

The logo of the Development Bank of Southern Africa (DBSA) is centered in the background. It features a stylized map of the African continent within a circular emblem, topped by a sunburst or fan-like structure. Below the emblem, the letters 'DBSA' are written in a large, bold, sans-serif font.

Challenges of the New National Freight Logistics Strategy for South Africa

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25th Annual Southern African Transport Conference

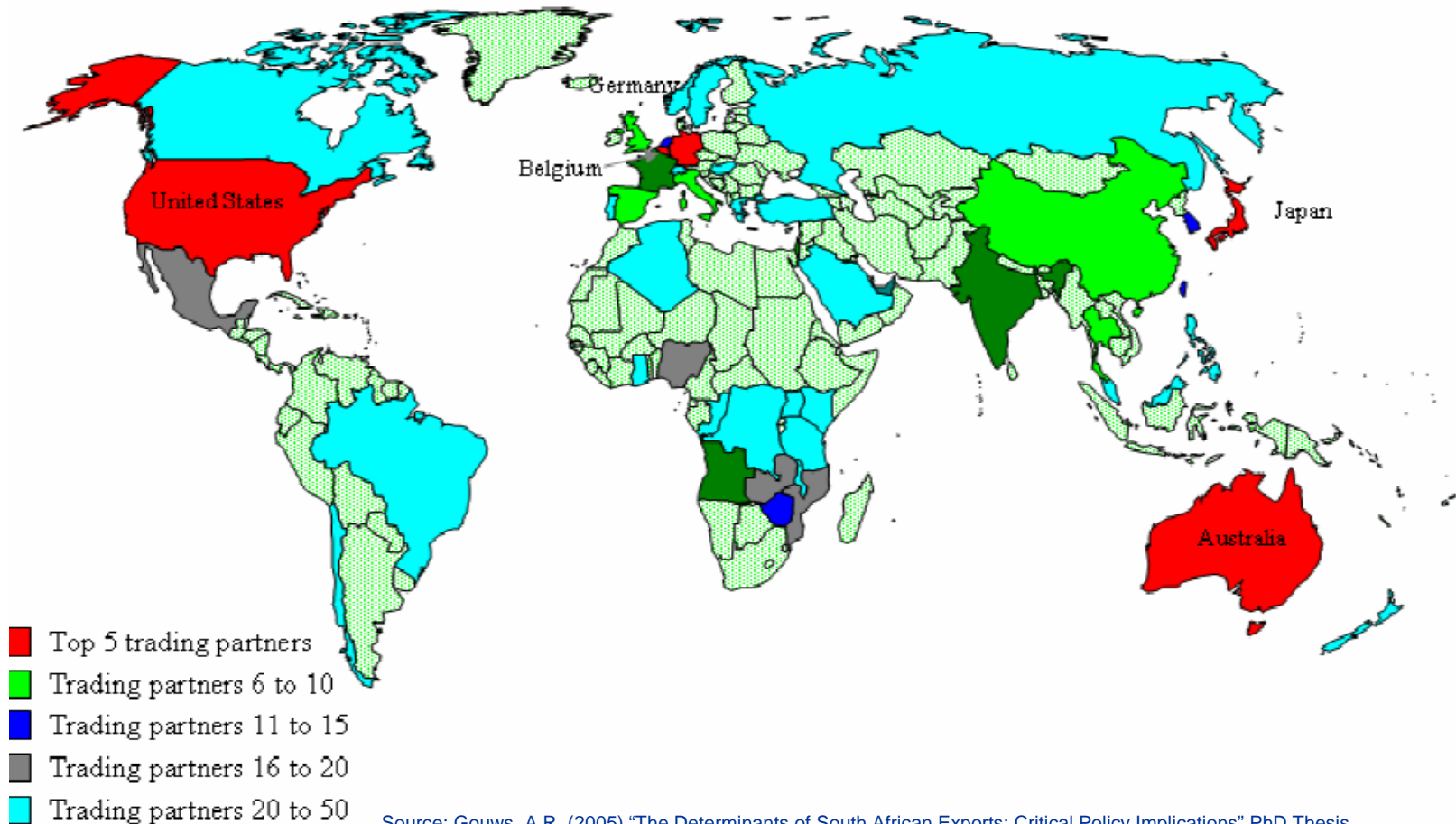
10 to 13 July 2006

Challenges of the New National Freight Logistics Strategy for South Africa

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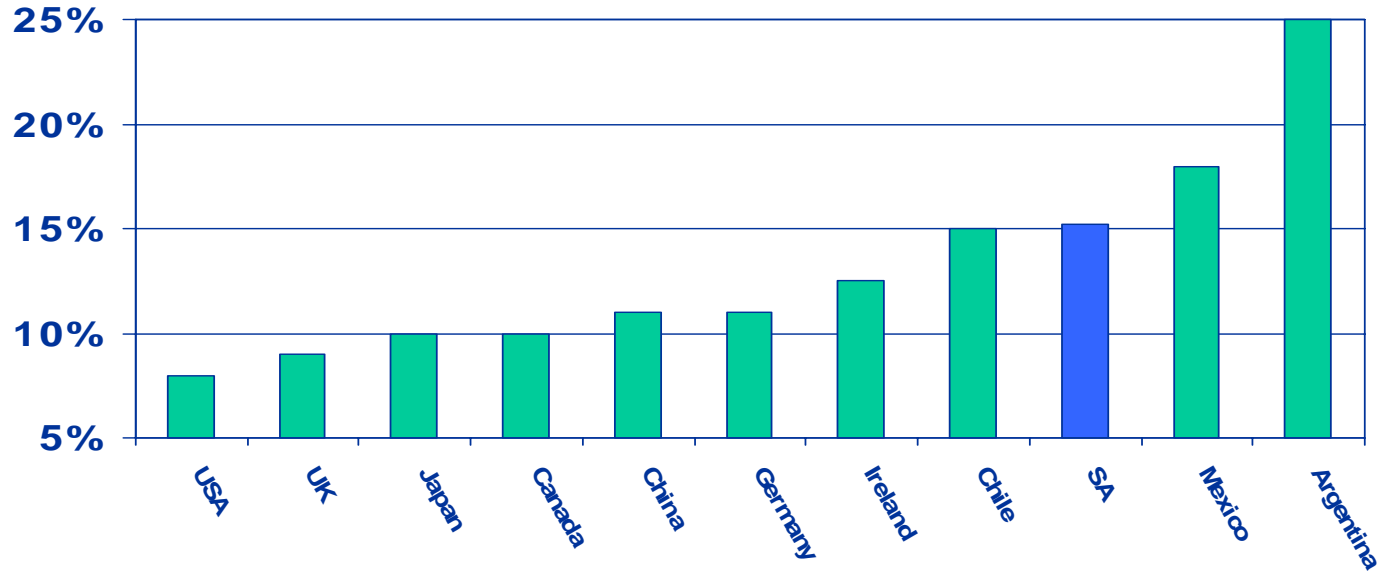
Location of South Africa's Trading Partners (2002)



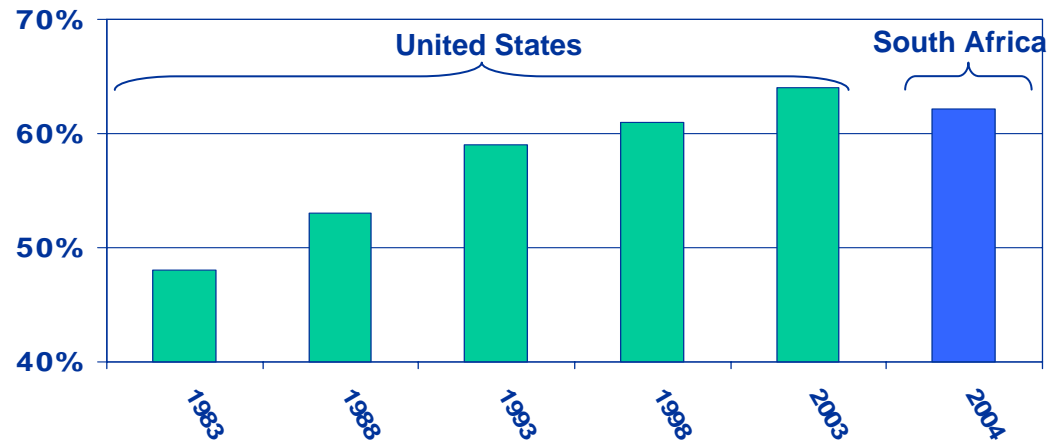
Source: Gouws, A.R. (2005) "The Determinants of South African Exports: Critical Policy Implications" PhD Thesis, University of Pretoria, Faculty of Economics and Management Sciences

The cost of logistics

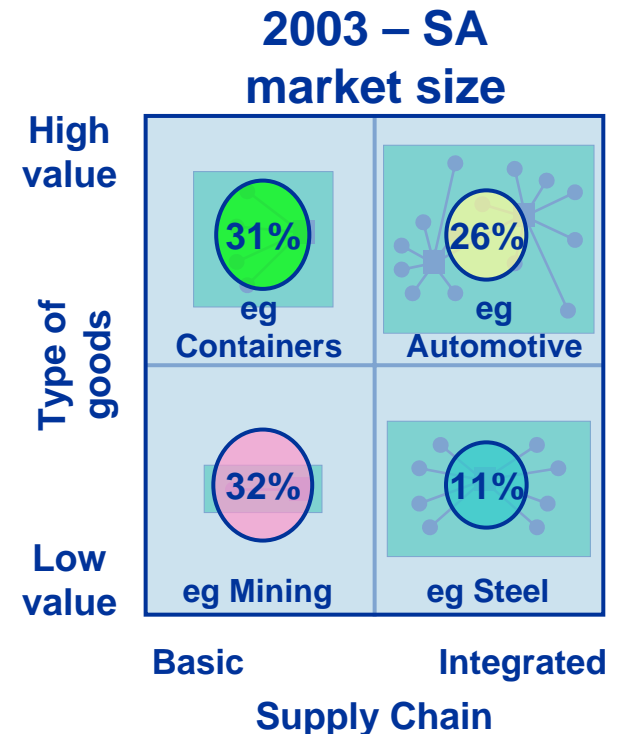
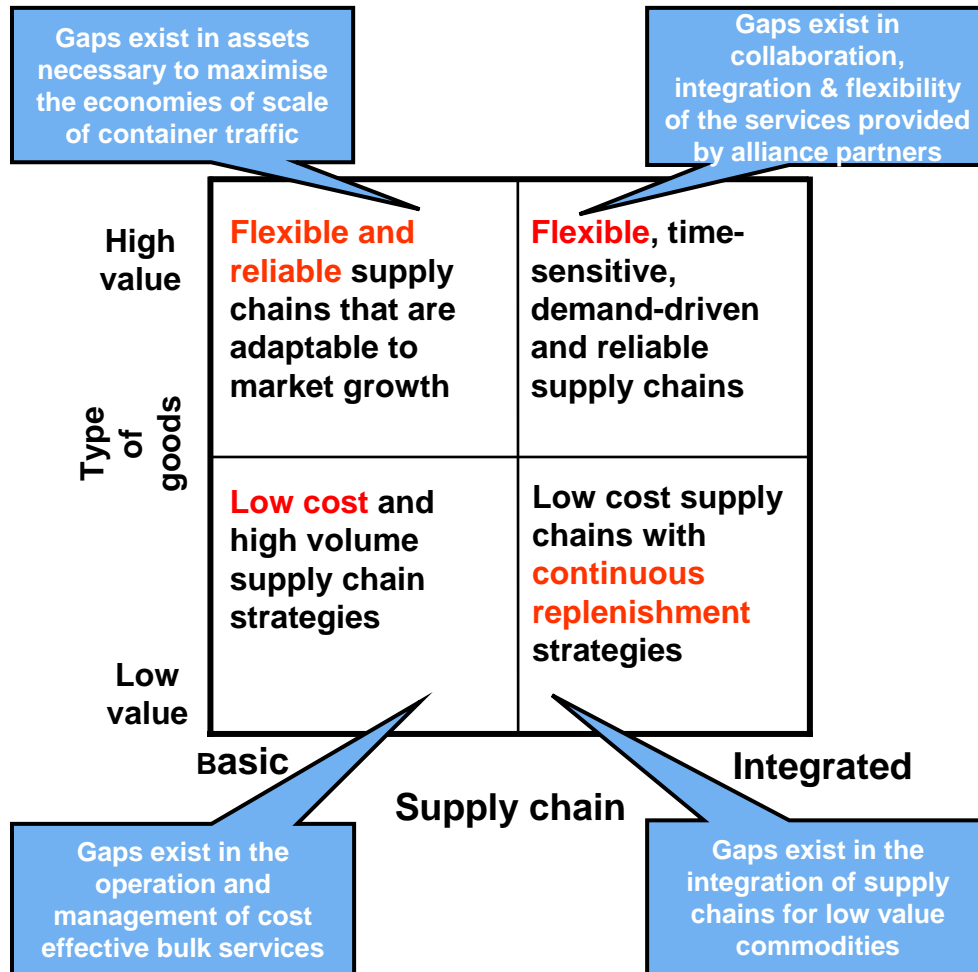
Comparisons of the cost of logistics as a percentage of product value



Changes in the contribution of transport cost to logistics costs

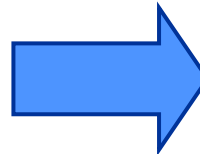
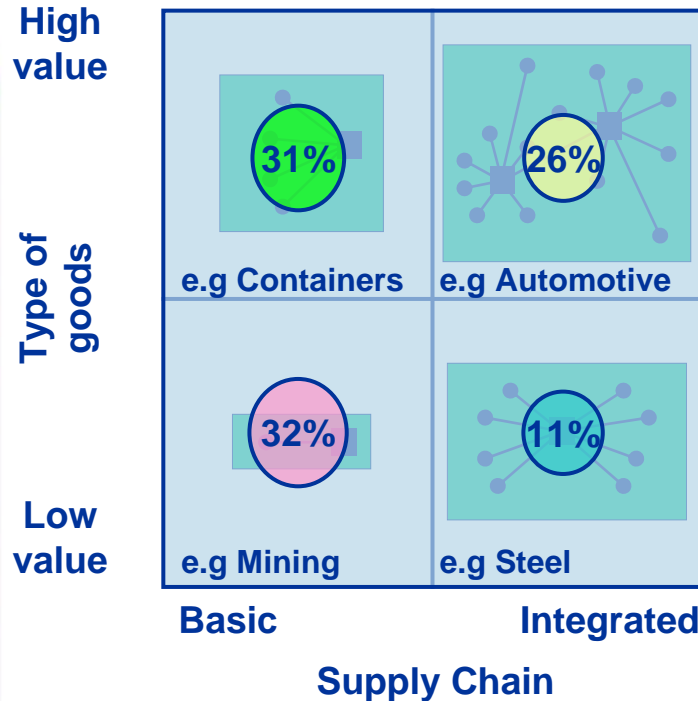


Supply chain requirements of the SA economy

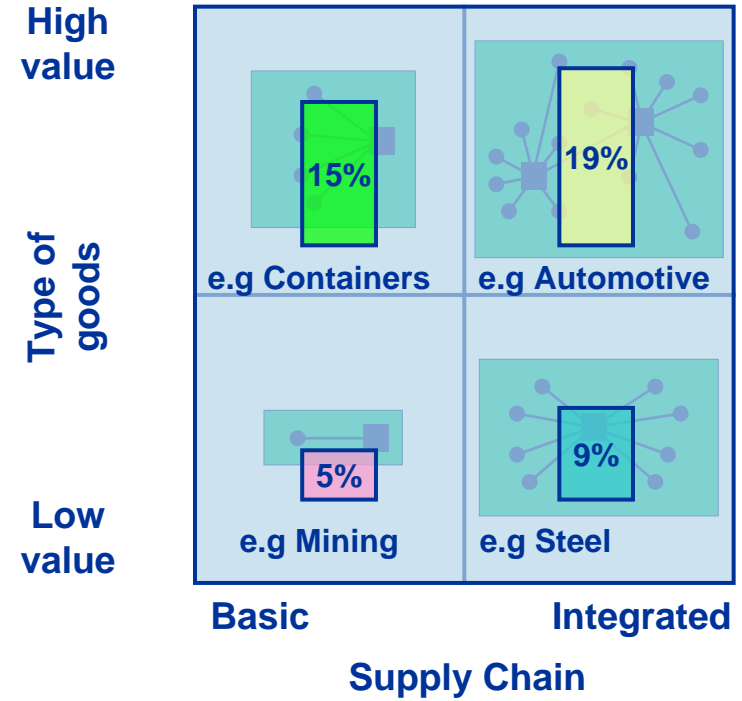


Anticipated shifts in the structure of the SA economy & implications for supply chains

2003 – SA
market size



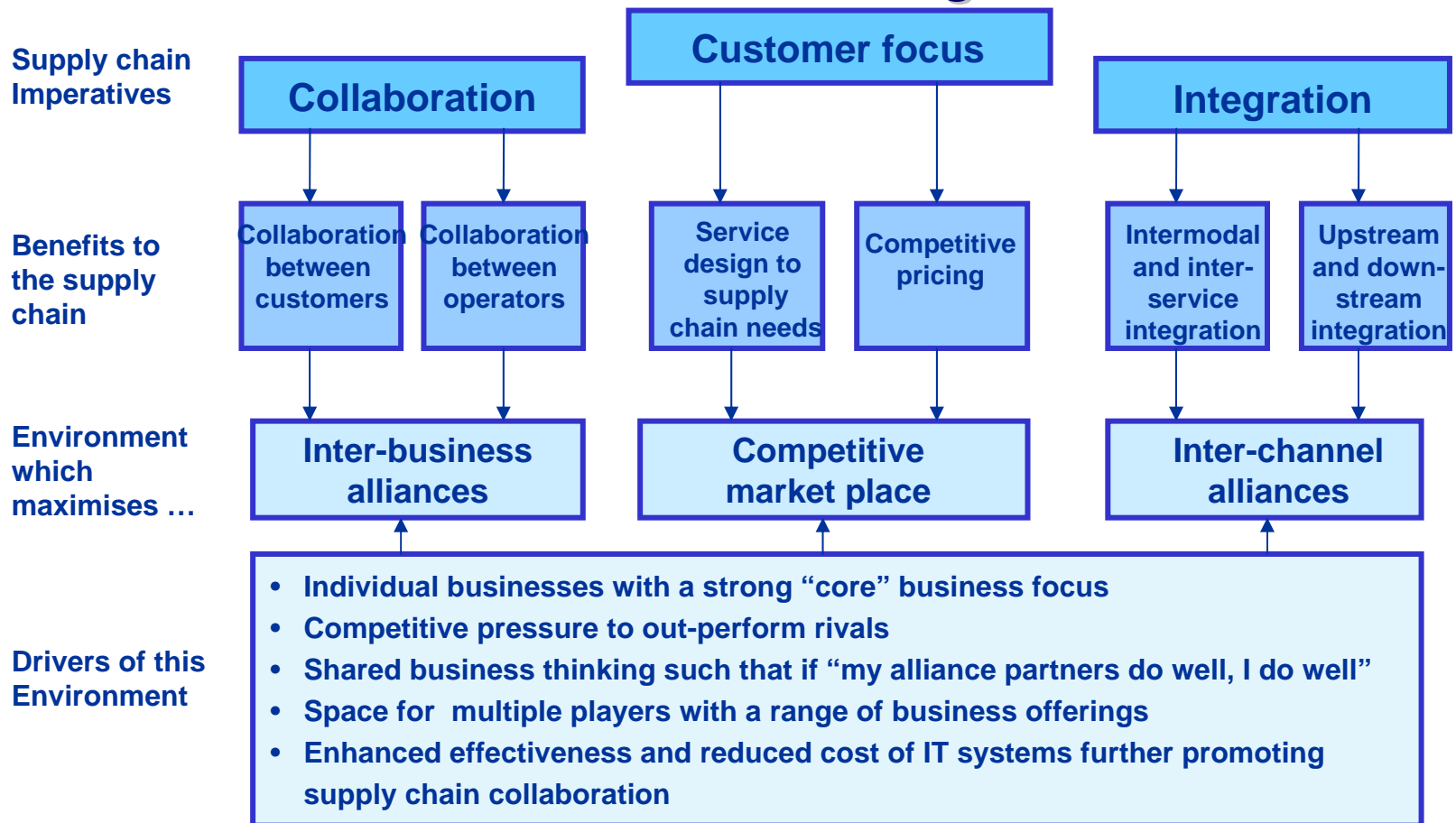
Real growth
2003 - 2013



IMPLICATIONS

- Insufficient container handling equipment
- Lack of compatible information integration
- Inefficient railroad operations

Supply chain imperatives - customer focus, collaboration and integration



The need for sharp customer focus drives supply chain collaboration and integration. Government’s role is to create the right institutional environment for these three imperatives to thrive

A score card of efficiency and service reliability

	Ports	Rail	Road
Efficiency	Productivity 17 TEUs/hr vs 35 TEUs/hr	Productivity 515 000 ton.km pa per wagon vs 1000 000	Payload Decline in real cost per ton.km
Service Reliability	Service levels Congestion problems	Reliability 45% trains late, 25% no shows	Service levels Better than in Europe
	Border posts	Air Freight	Intermodal Interface
Efficiency	Productivity Inexperienced staff 45% new	Bi-laterals Reduces capacity Increases cost	Poor inter-connectivity Poor planning
Service Reliability	Service levels Manual process time 2X longer than electronic	Reliability 12-72 hrs clearance time	Integration Delays due to multiple handling

 Requires significant intervention

 Requires little intervention

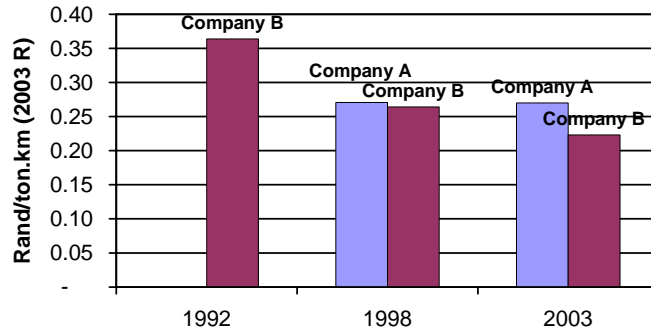
 Requires no intervention

Source: National freight Logistics Strategy, 2005

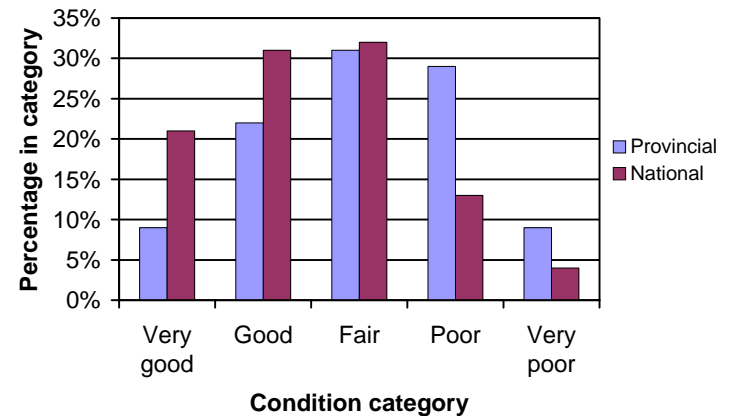
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Issues with respect to road infrastructure

Declining real road freight prices
Average Price (One Way)



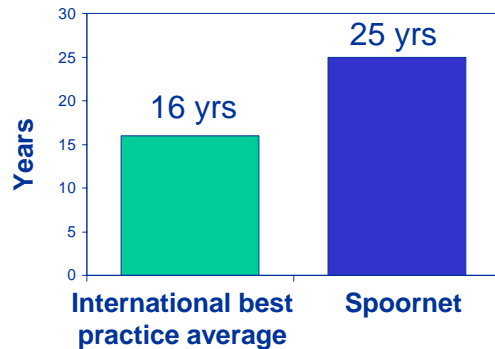
Road condition assessment



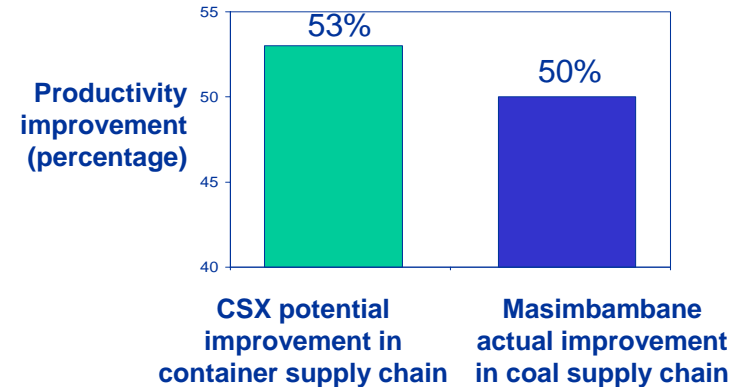
- ❑ Declining condition of provincial roads is leading to large scale capital re-investment requirements. The delivery model in provinces needs to be revisited
- ❑ Overloading remains a challenge, particularly on the poorly policed provincial networks
- ❑ Institutional control over primary national network is best vested in SANRAL. However a common and rapid approach for SANRAL control over these roads is required
- ❑ Challenges in respect of the condition and adequacy of local access roads, particularly in rural areas, remain

Issues with respect to freight rail

Average age of locomotives above best practice

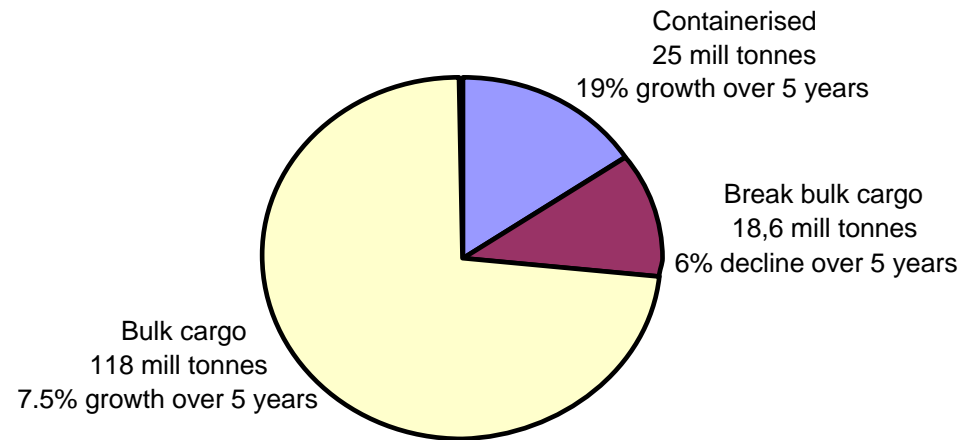
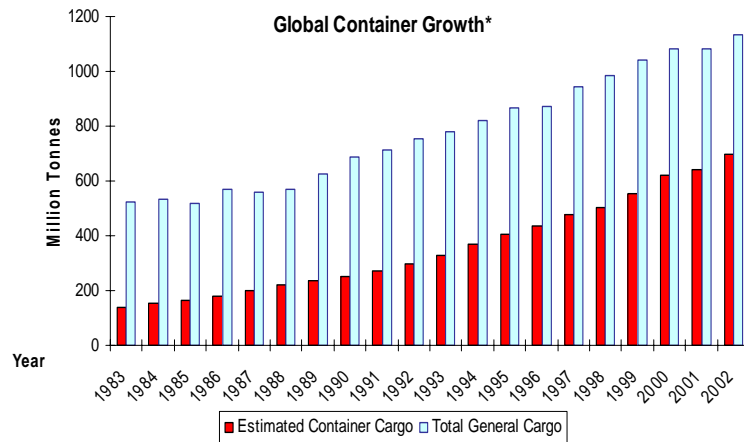


Opportunities exist for productivity and efficiency improvements



- ❑ Focus on primary rail network by Spoornet consistent with best practice.
- ❑ Economic potential of branch lines must not be lost in this process
- ❑ Change in emphasis required to reduce costs and improve efficiency of primary rail network. Must be supported by upgrading of key assets, particularly rolling stock but also fixed assets on the high-volume lines
- ❑ Improved efficiency & reliability on the dominant corridors will result in some regained market share to Spoornet. Collaboration with customers, private sector partners and others in the value chain will enhance this strategy
- ❑ Challenges remain in separating infrastructure from operations. Government support required to achieve this agenda

Issues with respect to ports



- ❑ Shift towards increased container traffic and a reduction in break-bulk traffic requires more attention be given to container supply chains and integrating these more effectively with rail on key corridors
- ❑ Port congestion is reducing the effectiveness and adding to the cost of SA supply chains
- ❑ Enhancing South African port's hub-and-spoke focus will require increased port specialisation and improvement in efficiency.
- ❑ Changing patterns of global and domestic trade are already placing pressure on particularly the Port of Durban. ASGISA's Gauteng – Durban initiative needs to consider linkages to the port, improved efficiency and port handling capacity.

Summary of cross-cutting challenges facing freight transport

- Service delivery constraints
 - ❖ Delivery capability of port and rail sector
 - ❖ Customer focus is poor
- Infrastructure and capacity constraints within the transportation network
 - ❖ Provincial roads (road maintenance, enforcement)
 - ❖ Improved rail and port infrastructure
- Regulatory challenges and implications for the delivery of efficient transport services
 - ❖ Role of public sector in rail, ports, pipeline, airports
 - ❖ Regulatory oversight over monopoly industries
 - ❖ Enhanced efficiency – parastatals and the role of the private sector

High-level implications of the NFLS

- ❑ Policy shift away from current arrangements, characterised by intense competition in road freight sector and monopoly control in rail and ports
- ❑ Separation of infrastructure from operations
- ❑ Government to retain majority ownership of critical infrastructure and responsible for network management and development
- ❑ Implementation of sector wide regulation and policy
- ❑ User pay principle will be adhered to. Explicit allowance however allowed for cross-subsidisation through higher tariffs on the core network and to sustain access by BEE and smaller operators
- ❑ Shift of regulation of the sector from a modal orientation to functional responsibility. Three functional areas have been identified; safety and environment, economic and security
- ❑ Greater access for private sector to areas previously under monopoly control. Most likely through PPP type initiatives

Implications of other Government initiatives - ASGISA

- ❑ ASGISA (Accelerated and Shared Growth Initiative for South Africa) forms the basis for Government interventions to accelerate the rate of economic growth
- ❑ “The cost, efficiency and capacity of the national logistics system” is identified as one of 6 national priority constraints to growth
- ❑ R47 bill will be spent through Transnet on ports, railway and petroleum pipeline upgrades
- ❑ R5.2 bill spent through ACSA on airport improvements and the Dube Trade Port
- ❑ Priority industries for support include; Tourism, Business Process Outsourcing, Biofuels, Chemicals, Metals, Agriculture, agro-processing, Creative industries, Wood pulp and paper, Textiles and Durable consumer goods
- ❑ Focus on infrastructure and skills development in second economy

Implications of Transnet restructuring

- ❑ Transnet four-point turnaround plan:
 - ❖ **Redirecting the business** – operational synergies, customer focus, enhanced quality of infrastructure and turning Spoornet around
 - ❖ **Restructuring the balance sheet** – addressing pension fund shortfall, renegotiating contracts with key customers, disposal of non-core assets, transfer of SAA to Gvt
 - ❖ **Improved corporate governance** – reformulated shareholder compact, performance management framework
 - ❖ **Improved risk management**, establish risk procedures, enterprise risk management framework
- ❑ Priority investment in Durban - Gauteng rail link,
- ❑ Enhanced rail reliability through asset and operations improvement,
- ❑ Port investment including Durban expansion, enhanced container terminal capacity, improved port assets, both crane and straddle carriers,
- ❑ Investment in new petroleum pipeline

Conclusions

- ❑ Government committed to infrastructure investment as a means to enhance the quality of supply chains
- ❑ Parastatals and the private sector need to enhance efficiency to promote more effective use of infrastructure and a reduction in logistics costs
- ❑ Government needs to sustain the pressure to deliver:
 - ❖ Separation between rail infrastructure and operation
 - ❖ Enhanced scope for smaller operators on rail branch lines
 - ❖ Improving overall parastatal efficiency and reliability without only relying on improved asset quality
 - ❖ Improved logistical linkages between 1st and 2nd economy
 - ❖ The setting up and skilling of institutional responsibilities identified within NFLS