

# OPERATION VULINDLELA

Supporting  
the Implementation  
of Priority Structural Reforms

12 June 2023



## Getting freight logistics back on track

A roadmap for accelerated reform,  
efficiency and growth



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA



THE PRESIDENCY  
REPUBLIC OF SOUTH AFRICA



# Freight rail is a burning platform



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- **The efficiency of logistics systems is integral to the functioning of all economies.** The services which move goods and people should be provided in a safe and cost-effective manner, and with care taken to ensure that the way in which services are designed also addresses policy objectives such as eradicating economic inequality.
- **Significant underperformance** is evident in all parts of the state-owned logistics network.
  - The reliability of SA's freight rail network has deteriorated sharply, threatening the competitiveness of our exports.
  - More than a quarter of long-distance freight traffic has shifted to road in the past five years.
  - International comparisons strongly suggest that South African ports are failing to achieve competitive outcomes. An evaluation by the World Bank suggests that all of South Africa's commercial ports are at the bottom of the 351 ports and underperform all other African ports included in the survey.
- The task of this roadmap is to **outline the context and causes of the crisis and set out an evidence-based, implementable and achievable path for reform** of Transnet and the sector as a whole.

# Structural causes



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The roadmap examines the **structural causes** of the current crisis and groups them into three main areas as follows:

- **Unfunded mandates:** the vague and often unfunded social mandates carried by state owned enterprises in this sector
  - Developmental mandates have received insufficient oversight, and the nature of and funding for such mandates has typically not been clear
- **Essential facilities:** the problems associated with vertical integration of an essential facility
  - Under the current structure, competition is not effectively facilitated. In addition, the dominant firm is likely to continue to prioritise rail and ports operations, which bring in external revenues, leaving ports and rail infrastructure as a neglected internal cost centre.
- **Governance:** the legacy of state capture and governance issues that are present in the sector
  - Corruption in procurement, weak oversight, insufficient economic regulation

# Short and medium-term interventions to address the challenges in freight logistics



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## 1. Improving operational performance

- i. Addressing theft and vandalism on the rail network
- ii. Operational improvements on key corridors
- iii. Independent assessment of root causes and interventions to improve operational performance

## 2. Creating a level playing field

- i. Complete separation of infrastructure from operations
- ii. Publish a network statement and standard access agreement
- iii. Establish a rolling stock leasing company

## 3. Establishing the Transport Economic Regulator

- i. Pass the ERT Bill
- ii. Conduct research/market inquiry to extend regulation to rail
- iii. Complete establishment of regulator

## 4. Ensuring the sustainability of the network

- i. Segment the rail network into bulk corridors, core network and feeder rail system
- ii. Develop a sustainable funding model for each segment

# Supporting TFR to improve rail performance



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- **Unless the immediate crisis in freight rail is resolved urgently:**
  - Our road system will deteriorate even further, and industry-level SA supply chains will collapse
  - The announced rail Infrastructure Manager will be launched in the midst of an even-worsening logistics crisis with incumbent Transnet Freight Rail in a precarious position by 31 October 2023
  - The Logistics Roadmap will be very difficult to implement
- A workstream in the National Logistics Crisis Committee must immediately focus on interventions to recover the lost tonnes on the heavy haul export lines (i.e. <1 year) to create space for longer-term solutions (i.e. 1-3 year)
- The National Logistics Crisis Committee, if properly mandated, can energize and mobilize collaborative recovery task teams per corridor to recover back to traditional rail performance levels in time for the Infrastructure Manager launch.
- The proposed Technical Task Teams should be composed of independent experts, Transnet Freight Rail, industry and labour.



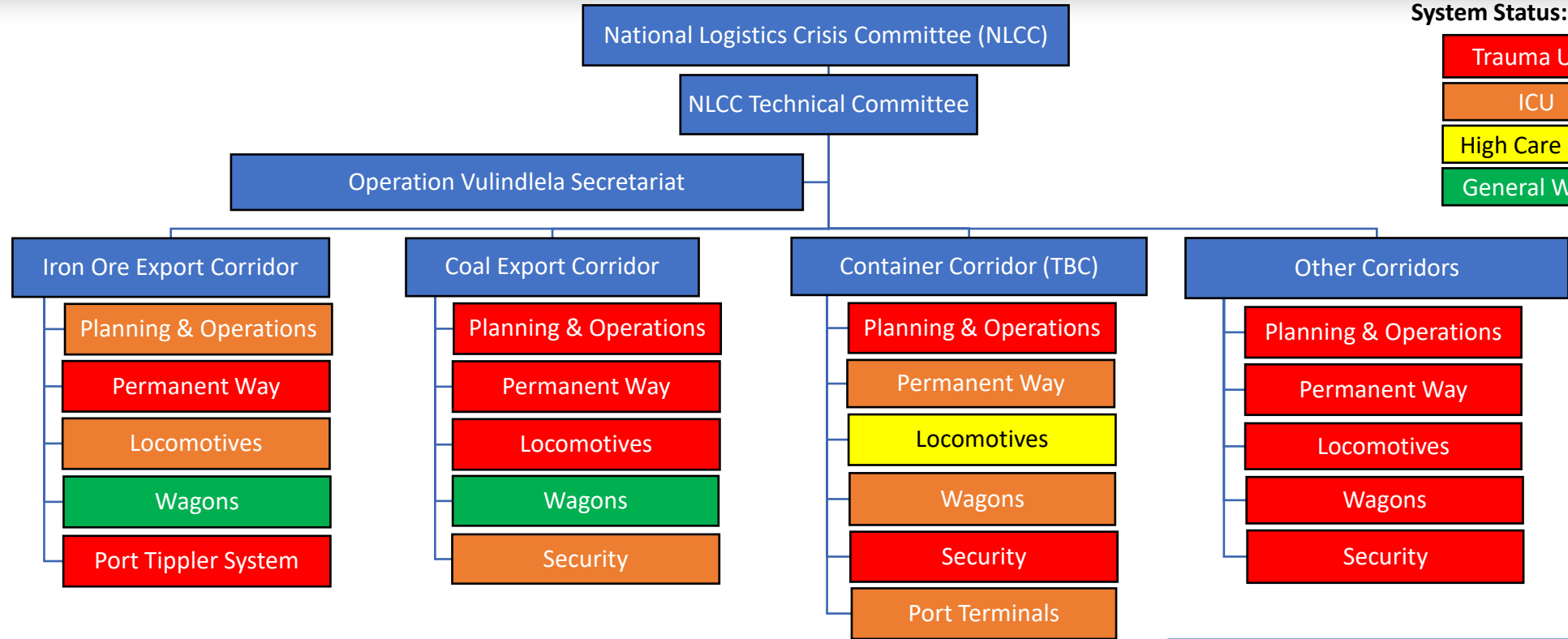
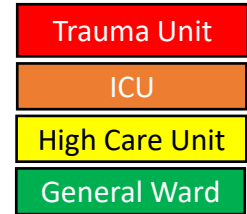
# Addressing the immediate crisis in rail



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**System Status: May 24**



<b>FY23/24 (DPE)</b>	<b>+10Mtpa Fe (DPE)</b>
FY23/24 (OV)	+5Mtpa Fe (OV)
	Incr. 5 → 6 Fe ore tpd

<b>+14Mtpa (DPE)</b>
+10Mtpa Coal (OV)
Incr. 10 → 3 Coal tpd

<b>20 bi-dir. trains/day (tpd)</b>
Incr. 2 → 20 Intermodal tpd

<b>9.6 → 15.6Mtpa Cr + Fe (DPE)</b>
Sustain 2022 Volumes
Ngqura: 10.7Mtpa Mn
11Mtpa Cr
14Mtpa Magnetite Fe

# Principles of structural reform in rail and ports



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- 1. The rail network and national ports are national assets that must be managed in order to maximise social benefits**
  - SOEs will continue to have a developmental objective, as profit maximisation objectives on natural monopolies may be associated with an increase in price levels and decrease in volume moved, and are thus not appropriate
  - Management objective should be efficiency, maintenance of the quality of the asset, and maximising volume moved
- 2. Competition as a tool to achieve efficiency**
  - Competition will be used as a tool for improving efficiency, but is not an objective in and of itself
  - Potential anticompetitive abuses will be controlled by regulation
  - Non-market mechanisms will be used as needed to achieve social objectives
- 3. Public service obligations to be clearly defined and monitored and separately funded**
  - Where PSOs are put in place, the state should understand the true cost of the PSO, and monitor performance delivery
- 4. Competitive neutrality framework for state owned firms in competitive markets**
  - State ownership can profoundly distort market conditions, and decrease sectoral efficiency
  - There needs to be a clear plan in place to ensure a level competitive playing field in rail and ports
- 5. Private investment should be facilitated, but access to private infrastructure may then need to be required**
  - Private sector investment will be needed to facilitate the introduction of competition in logistics markets
  - Where private investment in natural monopoly assets occurs, this infrastructure may be subject to access regulation