African Rail Industry Association

DATE: 3 June 2025

SUBJECT: Engagement on the Steel and Metal Fabrication Master Plan 1.0: Progress, Outcomes, Challenges, and the Rail Industry Perspective

1. **Introduction**

The African Rail Industry Association (ARIA) welcomes this opportunity to engage the Portfolio Committee on Trade, Industry and Competition (the Committee) regarding the Steel and Metal Fabrication Master Plan 1.0 (SMP 1.0). ARIA represents key stakeholders in the rail value chain, a significant downstream user and strategic partner to the South African steel and metal fabrication industry. This submission addresses the Committee's specific points, drawing on our members' experiences, including perspectives shared by entities such as SWASAP and the Econet collective. We also acknowledge and incorporate aligned perspectives from other industry bodies, such as the Steel Tube Export Association of South Africa (STEASA), which we understand also engages this Committee. We aim to critically assess the SMP 1.0's implementation and impact on the rail sector. ARIA offers practical, solutions-oriented recommendations, enhancing coherence across various government masterplans to drive meaningful re-industrialisation and address South Africa's pressing socio-economic challenges.

2. Progress Made in Implementing the Steel and Metal Fabrication Master Plan from ARIA's perspective and supported by broader industry observations, the progress in implementing SMP 1.0 has been mixed.

Positive Steps Noted:

- ARIA acknowledges the creation of a platform for steel stakeholders and the establishment of six focus areas for implementation with working groups.
- We note the establishment of a Steel Fund and a Local Content and Compliance Unit (LCCU). The LCCU undertook work tackling the escalation of illicit/illegal trade and identified localisation opportunities by working with government agencies (SARS, DTIC, ITAC).
- The industry initially welcomed the introduction of customs duties on primary steel and the establishment of the Downstream Steel Development Fund (DSDF) as a necessary intervention.
- Developing a framework for a Social Compact involving government, industry, and labour represented a commendable step towards collaborative problem-solving.

Address	Email	Phone
150 Commissioner Street Johannesburg 2001	info@aria.org.za **www.aria.org.za**	+27 79 857 5374 +27 11 468 1630

- ARIA notes DTIC's review of steel pipes, pipe fittings, special designation, and its review of the tariff structure, including an investigation into an import surveillance system for steel products.

Areas of Concern for the Rail Industry:

- **Demand-Side Management:** While the SMP 1.0 aimed to boost local demand, the rail industry has not yet witnessed the anticipated large-scale, consistent offtake of locally produced steel and fabricated components. Significant delays in the public sector's rollout of infrastructure projects, particularly by Transnet, PRASA, and, to some extent, the expansionary needs of entities like Gautrain (including rolling stock procurement and network refurbishments), primarily cause this. This slow pace mutes the potential for SMP 1.0 to stimulate steel demand through the rail sector.
- **Localisation:** Designating steel products for local procurement is critical. However, inconsistent application, monitoring, and challenges with circumvention (e.g., the dumping of finished components like axles and wheelsets, as SWASAP highlighted) undermine its effectiveness, and this directly impacts ARIA members who have committed to local manufacturing and job creation.

3. The Effectiveness of Identified Implementation Actions. Several factors have limited the effectiveness of SMP 1.0's actions in addressing industry challenges:

- **Persistent Import Penetration**: Despite trade measures, import penetration remains a significant challenge, which exacerbates global steel overcapacity and trade diversions due to geopolitical events. This undermines local steel producers and fabricators, including those supplying the rail industry. The issue of cheap carbon steel tube and pipe imports means the landed price of finished goods is often lower than domestic hot rolled coil (HRC) – a raw material. This situation indicates a severe competitive disadvantage for local manufacturers before production begins.
- **Value Chain Fragility:** The steel value chain remains fragile. While SMP 1.0 acknowledges this, interventions have not sufficiently addressed core issues like administered price increases (electricity, logistics), which erode local manufacturers' competitiveness. The SMP framework also lacks sufficient prescription or instruction for supply chain stakeholders.
- **Slow Pace of Infrastructure Development:** The slow execution of Transnet's rail and port infrastructure plans, PRASA's rolling stock programmes, and other public transport initiatives hampers the rail industry, a key potential driver of steel demand. This directly impacts the demand-side levers of the SMP 1.0. For instance, commitments to 65% local content in PRASA's programmes require consistent project flow to translate into steel orders.
- **Funding Accessibility:** While the R1.5 billion DSDF exists, challenges persist regarding the speed of disbursement and accessibility for Small and Medium Enterprises (SMEs)

within the rail component manufacturing sector. These SMEs are crucial for a resilient value chain.

- **Primary Steel Supply Issues**: Concerns persist regarding locally produced primary steel's reliable supply and cost-competitiveness. We note instances where ArcelorMittal South Africa (AMSA) could not always provide a reliable supply due to unexpected plant breakdowns and production inefficiencies. This forced manufacturers to carry more inventory or import steel despite procuring locally, thereby increasing costs and reducing competitiveness.

4. **Lessons Learnt from the Implementation Process** The implementation journey of SMP 1.0 offers several crucial lessons:

- **Inter-Masterplan Coherence is Paramount**: A significant lesson highlights the critical need for genuine alignment and synchronisation between government masterplans. The SMP 1.0 cannot succeed in isolation. The SMP intended to deliver a comprehensive industrial policy framework; instead, the government often implements policy in a fragmented manner, pitting pockets of industry against one another. This lack of coherence, where the government fails to take a total industry perspective, leads to missed opportunities, renders our country in a state of negative industrial progress, and ultimately hinders the overarching goal of re-industrialisation.
- **Implementation is Key:** A well-crafted plan's value depends on its execution. Delays in project rollouts, particularly in public procurement, dilute any masterplan's impact. Robust project management, accountability, and consequence management are essential.
- **Designation Requires Vigilant Enforcement:** The designation principle is sound, but it requires constant vigilance, swift action against circumvention (like dumping), and transparent monitoring to be effective. Without this, local manufacturers face unfair competition, threatening jobs and transformation goals.
- **Addressing Legacy Challenges:** The industry continues to grapple with legacy challenges that predate the SMP, such as reducing input costs (electricity, rail, port tariffs), the need for competitively priced flat-rolled steel, capacity underutilisation, and plant closures.
- **Impact of Trade Measures on Downstream:** Applying trade remedies, such as safeguard duties on primary materials like HRC, can inadvertently harm downstream industries if not implemented holistically. Such duties can shift imports from primary raw materials to intermediate or finished products, potentially causing job losses and reduced investment. The downstream industry is diverse, and impacts vary across sectors.

5. The Changing Domestic and Geopolitical Landscape The evolving domestic and geopolitical landscape has profoundly impacted the SMP's context.

Domestic Landscape:

- **Energy Crisis:** Persistent loadshedding and escalating electricity costs severely impact steel producers' and downstream manufacturers' operational viability and competitiveness, including rail component suppliers.
- **Logistics Inefficiencies:** Challenges within Transnet (rail and port inefficiencies) are exacerbated by funding constraints, delayed capital investment, increased input costs for manufacturers, and hinder the movement of raw materials and finished goods. This further erodes competitiveness and creates a vicious cycle where the rail industry's challenges impede its ability to support other sectors, including steel.
- **High Unemployment:** South Africa's staggering unemployment rate underscores the urgency of successful re-industrialisation. The SMP 1.0, if effectively linked with demand from sectors like rail, holds the potential to create and sustain much-needed jobs.

Geopolitical Landscape:

- **Supply Chain Disruptions & Input Costs:** Global conflicts and trade tensions have led to supply chain volatility. Some manufacturers, like those in the steel tube and pipe sector, have adopted hybrid manufacturing structures to manage this. They import coils for export orders (utilising rebate provisions like ITAC's rebate item 470.03) and use local coils for domestic supply. This reflects the complexities of navigating global price disparities and local content requirements.
- **Trade Diversions & Dumping:** Global oversupply in steel, coupled with protectionist measures in some countries, leads to increased dumping pressures on markets like South Africa.
- **Carbon Border Adjustment Mechanisms (CBAMs):** The emergence of CBAMs poses a significant future threat to South African steel exports if the industry does not accelerate the transition to green steel production.

Effects of the Master Plan Amidst These Changes: These external and domestic pressures challenge the SMP 1.0's intentions to improve competitiveness and reduce imports. The plan's focus on export markets requires a stronger emphasis on cost competitiveness and greening the industry.

6. New and/or Evolving Challenges Facing the Industry and Opportunities

Challenges:

- **Uncompetitive Input Costs:** STEASA highlighted that hot rolled coil can constitute approximately 80% of the cost of finished carbon steel tubes and pipes. When importers can land finished products more cheaply than local manufacturers can procure the raw material, local manufacturing faces little incentive.

- **Misalignment of Trade Protection:** Protecting the primary industry (e.g., with HRC safeguards) without simultaneously protecting vulnerable downstream sectors can disadvantage the latter.
- **Decarbonisation Costs & Transition**: The industry requires immense capital investment for green steel production.
- **Skills Gap:** A shortage of specialised skills hinders innovation and growth.
- **Policy Instability and Inconsistency:** This instability can deter investment.
- **Weakened State-Owned Enterprises (SOEs):** Operational and financial challenges at Eskom and Transnet create systemic risks, undermining their role as catalysts for industrialisation.

Opportunities:

- **African Continental Free Trade Area (AfCFTA):** AfCFTA presents a significant opportunity for South Africa to become a manufacturing hub for the continent, including rail rolling stock, components, and infrastructure.
- **Infrastructure Development Drive:** The government's commitment to infrastructure-led economic recovery offers substantial demand. This includes significant opportunities within rail (Transnet, PRASA, Gautrain) and linked sectors. A "railway revival," driven by well-resourced public entities, is central for ARIA members.
- **Green Transition**: Shifting to green steel can help the industry develop new competitive advantages.
- **Public-Private Partnerships (PPPs):** Well-structured PPPs that complement and enhance SOE capacity, rather than undermine their developmental mandate, can unlock investment and expertise for large-scale infrastructure projects.

7. Steps Being Taken (If Any) to Amend, Adapt or Redevelop the Master Plan ARIA is unaware of current steps to amend the SMP, as SMP meetings had reportedly not reconvened. However, initiatives like the South African Iron & Steel Institute (SAISI) Steel Market Development Forum show industry efforts to self-organise. The industry raised a key point: the need for "simultaneous alignment of duty/trade remedies throughout the value-adding industry to that of the upstream industry."

ARIA's Recommendations for Amending/Adapting the SMP (and related policy frameworks):

- **Establish a Cross-Masterplan Task Force (Inter-Ministerial and Industry):** ARIA submits that this task force should focus on coherence and unblocking procurement, ensuring alignment between SMP, rail, infrastructure, and SOE strategic plans.
- **Strengthen and Holistically Apply Localisation and Trade Remedies:**
    - **Action:** Implement real-time import tracking. Conduct an urgent review of existing customs duties and anti-dumping measures. Crucially, the government must ensure a holistic approach to trade remedies: it must consider applications for protection by the upstream industry simultaneously with the potential

impact on, and necessary protections for, downstream industries. ARIA calls for a mandate of a minimum of 70% local content in all Transnet, PRASA, Private Operators, and Gautrain-related contracts for 2025-2035, with stringent verification.
    - **Impact:** This will protect and grow local manufacturing capacity across the value chain, preserve jobs, and stimulate demand for South African steel.

- **Accelerate Demand through Prioritised and Funded Public Rail Infrastructure Projects:**
    - **Action:** The Cross-Masterplan Task Force must prioritise and fast-track "shovel-ready" projects with high steel intensity within Transnet, PRASA, and Gautrain. This requires committed and timely funding flows to these SOEs.
    - **Impact:** This will provide immediate, tangible demand for the steel industry, supporting re-industrialisation, creating jobs, and improving vital rail networks.

- **Enhance State Capacity, Skills Development, and Domestic Job Creation for Masterplan Success:**
    - **State Capacity**: To ensure effective policy development and implementation, the government must significantly limit its reliance on consultants for core functions. Building internal, capable state capacity is paramount.
    - **Skills Investment**: The government must intrinsically link all masterplans to a national skills development strategy, equipping South Africans for re-industrialisation.
    - **Domestic Job Creation:** The primary objective must be creating sustainable, real jobs within South Africa and investing in our people.

- **Reaffirm the State's Active Role in Industry Development and Uphold the Social Contract:**
    - While creating an enabling environment, the state cannot delegate its strategic role in industry development. The government must remain loyal to its social contract by actively supporting key industries and SOEs like Transnet and PRASA, which are vital for the public good and development objectives. Rail reform should prioritise strengthening these entities, ensuring private sector investment complements their core public service and developmental mandates rather than displacing them.
    - The state must continue active support through clear policy, targeted industrial financing, and investment in key infrastructure.
- **Address Value Chain Cost Pressures and Ensure SOE Viability, with Urgent Focus on Transnet:**
    - **Action:** The government must urgently address administered input costs. The DTIC, DMRE, and DOT must tackle competitive energy tariffs and decisively

improve Transnet's freight rail and port services. The competitiveness and reliability of primary steel production are also key.

- **Critical Role and Funding of Transnet**: ARIA must stress that a well-functioning, efficient, and adequately capacitated Transnet is the lifeblood of the South African rail industry and a primary catalyst for broad economic re-industrialisation. The National Treasury's current "tough love" approach towards Transnet, involving restricted funding or stringent conditions that hamper operational recovery and capitalisation, does not serve the best interest of a country seeking to address deep social inequalities and unemployment. By refusing Transnet adequate and timely financial support, we effectively undermine a critical implementing agent for national policies such as localisation and Broad-Based Black Economic Empowerment. This inadvertently kills an industry struggling yet possessing immense job creation and economic stimulus potential. The National Treasury must reconsider its approach to align with national developmental and re-industrialisation goals. The rail industry cannot survive without a viable Transnet, and the nation will lose a significant domestic demand lever for the steel industry.
- **Impact:** These actions will enhance the fundamental competitiveness of the entire steel value chain and ensure the viability of critical sectors and SOEs like Transnet, PRASA, and Gautrain as engines of growth.

8. Conclusion The African Rail Industry Association believes that a revitalised and modern rail network, underpinned by strong, well-funded, and efficient public entities like Transnet, PRASA, and Gautrain, is fundamental to South Africa's economic recovery, re-industrialisation, and export ambitions. The rail industry is a critical partner to the steel and metal fabrication sector.

The success of the Steel Master Plan is linked inextricably to the coherent and timely implementation of plans within the rail sector, enhanced state capacity, a supportive policy environment for all downstream users, and an unwavering commitment from the government to its social contract and the developmental role of its SOEs. The dangers of incoherent plans and policies, including fiscal approaches that cripple key SOEs, will condemn our country to continued de-industrialisation and exacerbate social inequalities.

As ARIA and other associations highlight, the government must urgently address fragmented policy implementation, uncompetitive input costs, unreliable primary material supply, and the need for holistic trade measures. ARIA urges the Portfolio Committee to champion the cause for greater coherence between various government masterplans, advocate for developing internal state capacity, ensure robust oversight over the implementation of commitments that stimulate local demand from SOEs, and impress upon the National Treasury the counterproductive consequences of its current approach to funding entities like Transnet.

These masterplans must translate into tangible investments in the people of South Africa through skills development and the creation of real, sustainable domestic jobs. The state must actively drive industry development, ensuring it empowers, not enfeebles, and implements agents like Transnet. A future iteration of the SMP, perhaps an SMP 2.0, must decisively attend to competitive primary steel, energy security, rail capacity (critically dependent on Transnet), and port efficiency.

We are committed to working collaboratively with the Committee, the DTIC, and all stakeholders to achieve these goals. We trust that this submission provides a valuable perspective and look forward to the engagement.

Contact details:
Ms MM Nhlapo
Chief Executive Officer
African Rail Industry Association
+27 11 468 1630
info@aria.org.za