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Concept Note: The Private Sector's View on the South African Shipping Company (SASCO) Draft Bill.

Executive Summary

This position paper aims to outline the private sector's collective view pertaining to the draft bill issued by the Department of Transport on the establishment of the South African Shipping Company (SASCO). This paper outlines the private sector's view, mainly on the second chapter of the draft bill which attempts to rationalise the establishment of the company. This paper excludes Chapters 1, 3, 4, and 5 which address the usual corporate, board, and structural matters. In addition, this paper also provides the private sector's view pertaining to the memorandum on objects of The South African National Shipping Company Bill and also provides brief recommendations of alternatives that could be followed to enhance the efficiency and effectiveness of our port system and to ensure the sustainability of the extended shipping industry.

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1. Introduction

Since 1999 when Maersk acquired Safmarine, South Africa have been without a national flag carrier. Maersk is a Danish-owned shipping line and is one of the biggest shipping companies operating in South Africa. South Africa is thus completely reliant on foreign owned companies for essential imports and exports. Before the Comprehensive Maritime Transport Policy (CMTP) was enacted, the Department of Transport's research found that South Africa was the only BRICS country which did not have of a state-owned shipping company. As a result, since 2017, talks have been steered in the direction of establishing a state-owned shipping company in South Africa with the view to alleviate supply chain disruptions. Subsequently, the idea of a state-owned shipping company gained more traction within the South African government as the Department of Transport recently issued a draft bill for the establishment of the South African Shipping Company (SASCO). According to the bill, SASCO would fall under the authority of a minister chosen by the president, who would, in turn, appoint a board that then designates a CEO.

It is anticipated that the shipping company aims to own and manage a strategic fleet of vessels that will aid logistics services and infrastructure in South Africa. According to the bill issued by the Department of Transport, the strategic fleet will include at least one **(a)** bunker barge, **(b)** container vessel, **(c)** multipurpose bulk cargo vessel, **(d)** coastal shipping vessel, **(e)** oil tanker vessel, and **(f)** chemical tanker vessel. In addition to the traditional carriage of imports and exports, the company will also aim to provide **(1)** tanker services, **(2)** bunkering services, **(3)** container services, **(4)** bulk cargo services, as well as **(5)** coastal shipping services. Furthermore, SASCO will be financed by the Industrial Development Fund (IDF) as well as money appropriated by Parliament. It is, however, important to note that the bill provided has no detail on finances in terms of costs and revenue which represents a major cause of concern.

2. Private Sector's View on the SASCO Draft Bill

The collective private sector's view states that the establishment of the South African Shipping Company (SASCO) should be strongly resisted as state-owned shipping lines have not enjoyed a great deal of success across the globe. Arguably, the only exception of a successful state-owned shipping line is the China Ocean Shipping Company (COSCO) who have a large presence in the global supply chain. At the end of October 2022, COSCO operated on 408 international and domestic shipping routes, which includes 268 international routes, 56 domestic routes, and 84 feeder routes along the Pearl River Delta and the Yangtze River. The Company's fleet has called 575 ports located in 141 countries and regions worldwide. Additionally, the company owns and operates 391 container vessels with a total capacity of approximately 2,1 million TEUs.[1]

One of the main reasons why COSCO shipping line is so successful is because of the fact that China has a very dominating presence in international trade. For example, some of the world's largest container manufacturers are situated in China and are responsible for the production of approximately 85% of global shipping containers.[2] China thus enjoys a competitive advantage in this regard as 60% of containers comprise of steel which is a commodity China has in abundance. The cost of steel and labour in China is also substantially lower which allows for a more cost effective and efficient production line.

As of 2018, China was recorded as the world's largest exporter which complements the fact that they are also the world's largest container manufacturer and ultimately contributes significantly towards the success of COSCO shipping line.[3] By way of contrast, in 2018, South Africa was recorded as the 40th largest exporter while the current state of our logistics network is prohibiting us from achieving our economic growth prospects. All over the world, state-owned shipping lines have failed, costing taxpayers enormous amounts of money, and the private sector is wary that things will be no different for SASCO as we do not comprise of a logistics network that will allow the shipping company to thrive. As far as COSCO is concerned (see above), none of the other BRICS countries operate a successful container carrying line, though is true to say that they do operate a limited number of vessels in more specialised areas of business

Similar to the talks surrounding the establishment of a state-owned shipping line, our government has also been beating the drum about South African-flagged vessels that

[1] COSCO Shipping Line - About COSCO Shipping
[2] Container Xchange. 11/11/2022 - Shipping Container manufacturing blog.
[3] World Population Review - Largest exporters by country

would operate under South African jurisdiction. The most successful shipping lines' vessels are not flagged in their own countries, but rather carry flags of convenience to the benefit of countries making use of their services. Therefore, the private sector strongly believes that the idea of South African-flagged vessels should be dispensed with as we are not in prime position to offer incentives and the measures of protection that flags of convenience offer. If we do persist with the idea of South African-flagged vessels, we could most likely end up like a number of other basket cases in Africa where the country has flag legislation in place that forces visiting foreign-flagged vessels to pay for flag waiver certificates, which is purely a money-making exercise, seeing that those countries have no locally flagged vessels to protect. The implementation of this strategy will most likely deter trade rather than facilitate it, which could be detrimental to the success of SASCO as well as the growth of the South African economy.

Additionally, when considering the current state of South Africa's economy, and the State-Owned Entities (SOEs) in particular, it is extremely difficult to understand the thinking behind this Bill as South Africa does not have a very good track record of success stories pertaining to SOEs.

Furthermore, the comments below are based on those sections of the Bill which attempt to rationalise the establishment of the company and exclude Chapters 1, 3, 4, and 5 which address the usual corporate, board, and structural matters.

Chapter 2:

a) **Participate in the carriage of exports and imports as the preferred national shipping carrier.**

From the draft bill it is not quite clear what is meant by "preferred" as it is not explained and defined properly. Is the intention to restrict the carriage of state related cargo to the "company" as was the case with Safmarine during the time of apartheid? This would then have the effect of prejudicing other carriers serving South Africa and could result in an overall reduction in sailings and service which coincides with the view above that trade will be deterred rather than facilitated. In that scenario it is also certain that freight costs would rise, and shipping opportunities would reduce. The possible restriction of competition in this manner reflects other areas in the South African ocean logistics network where the lack of competition has an extremely negative impact on productivity and service levels. The importance of competitiveness is also captured within the private sector's view that intra-port competition should be enhanced to ensure that productivity can be maximised. By the same token competition between carriers is fundamental and should not be eliminated.

b) Own and manage a strategic fleet of vessels acquired or built and registered in terms of the South African Ship Register

Clause 5 of the bill indicates that the financial implications for the State are "to be compiled", presumably indicating that the cost to the fiscus has not been assessed or considered. The development of the global shipping industry over recent years has seen company after company being taken over or ceasing operations, which provides a clear indication of the extraordinary cost and risk of owning and operating fleets of commercial vessels. The vessel "Ever Given" which went aground in the Suez Canal cost around $150 million (R2.5 billion) to construct.

It is possible that the drafters of the Bill have been influenced by the profit bonanza enjoyed by the world's major shipping lines for the last two years. That has already come to an abrupt halt, with freight rates falling precipitously for the last several months.

Mergers and consolidation of shipping companies over recent years underline the difficulties of operating a fleet of vessels and indicates the need to understand competition issues in the industry and to focus on specific areas of operations such as dry bulk, liquid bulk, containers, and the like. It is difficult to understand how a Bill of this nature can be tabled without careful analysis of **(1)** the real potential for success, **(2)** how the business will be financed, **(3)** where the expertise required will be sourced, and **(4)** whether there is a need for a state-owned enterprise of this nature in any instance. Furthermore, and for example, it is essential to consider that a shipping line at least needs a fleet of seven vessels to provide a reliable and sustainable service between South Africa and Europe which merely represents one trade lane, not to mention the other trade lanes that need to be serviced. If SASCO aims to provide a reliable service, a much larger fleet of vessels will be required which would demand large amounts of capital, which our debt-ridden country does not have.

c) **Own and operate goods clearance, stevedoring, warehousing and other logistics infrastructure and services**

The South African ocean logistics industry, apart from Transnet, is exclusively owned and operated by the private sector, and is recognised as successful, efficient and has considerable investment in warehousing, infrastructure, and the like. The establishment of an SOE using State funded capital directly competing with the private sector will see private sector investment constrained whilst the success of the “company” will almost certainly depend on a large element of state support. State-controlled cargo is only a very small part of the cargo mix.

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The acquisition of Safmarine by Maersk in 1999 is used in this context as part rationalisation for a state-owned ocean carrier. In fact, it is the complete opposite. Once Safmarine no longer had exclusive access to state-controlled traffic it had to face competition from larger foreign operators. The takeover by Maersk effectively rescued the company from ultimate bankruptcy. The port of Durban has approximately 3 500 vessel calls a year and at any given time, there are upwards of 100 vessels in South African waters either in port, waiting to dock or passing through South Africa’s international waters. As a matter of interest, Safmarine was not government-owned, though it did enjoy exclusive support (very often at rates above the prevailing market.

As the collective private sector, we are challenged in finding the logic behind the argument that South Africa needs to be shielded from supply chain disruptions due to the presence of foreign companies in our sea trade, or that owning a shipping company will act as protection from such disruption. The position South Africa holds at the southern tip of Africa actually places this country in a strong strategic position as thousands of vessels are obliged to pass our coast annually. If anything, we are in a position of considerable strength as many countries view South Africa as the gateway into Africa. Therefore, to retain this title, it is essential that we become more efficient and do not drive trade away from South Africa. We cannot see any logic in the argument that South Africa should establish a SOE shipping company merely because the other BRICS countries all have one. And as mentioned above, only China of the BRICS members has a substantial merchant shipping fleet in any case.

3. Private Sector Recommendations

All stakeholders in the industry recognise and welcome the huge potential for development of South African shipping. With the number of vessels passing our shores annually the development of the infrastructure needed to support the ship repair industry could see it becoming not only a source of revenue and employment but skills training in the broadest range of artisan skills. Focus on investment in this industry would be of far greater value than state ownership of a fleet of vessels. The growth of a genuine South African shipping industry should be left in the hands of the private sector. Providing tax incentives and registration costs comparable with other countries offering so- called flags of convenience would motivate investment in the industry without the need for state funding on the immense scale inevitable in the envisaged company.

Past and current experience with state owned companies clearly indicates that the establishment of a shipping operation which would face global competition from highly efficient, well-funded and aggressive operators would likely result in failure with huge losses to the fiscus. Therefore, if this bill is tabled in parliament, it should be summarily rejected with the view to rather disburse the funds towards the development of infrastructure which will allow the economy to derive more value and ensure sustainability and growth.

4. Conclusion

This paper contains the views of the collective private sector in terms of the draft bill issued by the Department of Transport on the establishment of the South African Shipping Company (SASCO). State-owned entities such as (1) Eskom, (2) Denel, (3) South African Airways, and (4) The South African Broadcasting Corporation are just a few examples of governmental projects that were started which sustained extensive financial difficulties rather than achieving the desired results. Therefore, the private sector finds it very challenging to fathom how a company like SASCO will achieve different results than the state-owned enterprises that have largely failed in the past. We, therefore, strongly request the department to reconsider the establishment of SASCO and to rather focus on improving infrastructural aspects that will enhance the efficiency and effectiveness of our port system thereby ensuring sustainability of the extended shipping industry.