Striving for a sustainable metals manufacturing sector in South Africa.

RSA Clusters Group

CFMC

Passion for local manufacturing.
Innovative ideas.
Empowering networks.

Visit us at www.cfmc.co.za

Email: admin@cfmc.co.za

Office: +27 (0) 612441234

SMME's: an important jobs generator

Public Response: Extension of Main Agreement

To: Minister of Employment and Labour

% Ms Sellinah.Mahlangu (Sellinah.mahlangu@labour.gov.za), and
Ms Annelie Niemand (Annelie.niemandt@labour.gov.za).

cc: Ms T. Phele, Ms N. Dlambulo and Mr M. Shunmoogam
Chairpersons of RSA Clusters Group; Casting Forging and Machining Cluster of South Africa, Electro Technical Industry Cluster of South Africa, the Rail Manufacturers Cluster of South Africa

Re: Extension of the SEIFSA main agreement to the metal industry

To whom it may concern,

Overview of the CFMC

The Casting Forging and Machining Cluster of South Africa NPC is an industry-led cluster initiative, registered in South Africa as a not-for-profit company with members from the casting, forging, machining and associated industries (i.e. companies and institutions in the ferrous and non-ferrous clusters, including foundries, steel mills, forges, and machine shops). The mission is to grow manufacturing production output by strengthening the cluster, and overcoming challenges that would be too difficult to achieve by individual companies alone. The majority of our members are SMEs.

1. Introduction

Small, Medium, and Micro Manufacturing Business Enterprises (SMMEs) in the manufacturing cluster community concern us. They make up a large majority of the independent manufacturers in the country. The issues that challenge them are of national importance to resolve, as these businesses are the key for the creation of new jobs, and the innovative expansion of the metal industry.

South African SMME's are in a weaker position than bigger businesses and are not as well organised, or represented as big business.They lack access to many platforms, where big business, organised labour and government meet. They are different from big business in the way that they think, and act, and the dynamics of decision-making differs significantly. Furthermore, there is a great diversity amongst SMMEs and this is mirrored in the many different ways that companies in the same field are set-up and managed. A few points about SMMEs to be considered:

a. SMMEs are very different from big businesses.
b. They tend to be more entrepreneurial in their approach.
c. They tend to be more flexible in their reactions.
d. They tend to have more ability to retain workers, when there is a decline in markets.
e. They are very sensitive to cost increases, and other pressures that constrain them.

   and

f. They are happy to increase jobs as the opportunity to make more products and sell more arises.

   Most importantly of all these considerations is that

g. SMMEs have the potential to scale and increase jobs quickly.

The Small Business Master Plan draft has identified several challenges to these business, and the most appropriate to metals industry are namely:

a. Lack of comprehensive, dependable, available and accessible data within the three spheres of government on SMMEs that is utilised to consistently track and monitor SMME performance in the economy.
b. Policy uncertainty coupled with administrative complexity increases the cost of compliance and expanding "red tape" for SMMEs.
c. SMMEs must comply with onerous labour regulations which hamper their ability to employ more staff.
d. South Africa's economy has structural biases that favour larger firms which limits competition and SMME entry into markets.

Businesses in the Metals Engineering Manufacturing and Engineering industries have experienced prolonged economic difficulty for many years. The domestic market has remained static and has shown little real growth for more than a decade. At the same time, wage increases have grown at above inflation rates resulting in the metals industries paying a significant premium to its workers over most other sectors. The outcome has been negative, characterised by contraction and disinvestment in the sector.

An agreement that covers labour relations and wages that is universally applied to all manufacturers in the metals industry, would further frustrate and constrain business, rather than enable and empower business, would not be in the best interests of SMMEs.

2. Metals Industry profile

SMMEs are well represented in all facets of the metals value chain, as they provide services to establish new capacity, they operate manufacturing facilities that convert raw material to make components and parts, they provide specialised support services to maintain manufacturing operations, and they facilitate business and productivity improvements towards greater cost and quality competitiveness.

The metals industry has a supply-side orientation in the value chain, and is directly impacted as demand for domestic products and services increases or falls. SMMEs do not have the resources to constrain working capital and need to be as nimble as possible, wherever possible.

3. Labour Relations

Competition defines the South African metals industry, and market forces are brutal. South African manufacturing companies continuingly face-off in competition with one another, and increasingly with international competitors in the domestic markets. Although this fact is not new, we are seeing that businesses do not experience the effect of this competition in the same way, and that this effect is not fully recognised in the way that labour relations have been structured.

Competition causes us to consider the nature of each business, the preparedness of that business, the technologies that are deployed, the skills applied, and the related costs. We also need to consider the effect the market dynamics will have on each company, and if enabled, how each company will respond. If the business strategy is wrong, and costs are too high, the business will be punished and pressured out of the market, unless they are able to self-correct, and restore market support.

Smaller businesses cannot afford the cost of universal agreements. Their ideal is low cost labour, which could be offered to them by young unskilled work-seekers wanting a job in the metals industry, in return for skills training, and know-how, and being able to increase and decrease staff in alignment with market changes. Labour brokers fitted the niche to help SMMEs find and employ good employees, without having to make risky upfront commitments that might become costly and messy to break. They do not have the time or the resources of a big business to recruit the right work candidates. The SMME experience is more practical, and experimental. The industry has not yet identified a suitable mechanism and worked out how to deal with the dynamics of a diverse sector that can accommodate the complexity and range of nuances that characterise the metals industry.

4. The Main Agreement

According to the Steel and Engineering Industries Federation (SEIFSA), the Metal Industry Main Agreement is a collective agreement between the employer organisations, which are members of SEIFSA, and trade unions, and that the purpose of the Main Agreement[1] is to regulate the employment conditions of those employees engaged in manufacturing processes in the metal industry.[2]

It correctly excludes plastics, and a similar agreement known as the Plastic Industry Main Agreement, was signed between SEIFSA and trade unions in the plastic industry.[3] It is very difficult to understand, given this context, that the plastics industry has any relevance in the metals agreement. If their employee numbers are wrongly included in the SEIFSA agreement for the metals industry, as suspected by members of the industry,

[1] https://mainagreement.seifsa.co.za/
[2] https://www.seifsa.co.za/main-agreement/
[3] https://www.meibc.co.za/index.php/agreements/plastic-agreement

this error should be corrected by removing the employee numbers relevant only to the plastics industry.

This federated approach that SEIFSA provides makes sense to some manufacturers and institutions, but not to all. Also representing employers at the Metal and Engineering Industries Bargaining (MEIBC), are the National Employers Association of South Africa (NEASA) and the South African Engineers and Founders Association (SAEFA). These non-federated bodies have found favour with SMMEs as their arguments are better suited to the needs of those smaller companies.

The strong disagreement between SEIFSA, and the non-federated employer bodies echoes a cry from smaller businesses in the metals industry, wanting to have their needs acknowledged and met, and not to be overlooked as “small cogs in a big wheel” as part of a universal agreement, that is unaffordable and fails to make sense to them. Members of the non-federated employee bodies have concluded their own agreements with employee bodies, in terms of which they have been paying a rate significantly less than the SEIFSA rate. This practice has been in existence for an extended period of over 10 years, and members have been able to enjoy an environment wherein they have been able to pay a wage rate more conducive to what they can afford.

The issues concerning the various parties have not yet been suitably resolved. We doubt that simply extending the agreement, and forcing compliance by parties would be effective. The universal application of the SEIFSA agreement will have consequences that would be disastrous for the metal industry.

We propose that there is a lot more at stake for the SMMEs than is possible to discuss in a letter such as this one, and humbly submit that the Minister should decline to extend the SEIFSA agreement to the rest of the industry.

We further propose that a suitable platform is established to discover the common and differentiated needs of unique groupings in the metals industry (e.g. SMMEs) with an aim to deepen understanding, and furthering the labour agenda, involving: companies, and institutions in the metals field, academia, government and government agencies, and councils, and humbly submit that a Cluster Initiative should the right platform to coordinate and facilitate the delivery of SMME-focused objectives.

We further propose that regulating employment conditions and labour relations is not possible without giving consideration to related issues, such as the topical man versus machine changes, unemployment, and poverty in the industry. These are not new issues. We would expect the Metal and Engineering Industries Bargaining Council (MEIBC), and the parties to the negotiations forums facilitated by the MEIBC (i.e. institutions representing employers and employees) would use the platform provided by the MEIBC to have these difficult-to-have discussions. For example: How would the parties react to a move away from labour towards machines, as labour costs increase, following the trends exhibited in global practice. We humbly submit that the MEIBC should be the right platform to coordinate, facilitate, and monitor related discussions.

5. Conclusion

Labour is a major cost component and driver in any business, and its effect on businesses can impact their ability to be competitive, or to sustain themselves.

It is frustrating that industry institutions have not yet attempted to resolve the key issues impacting them and the metals industry, and that the industry is resorting in desperation to seek one-size fits all solutions, without having the collective maturity to seek common purpose, and progressively enable the industry to move the as a diverse collective, taking the unique characteristics of different industries and SMMEs into account. Diversity is a strength that we should leverage in our quest to to deal with and resolve the bigger issues relating to labour (e.g. unemployment, poverty, and automation).

Extending the SEIFSA main agreement is a bad idea that could have disastrous unintended consequences for SMMEs and independent local businesses, and the domestic economy. The businesses in the non-federated employer bodies have up to now managed to contain labour costs to non federated rates, which has enabled them to continue operations in an affordable manner creating employment and contributing to the economy of the country.

Business when threatened, will tend to look toward cost cutting measures to maintain solvency. Typically, the first costs to be reviewed cut will relate to non-critical jobs, and spending in all non-critical areas. These are strategic decisions that business leaders are obliged to make to safeguard their business, and are not taken lightly. Should wages increase universally to the SEIFSA rate, there is a high risk that affected businesses would not be able to afford the increase, and the resulting cost cuts would result in job losses for the less skilled workers, and increase unemployment levels.

Casting, Forging and Machining Cluster of South Africa NPC
Company registration: 2018/054311/08

13 September 2022

__________________________ ____________
Signature Date