



# **The Steel Master Plan & The Future of Rail: An ARIA Perspective**

Submission to the Portfolio Committee on Trade, Industry and Competition

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## About ARIA

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- Represents key stakeholders in the South African rail value chain.
- Includes representation of crucial downstream users of steel and fabricated metal products.
- Committed to re-industrialisation and sustainable job creation.
- Advocates for a coherent policy environment supporting local manufacturing.

# **SMP 1.0**

## **Progress & Acknowledgements**

# Acknowledged Progress

- Platform for steel stakeholders & 6 Focus Areas.
- Establishment of Steel Fund & Local Content Compliance Unit (LCCU).
  - LCCU efforts against illicit trade & for localisation noted.
- Initial welcome of customs duties & Downstream Steel Development Fund (DSDF).
- Framework for a Social Compact (Govt, Industry, Labour).
- DTIC reviews (pipe designation, tariff structures, import surveillance).



# Key Concerns for the Rail Industry

# Key Concerns for the Rail Industry

- Muted Demand: Anticipated large-scale steel offtake NOT seen.
  - Reason: Major delays in public rail infrastructure projects (Transnet, PRASA, Gautrain expansions).
- Localisation Ineffective: Designation undermined by:
  - Inconsistent application & monitoring.
  - Circumvention (e.g., dumping of finished components like axles, wheelsets or second hand locomotives).
  - Direct negative impact on local manufacturers & job creation.

# Limited Effectiveness of SMP 1.0 Actions

# Why SMP 1.0 Actions Have Had Limited Impact

- Persistent Import Penetration: Global overcapacity & trade diversions hurt local producers.
  - Example: Imported finished carbon steel tubes/pipes cheaper than local raw material (HRC).
- Value Chain Fragility: Administered price hikes (energy, logistics) erode competitiveness. SMP framework not prescriptive enough.
- Slow Infrastructure Development: Delays in Transnet & PRASA projects directly curb steel demand.
  - Example: PRASA's 65% local content needs project flow.
- Funding Accessibility: DSDF funds slow to reach SMEs in rail component manufacturing.
- Primary Steel Supply: Concerns over local primary steel reliability & cost (e.g., AMSA supply issues).



# Critical Lessons Learnt from SMP 1.0

# Critical Lessons from the SMP 1.0 Journey

- Inter-Masterplan Coherence is PARAMOUNT: SMP cannot succeed in isolation. Fragmented policy implementation hinders re-industrialisation.
- Execution is EVERYTHING: Good plans need robust project management & accountability.
- Designation Needs TEETH: Vigilant enforcement & swift action against circumvention are vital.
- Legacy Challenges Persist: Input costs, competitive primary steel, underutilisation need solving.
- Trade Measures Impact Downstream: A Holistic approach is needed to avoid harming downstream users when protecting upstream.

# **The Shifting Landscape: Domestic & Geopolitical**

# Impact of a Changing Domestic & Geopolitical Landscape

- **Domestic Pressures:**
  - Energy Crisis: Loadshedding & costs cripple manufacturers.
  - Logistics Inefficiencies (Transnet): Increase input costs, hinder goods movement, erode competitiveness – a vicious cycle.
  - High Unemployment: Urgency for successful re-industrialisation & job creation.
- **Geopolitical Factors:**
  - Supply Chain Disruptions: Volatility & input cost hikes.
  - Trade Diversions & Dumping: Global oversupply pressures South Africa.
  - Carbon Border Adjustments (CBAMs): Future threat to exports without green steel transition.
- **Effect:** These pressures challenge SMP 1.0's goals. Cost competitiveness & greening are crucial.

# Current Industry Challenges

# Evolving Industry Challenges

- Uncompetitive Input Costs: Local raw HRC often pricier than imported finished goods.
- Misaligned Trade Protection: Upstream protection can harm unprotected downstream sectors.
- Decarbonisation Costs: Immense investment needed for green steel.
- Skills Gap: Shortage of specialised skills.
- Policy Instability & Inconsistency: Deters investment.
- Weakened SOEs (Eskom, Transnet): Systemic risks undermining industrialisation.



# Opportunities for Growth & Revitalisation

# Significant Opportunities Exist

- **African Continental Free Trade Area (AfCFTA):** Potential for SA to be a rail manufacturing hub for Africa.
- **Infrastructure-Led Economic Recovery:** Substantial demand if projects are UNBLOCKED.
  - Major rail opportunities: Transnet, PRASA, Gautrain – "Railway Revival".
- **Green Transition:** New competitive advantages through green steel.
- **Public-Private Partnerships (PPPs):** Well-structured PPPs can unlock investment & expertise, complementing SOE mandates.

# **ARIA's Core Concern: Incoherence & Undermining Transnet**

# The Elephant in the Room: Incoherence & Transnet's Plight

- Fragmented Policies: Masterplans operating in silos, often counter-productively.
- Transnet is Lifeblood: A functional, funded Transnet is VITAL for rail industry & broader economy.
- National Treasury's Approach to Transnet:
  - "Tough love" (restricted/conditional funding) is COUNTERPRODUCTIVE.
  - Hampers operational recovery & recapitalisation.
  - Undermines localisation, BBBEE, and job creation efforts.
  - Effectively "killing an industry with immense potential."
- Consequence: De-industrialisation & deeper social inequality.

# **ARIA's Recommendation 1: Task Force & Stronger Localisation**

# Recommendation 1: Coherence & Robust Localisation

- **ACTION 1:** Establish Cross-Masterplan Task Force (Inter-Ministerial & Industry)
  - Focus: Coherence, unblock procurement, align SMP, rail, infrastructure, SOE plans.
- **ACTION 2:** Strengthen & Holistically Apply Localisation & Trade Remedies
  - Real-time import tracking.
  - Urgent review of duties & anti-dumping, ensuring downstream protection.
  - Mandate Min. 70% Local Content (Transnet, PRASA, Private Ops, Gautrain contracts 2025–2035) with stringent verification.
- **IMPACT:** Protect & grow local manufacturing, preserve jobs, stimulate steel demand.



# **ARIA's Recommendation 2: Prioritise Rail Projects & State Capacity**

# Recommendation 2: Unleash Demand & Build State Capability

- ACTION 3: Accelerate Demand via Prioritised & Funded Public Rail Projects
  - Task Force to fast-track "shovel-ready" rail projects (Transnet, PRASA, Gautrain).
  - Requires committed, timely funding flows to SOEs.
- ACTION 4: Enhance State Capacity, Skills & Domestic Job Creation
  - Limit reliance on consultants; build internal state capability for policy & implementation.
  - Link masterplans to national skills development strategy.

Primary Objective: Sustainable, real jobs in South Africa.

- IMPACT: Tangible steel demand, re-industrialisation, job creation, improved rail networks, capable state.

# **ARIA's Recommendation 3: State's Role & Transnet's Viability**

# Recommendation 3: Active State & Viable SOEs (Focus: Transnet)

- ACTION 5: Reaffirm State's Active Role & Uphold Social Contract
  - State's strategic role in industry development cannot be delegated.
  - Actively support key industries & SOEs (Transnet, PRASA vital for public good).
  - Rail reform must strengthen SOEs; Private Sector Investment to complement.
- ACTION 6: Address Value Chain Costs & Ensure SOE Viability (URGENT: Transnet)
  - Tackle administered input costs (energy, logistics). Improve Transnet services.
  - Re-evaluate National Treasury's approach to Transnet funding – it is critical for survival and national goals.
- IMPACT: Competitive value chain, viable SOEs as growth engines, rail industry survival.

# **Conclusion: Rail as a Catalyst for Re-industrialisation**

# Conclusion: A Strong Rail Sector Drives Steel Demand & Growth

- Revitalised rail network (Transnet, PRASA, Gautrain) is FUNDAMENTAL to SA's economic recovery, re-industrialisation & export ambitions.
- SMP success INEXTRICABLY LINKED to:
  - Coherent rail sector plans & implementation.
  - Enhanced state capacity.
  - Supportive policy for ALL downstream users.
  - Government commitment to SOEs' developmental role.
- Incoherence & enfeebled SOEs = Continued De-industrialisation.
- A future SMP 2.0 must address: Competitive primary steel, energy security, RAIL CAPACITY (Transnet!), port efficiency.



# Call to Action

# Our Plea to the Portfolio Committee

- Champion greater coherence between Government Masterplans.
- Advocate for developing internal State Capacity.
- Ensure robust oversight of SOE commitments to stimulate local demand.
- Impress upon National Treasury the counterproductive consequences of its current Transnet funding approach.
- Focus: Tangible investment in South Africans – skills & sustainable domestic jobs.

**Inspired by the principles of game theory, we must recognise that our national industrial strategy is not a zero-sum game. As John Nash's work suggests, the best collective outcome – a thriving steel and rail industry supporting South African prosperity – emerges when all players, government, SOEs, and private industry, coordinate their strategies for mutual and national benefit, rather than pursuing isolated objectives that may inadvertently undermine the whole.**



**Thank you**