aspects for businesses.

Figure 158: Perceptions of factors limiting growth between exporters and non-exporters



Differences between small, medium and large companies regarding the factors that inhibit growth

Figure 159: Perceptions of factors limiting growth by company size



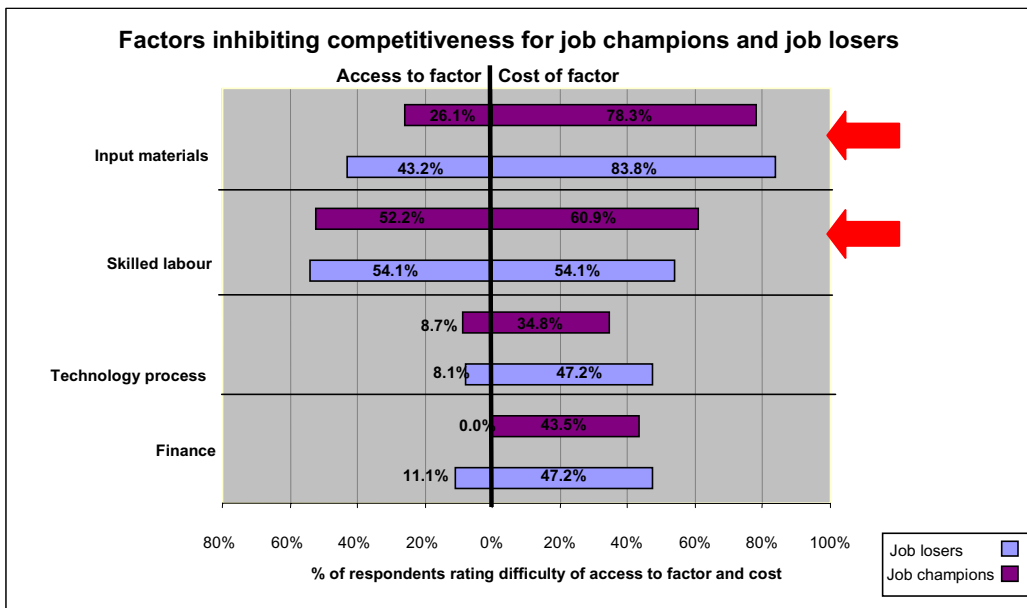
Large and medium sized companies experience labour legislation and government support programmes far more inhibiting than small and medium companies, indicating that there might be some specific gaps or inhibitors that are applicable to large companies only. Although also the most important factor for small companies, labour legislation is not perceived nearly as big an inhibitor as it is for larger companies.

Large and medium companies also consider process efficiencies and work methods to be more constraining, and this is likely due to the fact that they are already competing in the global market place and hence have a greater need for these factors to stimulate growth.

6.1.2 Factors inhibiting competitiveness

Differences between job champions and job losers regarding the factors that inhibit competitiveness

Figure 160: Perceptions of factors limiting competitiveness for job champions and job losers



As expected, all respondents considered the cost of input materials as their greatest inhibitor to competitiveness. What is disconcerting is that job losers experienced access to raw material as an inhibiting factor, stressing the importance of being able to access the right material for converters’ long term survival. This is especially important due to our small supplier and product base.

Both job losers and job champions considered the access and cost of skilled labour as a major inhibiting factor to their competitiveness. As mentioned elsewhere, despite the good efforts of the various SETAs to increase skill levels across the board, the observed trend towards outsourcing unskilled labour to casual or temporary employees will worsen this situation and further marginalise this group of labour.

Access to finance was not an issue, but the cost of finance was prohibitive, indicating a possible review of financing support programmes in this regard.

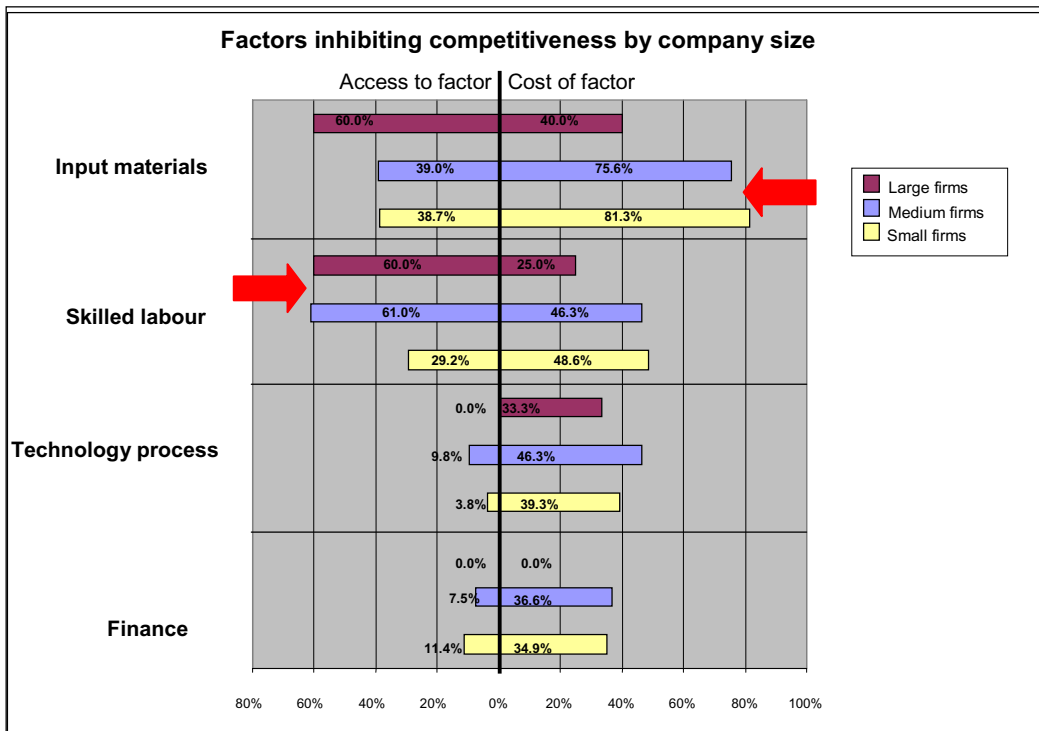
Differences between exporters and non-exporters regarding the factors that inhibit competitiveness

Access and cost of input materials are once again the most prohibitive for both exporters and non-exporters (with cost of inputs being the most serious). Access to skilled labour is also an issue for both, although exporters appear to find the cost of skilled labour even more prohibitive. It is likely that exporters use more sophisticated technology and hence require higher skilled people.

Differences between small, medium and large companies regarding the factors that inhibit competitiveness

As can be seen in Figure 161, small and medium companies experience cost of input materials and access to skilled labour as bigger inhibitors to competitiveness than large companies. In contrast though, large and medium companies experience access to skilled labour as more prohibitive.

Figure 161: Perceptions of factors limiting competitiveness by company size



We will now examine each of the primary impediments to job creation in more detail to understand potential policy implications.

6.2 Increased cost of process technology

Ownership and continuous improvement in process technology is critical to competitiveness and job creation. Unfortunately, South Africa has limited local capability in this regard, and hence most new machinery and technologies have to be imported at a very high cost.

Nevertheless, as indicated in section 4.4, investment in this sector is increasing and some R266 million will be spent in the next 12 months.

6.3 Labour legislation

One of the key findings of this study was the increase in atypical employment. Most employers cited concerns with the existing labour legislation that restricted their ability to increase capacity for short-term opportunities. Although it is recognised by organisations that the legislation makes allowance for fixed-term contracts as well as the possibility of employing sub-contractors⁴⁶ for specific periods of time, many companies expressed the view that the legislation has increased perceptions of risk associated with permanent employment. Accordingly, they choose to avoid employing extra personnel to pursue what may be once-off opportunities preferring instead to increase over-time to meet demand or employ casual or temporary labour.

It was however recognised by many companies that they are still in an adjustment period in terms of adjusting to the relatively new legislation

6.3.1 Cost of salaries and wages

Interviews consistently raised awareness to the current (believed to be faulty) inclusion of the plastics sector in the metals and engineering industry bargaining council. Many companies, especially in the packaging sector, indicated that they perceive there to be a need for a lower category of skilled employee, allowing for a lower minimum wage that reflects the relative skill level.

The common perception amongst companies that are paying below the MEIBC minimum wage structure does not provide for specific needs of the plastics conversion industry. However, companies that were already paying above the minimum wages did not consider

⁴⁶ An additional constraint noted by some respondents was that labour brokers did not offer sufficiently skilled individuals to make it viable to follow this route.

this to be an issue. Another point of note is that companies which previously re-located to rural areas as part of government's spatial development programmes are now reconsidering their location and the relative benefits. These companies have been provided with a migration period of 4 years to adhere to the new minimum wage structures. Careful consideration should be given as this will impact on all the positive effects of the spatial development programmes.

6.3.2 Skills

The Plastics Industry Training Board was replaced with the Merseta in 2000. The plastics industry has also suffered from 'brain drain' making the level of skills a critical issue facing the industry at present (Engineering News, 2001). However, the domestic plastics industry has been making a significant effort to raise the levels of skill within the industry. The industry is developing unit standards, qualifications and piloting learnerships. Plastics qualifications were recently registered with the South African Qualifications Authority (Saqa) and are being rolled out in a pilot project. Areas of training that have been highlighted include technical (equipment installation and operation), non-technical (management and materials handling) and awareness (safety and HIV/AIDS) (Engineering News, 2002). Skills that have been noted to be in short supply by the industry are toolmaking, machinery design and manufacturing and engineering skills.

Employment trends indicated that there would be move towards employing more skilled workers in the future. At the same time though, due to many factors including labour legislation, there is a trend towards outsourcing unskilled labour to casual or temporary employees. This could lead to a greater skills gap, which might hinder growth.

6.4 Government support programmes

Although government support programmes were not seen as the most inhibiting factor to growth, it was certainly consistently rated as a factor that required considerable or significant change to facilitate growth.

Figure 162. Perceived need for change with respect to government support schemes among small, medium and large companies

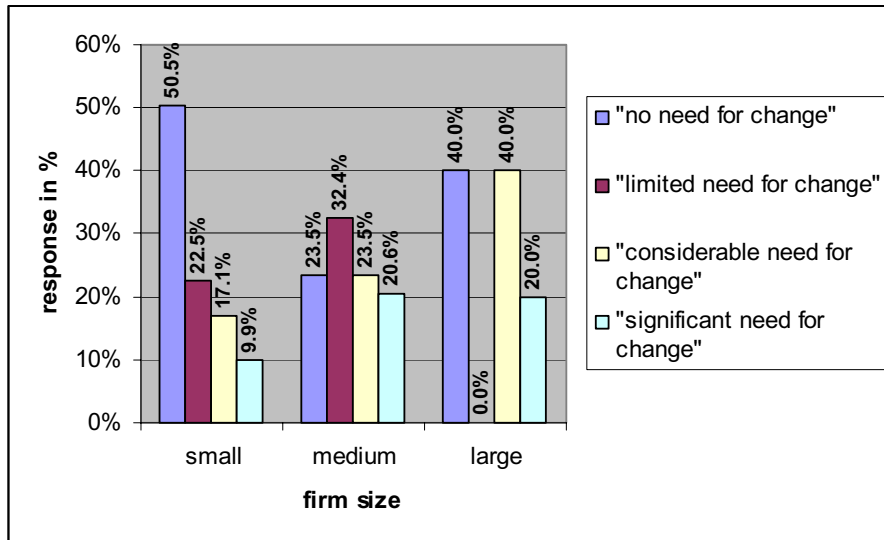


Table 45: Level of awareness, use of, growth and employment results of various government support schemes (in %)

	% of respondents aware of programmes	% made use of programme	% resulted in growth	% resulted in employment creation
Competitiveness fund	12.7	2.7	1.3	1.3
Sector partnership fund	10.7	0.7	0.0	0.0
Small, Medium Enterprise Development Programme (SMEDP)	70.0	21.3	8.0	6.7
Venture capital scheme	13.3	1.3	0.7	0.7
Technology and Human Resources for Industry Programme (THRIPP)	12.7	0.7	0.0	0.0
Innovation fund	5.3	1.3	0.7	0.7
Support Programme for Industrial Innovation (SPII)	14.7	1.3	0.7	0.7
Standard leased factor building schemes	6.0	1.3	0.7	0.7
Export finance guarantee scheme	11.3	0.7	0.0	0.0
Export marketing and investment scheme	9.3	1.3	0.0	0.0

The table above highlights the relatively low level of awareness among plastic converters regarding the various government support schemes that are presently available. The small, medium enterprise development programme (SMEDP) recorded the highest level of awareness of 70%. Consequently, this fund recorded the highest level of usage, namely 21.3%, as well as the highest levels of growth and employment creation.

The reasons behind the relatively low level of awareness among plastic converters regarding government support schemes should be further investigated in order to better support the industry in the future. Based on the interviews, limited marketing and education is not the sole reason for the low levels of awareness. Several converters also indicated that the industry attends such events poorly.

7 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.

7.1 Growth prospects of the industry

Historical data from sources such as the IDC indicate high growth rate over the last decade, with 2001 turnover being nearly three times the value of 1990 turnover levels in actual terms. This is reflected in the increase in domestic consumption of plastic to 45kg per capita versus 20 kg a few years ago, although this is still relatively low to international consumptions in excess of 120kg per capita.

However in real terms demand has fluctuated over the last decade, with an upswing during the mid-nineties, followed by reduced growth up to 1999. There has however been a strong upswing since 2000, which manufacturers are expected to continue for the foreseeable future.

South African converters indicated relatively high growth prospects for the short to medium term, ranging from 8% to 31%, depending on company size. Smaller companies were very optimistic. However, numerous sources such as ABSA, etc. had a less optimistic view on the outlook for the sector, predicting around 3% growth. We can conclude that there will be real turnover growth of at least 3% over the short to medium term.

Investment is also picking up significantly. Nearly 90% of companies surveyed invested during 2002, with a total of R266 million being invested. This represents nearly 36% of the total investment in this sector over the last ten years and 60% of investment during the last three years.

7.2 Employment

Secondary research indicated that employment in this sector has grown by 30% over the last decade, although this has not been a consistent growth pattern as periods of growth were often followed by shedding of jobs. A compound annual growth rate of almost 4% was found over the last three years.

Although it was found that 88% of the estimated 41 000 people employed in the sector are employed on a full time basis, there is an increasing tendency for companies, especially but not exclusively amongst smaller companies, to employ casual and temporary employees. Permanent employment as a share of total labour was 92% in 1999. This decline in the share of permanent employees appears to be driven by a number of factors, with restrictive labour

legislation and the minimum wage structure frequently mentioned. It is however also recognised by players in the industry that the use of temporary and casual employees is also a flexibility issue and that labour legislation does provide for some flexibility in that it allows for the use of temporary employment.

Although outsourcing was not found to be prevalent in the industry, it was noted that there was an increasing tendency specifically with respect to SMEs to outsource activities that require unskilled labour and where labour rates offered were below the current minimum rate of the industry. Typical examples include packaging and cleaning.

The industry is categorised by black, semi-skilled or unskilled labour, with whites generally filling managerial and skilled positions. Very few women except in traditional office positions were prevalent. In addition, a consistent trend of moving towards skilled labour was observed for the future. **The need to consider options that ensure that unskilled labour which is predominantly moving towards being outsourced, does not fall outside the various skills development programmes, was identified.**

7.3 Export penetration

Export penetration was identified as a key factor to growth, and a number of issues relating to the ability of companies to export successfully were identified. Exports have grown by more than a 1000% over the last decade, although at R1.2 billion, it remains very small in comparison to imports of R2.6 billion. Nonetheless, the outlook for export growth is positive with small companies expecting to double their current level of exports and medium companies expecting to grow by more than 40%. This could be over-optimistic since companies were surveyed when the Rand was at its weakest levels ever. Large companies forecast a marginal increase.

Not surprising, it was found that there are clear pre-requisites such as quality and cost competitiveness for companies to compete internationally. Flexibility of production and innovation was seen as key differentiators for competitiveness. Although there are various support mechanisms (supply side incentives, etc) available to companies to increase competitiveness, the study shows levels of awareness and uptake of support schemes to be low in general. The only programme found to be of any significance was the SMEDP.

It is concluded that there is a need to review government support in three key areas

- **Competitiveness**
- **Market intelligence (exports)**
- **Innovation.**

7.4 The role of technology

A general trend within the industry is that companies are, or at least have identified the need for, investing in new technology or upgrading of existing technology. The need to invest in technology is driven by two factors related to competitiveness, namely the need for improved quality and the need for higher efficiencies.

A most important finding of the study is that there is a positive correlation between technology intensity and employment growth. Even more important is that this correlation is as evident for SMEs as it is for larger organisations. This supports the notion that continuous technological improvement is a direct contributing factor to competitiveness, competitiveness is directly related to turnover growth and that turnover growth is related to employment growth.

It is therefore concluded that there is a need for investment in technology, from both a sector turnover and employment growth perspective.

7.5 Drivers of employment growth

Considering the overall growth in sales between 1999 and 2002 and the corresponding growth in employment over the last three years, it is anticipated that that employment growth will continue, although this will predominantly be growth in atypical employment.

Growth in domestic markets were found to be in recycling of packaging, recycled PET, automotive components and trim, as well as highly specialised engineering products within the pharmaceutical, biotechnological, etc. applications.

Export markets were predominantly focused on SADC and the rest of Africa for small and medium companies, whilst larger companies tended to export to the EU. No evidence was found that the EU free trade agreement or AGOA is having a positive impact on exports. **It is therefore concluded that SADC and Africa are appropriate export growth markets, especially for SMEs.**

Company size also has an impact on employment growth and it was found that small companies (less than 50% employees) were the best job creators. **Given the extent of awareness and use of the SMEDP programme, it is therefore concluded that this is one of the government programmes that are successfully implemented and it should continue with its good work.**

7.6 Impediments to employment growth

Impediments to employment growth was considered in terms of three categories, namely employment growth, growth and competitiveness and by type of organisation, namely companies that created or lost jobs, company size and propensity to export. Six factors consistently featured as impediments, namely:

Growth in demand

Increased cost of process technology

Salary and wage cost

Labour legislation

Access and cost of appropriate skills

Government support programmes.

Increased cost of process technology is a highly constraining factor, regardless of company size, exporting propensity or ability to grow employment. Given the positive correlation between technology use and employment growth, it is **therefore concluded that consideration be given to reduce the cost of this factor for all companies.**

Growth in demand for products was extremely important for all companies, except for non-exporters. Given the high correlation between growth and employment, ways to **expand the domestic and export market for plastic converters** should be investigated.

Cost competitiveness is a pre-requisite for exporting, resulting in a focus on their input costs. Raw materials are the largest cost component accounting for 60% of production costs and therefore it is understandable that this was seen as a major constraint to growth. Although salary and wage costs appeared to be less important for small and medium companies, it is important regardless of whether companies exported or not, or has grown or shed jobs over the last three years, and given that salaries and wages account for 30% of the cost of production, this would also be an area that employers are likely to focus on.

Labour legislation appeared to be somewhat less important to small, non-exporting companies and availability of appropriate skills is most important to large companies. Small companies often cited wages and legislative requirements as an inhibitor when exceeding more than 50 employees, whilst large companies indicated that union activity was an inhibitor to employment growth. Interestingly enough, all categories rated access and cost of appropriate skills as an inhibitor to competitiveness, but this was more prevalent in medium and large companies as they enhance their use of technology.

Government support programmes was perceived as a greater inhibitor to growth for medium and large companies, which, when coupled with the fact that the SMEDP was the only programme that indicated high levels of awareness and use, leads to the **conclusion that there might be a gap in terms of government support programmes for medium and larger companies.**

8 RECOMMENDATIONS

An integrative strategy aimed at continuing the positive growth trends over the last decade and specifically the last three years, both in terms of revenue and employment, is recommended. The strategy manifests in an over-arching medium-to-long term vision for the sector, a set of strategic objectives that if pursued should result in the achievement of the vision, and a number of corresponding interventions associated with every strategic objectives. The identification of interventions provides clear guidance to the various stakeholders of specific actions that should be taken at operational level.

The strategy and interventions proposed in this document aims to compliment the various initiatives and interventions already in place. Such current interventions and initiatives are identified throughout and specific recommendations aimed at improving or re-directing these are made where relevant.

The medium-to-long term vision for the plastics conversion industry is to maintain and further expand the current structure of a few large companies and many SMEs, to continue the already greatly improved competitiveness to such an extent that the sector is able to protect and grow domestic markets, whilst growing both domestic and export markets through collaborative efforts (horizontal clustering) around markets for value added engineering plastic products.

This vision can be achieved through the pursuit of 7 key strategic objectives (and 26 specific interventions) as follows:

- 5. Pro-actively manage and stimulate domestic demand**
- 6. Continue improvement of the baseline competitiveness of especially SMEs**
- 7. Pursue exports around engineering products**
- 8. Support the entire innovation cycle**
- 9. Address skill requirements**
- 10. Strengthen initiatives to transform the labour market**
- 11. Address impediments to employment creation attributed to labour legislation and regulation**

8.1 Pro-actively manage and stimulate domestic demand

The importance of domestic demand for this sector was highlighted throughout the study. Although “natural” growth for plastic products in South Africa is expected to continue due to ever-increasing consumption per capita, there are a number of issues which, if addressed, will ensure further growth of the domestic market and equally important, continued growth for domestic producers in the context of the ever-present threat of imports of especially commodity products. The specific interventions recommended are as follows:

Promote and incentivise horizontal clustering, in general and specifically around high potential markets

In an industry characterised by a large number of SMEs, the concept of horizontal (inter-company) clustering can provide producers with a number of key advantages. The first relates to the ability to penetrate specific markets that requires critical mass normally beyond individual SMEs. The automotive sector comes to mind. The second relates to improvement of manufacturing efficiencies (for example load spreading) and the distribution of costs such as marketing, which would normally be beyond a single SME. The third relates to the reduction in input costs through collective bargaining. This study incidentally found some examples of horizontal clustering taking place, with positive results being reported.

The Sector Partnership Fund of the dti can be used by SMEs to partially fund such collaborative efforts. The advantages of collaboration and well as the existence and working of funding mechanisms should be promoted by the PFSA and the PCA. These organisations should play an active role in promoting horizontal clustering.

The next proposed intervention identifies a number of market opportunities, which can be pursued in a collaborative manner.

Responsibility: PFSA, PCA

Pursue development initiatives around specific high potential domestic markets

This study identified three high potential domestic markets, which should be pursued vigorously by the sector. The PFSA and PCA can play a meaningful role to initiate and co-ordinate collaborative efforts to pursue these opportunities and also implement a process, which in future can continuously track market conditions and identify high potential domestic opportunities. (This is part of a broader process aimed at continuously tracking imports and international markets, as recommended in the next section)

The market opportunities identified in this study are as follows:

Recycling - Packaging industry and PET

The recently implemented Plastics Bags Regulation has had a profound impact on the South African packaging and recycling industry. Indicators are that the current recycling industry is under severe capacity constraint and will not be able to cope with the volumes. This provides a clear investment opportunity, as recycling plants are typically very labour intensive. It also provides the opportunity for informal job creation (collectors), which industry experts have indicated that as many as 2000 jobs could be created. It must however be remembered that these will be generally low quality jobs.

Another area that has been identified as a potential growth is PET recycling (Bentley West research, 2001). The demand for PET from the South African packaging sector has grown at a phenomenal rate. It has more than trebled over the last 4 years. Currently the total South African plastics market demands 166,000 tons of PET per annum and sources indicate that bottle grade PET will approach 75,000 tons by 2005.

Automotive

Specific areas that demonstrate high potential is in the automotive components and trim market - to date the automotive manufacturers have generally imported and the market has only about 15 to 20 players servicing this sector. Although certain areas demand high investment (between R15m and R30 million), cases have been noted where, with minimum investment, companies have been able to very successfully enter this market. Assisting manufacturers to obtain the necessary certifications and quality standards will be critical though (i.e. certification to ISO/TS 16949). Successful penetration by SMEs will also hinge on their ability to form partnerships and collaborate in order to obtain local sourcing agreements with the OEMs if this growth is to be harnessed.

Engineering (niche products)

Many interviewees stressed that South Africa's competitiveness lies within its ability to be flexible and manufacture small runs of highly specialised, niche products. Many interviewees who are successfully exporting have managed to do this and further assistance to locate such niche markets would facilitate growth.

Responsibility: PFSA, PCA

Establish an “early warning” system which monitors imports and identifies categories in which import penetration is growing rapidly

It must be considered that imports of plastic products is, and will continue to be a factor to this sector. Although the overarching strategy to deal with the threat of import penetration is for industry to become globally competitive, at micro (product) level this is not always possible. Over time the result will be that some products, especially commodity plastics cannot be competitively produced within South Africa and unless current manufacturers of such products move into other markets timeously, they will be under severe threat. The objective of this intervention is to provide South African manufacturers with information around imported products that are rapidly gaining market share. Sufficient information about these products (volumes being imported, targeted markets, value per tonne etc) must be collected and disseminated into industry to ensure that manufacturers can make informed decisions around their ability to compete against such products over the long term.

It is proposed that the dti and TISA take the lead and sponsor the development of such an initiative, obviously for the manufacturing as a whole. Industry associations, such as PFSA and other stakeholder groups should provide support to such an initiative and be the vehicle to disseminate information into industry.

Responsibility: dti,

Utilise the Proudly South African campaign to support domestic manufacture

Although direct government procurement is not a significant issue for the plastics sector, local procurement as a result of increased demand in sectors such as construction, automotive, etc, created by government and public sector investment is a relevant issue. The overall Metals and Engineering sector strategy deals with ways to ensure that domestic manufacturers benefit from such programmes. It is envisaged that the Proudly South African campaign could play a meaningful role in ensuring that demand created through large public and private investment programmes translates into benefits for “supplier” sectors such as the plastics sector. Full support should be provided to the PSA campaign, and industry associations have a role to play in identifying procurement practices which disadvantage domestic manufacturers.

Responsibility: Proudly South Africa

8.2 Continue the improvement of the baseline competitiveness of especially SMEs

This study found that although the competitiveness of SMEs has improved, there is a need for further and continuous improvement by addressing key factors related to competitiveness. The following specific interventions are recommended:

Encourage companies to introduce quality improvement programmes such as ISO 9000 into their organisations

Quality was identified as a pre-requisite for South African converters to be competitive and although many companies have made significant strides towards improving quality, this theme should remain on the agenda. The cost of such programmes can be partially offset by accessing the Competitiveness Fund, which although not yet operational, will provide funding for such programmes on a matching grant basis. The PCA and PFSA should play an active role in not only promoting quality, but also the Competitiveness Fund

Responsibility: dti

Continued support for investment in technology

The study showed that companies that have invested in technology (either upgrades or new) have been those that have enjoyed growth and created employment. Uptake of the SMEDP has been considerable and is proving to make a positive impact in this sector.

It is therefore recommended that the SMEDP be continued and enhanced if necessary. The PFSA should communicate the benefits and additional requirements to the dti, which has the role of maintaining and improving the SMEDP and other related programmes aimed at improving capital formation.

Responsibility: dti

Integrate and enhance current government SME support programmes

Although the general opinion is that government support programmes for SMEs are comprehensive, the uptake thereof - with the exception of the SMEDP as discussed - is extremely low. Although awareness is a problem, it has also become clear that these programmes are too fragmented and cumbersome to access. These issues are addressed in more detail elsewhere and it is concluded that the dti, in collaboration with other government

departments such as DST should consolidate and rationalise these programmes, as well as look into the administrative procedures and requirements for SMEs to access them.

Responsibility: dti

Convene a bi-annual forum where SMEs can share ideas, address grievances and discuss opportunities for collaboration

Knowledge sharing, collaboration and joint influencing of the policy and regulatory environment has historically, and continues to be weak within South African industry and is of specific importance to this sector with its high concentration of SMEs. The creation of such a forum, which establishment and functioning should be driven and sponsored through a public-private partnership (typically dti and PFSA).

Responsibility: dti, industry associations

Resolve the contribution of import parity pricing as a contributor / inhibitor of competitiveness

The cost of raw material on average contributes 55% of the total cost of production for manufacturers in this sector. The current policy of Import Parity Pricing (IPP) pursued by polymer producers was frequently queried by plastic converters and was an issue that was raised without the broader consultation process. It needs to be noted that this issue needs to be addressed holistically in a manner that also takes the upstream suppliers' needs into account.

Responsibility: industry associations

8.3 Pursue exports around engineering products

Although this study highlighted the importance of the domestic market for the future success of the plastics conversion sector, making an export-led growth strategy is probably less relevant for this sector compared to others, increased exports can be achieved if a number of conditions are met.

The first reality is that apart from a number of the large domestic companies operating in this sector, the pursuit of exports of commodity type products has low potential since global competition is based on volumes and price. The fundamental strategy should therefore be to pursue market opportunities in both the domestic and international markets for value-added engineering type products, thereby gradually decreasing the industry's reliance on low value commodity products.

This should be possible since the study revealed that general optimism around exports relates to the ability of companies to differentiate themselves through innovation and flexible manufacturing of value-add engineering products.

To provide impasse to this strategy, a number of interventions are proposed:

Initiate a study to identify and match high potential markets and high potential value-add products

It has been demonstrated throughout the world that industries in the developing nations, with such industries generally being very small in a global context, achieve export growth successfully only if very specific global markets are pursued with very specific products. It is also true that such industries lack capacity to develop in-depth knowledge of where such opportunities (both in terms of product and market) exist. This then becomes a classical case where government-led intervention is required.

It is therefore recommended that the South African government, through the dti and TISA and in association with the PFSA and other relevant associations, launch an extensive research project to identify these niche products and markets that can be penetrated. A once-off baseline study should then be translated into a periodical tracking study, with funding systematically also provided by industry.

Responsibility: dti/TISA, industry associations

Establish an Export Council for the plastics conversion sector

There is ample, if somewhat anecdotal evidence that export councils are proving to be effective in promoting exports and identifying export opportunities on behalf of industries. Such a council will be of particular value to this sector with its high concentration of SMEs that often lack capacity to perform activities such as market intelligence, promotion etc beyond its domestic markets.

The industry organisations such as PFSA and PCA should take the lead in the establishment of such an organisation. It is worth noting that there is ample government support available (R 50 000 for establishment, matching membership income grant, etc) under the Export Marketing and Investment Assistance Scheme.

Responsibility: industry associations

Actively pursue international partnerships

The establishment of sound and extensive international partnerships should be driven at various levels by a number of stakeholders. The industry associations and its export council (once established) should work closely with TISA and its representatives to build relationships and establish partnerships at association and company level. One of the overall Metals and Engineering sector recommendations is that the TISA network of agents be beefed up. At firm level, such partnerships should also be pursued, not only individually but in collaborative mode as well.

Responsibility: industry associations, Plastics Export Council (once established), TISA

8.4 Support the entire innovation cycle

It was mentioned in the study that although innovation was not consistently rated as a factor that drives or restricts growth and employment creation when companies were asked about the importance of this factor, further investigation revealed a different picture beginning to emerge.

If innovation is considered in a broad context, i.e. beyond new product and beyond “radical” change to include “improved” product, process, practices etc. it becomes clear that innovation is a key factor for the future success of this industry.

Although there are currently numerous government support schemes aimed at stimulating innovation, there is extremely low uptake and a number of improvements and additional interventions are recommended.

Create awareness within industry of incentive programmes related to innovation

The first action required is to initiate an extensive awareness campaign on relevant programmes such as THRIPP, The Innovation Fund and SPII. The dti and DST should drive this in association with PFSA and PCA.

Responsibility: dti, industry associations

Increase incentives for activity downstream from the research activity

This relates to the additional incentives and support to facilitate the translation (commercialisation) of new ideas and research into technologies and products, and cover activities such as prototyping, tooling, testing, etc. Most incentives currently focus strongly on the research component of the innovation cycle and evidence was found that many innovations do not reach market stage due to cost barriers during the commercialisation phase.

The possible introduction of a system of progressive tax relief as new ideas are commercialised was also raised in this and other studies as a possible option and should be investigated further.

Responsibility: dti

Strengthen THRIP, SPII and the Innovation Fund through increased funding and streamlining

Although uptake of THRIPP, SPII and the Innovation Fund is low, various other studies have found that in general they are working well in stimulating industry demand for research. Some criticism is levied at the fact that approval mechanisms are slow and unwieldy. The model of these funds does however appear to be sound and suggestions are that a process of streamlining with an increase in funding would have a direct impact on stimulating industry demand for research.

Responsibility: dti

8.5 Address skill requirements

Although the domestic plastics industry has been making a significant effort to raise the levels of skill within the industry, the shortage of specific skills such as tool-making, design and manufacturing and engineering skills, as well as managerial skills was identified. In general, this study concluded that skills is still an impediment to growth and requires further attention. It is to this extent that a number of interventions are proposed:

Strengthen collaboration between the Merseta and the industry associations

Employment trends indicated that there would be move towards employing more skilled workers in the future. At the same time though, due to many factors including labour legislation, there is a trend towards outsourcing unskilled labour to casual or temporary employees. This could lead to a greater skills gap, which might hinder growth. There is a need to emphasise skills training around specialised skills required for targeted markets and products, as well as efforts to establish basic skills at the lower end. This will require close co-operation between industry and the Merseta and the possibility to conduct a skills audit to supplement the synthesis of workplace skill plans with sector skill plans.

Responsibility: the Merseta, industry associations

Improve the Merseta's processes

Even through the plastics sector was more positive towards the Merseta than the other sectors covered in this study, the administrative processes of the Merseta were criticized. It is acknowledged that the Merseta required time to become functionally operational. There is consensus that there is now an immediate requirement for the Merseta to get its house in order and improve operational processes.

Responsibility: the Merseta

Use THRIPP to facilitate collaboration and knowledge transfer between Science Councils such as the CSIR and HEI's such as Technicons

In an industry characterised by few large companies that can afford to employ and develop highly knowledgeable resources, the use of programmes such as THRIPP, which provides financial support for collaboration with entities which possess such skills (Technicons, CSIR etc) would assist small and medium-sized organisations to grow.

8.6 Strengthen initiatives to transform the labour market

The study clearly indicated that this sector has not transformed in terms of its composition of labour and ownership structures being representative of South Africa. This was in fact found to be the case in the entire Metals and Engineering sector, and a number of over-arching recommendations are made elsewhere in this report, which will not be discussed in detail in this section, except to summarise that they relate to the following:

The strengthening of the Merseta's ability to fund and deliver technical and management skills to previously disadvantaged groups

Strengthen existing programmes to enhance the mobility of historically disadvantaged individuals in this sector, for example ABET programmes in SMEs.

Specific interventions aimed at building technical and management skills amongst woman

Improve the management of labour broking

A specific intervention required outside the ambit of the Metals and Engineering sector relates to skills development of employees provided to this sector through labour brokers. These employees are covered in the Services SETA and wages are not negotiated in the MEIBC. It does not mean that there is no role for the stakeholders in this sector to play in ensuring that skill requirements are communicated to the Services SETA thereby ensuring appropriate intervention.

Responsibility: MEIBC, Services SETA

8.7 Address impediments to employment creation attributed to labour legislation and regulation

The study identified two issues specific to this industry that require attention. The first relates to the possible link between growth in atypical employment and minimum wage rate. Although it was recognised that the need for flexible manufacturing has resulted in an increase in atypical labour, evidence was also found that certain activities which require very low skill levels, such as packaging and cleaning is being contracted out in an effort to avoid minimum wage rates at set by the MEIBC. The second relates to the possible link between the increase of atypical labour and employers' perception that there are additional retrenchment requirements specified by the LRA once a company employs more than 50

people. Evidence was also found that some companies would rather make use of non-permanent employment that increase permanent staff.

Investigate the link between growth in atypical labour and employer perceptions relating to LRA requirements around retrenchment as well as the link between growth in atypical labour and the minimum wage structure of this sector

A number of issues, beyond the scope of this study need to be investigated before any conclusions can be made. For example, it must be clearly established to what extent atypical employment growth is driven by the need for flexible manufacturing rather than perceptions around labour legislation and wage rates. It is also not clear to what extent company behaviour will change in terms of employing more people on a permanent basis should these factors change. These issues require further research.

Responsibility: Industry associations, FRIDGE

Ensure consistent and comprehensive implementation of agreements reached in the MEIBC

Although not explicitly researched, some evidence was found of companies not complying with agreements reached. Needless to say, this results in an uneven playing field between companies, which is an issue that needs to be addressed.

Responsibility: MEIBC