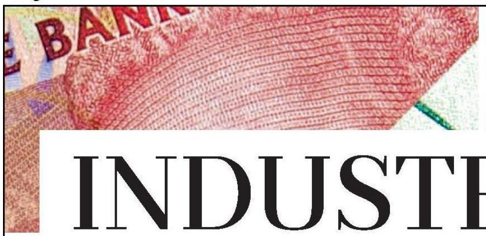


INDUSTRY ON ITS KNEES

David Furlonger, Adele Shevel, Joan Muller, Claire Bisseker, Lisa Steyn and Stephen Cranston

Businesses aren't just battling Covid-19, they're also battling often unfathomable government restrictions

The guiding principle for lifting the lockdown should be that whoever can go back to work safely must do so. And yet, in the helix of labyrinthine government rules, some industries clearly got the short end of the stick.

In one of the more baffling diktats, trade & industry minister Ebrahim Patel has said e-commerce businesses will be barred from operating as SA shifts from lockdown level 5 to level 4 this week, as this would be "unfair".

"If we open up any one category, let's say e-commerce, unavoidably there's enormous pressure to do the same for physical stores, for spaza shops, for informal traders, so there is fair competition," Patel said.

That's "nonsense", says Kim Reid, CEO of Takealot. "The government is trying to encourage social distancing, which is exactly what we are able to deliver. Yet they aren't allowing us to do so in an unfettered manner."

Reid says there have been many glib statements from politicians about supporting the fourth industrial revolution. "Where's the support for that now?"

Globally, too, it means SA is out of step. "Worldwide, from Wuhan to New York, from Delhi to London, e-commerce is delivering without restrictions. We're one of the only countries ... trying to restrict e-commerce and I don't understand why," says Reid.

But even traditional retailers are furious about the way in which some sectors have been designated as level 3 or level 2, which means they may not be able to operate for weeks still.

Michael Lawrence, executive director of the National Clothing Retail Federation has written to President Cyril Ramaphosa saying it is "anti-competitive" to allow food stores to sell clothes, but limit actual clothing retailers to only selling "winter clothing, bedding and children's clothes" under level 4 regulations. Only at level 3 will they be allowed to sell their full range of products.

The federation represents TFG, Mr Price, Woolworths, Pick n Pay Clothing, Truworths and Queenspark, which together speak for 150,000 jobs. There are at least 150,000 other retail jobs outside of this net.

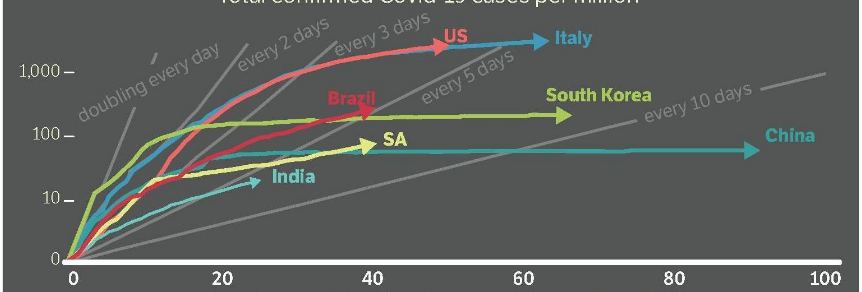
Already, Grant Pattison, CEO of SA's largest clothing retailer Edcon, has warned of an R800m knock on sales due to the lockdown. This week, the FM reports that Edcon is expected to apply for business rescue by tomorrow (see page 9).

Each day the lockdown continues, retailers say the risk of an irrecoverable hit to their supply chain rises exponentially.

Last Monday, property owners and retailers sent a joint plan to Patel detailing how they believe they could resume trading. The plan says retailers that offer online delivery services could start making deliveries from April 27, while shops and centres could start trading by May 1. It sets out reduced trading hours, limited shopper numbers and strong hygiene measures. As it stands, unless Ramaphosa's "risk-adjusted" approach is changed, this proposal will fall on deaf ears.

HOW RAPIDLY ARE CASES INCREASING?

Total confirmed Covid-19 cases per million



Source: European CDC, "Situation Update Worldwide", updated April 26 / OurWorldInData.org/coronavirus

A hospitality horror show

Restaurants have also been decimated. Under level 4, they are not allowed to provide seated service, but can provide takeaways for delivery only.

Greg Mommsen, executive director of pizzeria franchise Col'Cacchio, says that even in the weeks before the lockdown, revenue plunged 60%. April's extended lockdown, and a phased reopening, will have a further catastrophic impact on revenue.

"As restrictions ease, we are expecting a loss of revenue of up to 80%. With so many unknowns in terms of how society in general will respond ... we anticipate a very slow journey on the road to a 'new normal'," he says.

Though he says Ramaphosa's plan is reasonable, Mommsen points out that many other countries "have been able to innovate around this, and we should be allowed to do the same as soon as possible".

Gary Kyriacou, co-owner of the Marble Group, which includes trendy restaurants Marble and Saint, employs more than 300 people and has more than 22 suppliers. He says it's difficult for restaurants to run at 50% capacity.

"For a lot of restaurants, that's generally running at a loss," he says. "We were the first to close and will be the last to open, unless we do takeaways, which is what everyone will be doing. But a lot of restaurants aren't geared for takeaways."

After this, says Kyriacou, the economics of the industry will change. "Maybe renegotiating rentals, or employing half the staff, or instead of a 100-seater, it will be a 40-seater. And people's psychology about going out and sitting next to each other is unknown," he says.

Spur Corp CEO Pierre van Tonder says his company will definitely reopen after the lockdown. But the trick will be ensuring it's financially viable.

"If [the franchisees] just reopen, say for deliveries, that doesn't work. From a landlord and tenant perspective you must have the opportunity to trade in a reasonable-margin business," he says.

The group has about 30,000 employees

LIFTING THE LOCKDOWN

Level required for selected business activity to return

Level 5	Level 4	Level 3	Level 2	Level 1
Food-related agriculture	Car manufacturing (up to 50% employment)	Car manufacturing (up to full employment)	All other manufacturing (up to 100% employment)	Sit-down restaurants
Fishing	All other manufacturing (up to 20% employment)	Textile manufacturing (up to 100% employment)	All retail (subject to directions)	All air travel
Manufacturing of essential products, winter clothing (25-50% employment)	Sale of hot, cooked food	All other manufacturing (up to 50% employment)	Accommodation (hotels – for business travel only)	Hair salons, spas
Petroleum smelters, refineries	Tobacco products	Commercial building projects		Recreational/sports facilities
Public works construction	Restaurant deliveries (up to 8pm curfew)	Vehicle sales (subject to directions)		
Food retail (excluding hot food)	Open-cast mining (up to full employment)	Liquor sales (Mon-Wed, 8am-noon, subject to social distancing plan and quantitative restrictions)		
Fuel, including coal and gas		Limited domestic air travel		
Mining (up to 50% employment)		All mining (up to 100% employment)		

Note: This table is based on government's draft framework for sectors. Information presented in the table is subject to change in the regulations and may be subject to additional safety requirements

Source: The Paternoster Group

through its franchisee base, which includes Panarottis, John Dory's, Spur, RocoMamas and The Hussar Grill.

Indeed, SA's entire hospitality industry is on its knees.

Hotels and tourism, together with aviation, are classified as "high risk", and will only start going back to work once the lockdown shifts to level 2 (there is very limited domestic air travel allowed at level 3). Hotels, B&Bs and self-catering establishments, which earned zero revenue in April, fear this will take months.

Wayne Troughton, CEO of hospitality consultancy HTI, expects most hotels to remain shut during May, and probably to only reopen on a staggered basis after that.

Troughton points out that the hotel sector had already been hit by a hefty 45% year-on-year drop in occupancies in March – before the lockdown really began. "Occupancy levels are only likely to recover to pre-coronavirus levels in late 2022 or 2023," he says.

Failures in the hospitality sector are looking increasingly unavoidable, says Paddy Brearley, MD of Legacy Hotels & Resorts, which owns more than 20 hotels and timeshare resorts. Brearley wants the government to allow certain parts of the industry to start opening slowly sooner rather than later to avoid a "monumental disaster". If not, "hundreds of thousands" of workers will lose their jobs. "This will be catastrophic for the industry," he says.

James Woolley, co-owner of aparthotel operator Totalstay, agrees that many hotel and tourism operators won't survive. "Staff have already been laid off in numbers and companies are unlikely to start hiring again until there's more clarification on the lifting of restrictions," he says.

Inconsistent rules

Another sector crumbling under Covid-19 is construction. Ramaphosa's plan envisages construction only properly resuming once the risk drops to level 2.

"A continued lack of activity on [some] projects could mean we do not have any sites to return to when the lockdown is eventually lifted," says John Matthews, chair of the construction industry's Covid-19 rapid response team, which represents contractors, developers, suppliers and service providers.

Unless construction sites reopen immediately, there could be irrecoverable damage to critical infrastructure projects, and material on sites may be lost.

The industry lobbied to be allowed to go back to work immediately but has been ignored. "We have also identified qualifying construction sites that are ready for immediate reactivation," Matthews says.

Still, Roy Mnisi, executive director of Master Builders SA, says the industry doesn't see the window for negotiation with the government as closed. "We haven't for once thought the government hasn't heard us. They've heard us, but there needs to be more engagement," he says. The construction sector may be a shadow of its former self, but it still employs 1-million people – about 10% of the country's workforce, says Mnisi.

Unlike construction, the vehicle industry will, according to the new regulations, be able to resume manufacturing from May 1. The details, however, remain hazy.

"The devil, as so often, is in the detail," says Tim Abbott, president of the National Association of Automobile Manufacturers of SA (Naamsa).

Having originally excluded vehicle and components manufacturers from the sectors allowed to return to work, Patel made a U-turn on Saturday, allowing operations on condition that no more than 50% of employees are on site at any time.

Does that mean 50% of the total plant workforce or 50% in each department? "That's the sort of question we need answered to determine how we can operate," says Abbott. "Some companies may not be able to produce if it's the wrong answer."

There is no respite for motor dealers, however. They will have to wait before operating normally, despite being elevated from level 2 to level 3 on the government's risk-adjusted strategy. They are allowed to perform emergency vehicle repairs, but sales are forbidden for now.

This is a blow for SA's 1,600 franchised

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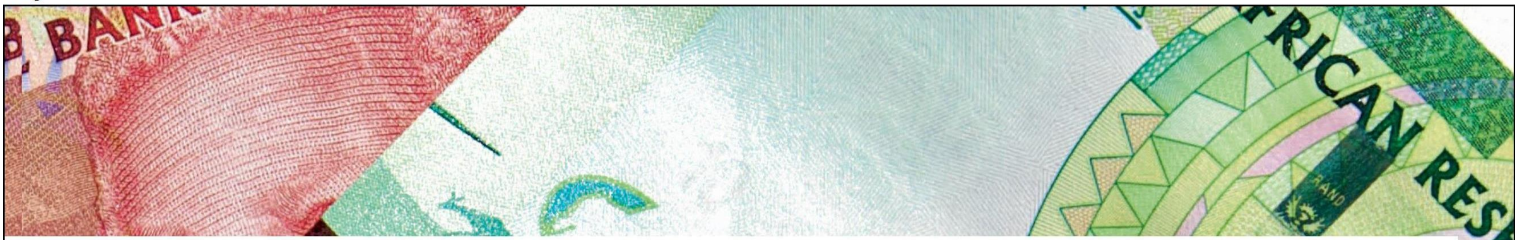

new-vehicle dealers, which employ 60,000 people and have investments of R48bn.

National Automobile Dealers' Association chair Mark Dommisse says if the sector isn't selling vehicles by mid-May, dealerships will start closing and jobs will be lost.

Naamsa is also lobbying for them to reopen. Abbott says: "If we're going to build vehicles, we need someone to sell them."

Automotive companies had until midday on Monday to comment on Patel's decision.

The immediate priority for most vehicle manufacturers, however, will be exports.

Prof Justin Barnes, the government's chief independent adviser on automotive policy, has warned that competitors in other countries are planning to resume production. If SA companies can't meet commitments, "they face the risk of being replaced by sister companies or competitors", he says.

Last week, the government initially disagreed, declaring that the motor industry has only "medium" exposure to exports. This is surprising, considering 64% of all vehicles built in SA are exported, and BMW SA and Mercedes-Benz SA export more than 90% of what they make. The industry accounts for 14% of the value of all SA exports.

There was also puzzlement at the government's calculation that just 5% of motor industry workers could lose their jobs if the lockdown continues into May, and the same percentage of SMEs in the sector could go out of business.

Naamsa CEO Mike Mabasa told the department of trade & industry this month that if the lockdown continues, it could cost 11%-20% of jobs and 21%-30% of SMEs. Those casualties would be almost exclusively SA-owned enterprises in the components supply chain.

Just 50% capacity 'isn't sustainable'

Many manufacturing industries — including paper and packaging companies, petroleum smelters, refineries and furnaces — will be allowed to reopen once the alert level has been reduced to level 4. But some of these firms will initially be allowed to operate only at 20% or 50% of their full capacity.

The Manufacturing Circle, whose member firms collectively employ 50,000 people, says it is "becoming increasingly impossible" to keep the workforce employed during the lockdown.

Executive director Philippa Rodseth says the phased approach is ill-suited to a sector where running at a reduced capacity for extended periods is not commercially feasible. For example, gas furnaces either have to be fully fired up, or not fired up at all. As a result, her association will lobby for a return to full operations, or at least 50%.

Michael Ade, chief economist of the Steel & Engineering Industries Federation of Southern Africa, believes the pandemic could be the final nail in the coffin of the steel and engineering sector, which has been battling for years.

Before the virus struck, the sector was expecting to rebound from a difficult 2019 to grow by about 3% this year. Now, it is expecting to contract by 10%. The sector had already lost over 60,000 jobs since the 2008 financial crisis — the pandemic could result in it shedding 100,000 more.

Independent think-tank Trade & Industrial Policies Strategies (Tips) estimates that the first three weeks of the lockdown cost the steel industry about R1bn. It expects that demand for steel will halve in the second quarter of 2020 and recover by only 20%-30% over the rest of the year.

If SA's domestic steel producers do not recover, it could have a negative, longer-term impact on SA's broader industrialisation and competitiveness, warns Tips senior economist Neva Makgetla.

Daniel Mathews, MD of M&J Mining, a manufacturing company that supplies equipment used in the mining sector, is grappling with the fact that only a fraction of his 90-odd employees will be allowed to return to the manufacturing floor initially.

"There are many questions," he says. "Will the temporary employer/employee relief scheme [TERS] rebate be extended to cover workers who are unable to return to work? How will our employees respond to this? They are hungry already."

Limiting part of the manufacturing sector to return to work at 50% capacity only by level 3 seems odd considering that the mines have already been allowed to go back to work at 50% capacity.

On the mines, it's a staggered approach: they can systematically phase in workers, while ensuring rigorous screening and testing, providing personal protective equipment (PPE) and ensuring social distancing.

Harmony Gold CEO Peter Steenkamp says: "It's been a mammoth task, but if there is any industry that can put in place the systems and processes, and provide the right PPE, it is our industry."

He warns, however, that operating at 50% of capacity is "not sustainable".

Neal Froneman, CEO of Sibanye-Stillwater, adds: "Our biggest challenge is the behaviour change required by employees to ensure social distancing, which will require continuous education."

Risk is in the execution

One industry preparing to go back to work is the financial sector. Since it provides the financing that lubricates the economy, that's a good thing.

FirstRand CEO Alan Pullinger says Ramaphosa's plan is reasonable. "Given the trade-off the country faces between health and economic risks, the responsible option is to open the economy in a risk-adjusted fashion. As with any plan, the way it is executed will eventually determine its success."

For Pullinger, the extent to which SA is successful in mitigating the loss of thousands of jobs "will depend significantly on the success in supporting SMEs".

Nazmeera Moola, deputy MD of fund manager Ninety One SA, says the concern for the finance sector is the second-round effects of the lockdown.

"When companies stop paying contributions and eventually go insolvent, it will hit our asset base, which has already been hurt by lower listed asset prices."

Luckily, SA's banks are largely well capitalised, which should help protect them from the expected loan defaults. But just because you're back at work doesn't mean your customers are.

As Sanlam CEO Ian Kirk says: "What is suffering, of course, is work-site marketing, where a group of blue-collar or white-collar workers are told about products in presentations at their workplace. It is not so easy to move these onto a digital platform."

At this point, it remains to be seen whether Ramaphosa's administration will be open to amending the often contradictory rules that don't make sense.

Russell Lamberti, founder of ETM Macro Advisors, says this "sector-risk" approach is unworkable, grossly inaccurate and unfair.

For one thing, companies don't neatly fit into "sectors", and in some cases, those companies allowed to operate under level 4 may rely on others that are limited to level 2.

"Businesses cannot tolerate a system where politicians can just randomly turn their businesses on or off. No meaningful investment or hiring or strategic operational decisions can be made under such circumstances," he says.

Lamberti says there's a better way: have a simple, clear set of guidelines and rules to mitigate virus risks in the course of life and commerce. Make sure the sick and elderly are kept as safe as possible, while the government ensures safety protocols are met.

Many executives, scratching their heads to figure out the new rules, would agree. **x**