COGTA

ATTENTION: nervecentre@cogta.gov.za

CC: DTIC

ATTENTION: ministry@economic.gov.za; IKathrada@economic.gov.za

27 April 2020

12h00

MANUFACTURING CIRCLE RECOMMENDATIONS

Draft Framework for Sectors: Risk Adjusted Strategy: 25 April 2020: LEVEL 4

The Manufacturing Circle welcomes the opportunity to contribute to this critical piece of work as government prepares to release the country into a well thought through, risk adjusted reopening of the economy.

The behind the scenes work and delicate balancing act performed to arrive at an equitable proposal for all industries is fully appreciated by the Manufacturing Circle and its members. It is in that spirit that we make our submissions which are tabulated below:

Ayanda Mngadi – Chairperson | Haroon Kalla – Deputy Chairperson
Postal address: PO Box 868 Ferndale 2160 South Africa | Tel: +27 11 061 5000
Website: www.manufacturingcircle.co.za

Level Four: Permitted Retail and Service Operations; and Personal Movement

Item	Comment
C1 C2 C3 C4 C5	Welcomed and Supported

Item	Comment
C9	The risk-based model for economic activity seems inconsistent and contradictory with regards to the allowable activity within similar and feeder industrial sectors. For example, open cast mining is permitted at 100%, other mines are permitted at 50%; Automotive and components as well as construction and related services are permitted at only 50%. This is problematic for the operations of manufacturing subsectors like metals, glass and paper as well as other midstream players which are equipment, material suppliers and final product fabricators. The situation becomes even more dire for downstream players.

Item	Challenge
C9	**Demand-Pull:** Industries such as Food and Beverages and Pharmaceuticals (currently part of essential services) as well as Mining, Automotive and components, Aviation, Building and Construction (including residential and cement) all have a “pull factor” that defines the manufacturing landscape and determine the speed and scale that mid and down-stream industries and materials suppliers such as glass, metals, packaging and furniture are able to operate. It is therefore challenging if demand-pull industries are only allowed to start at 50%, and a review of the allowable quantum of operation is therefore proposed. **Supply Chains:** midstream and downstream manufacturing companies with a 20% permission will struggle to operate and their ability to function as going concerns is questionable, inhibiting the ability to supply into the upstream operations. It is against this background that we therefore recommend a further review.

Item	Recommendation
C9	The ‘’demand-pull’’ industries (eg Mining, Automotive and Parts, Aviation as well as Building, Construction and Residential (including Cement) are to be allowed to re-enter the economy at 60-70% to open room for the feeder industries in the mid and down stream of the supply chain which should be allowed to re enter the economy at 50% instead of 20% . These industries eg stainless steel, aluminium, glass, wood and chemicals are critically important and are all part of the manufacturing value chain which has high multiplier effects in terms of value addition and revenue generation. In addition, companies in these industries have significant social impact as key employers in small communities and providing for a mainly SMME downstream sector.

Item	Motivation and Examples
C9	Operationally: The maximum 20% of labour force is a strong limitation and will even bring operational and personal risk in some areas of production due to either the nature of the process or the type of equipment (example: ovens, furnaces, which need 24h monitoring, or operations where employees cannot be alone as well as such live electrical equipment testing/maintenance. Hence our recommendation of 50% since it will make operation possible and safe. It is very restrictive and very costly to open any formal manufacturing sector like Automotive and Aerospace and others at very low levels of activity such as the proposed 20%. Critical skills and continuous manufacturing and processing costs, heating of ovens, compressed air, boilers cannot be afforded such low production rates. From a COVID 19 Health, safety, hygiene and social distancing protocols, our industry has been surveyed and demonstrated readiness with plans that we have presented to National Department of Health and to our social partners, the labour movement (NUMSA). Manufacturing therefore has the capacity to implement measures that will split of the work force into shifts (minimising contact between them), aligned with the proposed curfew hours and following all safety procedures. Each operation will have an inspectable plan.

Item	Background
M1 (C9)	A reopening of the economy that prioritises effective supply chains is by extension a reopening of effective trade. It will speed up recovery of what was lost over the 30 days of shutdown for both big and small business. It will restore customer – supplier reputations and relations and create fertile ground to save jobs and build towards a ramp up to Level 3. It is important to note that both pull and feeder industries regardless of size, are each others' enablers from a supply chain point of view. Some industries even if allowed to operate will not be able to produce if "consumers" of their stock within the value-chain are closed or operating at a level of reopening that is too low. So the risk of the proposed 20% extends beyond the firm level.

Item	Recommendation
M1 (C9)	The C9 permission increase from 20% to 50% employment should be considered as an enabler to the entire sector, to breathe life into our all our supply chains and enable a quicker recovery of the sector at all levels.

Item	Motivation and examples
M1 (C9)	The majority of the Manufacturing Circle member companies such as Actom, John Thompson, Columbus Stainless, Consol Glass, Hulamin, Dow Chemicals are an enabling organisations, with many SMME businesses and local communities based around customers' operating units (e.g. Eskom power stations, food processing plants, hospitals, Sappi, Sasol, Mondi, RBM) are dependent on the continued, uninterrupted operations of manufacturers for employment, supplier and enterprise development, SMME subcontracting, corporate social investment and local procurement. Continued inactivity will result in retrenchments of staff, lack of SMME and community support, reduced supplier and enterprise development, diminished local procurement and reduced export earnings for the country. As always, the lowest levels of staff i.e. our most vulnerable citizens, are most impacted by retrenchments and layoffs. Additionally, many of the businesses allowed to resume operations during Level 4 are each other's customers e.g. Pulp and paper, foods and beverage processing plants, chemical and packaging manufacturing, etc. Our support for these businesses in terms of spares, maintenance and repairs is vital for their manufacturing and processing plants. In the end if the 20% in C9 is insisted upon it will unintentionally limit those industries that have been granted 100% operation. So It would be clearer if the supply chains of the listed permitted services were listed on the same item, such as, item C4 Petroleum smelters, would read: ***Petroleum smelters, refineries and furnaces, permitted scaling up to full employment; related supply chain (production, manufacturing, supply, logistics, transport, delivery, critical maintenance and repair in relation to the rendering of permitted services including components and equipment) permitted to scale up on the same proportion.***

Item	Background
J1 J3	The Manufacturing Sector is a major source of tax income and foreign exchange due to the high level of export component. The enablement expressed in item J1 and J3 therefore will ensure that production is planned to allow lines to export essential and non-essential products to international markets.

Item	Recommendation
J4	Enablement of the express production of export products, goods and services destined for international markets is requested, and this be considered at 50%. This will also enable the CIPC process, and the Cross - Border Port System to be clearly guided as they amend regulations. The challenge of the lockdown period was in this area as borders and ports were enabled in later versions of the regulations.

Item	Recommendation
J6 (proposed)	Insertion of Item J6 that clearly enables item J1 and J3 as follows : Manufacturers who are exporters be allowed to manufacture both essential and non- essential goods at 50%. This will allow them to • Support exports and economic recovery • Mitigate international reputation risk • Maintain export customers Failure to do this will significantly harm the sector in terms of competitiveness if we cannot be permitted to continue to supply, whilst our international competitors are supplying in the international market.

Item	Motivation
J6 (proposed)	In this sector that is largely influenced by international forces, South Africa is lagging behind already because our competitors in Asia, Europe and the Americas are already operating at full production under strict Covid 19 Protocols . We stand a risk of losing markets as key customers have options and once lost, cannot be regained.

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Website: www.manufacturingcircle.co.za

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	Members have a large order book for automotive, construction, mining and metals, equipment (boilers, spares), glass, chemicals, and construction services for export customers and we argue that export sales are critical to the fiscus in terms of export revenue, thus a requirement is for exporters to be allowed to fulfil these orders soonest. By way of example, John Thompson a division of the Actom Group , is the sole package boiler manufacturer in South Africa, with the largest manufacturing plant in the Western cape, and to date has exported more than 650 boilers to various customers in Indonesia. These exports have been against direct competition from the Indian and Chinese manufacturers. Should the export orders not be fulfilled timeously, the member is faced with the threat of market access and market share in that region, thus reducing vital export income for South Africa as well as the concomitant loss in local jobs. In other instances, member companies that manufacture precision components and materials have international customers urgently requiring materials and components. Inability to service export markets will have dire consequences for business continuity and would result in losing market share due to international competition. .

Item	Background
D	The Construction industry is currently at 100% in Level 3 for Commercial and 100% in Level 2 for Residential. Our proposal is that these should be phased. By not having the building sites allowed to open in a phased manner, the entire supply chain is on hold until Level 3 and 2, which would be catastrophic. Our proposal would be that government considers the insertion of , “sites” for example, that can be registered as opposed to merely the “companies”, as most construction companies are running multiple sites.

Item	Recommendation
D	Both commercial and residential building projects be allowed to operate at 50% during Level 4. These sectors are significant employment creators and should also be given the opportunity to develop and test phased building site control measures prior to heightened levels of activity.

Item	Motivation and Examples
D	One area of concern relates to the linkage and logistic chain of products finding its way to commercial and residential building projects. Fabricators and manufacturers of products supplying inputs into the sector are requesting permission to operate at 50%, because their offset may be constrained due to the non-operation of commercial and residential building projects during Level 4. In the present framework, these are proposed to only become operational in Level 3 and in Level 2. In terms of supplying construction materials, we are concerned that there is no provision made for the partial re-staring of commercial and residential building projects. These sectors and projects are critically important to employment and represents a significant portion of production revenue. There should be some balance between allowing us to produce the goods and actual demand from these sectors and we recommend that they be re-started albeit at a low level of 25% in Level 4 already. Currently Commercial activity only starts on Level 3 and Residential building activity only starts at Level 2.