Transnet

a complex creature

Jane Barrett details SATAWU's experience of restructuring at Transnet and argues that the process of engaging around the restructuring needs to become more meaningful, and broadened to include wider stakeholders.

Most people think railways, ports and South African Airways (SAA) when they hear 'Transnet'. But the parastatal is considerably more complex than these three major divisions.

In March 2000 Transnet as a group was worth R45-billion in operating assets and a further R47-billion in fixed assets and long-term investments. It made a profit of R779-million for the year ended March 2000. The predicted profit for the year ended March 2001 is R3,7-billion. In December 2000 Transnet announced its intention to pay government a dividend of R1,7-billion.

Things have not always been so rosy, however. In the year ended March 1999, Transnet made a loss of R476-million. The recent financial turnaround was brought about partly by the sale of M-Cell shares, and partly by the sale and leaseback of 13 Boeing 373s by SAA.

The predicted profits for the year ended March 2001 will be brought about in part by a radical change in the Transnet pension fund structure. The changes have relieved Transnet of the burden of providing up to R1,4-billion per annum to meet a shortfall in the fund.

Even though Transnet is consistently showing an operating profit at the moment, the parastatal nevertheless has large interest bearing debts as a result of borrowing. In the year 1999/2000 Transnet owed R27,4-billion, most of which (R23,8-billion) was in the form of long-term loans guaranteed by government.

What exactly is this animal 'Transnet' that employs 100 000 people? And what do we know of government's and management's thinking on the future of the group?

Divisions

Transnet is comprised of 22 companies organised into nine divisions. These are Portnet (ports), Petronet (pipelines), Spoornet (national rail), Metrorail (urban commuter rail), SAA and other related activities (aviation), Freight Dynamics (road freight), Autopax (road passenger), Technical Support and General Support Services.

The Support Services include a range of technical and general companies that support the operations of Transnet. All but four of the companies remain wholly owned by Transnet. The exceptions are SAA which is 20% owned by SwissAir, Airchefs which is 49% owned by Fedics, Payway (65% owned by an Australian company VAA), and Arivia.kom which is a newly established information technology (IT) company jointly owned by Transnet, Denel and Eskom.

All restructuring of Transnet falls under the jurisdiction of the Department of Public Enterprises with the exception of Metrorail, which falls under the Department of Transport. The Airports Company of South Africa (ACSA), which has no ownership link to Transnet, also falls under the Department of Transport (DoT). The Department of Minerals and Energy (DME) will have a big say in the future of Petronet.

Unions and bargaining

With the exception of bargaining in the aviation companies, collective bargaining in Transnet is centralised under the Transnet Bargaining Council, with eight separate chambers for the divisions. There is a main agreement covering basic conditions and division-based agreements detailing the rest. Collective bargaining in the aviation companies takes place in a separate bargaining forum, not yet registered as a council.

There are three recognised unions that operate within Transnet. They are SATAWU with 36 000 Transnet members, the United Transport and Allied Trade Union (UTATU) with 17 500 members, and the Salaried Staff Association (SALSTAFF) with 13 000 members.

The Transnet unions, led by SATAWU, have negotiated a comprehensive social plan for the parastatal in the event of retrenchments brought about by restructuring. The plan was signed in October 2000. It makes provision for the procedures and payments traditionally included in most retrenchment procedures (retrenchment pay, contributions to medical aid and pension fund etc). In addition a clause of the social plan commits Transnet to contributing R50-million to the establishment of a development agency to cater for retrenched workers.

SATAWU is clear that the social plan is a safety net in the event of retrenchments, and does not accept that such retrenchments are either unavoidable or inevitable. In SATAWU's view any short-term cutting of costs by reducing, outsourcing, or selling off labour must be balanced against the social costs created by job loss as well as the long-term cost of reducing the capacity of government to direct and control the country's transport network.

Transnet's future?

In May 2000 the press reported on Transnet management's vision for the group. Transnet management was reported to be looking towards the evolution of a 'streamlined' transport and investment group with strategic holdings in telecommunications and IT. The intention was to remain a conglomerate with interests in aviation, rail, ports, pipelines and investments but to sell off some core businesses such as port operations and rail passenger services, as well as most non-core companies. Transnet envisaged the conglomerate ending up with a workforce of 50 000 – ie half of the existing workforce.

DPE vision

It is not clear what the Department of Public Enterprises' (DPE) vision for the future of Transnet as a holding company is. There have been hints that some in DPE would like to see Transnet itself disappear altogether, or at least to be considerably downscaled as a holding company.

Lack of information

No public document is known to SATAWU to exist fully detailing the structure and operations of Transnet, nor of government's or management's detailed plans for the parastatal. Attempts to get sight of a master outline and plan from government or management have fallen on deaf ears. Either such a documented plan does not exist or is being withheld from SATAWU and the other labour unions. The details of what has been pieced together by the union are reflected in the box on the next page.

The absence of a comprehensive 'picture' of government's and/or management's intentions in respect of the future of Transnet has created some difficulty for the union in engaging on restructuring in a consistent and fully informed way. The complexity of the parastatal and its many operations has created a situation of somewhat uneven engagement. This has been made worse through the lack of adequate consultation by government and management in some instances – including instances of unilateral decision-making.

There are a number of issues for SATAWU that are common across the Transnet group, however. SATAWU is very concerned that because restructuring decisions are being made on the basis of a definition of core and non-core functions combined with the identification of profit and loss-making entities, strategic decision-making that takes into account the need for co-ordinated transport planning may be lost.

There is no evidence that the restructuring that has already taken place or that which is on the table will support official government policy on transport that encourages intermodalism and integrated logistics management.

Decisions appear to be made on the basis of a need to balance the books or to get an injection of private capital into state coffers rather than on the basis of a long-term plan to rebuild and expand South Africa's somewhat ailing transport infrastructure and operations. The impact of the loss of skills and engineering and other capacity does not seem to be factored into decision-making. Nor does it appear that social and environmental impacts of decisions are being factioned in.

Customers, passengers and workers alike are desperate to see improved service provision from Transnet. SATAWU believes that all stakeholders should be invited to engage in the debate on the future of Transnet.

The issues at stake are far too important to be left to ad hoc issue-specific tripartite talks between the DPE, Transnet management and labour. Freight and passenger users, the transport policy makers (DoT and the transport parliamentary portfolio committee), and other transport operators should all be given the opportunity to influence the future shape of transport provision in South Africa. The Transport Jobs Summit to be held later this year may prove to be one useful forum for such debate.

In the meantime, SATAWU will continue to engage Transnet management on restructuring and will attempt to engage the DPE on the same. It would help, however, if Minister Radebe would respond to requests from the union to meet with him! Meetings have been planned with the relevant parliamentary portfolio committees (public enterprises and transport) for February, and SATAWU has prioritised the launching of a co-ordinated campaign to advance the union's general views on restructuring in the transport sector, and in Transnet in particular.

Portnet

Until recently, Portnet (workforce 12 000) owned and operated South Africa's major ports as one entity. However, in October 2000 Portnet was divided into port operations and a port authority. The port authority is now the legal landlord of the port. Both operations and authority presently remain under Portnet. However, government has made a number of announcements about its intention to privatise or part privatise operations.

It Is estimated that around 10% of the workforce will be allocated to the authority and 90% to operations.

A Portnet Restruturing Committee was recently established within Portnet to address the future structure and ownership of both the authority and operations.

Petronet

Petronet (workforce 652) is a pipeline operation for the distribution of fuel. It is presently highly profitable. However, the petrochemical industry is putting pressure on government to allow a move away from pipelines to road transport. Consultants have recommended a staff reduction of around 250, but there are currently a large number of vacancies in the company, resulting in current negotiations to redeploy workers.

Currently Petronet enjoys a government subsidy to run its operations. However, this will fall away if plans to corporatise the operation are carried out.

Rail

Spoornet

Spoornet (workforce 45 000) owns and operates the main rail network. Spoornet itself is made up of a number of sections – General Freight Business (GFB), Luxrail (the long distance luxury passenger rail service which includes the Blue Train), Main Line Passenger Services (MLPS), Coal-link (the coal transport service running from Northern KwaZulu-Natal to Richards Bay harbour), and Orex (the iron ore transport service running from Sishen mine to Saldanha Bay). Currently cross-subsidisation exists within Spoornet, with Orex and Coal-link subsidising the loss making other sections.

Various proposals are currently being considered by both government and Spoornet management about the future of railway ownership and operations. Concessioniong off the profitable Orex and Coal-link, concessioning MLPS, and spinning off to private operators (or closing down in some instances) the least profitable branch lines under the GFB is one option being considered. Other options on the table are the introduction of an equity partner or the sale of part shares. SATAWU believes Spoornet should remain fully under state ownership and control. Its position is explored more fully in another article (see p 41).

Spoornet has some major investments outside of South Africa, mostly through its subsidiary Comazar.

Metrorail

Metrorail (workforce 8 000) is owned by Transnet and is contracted to government to run urban commuter rail services. The contract is between Metrorail and the South African Rail Commuter Corporation (SARCC), which is an agency of the DoT. The SARCC owns the commuter rail assets (including land and property). The asset base is R35-billion. SARCC has been allocated R350-million per year by government to upgrade and invest in maintenance and upgrading of the system. This figure should be closer to R500-million to sustain the current asset base, with a further R700-million required annually to upgrade the system. There is a backlog of about R8-billion in investment in the metro rail fleet. The average age of the fleet is 24 years and the signal system is out-dated.

Metrorail carries 491 million commuters per annum. The revenue risk used to be carried by government but since August 2000 Metrorail has carried the risk, with government providing a fixed annual subsidy of R800-million. Cost recovery from fare revenue is around 60%, despite the fact that 23% of passengers evade paying for tickets. Sixty per cent recovery is good by international commuter service standards.

Metrorail ran at a profit of R119-million in 1999/2000, double the profit recorded in the previous year. It employs 8 000 workers – 4 000 less than it did in 1994.

The current contract between Metrorail and the SARCC runs out in 2003. Government's thinking to date has been to move away from the monopoly contract with Metrorail and to introduce competitive tendering for long-term contracts on specific routes. Such a concession contract was due to be piloted in the East Rand from some time this year. However, this pilot plan appears to have been put on the back burner. SATAWU is of the view that international experience shows conclusively that commuter rail concessions not only end up costing governments more by way of subsidies, but that invariably service and working conditions decline.

Aviation

SAA

SAA (workforce 9 000) was corporatised and part sold in March 1999. SwissAir bought a 20% stake and has an option to buy a further 10% share. However, the SwissAir board of directors is known not to favour continuing minority shareholdings in airlines. There has been speculation in the press that government may be forced to rethink its strategy on the ownership of SAA if SwissAir pulls out its 20% ownership share.

Coleman Andrews the current chief executive officer of SAA has been hailed as a turnaround whizzkid by the commercial media. However, it should be pointed out that at least R300-million of the profit recorded by SAA last year was as a result of the sale and leaseback of aircraft and the sale and outsourcing of various technical functions. The IT department of SAA has been outsourced, as has in-flight logistics.

There have been endless disputes between the unions operating in SAA and management since corporatisation. Most workers in SAA put the problems down to a particularly dictatorial style of management since Andrews took over.

SAA Technical

SAA Technical (workforce 2 400) is 100% owned by SAA and exists to maintain SAA's aircraft fleet. It was corporatised in April 2000. SAA is currently looking for a partner to take a 20% stake in the company. Two-hundred-and-twenty workers took retrenchment packages when the company was corporatised.

In the past year a decision was taken to close down what was known as the 'Jet Shop' where big jet engines were maintained. A service was provided not only to SAA planes but also to other airlines. This was the only such Jet Shop in Africa. SAA's big engines are now maintained in the US by General Electric. Workers have expressed a concern that as a result of the closure of the Jet Shop, there will no longer be any training of highly skilled jet engineers in South Africa. The opening of a new technical line of maintenance for smaller maintenance jobs has been welcomed but is no substitute for the skill that has now been lost to the country.

Apron Services

Apron Services is a ground handling company 100% owned by Transnet. Apron Services provides a service to all airlines in terms of a contract between Transnet and ACSA. The contract presently runs from month to month. SAA performs some apron service operations of its own. There have been indications that government wishes to liberalise apron services by opening up competition and privatising the company.

Airchefs

Airchefs produces pre-packed meals for airlines including SAA. Transnet owns 51% of Airchefs after selling 49% to Fedics.

Workers previously organised by SATAWU have been transferred to SACCAWU.

Freight Dynamics

Fastforward

Fastforward was a parcel delivery service owned by Transnet. Over a period of seven years it reported a loss of R2,7-billion and as a result management and government decided to close down the operation. The Post Office made a successful bid to take over a portion of the service and to combine it with its existing parcel delivery service. The closure and transfer to the Post Office was the subject of a major dispute between Transnet and SATAWU during 2000. Settlement was finally reached at the end of 2000. Fastforward's workforce was 1 739. The Post Office has committed to taking less than half the workers, many of whom will be employed on a temporary basis. The remaining workforce has either taken packages or are being placed in Spoornet.

Rail Terminal Services and CX

Rail Terminal Services (RTS) and CX are the container loading and offloading operations based in the harbours and inland ports such as Kazerne in Johannesburg. RTS was until recently under the jurisdiction of Portnet and was at one stage earmarked for sale. However, union pressure contributed to the transfer of RTS to Freight Dynamics instead. There are no known plans for further restructuring

Freight

Transnet's long-distance road freight operation has been scaled down considerably over the past ten years, and is now primarily Cape Town based. There are no known plans for restructuring.

Autopax

Translux

Translux is the luxury coach operation of Transnet. It was a loss-making company but has recently become profitable and there appears to be a re-think on plans to sell off the business.

City to City

City to City is a long distance bus passenger service which caters primarily for migrant workers. It is a profitable business and there are no known plans to sell off the operation. SATAWU is of the view that the City to City service could form the basis of a much improved and safer migrant worker transport service.

Technical and General Support Services

The Support Services of Transnet are grouped together. The support units rely on business from the main divisions of Transnet. Increasingly the main divisions are being encouraged to purchase the cheapest services, even if it means going outside of Transnet. Production House, which used to do all printing for Transnet was sold to Skotaville Press in 2000. By agreement all 100 of the workforce were transferred.

Transwerk is an engineering company that provides a maintenance and refurbishment service to Spoornet It has been corporatised into five business units – Foundries, Payway, Rollstock, Tarpaulins and Traction. Sixty-five per cent ownership of Payway (track construction) was sold to an Australian company VAA in December 2000. It is understood that Transnet intends to dispose of its remaining minority share The foundries unit comprises three loss-making foundries in Durban, Hoedespoort (Pretoria) and Bloemfontein. Transnet intended selling the foundries but no bidders came forward. The Durban foundry is due to be closed down, the Bloemfontein one will have its operations considerably reduced, and the Hoedespoort foundry is to be closed and re-opened under different terms. The foundries currently jointly employ around 600 workers. SATAWU has been deeply opposed to the closure or sell-off of the foundries on account of the need to keep certain specialist skills in the country. All avenues were sought for persuading Spoornet to accept the prices that would keep the foundries afloat, but to no avail. Relucantly the union recently agreed to the closure and reopening of the Hoedespoort foundry with conditions of employment radically reduced. There are no known restructuring plans for Rollstock, Traction and Tarpaulin.

Chemical Services was a laboratory business that analyses hydrolic oils, soaps, steels etc used in the manufacturing and maintenance of rail rolling stock and infrastructure. The service was sold off to Eskom as the preferred bidder, with around 15 workers being taken on by Eskom and the remaining 19 being made redundant.

Datavia until recently performed IT functions for Spoornet, SAA and other divisions of Transnet. Government recently announced the amalgamation of the company with the IT functions of Denel and Eskom to form a new company Arivia.kom. Transnet will own 32% of Arivia.kom, Denel 23% and Eskom 45%. The details of the merger are still being negotiated and implemented. SATAWU is concerned to ensure that the new company retains a transport specialisation

Transtel was the telecommunications division of Transnet. Its primary function was the installation of cables for telephones and computers throughout the group as well as the installation of train tracking cables. Transtel, with a workforce of 1 300 was recently amalgamated with Saitex (formerly an entity of the South African Broadcasing Corporation (SABC)). Government's intention has been to position a new company (including Eskom's telecommunications division) for competing for a telecoms licence when Telkom loses its monopoly on landlines and a second licence is available.

Transmed

Transmed is Transnet workers' medical aid scheme. Administration of the scheme has been contracted out to Medlife of Metropolitan Life. Medlife took over all 236 staff. The Transmed pharmacies continue to be operated under Transnet and employ around 300 workers

Transnet Housing

Transnet Housing (workforce 600) is an in-house financial institution that provides housing loans to Transnet employees. There are no plans on the table yet to restructure the operation.

Esselen Park

This is Transnet's training school located near Kempton Park. Any ownership restructuring plans are likely to depend on whether management manages to turn it around from a loss-making operation. A number of the school's activities have been outsourced, however. Two-hundred-and-forty staff continue to be employed by the school.

Propnet

Propnet (workforce 150) is the holding company for a large proportion of Transnet-owned property. It is the second largest single landowner in the country. There is currently no talk of restructuring Propnet.

Transnet Pension Fund

Despite the much-publicised changes in the structure of the pension fund, it continues to be administered in-house. Around 170 workers are employed.

Protekon

Protekon is a construction and engineering company attached to Transnet. Thirty per cent of the company was recently sold to an equity partner.

Heritage Foundation

This small company (workforce 50) operates a number of heritage steam engines around the country. There are no known plans to sell off the operation. ★