

# High costs for SA foundries, but strong government support

Although South African foundries pay more for electricity and certain raw materials than Brazil, Russia, India and China, the industry enjoys strong support from the government. This is according to delegates who attended the fourth annual BRICS Foundry Forum held in India during February.



John Davies, CEO of the South African Institute of Foundrymen (SAIF) says that although foundries worldwide recorded growth of 2.3% in 2012, the majority of countries with foundry industries reported contraction (20 of 37). "South Africa was one of eight countries that reported contraction greater than 10%, while 11 countries showed growth in their foundry industries during this period," said Davies.

The BRICS Foundry Forum in India was attended by 11 South African delegates and was funded by the National Foundry Technology Network (NFTN), a DTI initiative. Each year, the forum conducts and shares research conducted amongst BRICS countries. This year, the focus was on high-pressure die casting, which is most commonly used in the automotive industry.

## Common challenges

Some of the common challenges experienced by BRICS countries in the past year included skills development, human capital resources, energy costs and frequent power interruptions. "BRICS countries account for 60% of the global foundry market. The foundry market in China is the largest of the BRICS countries, having produced over 42 million tons at its 30 000 foundries in 2012. South Africa produced 374 000 tons at its 180 foundries. To put this in perspective, the worldwide production in 2012 was 100.8 million tons and there were almost 51 000 foundries," said Davies.

The scale of the foundry industry is reflected in the number of universities that offer foundry degrees: 205 in China versus six in South Africa. "The education levels of participants in the foundry industry vary greatly worldwide, so it is helpful to compare our industry with other developing countries. It remains a challenge amongst BRICS countries to attract suitably qualified young people to the metal casting industries. Wages seem to be the major factor as well as defined career development," explained Davies.

The trip included a visit to the Centre for Excellence for Casting Technology, which exists to promote and develop training. In addition to the training courses on offer, the institute also conducts refresher courses regularly to ensure that repetitive training results in higher quality standards. The training institution is funded by both government and the private sector.

The equipment available at training centres and universities, which must have incurred huge capital expenditure, impressed Colin Smit, foundry technician of Mitak. "Clearly, India is willing to spend money on infrastructure aimed towards learning and creating a skilled workforce," he commented. "It was evident that local foundries have made significant investments along with government to counter the shortage of skilled manpower - an issue with which foundries worldwide are grappling."

The previous BRICS Foundry Forum was held in South Africa last year and hosted jointly by the National Foundry Technology Network (NFTN) and SAIF. At the time, a study was commissioned to make meaningful comparisons between the various countries, zooming in on the iron casting foundries.

## **Labour and productivity costs**

Labour and productivity costs in South Africa were highlighted last year as high amongst some of the BRICS countries, although productivity levels were found to be generally lower than the other BRICS countries in iron casting foundries. This year, when the delegates compared South Africa and India, they found that although we have higher labour costs than Indian foundries, productivity levels are similar in high-pressure die casting foundries.

Carl Reinhard of Casting Services conducted an analysis of the Indian foundries visited during the trip. Most South African foundries operate with labour costs at around 30% of total annual sales. "Given the Indian foundries extremely low labour costs in comparison to South Africa, Indian foundries enjoy a cost advantage of up to 24% over SA foundries," he said.

"It would seem that SA incurs a higher cost for the lower qualifications and skills than the other BRICS countries at present, which possibly contributes to higher labour costs per unit of output. This, in turn, impacts the overall productivity indicator," explained Davies.

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