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Posted to the web on: 20 October 2006

SA 'can fill gaps in supply chain' for public works

Hilary Joffe

EFFORTS by Transnet and Eskom to promote the development of local suppliers of capital goods for their infrastructure programmes aimed to address the real risk that parastatals might struggle to source some of the items they need on global markets, and would not delay the infrastructure roll out, the official responsible for driving the supplier programme said this week.



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The public enterprise department's Edwin Ritchken was speaking at a conference on accelerated and shared growth in SA hosted by the University of Cape Town's Development Policy Research Unit and TIPS (Trade and Industrial Policy Strategies). The conference focused on constraints to economic growth and at how to ensure that growth benefited the poor. Papers ranged from poverty and inequality to industry and productivity.

The R372bn of public infrastructure spending planned for the next three years is expected to have a significant impact on economic growth, reversing three decades of underinvestment.

Research by University of Cape Town economist Johan Fedderke has shown that increased public- infrastructure spending strongly boosts productivity, with better roads having a particularly strong effect on productivity.

Transnet and Eskom account for a sizeable part of the planned investment drive. Their combined R160,8bn of capital expenditure over the next five years is projected to contribute about 1,5% annually to gross domestic product and to contribute significantly to job creation, according to a paper by Wits University's Marian Walker, part of the research commissioned by the department to support the strategic supplier development programme. The programme aims to increase the proportion of Transnet's and Eskom's capital goods sourced from local industries, rather than imports.

It has been estimated that 40% of the capital requirements will be imported. Though many supplier industries have shrunk, there is still a core able to deliver on the other 60%, Ritchken said, and it should be quite easy "to increase this to 70%" with some upgrades.

Suppliers, such as foundries, that have survived the past few decades of low public sector investment tend to be reasonably competitive. There are also a lot of multinational original equipment manufacturers that already have a presence in SA but have limited their investment here because of low sales.

Government hoped to leverage those relationships, Ritchken said.

The state would also seek to use the fact that Transnet and Eskom were large suppliers of scrap-to-scrap dealers as a lever to try to ensure lower prices for material inputs such as steel.

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Government has emphasised that local suppliers have to be competitive and that parastatals will not pay price premiums to domestic producers. Asked why the parastatals didn't just use whatever suppliers they could, removing any bottlenecks holding up the investment programme, Ritchken said the supplier programme would not get in the way of the roll-out. Rather, government sought to ensure it would be sustainable, and that parts and maintenance would be available. SA was competing globally to source railway wheels, for example, with much larger customers such as China.

Walker's research points to a history of poor communication and distrust between Eskom and Transnet and their suppliers. Supplier forums are being convened to overcome this.

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