

## SAA, SA Express merger on the cards

Government is looking at the possibility of merging national carrier South African Airways (SAA) with SA Express, Finance Minister Pravin Gordhan said on Wednesday.



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Speaking about state-owned companies (SOCs) while tabling the 2016 Budget in Parliament, Minister Gordhan said SOCs have important roles to play in boosting growth and development. However, he said there are issues to address in their governance, mandates, financing and operations.

"It seems clear, furthermore, that we do not need to be invested in four airline businesses. [Public Enterprises Minister Lynne Brown] Minister Brown and I have agreed to explore the possible merger of SAA and SA Express, under a strengthened board, with a view to engaging with a potential minority equity partner, and to create a bigger and more operationally efficient airline," said the Minister.

### PRC report on SOCs

Addressing the media before the budget, Minister Gordhan said it is important for SOCs to move away from a situation whereby a bailout is needed.

The Minister welcomed the recently-released report of the Presidential Review Commission (PRC) on SOCs. "It rightly

emphasises that effective leadership is central to progress. It notes that our infrastructure financing requirements are huge and require effective co-funding arrangements between SOCs and other investors," he said.

The asset base of SOCs is over R1 trillion, equivalent to about 27% of Gross Domestic Product. These companies maintain networks and provide services - power, roads, transport, water, communications - on which the rest of the economy depends.

The PRC report, however, indicates that the mandates of some of the entities overlap, some operate in markets that should be more transparently competitive and some are no longer relevant to the development agenda. Some, Minister Gordhan observed, are in perpetual financial difficulties. "So we must take decisive steps to ensure that they are effectively governed and that they contribute appropriately to the attainment of the National Development Plan."

## **Unnecessary state investments**

President Jacob Zuma said in the State of the Nation Address earlier this month, that entities that are no longer necessary should be phased out. The resources raised or saved will be redirected to the balance sheets of SOCs that can grow.

Minister Gordhan on Wednesday said where entities have overlapping mandates, rationalisation options will be pursued. He said there are national and provincial entities with diverse property holdings, interests in farming, trading and manufacturing enterprises - often inherited from the pre-1994 dispensation - which are typically buried in subsidiary companies that are not publicly accountable.

"These are unnecessary state investments, and often a drain on government resources. They are also assets with potential for growth in independent hands."

He said the balance sheets of several entities with extensive infrastructure investment responsibilities are now stretched to their limits. "Government has provided support in the form of guarantees, which now total R467 billion or 11.5 % of GDP. This is a source of pressure on the sovereign rating. Yet we need to accelerate infrastructure investment in the period ahead."

## **Private sector participations**

Minister Gordhan said the government must broaden the range and scope of co-funding partnerships with private sector investors. This requires an appropriate framework to govern concession agreements and associated debt and equity instruments, and appropriate regulation of the market structure.

Minister Brown is in discussion with Transnet's leadership on measures to accelerate private sector participation in the ports and freight rail sector. The intention is to improve efficiencies, reduce the cost of doing business and increase investment in new port facilities and inland terminals. This will complement investments that Transnet has already initiated through its Market Demand Strategy.

"The strength of our major state-owned companies does not lie in protecting their dominant monopoly positions, but in their capacity to partner with business investors, industry, mining companies, property and logistics developers, both domestically and across global supply chains," said Minister Gordhan.