

# **Moving South Africa's Economy – a Public-Private Partnership**

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## **Introduction**

It looks to me as if Transnet and therefore the State dominate this last session of the Conference. In the South African context this is appropriate, as there is little doubt that Transnet has to play a key role in the port and transportation system of our economy. In a sense Transnet is the interface between the maritime domain and the land-based economies. Having said this, however, my key objectives as the Minister responsible for Transnet is to ensure it is efficient and financially sound and that we improve the extent of and quality of our partnerships with the private sector. The top management of Transnet will outline the work being done in more detail. I would like to provide you with the policy rationale of our actions and the key steps as we go forward. One thing I am certain about is that the next few years will be a dynamic, exciting and challenging time in the maritime and transportation world.

## **The State and Transportation**

My colleague, Minister Radebe, has outlined the vast span of issues that are implied by a maritime policy. The importance of the regulatory role of the Ministry of Transport and its responsibility for the overall policy of this vast logistical network has been graphically highlighted in the process. This domain is quite clearly the responsibility of the State.

This Government, in common with many other governments, also chooses to play a central role in the area of ports, rail and pipelines. We do this for sound economic reasons. In the past this role was played by state monopolies. After more than ten years of restructuring we now play this role through State Owned Enterprises (SOE). The SOE has a corporate form substantially the same as those in the private sector and is subject to the disciplines of the capital markets, as it has to use these markets as a source of finance for its operations. The difference is that its shareholder, and a decisive, shareholder is the State. In my Budget Speech in 2004 I spelt out the reasoning behind this and the historical development of our policy in some detail. Let me just make a few points on the matter.

Essentially the State acts as a shareholder since it has an interest in the efficiency and profitability of the whole economy and its transportation system. No private sector enterprise could or for that matter should, have such an interest, as its concerns must be the direct profitability of its own operations. Of course every enterprise has an interest in the profitability and efficiency of the economy and its transportation system but wants someone else to bring this pleasant state of affairs about. No matter what your market

allegiances are this describes a classic market failure in achieving the broader public good.

In South Africa our logistics are of particular concern given our geographic location and the current arrangement of economic power in the world economies. As Minister Radebe pointed out if we factor in the distance our freight travels then we are a major transportation nation. As our exports diversify so the centrality of efficient logistics grows. Our transportation is strategic and has to be rapidly modernised and developed as an inter-modal system.

The strategy that we are applying in South Africa is to combine a powerful SOE located in critical points in the overall system with the maximum involvement of the private sector. Private sector involvement takes a number of forms and we seek to harness its vitality and profit maximising behaviour.

The first is through increased levels of cooperation between port and rail users and the SOE and State. These partnerships are often complex and maybe even time consuming but they are essential. Examples are the Masibambane project in the coal transportation. The port stakeholder forums that exist are others that we have to improve.

A more sophisticated variant of this is the joint planning of investment. The recent Kumba contract is an example of this. This process can extend to joint investment in equipment and infrastructure. We are exploring these variants in auto transportation.

Joint ventures and other forms of commercial partnership are all possible. The outright concession of infrastructure is a further progression of the role of the private sector. The concession of container terminals has loomed large in recent years for understandable reasons. With a better structure for the NPA and SAPO and the planned new investments that we can now be certain off a number of factors have changed. We have more options along with concessions. We are considering these and will make announcements as we reach conclusions.

As the shareholder of Transnet we are open to all such forms of private sector involvement as and where they are appropriate and will advance the efficiency, integrity and modernisation of our transportation system.

## **Transnet**

We can now lay to rest any uncertainty as to the end-state of Transnet. It will concentrate on its core business – rail, port infrastructure, port operations and pipelines. All these divisions will be held within a holding company so as to ensure strategic alignment and the balance sheet strength to invest in the whole system.

The port infrastructure will be held by the NPA and it will remain in Transnet for the reasons set out. However, there will be a host of private tenants as there are now. SAPO will remain a SOE to allow us to determine the overall strategic development of our port

operations in all ports. However, SAPO will continue to forge partnerships of various types with the private sector. Private terminal operators will continue to grow.

Both the Competition Commission and the more developed Transport regulators referred to by Minister Radebe will adjudicate fair play in the port and rail domain.

In rail we will hold key corridor infrastructure in the hands of Spoornet but are more open on other infrastructure. Certain branch lines will be disposed of shortly to other operators. A major change will be the transfer of all passenger activities in rail to a new entity that will report to the Department of Transport. As we strengthen and invest in Spoornet we will consider a similar divide between infrastructure and operations to that we have in the port divisions of Transnet.

Petronet will retain its present form although we want to expand our pipeline system in the coming years.

As has been announced previously we are in the process of moving SAA into a stand alone SOE reporting to DPE.

This is the Transnet going forward and it will most certainly increase its engagement with the private sector.

## **Investment**

Increased investment in our transportation is critical. The first step we had to take was to move to strengthen Transnet's balance sheet. I think we are making good progress here. This allowed us to set out investment envelopes over the next five years. These programs are now being announced as we proceed. I will leave the details to the very competent CEOs that will be talking after me.

However, I should stress that the magnitude of these investments is very considerable and will have a very positive impact on the economy and in particular the logistics and construction sectors. The dynamism of the process is considerable – car terminals are new but already we have to rapidly build more capacity. So all private sector players must plan now for this more dynamic situation.

A key aspect of ensuring increased investment is better investment and planning coordination with the major cities that start and end our logistics corridors. In this year I intend reaching detailed understandings with the main port and rail cities. I am confident this will enhance and speed up investment and stabilise future urban and business planning. This in turn will allow our stakeholders to plan operations and not speculate about future infrastructure plans.

## **Conclusion**

We have a very busy year ahead of us. I am even more certain that we have even busier years thereafter. At the helm of Transnet we have a very professional and competent Board and the Chief

Executives that will speak to you today are shaking, but even more importantly, planting the trees of our transportation system.

There are of course many challenges for the Chief Executives, their enterprises and the Department. They are the challenges imposed by a successful economy and if we think about the challenges we had to overcome to build this successful economy then I for one am immensely confident that we will overcome these lesser challenges in our way.

Thank you.