TRANSPORT MINISTRY
REPUBLIC OF SOUTH AFRICA

SPEECH DELIVERED BY THE MINISTER OF TRANSPORT ON THE OCCASION OF A VIRTUAL MINISTERIAL BRIEFING ON TRANSPORT: MITIGATING THE IMPACT OF THE COVID-19 PANDEMIC IN THE TRANSPORT SECTOR TO THE NATIONAL COUNCIL OF PROVINCES (NCOP) HELD ON 6 MAY 2021 AT 14H00

Chairperson of the National Council of Provinces, Honourable Amos Masondo

Deputy Chairperson of the National Council of Provinces, Honourable Sylvia Lucas

Members of Executive Councils responsible for Transport from all our Provinces

Honourable Members of the National Council of Provinces

Ladies and Gentlemen

In March 2020, President Ramaphosa declared a national state of disaster leading to a hard lockdown that was followed by easing of restrictions as the country navigated through different alert levels. The economic impact of these restrictions was unprecedented, with the transport sector being one of those who bore the brunt of the pandemic.

South Africa borders six other nations, four of which are landlocked, and is the largest economy in Southern Africa. As such, we have the potential to fully utilise our geographical position and develop to become an important regional transport and logistical hub. However, to fulfill this role, we will need to develop efficient, resilient and sustainable transport infrastructure that facilitates both domestic and cross-border trade and transportation, boosting both our own economic growth and that of our neighbours.

The fulfillment of this potential is currently constrained by South Africa's relatively poor connectivity with regional and global markets; the poor connectivity between rural production areas and urban markets, and crucially within the greater urban areas themselves. In addition, resource availability is increasingly limited and current resource use is sub-optimal on a number of levels. It is crucial for us to plan and develop our transport system in an integrated, sustainable, resilient and low carbon manner.

Transport is the backbone of the economy, from local public transport to global supply chains. Transport brings opportunities for the poor and it enables economies to be competitive, links producers to markets, workers to jobs, students to schools, and the sick to hospitals.

The loss of revenue during the lockdown for the various transport sub-sectors presents an economic challenge as transport operators experienced an unexpected shortfall in their revenues.

Operations in aviation came to a complete halt as we closed the airspace to both domestic and international travel, except for repatriation and medical evacuations. This led to airline operators that were already under financial distress, such as the South African Airways and Comair to go into business rescue. Public transport operators, specifically taxis and buses, faced reduced demand as their operating hours and passenger capacity were restricted. A large portion of the freight logistics activity was also halted, as only transportation of essential items was permitted during the hard lockdown.

All these measures adversely affected the income of both employers and employees operating in the transport and logistics sectors. In contrast, the hard lockdown might have increased the demand for storage facilities as non-essential items were not permitted to be transported to retail outlets.

The economic recovery and expansion potential of investing in the transport sector has to be harnessed in targeted and highly catalytic ways. These should mobilise the widest range of activities in order to represent a strong return and a strong value proposition for blended and commercial finance. In order to truly live up to its designation as a network industry, transport must activate multiple overlapping networks of economic activity.

In this regard, transport in South Africa is central to trade, economic, social stability and unwinding apartheid spatial planning. The impact of COVID-19 on the transport sector goes beyond the boundaries of domestic trade, as it plays an important role in unlocking investments in the entire SADC region.

The COVID-19 pandemic came at a time when economic activity in the transport, storage and logistics industries was already on a downward slide since 2016. The sector's output performance mirrors the country's GDP performance, as volumes in these industries are highly dependent on the output of the overall economy.

The effects of the COVID-19 pandemic will continue to be experienced by operators in the transport and logistics industries in the short to medium term.

Demand for airlines will continue to be low until volumes in business and tourism travel picks up. It is estimated that it could take up to two years before the operations are back to normal, as it is expected that passengers will be reluctant to fly initially because of stringent rules in place and until they gain confidence in the measures applied. The International Air Transport Association (IATA) projected that the global airline industry would lose approximately $ 82 billion in 2020.

Similarly, airports are in a dilemma of ensuring that infrastructure is maintained and developed to support operations. Operators are now required to rethink their business models, given diminished activity and the new added elements in the system, further burdening the operations of airports and airlines. The issue of social distancing already impacts on space requirements of airports which may lead to constraints in terms of capacity. This is expected to be a new norm until vaccination efforts achieve population immunity. This might likely lead to increasing of fares to make up for operational costs and liquidity as well as downscaling of operations to meet the new demand

Public Transport

Post hard lockdown, passenger capacity in all public transport modes continue to be restricted, as one of the risk adjusted measures. Restrictions on passenger capacity for long distrance travel, coupled with fixed costs continues to adversely affect the earnings of operators, hence sections of the taxi industry were resorting to increasing taxi fares by more than 100%.

Freight and logistics

The COVID-19 pandemic has dealt a massive blow to the global economy. On the supply side, businesses have been forced to temporarily close due to the shortage of input material from suppliers and the need to protect workers. Demand for goods have also declined as consumers and households face financial constraints. This will continue to affect industrial output in the short to medium term. These confluences of supply and demand shocks have put considerable strain on the logistics sector. The decrease in cargo volumes is threatening the viability of many logistics companies.

Gross Fixed Capital Formation

Fixed investments in the transport and logistics industries experienced decent growth rates between 1994 and 2015. The sector was growing at an average annual rate of approximately 9% during the 1994 to 2015 period. Post 2015, investments in the sector has been notably muted.

The COVID-19 pandemic will have a severe impact on the fixed investment in the transport and logistics sector in the short to medium term. In the aviation industry, capital that could have been used to expand the sector, will be utilized to rescue airline operators that are facing bankruptcy, while airline operators with strong balance sheets might withhold their capital expenditure program to fulfill their liquidity needs.

Freight and logistics will likely experience consolidation as large operators with strong balance sheet acquire operators in financial distress.

Where public transport is concerned, the effects of the COVID-19 pandemic may bring about the necessary long-term transformation the sector so desperately needs.

One of the most impactful outcomes of the current challenges triggered by the pandemic is the realization that public transport is an essential service that requires the necessary investment and adequate funding both for infrastructure and operations.

Employment and Income

Employment levels in the transport industry have been on the rise since 2008. The number of jobs in the sector experienced an average annual growth of approximately 2% during 2008-2019 period. However, between the first quarter of 2019 and the first quarter of 2020, the sector shed approximately 30 000 jobs. This might continue if the aggregate economic activity fails to rebound quickly.

In the aviation industry, severe job losses are expected as Comair and SAA have announced retrenchments. Once these airlines emerge from the business rescue hurdle, the new rescued airlines will likely be leaner with fewer employees. Other airline operators are also likely to shed jobs until volumes or demand in business and tourism travel rebounds significantly. This rebound may be later than initially projected by the International Air Transport Association (IATA).

However, in the short-term, operators will be faced with rising fixed cost due to lower utilization of aircraft and seats as a result of restrictions imposed to control the spread of the COVID-19 pandemic. The severity of job losses in the freight and logistics industry are highly dependent on the rebound of manufacturing, mining and trade activity.

Trade

Transport and logistics industries are the engine of the economy. However, their activities are highly dependent on productivity from other sectors, especially mining and manufacturing. 80% to 90% of South Africa's trade cargo is transported by sea, which is currently fully operational. However, the rise in shipment volumes is dependent on manufacturing and mining output and demand for exports and imports by South Africa's trading partners. Ultimately, the recovery of the freight and logistics industry will be linear to the recovery of the domestic demand and global trade activity.

INTERVENTIONS TO MITIGATE AGAINST THE IMPACT OF COVID-19

For our transport systems, the post COVID-19 new normal will unfold in ways we cannot fully imagine, but it will be impacted by, amongst other shifts:

- Higher hygiene standards and lower occupancy numbers on public transport – particularly the largest segment, being the minibus taxi industry.

- A shift for white collar workers from commuting to more work from home via technology platforms, shifting demand patterns for use of road networks.

- More regionalization of economies and shortening of supply chains and better rapid response abilities through more decentralization and modularization, with important implications for demand in the freight and logistics sector. In the South African context this includes the regional integration at a continental level through the African Continental Free Trade agreement.

- A strong move towards a 24-hour economy as we try to reduce congestion in all areas, again with implications for our road networks, public transport and freight logistics sectors

The proposed package of transport sector interventions will build on synergies and interventions that will create socio-economic and intra-Africa trade improvements.

In Aviation

- We need to ramp up domestic travel and build confidence that the system is able to function safely. The measures which are applied must demonstrate that the system is resilient and can be trusted. Elements to intensify on, include touchless travel, disinfection processes, screening of passengers, compulsory wearing of masks, sanitization and social distancing;
- We need to relax restrictions, which goes hand in hand with tourism restrictions relaxation;
- We must gradually re-introduce international travel with countries that are low risk;
- We must consider differentiated financial aid for the Air Traffic Navigation Systems (ATNS), Airports and Airlines to maintain a balanced recovery;

In Public transport

- We must introduce a cashless fare system by installing smart card validators in the vehicles and these devices should be locally manufactured instead of relying on global supply;
- We must aggressively invest in the Taxi Economy. The minibus taxi economy represents a vast, and largely under-developed economic network. 70% of commuters use public transport, 80% of public transport users use taxis. Municipal taxi ranks constitute potentially commercial infrastructure in every township and village. The following interventions are proposed to unlock the Taxi economy. Evolving taxi ranks into micro-CBDs and the development of taxi routes as commercial corridors, supporting vertical integration within the taxi value chains and incentivising conversion of minibus taxis to green fuel systems. Create an explicit programme carving out a portion of existing Development Finance Institution (DFI) funding to support vertical integration within the taxi industry, including panel beating, parts and consumables, fuel wholesaling and rank/ vehicle sanitization.
- We must use public transport as a backbone for new commercial nodes, human settlements and energy systems.

- In the short term this includes fast-tracking integrated ticket systems and channeling development financing to upgrade intermodal facilities into commercial nodes. In parallel, it includes taking the first steps to establish provincial public transport authorities and linking the new provincial authorities to development finance conditional on building green, inclusive, customer-centric rail and bus transport, including bus rapid transport. A further condition is that these networks have to tie in to planning for new human settlement nodes via the District Development Model.
- We need to reduce the cost of doing business and ramping up competitiveness by investing in freight rail and port systems. This is focused on the potential of freight rail, a mode which, when delivered efficiently, moves goods at between 30% and 50% of the cost of road freight. The upgraded, more efficient network would also link into African rail networks at the SADC level.

- We must ensure connectivity of this updated network of lines and ports to new rail links into SADC, in support of market access to be generated by the African Continental Freed Trade Agreement. The proposed approach is to work with the Transnet International division to connect a line to allow for SADC freight network integration at more affordable rates than present conditions allow.

PUBLIC ENTITIES IN DISTRESS

Amongst our entities, the following were most affected by the COVID–19 restrictions:

Airports Company South Africa (ACSA)

It was crucial to prioritise the opening of the O.R Tambo, King Shaka and Cape Town International Airports as the economic triangle hub of aviation in South Africa. ACSA has encountered revenue losses proportional to traffic losses in the short to medium term. There would also be non-aeronautical revenues from its airports, notwithstanding that South Africa's Gross Domestic Product is expected to decline by 1.8% to 7% as a result of COVID-19. African airports are expected to suffer a 32,5% decline in passenger numbers and 35% decline in revenues in the 2020/2201 financial year.

We project that ACSA traffic volumes by 2026 could still be below 20% of the current traffic levels, and its operational expenditure would likely decline from R4,8 billion to R3,6 billion by 2026 and its capital expenditure would be R1 billion per annum. Traffic volumes are projected to be down by 30% in 2021, while in 2022 we project a 9% recovery, with an annual 2% growth between 2023 and 2026.

This therefore means that ACSA is not in a position to make any commitments and investments in the immediate term. However, ACSA requires R10 to 11 billion in the next five years. ACSA will therefore need to look into a possibility of selling its non-core assets to remain liquid. This is a process the company has already started work on.

Passenger Rail Agency of South Africa (PRASA)

It is worth noting that PRASA had requested an amount of R771.062 for loss in revenue and a further R489 515 million for operational response to COVID-19 equipment, communication as well as marshals and security.

The allocation of R1.260 billion through the reprioritisation of PRASA was made, which will result in decrease on PRASA capital budget and increase in operational expenditure to address the shortfall. It is also important to note that Autopax, PRASA’s bus subsidiary’s revenue was also severely affected due to the lockdown.

In the short term, PRASA is undertaking the rail infrastructure programme upgrade on the Pretoria-Mabopane and the Central Line in Cape Town to the tune of R1.8 billion and R2 billion respectively. In this regard, the Pretoria-Mabopane procurement process would be completed in earnest as well as the finalisation of the rail reserve issues in the Central Line in Cape Town. In the medium term, a feasibility study for the High Speed Rail would be completed to allow rapid movement towards the implementation phase.

Road Accident Fund (RAF)

The Road Accident Fund financial position indicates that, it is technically insolvent and will invariably face further liquidity challenges which urgently need to be addressed. The onset of COVID-19 culminated in lower fuel revenue collection than budgeted for in the 2020/2021 financial year. The Department has supported the request for cash injection amounting to the tune of R7,279 billion and a request for R15 billion as a bridge facility to address the credit facility and liquidity pressure.

South African National Roads Agency Limited (SANRAL)

The eToll challenge has caused a huge delay on other road projects and its urgent resolve is of paramount importance.

SANRAL further made a loan request of R7 billion to the Multilateral Investment Guarantee Agency (MIGA) over a 15 year guarantee period to finance old debt and 50% of new projects. SANRAL further requested shifting of funds from capital to current transfers for R2.5 billion to accommodate the significant in operational expenditure, that is from Non-Toll to Toll for 2020/21. In addition, SANRAL requested a further R3.5 billion in the funding shortfall for MIGA refinancing. The revenue shortfall is as a result of the collection from toll gates due to COVID-19.

South African Civil Aviation Authority (SACAA)

This entity generated 74% of its total revenue from the Passenger Safety Charge. IATA predicts a 10.7 million passenger loss for the 2021/2022 financial year which is almost 40% of passengers per annum. Capital expenditure would therefore need to be put on hold over the next 12 months.

Cross Border Road Transport Agency (C-BRTA)

The entity is funded through the permit fees from operators. It experienced significant revenue loss resulting from a decline in permit applications and issuance. However, during level 4 the revenue collection increased by 77%.

This shortfall was addressed through the budget re-prioritisation within the Department which formed part of the 2020 special budget. Further consultation on cross-border agency fees are underway, which will assist in resolving the financial constraints within the entity.

South African Maritime Safety Authority (SAMSA)

The Department of Transport and National Treasury are discussing the establishment of the Maritime Development Fund, which will go a long way in triggering growth and transformation in the industry post COVID-19. Similarly, addressing the tax regime for the South African ship register in the short-term as a strategic intervention between the Department of Transport, National Treasury and SARS will unlock the stifled growth potential in this area.

Through the Ports Regulator of South Africa, a new special tariff regime is underway, that will benefit local supply chain industries such as Automotive, Containers, amongst others.

There is an urgent need to fast-track the corporatisation of the Transnet National Ports Authority as required by the National Ports Act of 2005, as well as strategically engaging cautiously on the Section 79 applications by the private sector within the ports environment.

In conclusion, we are determined to forge ahead with creating strategic partnerships with industry and civil society to weather the COVID-19 storm by implementing the measures we have identified. It would be vital not to allow this pandemic to reverse the gains achieved since the dawn of democracy. Therefore, the country should gather and support all efforts which will help to revive the economy.

I thank you.