

One-Minute Workout Privatisation and Deregulation

There are more than 200 state-owned corporations and utilities in SA. If their subsidiaries are included, the number rises to 320. In total, they employ about 300 000 people.

However, the "Big Four" -- Telkom, Eskom, Denel and Transnet -- represent 90% of total assets under government control, and 86% of turnover.

Here, government refers to the central government and the nine provincial governments. All assets under the control of local authorities are excluded.

Deregulation:

Going hand-in-hand with government's current privatisation drive is a program of "managed liberalisation" to deregulate the four sectors of the economy monopolised by the state-controlled "Big Four". These are *telecommunications* (monopolised by Telkom), *railways* (by Spoornet), *ports* (by Portnet) and *energy*, specifically electricity and gas. Eskom dominates electricity whilst the gas sector is totally underdeveloped.

Essentially, deregulation will result in the formation of new commercial sectors in the SA economy, as happened in 1994/5 with broadcasting. Opening new sectors of the economy will generate significant new investment, merchant banking and other commercial opportunities.

Timetable and Proceeds:

From various announcements and speeches we have pieced together the following timetable:

2001:

20% of Telkom, M-Cell

R15 billion

Denel subsidiaries	assume R nil
to fiscus	
Tourism infrastructure	R nil to fiscus, new investment
Third cellphone operator	ditto
2002:	
SAA, Sentech	R6 bn at current
prices	
Spoornet, ports, Weather Bureau, second landline operator	assume R nil to
fiscus,	new investment
2003:	
Eskom Generation	R30 billion
2004:	
ACSA	R3 bn at current
prices	
Balance of Telkom shares (25%)	R15 billion
Licences for electricity generation	R nil to fiscus, new investment
Total to fiscus	R69 billion

Obstacles to privatisation

Political resistance and anti-mobilisation

Cosatu has called a two-day strike in August to protest against privatisation. The union federation will lodge an official dispute with Nedlac, which will then have to call meetings between government and the unions to resolve the dispute. If it is not resolved, and if the necessary procedures are followed, a legal strike can be called.

In a sense this is Cosatu's last stand. They have now "lost" a number of privatisation and PPP actions. These include the Dolphin Coast water contract and the reorganisation of the Johannesburg local authority, which involved privatisation, outsourcing and commercialisation. (In Johannesburg about 50% of council employees no longer work for the council.) The ANC-controlled council

proceeded with the Johannesburg initiative in November 2000 in spite of the local government elections.

My view is that government is not going to back down and, if necessary, will sit the strike out.

Ironically, if government is seen not to yield to Cosatu and is seen to push ahead with its program, a Cosatu strike can do a lot to build government's credibility with investors.

Black empowerment

An obstacle to privatisation within government itself, is the initiative's perceived lack of black economic empowerment and affirmative action. This consideration prompted government to delay the listing of ACSA, one of the entities most prepared for an IPO. The privatisation of the Weather Bureau will also be delayed until 50% of management is black.

World markets

Unfavourable conditions in world markets and a subsequent decline in the prices of entities offered for sale, will have to amount to a collapse before privatisation will be delayed for this reason.

There are bigger considerations than price. As discussed above, deregulation and opening up new sectors of the economy to the private sector is as important as privatisation itself. Secondly, Government also has to establish its credibility with local and other investors. And thirdly, foreign capital inflows are needed to clear the Reserve Bank's net open forward position – the Achilles heel of macro-economic policy.

In the light of the above, listing is more important than price. I therefore expect government to push ahead, even if prices are not optimal. A real meltdown will have to occur to prevent privatisation.

First published on 11 June 2001, by BoE Private Clients.