

# **CHAIRMAN'S ADDRESS**

**SAAA's 94<sup>TH</sup> ANNUAL GENERAL MEETING**

**HELD ON**

**TUESDAY: 19<sup>TH</sup> NOVEMBER 2019**

## **GOOD AFTERNOON LADIES AND GENTLEMEN**

A warm welcome to you all at our 94<sup>th</sup> Annual General Meeting of the South African Apparel Association.

And special welcome to our guest speaker Mr Michael Lawrence of the National Clothing Retail Federation who we look forward to hearing from a little later in the proceedings.

## **THE STATE OF THE ECONOMY AND INDUSTRY PROSPECTS**

At the recent South African Investment Conference, Minister of Trade, Industry and Competition: Ebrahim Patel observed that while global and local conditions present some challenges to growth and job creation in the near term, South Africa nonetheless attracted R71 billion in foreign direct investment in 2018 which represents a 164 percent increase on the R27 billion of the year before.

This increase was significant, he said, in a year where global investment fell by 13 percent.

Having said this, South Africa is currently fighting to preserve its last remaining investment-grade credit rating and avert a forced sell-off of billions of rands of its debt after Moody's Investor Service recently gave S.A. three months to get its finances in order.

The Moody's warning comes after Finance Minister Tito Mboweni presented a rapidly deteriorating outlook, in his medium-term budget policy statement, gross government debt estimated to surge to 80.9% of Gross Domestic Product in the 2028 fiscal year, unless urgent action is taken.

There is no doubt that the multiple social and economic challenges we face are extremely daunting, but so were the challenges faced by many societies ravaged by war and under-development.

Many managed through bold leadership and strategic focus, to turn their economies around and put them on a positive growth trajectory.

The Asian Tigers were written off as economic basket cases by development economists in the 1960's, but embarked on state-led development paths with a singular focus. The United States of the 1930's, devastated by the depression, successfully introduced the New Deal under the visionary leadership of Franklin D Roosevelt.

Post-war Europe in the 40's and 50's rebuilt itself from the ashes, using social democratic inclusive policies to regenerate their war-ravaged societies and Scandinavia showed that a developmental state could be both democratic and egalitarian in responding to challenges of poverty and inequality. Finally, China has shown that determined state intervention, using unconventional economic policies, can address the most intractable social challenges.

None of these experiences represents "models" which can be mechanically adopted. But they give us inspiration that other countries have overcome challenges as big as or bigger than ours.....

I would like to reflect on some of the bigger issues that impacted our Industry, SAAA and our members in this year under review:

### **NATIONAL MINIMUM WAGE**

On 1 January this year, the National Minimum Wage act came into effect. The Act sets the minimum wage at R20 per hour. The National Bargaining

Council had extensive deliberations that included high level engagements with the Department of Labour, in order to mitigate the effect of the national minimum wage in certain categories of our wage schedules, particularly in the unqualified job categories in Metro and more so in non-Metro. In the end, the Council was compelled to amend the wage rate of some of these job categories. Having said this, by and large our wages currently exceed the levels set by the new legislation.

### **AMENDMENT TO THE CO-OPERATIVE ACT**

As reported in my address last year, many factories, mostly in the northern areas of our country have converted to co-operatives, primarily to fall outside the scope of operation of the NBC.

The majority of these co-operatives are “Bogus” – in the sense that they merely converted in name from previous clothing factories to co-operatives. Amendments to the Act came into effect on 1 April 2019, which gave the Council more powers. However, there have been many legal challenges encountered from the co-operatives where the NBC has attempted to bring the co-operatives into line with the provisions of our Main Agreement.

To date, the NBC has issued over 100 compliance orders to co-operatives and obtained arbitration awards in its favour. In all instances, the awards are being taken on review by the coops. This is a long drawn out process but we remain confident that a favourable test case will deliver a precedent setting judgement during the course of next year.

### **THE RETAIL CTFL MASTER PLAN**

After nearly two years of engagement and collaboration amongst the stakeholders in the apparel retail value-chain, a formal announcement was

made by government on 6 November 2019 that the R-CTFL Master Plan has been formally adopted and signed off by all stakeholders, including retail.

A core objective of the Master Plan is:

By 2030 to grow R-CTFL employment by at least 120,000 and net new jobs to 330,000 workers through focused action that:

- (a) Increases the share of local CTFL retail sales of locally manufactured clothing and footwear to 65% of total retail sales.
- (b) Grows procurement by local retailers of locally manufactured CTFL products to at least R66 billion (in current rand)
- (c) Grows local CTFL manufacturing output per employee by at least R36,000 to R195,000
- (d) Delivers upstream manufacturing employment growth of 70,000 net new jobs to a total of 160,000

In order to drive the successful achievement of these very clear targets, the Minister and his team are in the process of appointing an Executive Oversight Committee to provide high-level leadership and co-ordination of the Master Plan implementation.

Given that our guest speaker will be dealing with the Master Plan to some length, I would like to leave further details to him.

I would, however, like to express our Association's appreciation for those early Architects, (of which Michael was one), of what was to become the Master Plan, for their collective belief in delivering from a mere concept, an idea that National Apparel Retailers could collectively with Government, labour and the appropriate part of the CTFL value chain, find common

ground to jointly, re industrialise and develop our local Clothing and Textile Industry into a World Class Apparel value chain once again.

That Common ground was sufficiently found and has led to a serious commitment by all parties to the objectives set within the Master Plan, subject to a number of T's and C's. These T's and C's refer to government's commitments to extend assistance in resources and policy change subject to each of the retailers specific commitments to its value chain investment and job creation and vice a versa .

The joint signing of the R-CTFL Master Plan took place at the Sandton Convention Centre with the President of our Country, Cyril Ramaposa and the SA Apparel Retail CEO's or their representatives, labour and the three Apparel Manufacturing Employers' Associations

Minister Ebrahim Patel, in announcing the Master Plan at the Presidential Investment Summit, said that business, government and labour had signed this ground-breaking accord "which was developed in a spirit of partnership and renewal." Indeed. Sentiments we as the leadership of the association fully endorse and which we are certain the membership will equally associate with.

### **THE AFRICAN CONTINENTAL FREE TRADE AREA (FTA)**

The launch of the African FTA earlier this year will create a trading block with a potential consumer market of 1.3 billion people. It is expected to come into force at the next African Union Summit due to be held in Nigeria in July 2020. This however on all accounts appears to be an over-ambitious target which is not likely to be met.

It must be pointed out that the FTA is not one Agreement but rather a framework that covers a range of bi-lateral agreements. Through our

membership of BUSA, our Executive Director is keeping a close watch on developments in as much as it affects our sector.

The DTI is in the process of preparing an offer from South Africa that can be used in all negotiations.

### **BRICS SUMMIT DECLARATION**

Minister Patel welcomed the BRICS Summit breakthrough in addressing illegal imports and to foster higher growth. As you are all aware, illegal imports, illegal trading and customs issues, have over the last decade and a half, created a false local price point on most apparel items manufactured locally and our members have carried the brunt of this with the resultant negative growth and huge job losses locally.

The BRICS Summit Declaration by Heads of State, recently committed to combat the under-invoicing of imported goods and measures to boost global demand and growth. Minister Patel identified high levels of under-invoicing as a critical challenge and needed to deepen fair trade, pursue industrial policies for growth and ensure tax revenue collection by countries.

This was the 9th meeting of the BRICS Ministers of Trade and was held in Brasilia, Brazil, earlier this month on 11 November.

A special mention must be made of the leadership and energy of Minister Patel and his team. Its immensely gratifying to note how quickly, many long outstanding issues such as some of those mentioned are now being dealt with since taking up his new role in Government.

Without his unique blend of passion and commitment to drive initiatives of this nature to a conclusion, the years of workshops, debates, arguments

and bickering by the stakeholders in the clothing retail value chain, would still be in progress with no end in sight.

### **THE FP&M SETA and the NBC PRODUCTIVITY AND TRAINING INSTITUTE**

The parties to the Council established a Productivity and Training Institute (PTI) which started operating in April 2016. The PTI is run by the NBC and funded entirely by SETA at this time. Its objective is the promotion of skills development in the Clothing Manufacturing value chain and ensuring the correct standards are applied to the delivery of qualifications and curriculums to address the very serious lack of appropriate skills in our sector.

Since our last AGM, the Institute has been involved in a number of activities to support Industry sustainability and skills development.

They have had a range of individual factory engagements in an attempt to gain more knowledge to assist in their understanding of effective interventions for the industry regarding our productivity challenges.

They have reported that most of the factory challenges observed have at their root cause, the following four main areas of management ineffectiveness, in no specific order:

1. Lack of effective planning systems and digitisation;
2. Lack of production organisation skills;
3. Lack of effective and empowering leadership that builds success by engaging all its people in delivering a sustainable outcome within the ecosystem of that specific plant, factory or mill;
4. Lack of business controls, effective measurement and benchmarking

The PTI are also engaging in interventions to address Industry skills gaps at manufacturing plant and technical level.

Our Industry is currently severely short of competent and effective skills development institutions to meet the targets agreed to by 2030.

Harnessing what we have and substantially growing this is a pre-requisite for successfully delivering the mammoth skills development Industry requirement, for the projected growth required.

### **MEMORANDUM OF CO-OPERATION BETWEEN SAAA AND ATASA**

Arising from my brief update at the AGM last year, on developments surrounding our withdrawal from AMSA, I can now confirm that after a lengthy (and costly) process involving lawyers, the separation has been concluded.

This paved the way a few months ago, for the Director and myself to engage with the leadership of ATASA, to explore closer co-operation and the possibility of greater employer unity on key policy areas and industry forums such as Nedlac, BUSA, SARS Custom, the NBC, the SETA and many more.

Following a number of engagements, we agreed at office-bearer level to initially (for now) commit to the signing of a Memorandum of Co-Operation, copies of which are available on request to the Director.

Jointly we now represent just under 80% of the formal apparel employment footprint under the jurisdiction of the NBC. Initial co-operation initiatives include:

1. Our Director is the spokesperson for both Associations in the NBC

2. We co-operate by sharing proxies at meetings where the cost of both parties being present to simply convey a joint consensus view, is not justified.
3. SAAA is once again an official member of BUSA.
4. We share information on a regular basis, particularly in preparation for meetings with SARS, the DTI, the NBC and most recently, on the Master Plan.

The office-bearers appreciate that due to this on-going and now resolved separation from AMSA, the association now needs to take stock of its business model and how best to service the needs of the members. The new office bearers are called upon to address this as a key priority.

With this brief overview, I would like to conclude by thanking the membership for their continued support and trust in the leadership of the Association.

The year ahead will in my view be significant in shaping the industry's trajectory mainly due to the following:

1. The first phase of the implementation of the Retail CTFL Master Plan and hopefully experience some of the benefits it sure to bring.
2. Compliance Enforcement at our borders and a further clamp down on illegal trading locally and NBC enforcement in respect of Bogus Co-Operatives, should collectively in time, drive a more sustainable price point.
3. A new round of Wage Negotiations as our current 2-year Agreement expires end August 2020.

The Association's and my thanks and appreciation once again goes to our Executive Director and Edith his PA, for their hard work, and diligence, in a particular challenging year.

**GRAHAM CHOICE**  
**CHAIRMAN**