Overland Journalist of the Year 2024 Winning Submission

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1) Analysis: On the wrong track – Transnet's rail freight reform (17/04/2024)

Transnet's rail reform proposal is on the right track, but in its current form it likely won't reach its intended destination.

Background

South Africa has long struggled with archaic supply chain operations that have meant delays, backlogs and congestion across its ports and rail network are a daily experience for shippers and forwarders, and which is largely attributed to failings at the government-owned port, rail and pipeline company Transnet, which has neglected investment into South African transport infrastructure for well over a decade.

Add weather events such as high winds or other hiccups and what could be slight supply chain ripples can very quickly send South Africa's ports and rails into complete disarray. It is widely said that the country is at 'crisis point'.

There seems little doubt to most South Africa logistics players that private investment is what is most needed to bring its logistics infrastructure up to par, but the source of this investment is yet to be established and remains hugely dependent on how the government designs its structural reform.

One of the main areas of contention for private investors is that they will essentially be putting their money into undoing years of the state-owned enterprise's mis-steps, rather than investing in a competitive pioneering project.

The backlog of infrastructure and rolling stock maintenance, estimated at around R200bn ($11bn), is "a major concern", according to David Taylor, a South African rail specialist and CEO of transport consultancy company TayloRail.

"The government should take on historic debt linked to state capture," he said.

First termed by the World Bank, "state capture" is a type of systemic political corruption in which individuals and/or private interests influence a state's decision-making processes to their own advantage. Transnet and South African power company and compatriot state-owned enterprise Eskom are often cited as prime examples of how state capture works.

Nonetheless, last month Transnet finally started turning the cogs on the reformation of its 21,200km rail network by releasing a proposed roadmap of how it plans to embrace the private sector as a partner.

"Long overdue," said the South African Freight Forwarders' Assocation (SAAFF).

The draft network statement contains rules, timelines, procedures, charging principles and terms and conditions governing the use of the railway infrastructure by train operating companies (TOCs). It also details Transnet's operational corridors and service level agreements between the infrastructure manager and the TOCs.

But the proposal has been greeted with an apathetic response from those in the transport sector, some arguing that it is too little too late from Transnet.

Investment

Transnet aims to raise capital by selling rail slots on its network to private sector TOCs, allowing them to introduce their locomotives, wagons and operations, independently rail goods to markets and move traffic off the overburdened road network and onto rail.

One of the main shortcomings of the proposal, however, is a failure to make the investment opportunity attractive to these private sector players, with the level of risk versus reward it presents.

The African Rail Industry Association (ARIA) chairman, James Holley, says: “In the general freight market, it is likely that private sector investment into trains will be significantly undermined by the operating risks and inefficiencies that result from poor track condition.”

And Mr Taylor adds: “The network statement transfers historic inefficiencies, lack of maintenance and debt associated with state-capture corruption over to TOCs through this pricing methodology – this is incorrect.”

When investment is put into a project, someone needs to decide where it is spent. This is the role of the infrastructure manager. Transnet has declared itself as the initial IM, with the chance that this role could be transferred to a concessionaire/investor in the infrastructure, should that be concessioned.

The infrastructure manager will set procedures, rules, deadlines and contractual arrangements for private sector players accessing the rail infrastructure, as well as ensure adherence to network-wide parameters set in place by the transport economic regulator and rail safety regulator

However, this creates further risk; the investor will have little jurisdiction over how the infrastructure is maintained, operated and expanded.

“This essentially passes most of the risk over the investor, who ultimately remains a financial contributor, while control of the infrastructure, or ability to influence return on investment, remains with the public sector,” Mr Taylor tells *The Loadstar*.

And the public sector has a notoriously bad track record in this respect, he adds.

And as well as the high-risk/low-reward set up the draft network proposes, Mr Taylor points out that the high access rates outlined in the draft reduces the number of companies that could afford a rail service, further limiting revenue.

“At the prescribed access fees in the network statement, this is not considered viable,” he says.

Theft

Another major flaw in the proposal was the omission of the key pain point that plagues the rail network: infrastructure theft and vandalism. An astonishing average of 172 metres of cable is stolen from the South African rail network every hour of every day.

“This is a monumental issue that the government provides no plan to address,” Mr Taylor notes.

Transnet acknowledges: “The rail infrastructure is significantly impacted by theft and vandalism and ageing infrastructure.”

And while it adds: “The IM continues to implement interventions to prevent and address these security threats with a key focus on improvement of infrastructure resilience”, this offers no concrete solution, nor outlines an investment allocation into combatting the issue.

Still time to change?

However, Transnet’s draft network statement remains just that, a draft. At least it gives South Africa’s transport and logistics stakeholders an opportunity to express their thoughts, ideas and concerns to the company.

The Interim Rail Economic Regulatory Capacity (IRERC) called for written comments on the draft statement with a deadline of 19 April, and is also conducting 'information gathering sessions' in Johannesburg, Durban and Cape Town to obtain stakeholders' views.

"Public consultation is an essential step before taking any administrative decision. All sector regulators in South Africa are required to engage in public consultation as per their respective legislation and regulations… While the IRERC is not a regulator, it aims to follow best practice in developing recommendations for the ministers of transport and public enterprises," says the Department of Transport.

The IRERC estimates the feedback process will take up to three months to complete, after which the ministers will consider its recommendations and make final decisions. The IREC recommended that Transnet should publish the final network statement within 30 days of receiving the decisions from the ministers on IRERC recommendations.

Transnet says: "In the 2024/25 financial year, the network statement will be finalised, and it is expected that the process for third party access will then commence in the second half of the year."

If, that is, there is any demand from third parties.

2) Congestion 'rearing its disruptive and costly head' as Canada rail strike looms 20/08/2024

More embargoes have been announced for Canada's rail network as stakeholders brace for strikes on Thursday and the wide-spread repercussions.

After multiple rounds of negotiations between the TCRC union and its rail-operating employers Canadian National (CN) and Canadian Pacific Kansas City (CPKC) failed, the union issued a notice to strike on 22 August at 12:01am ET.

Yesterday, German carrier Hapag-Lloyd notified customers that from Thursday, it would embargo "all commodities originating in Canada, all commodities originating in the US destined for Canada and all carload traffic destined for Canadian interchange".

CN will also restrict ingates on all remaining intermodal traffic in Canada and US intermodal traffic destined for Canada, explaining that there would not be enough certified management train crews to ensure intercity movements.

And Peter Freidmann, executive director of the Agriculture Transportation Coalition, said congestion was already "rearing its disruptive and costly head".

Railroads issue embargoes when, in their judgement, an actual or threatened physical or operational impairment warrants movement restrictions.

“It is particularly critical in the event of labour disruption to prevent sensitive and dangerous goods from being stranded on the network,” explained CN.

The parties say they will continue to negotiate and, should a settlement or arbitration be agreed, rail operators CN and CPKC will lift their embargoes and resume normal operations.

Mr Freidmann, said: “Most Americans have no idea how dependent we are on the Canadian railroads and the Canadian ports they serve. Those routes carry massive volumes of agriculture exports from US farms and processing facilities, and even more consumer imports from Asia destined for US stores.”

He said that while “there are some alternate routes via US ports, and US railroads”, capacity was limited, and warned: “Already, well before Canadian rail service/work stoppage actually happens, the congestion is rearing its disruptive and costly head.” he warned.

Mirko Woitzik, global director of intelligence for risk intelligence firm Everstream Analytics, has told *The Loadstar*: “Companies should expect widespread disruptions to rail and ocean shipping across many industries, as well as potential production stoppages due to increased cargo backlog.

“In addition to more imminent rail disruptions, CN and CPKC support intermodal cargo services at all Canadian container marine terminals, which could exacerbate port congestion throughout the country,” he added.

If the strike goes ahead on Thursday, affected ports would include Vancouver, Prince Rupert, Montreal, and Halifax.

In May, Maersk said it would offer inducement calls to the Seattle-Tacoma Northwest Seaport Alliance on four sailings of its TP1 service to manage US import and export rail cargo, rather than having it dispatched in Vancouver and transported cross-border to the US.

This led to concern that cargo diverted to Tacoma would cause significant bottlenecks across US rail networks. And yesterday, the Danish carrier halted any acceptance of rail cargo to Canada where the weight exceeds the maximum limit applicable for truck moves, in case cargo must be shifted from rail to road.

Indeed, a large North American shipper told *The Loadstar*: “Trucking is the main mitigation strategy.”

3)Tougher EC emissions rules for hauliers 'could put SMEs out of business' - The Loadstar (14/05/2024)

The stricter emission standards for HGVs adopted yesterday by the European Commission (EC) have been dubbed as “overly ambitious” and “idealistic” by the International Road Transport Union (IRU), who warned it could limit SMEs’ ability to compete with larger firms.

Under the new legislation, EC emissions standards will be expanded to make almost all new HGVs with certified CO2 emissions subject to reduction targets, and will now include smaller trucks, urban buses, coaches and trailers.

Further, in line with the EC's goal to reduce total carbon emissions by 55% by 2030, compared with 1990 levels, the HGV sector must post a 45% emissions reduction from 2030 – from 30% previously.

After which, the sector must achieve a 65% emissions reduction by 2035, and a 90% reduction by 2040.

The EC said: "The strengthened CO2 emissions reduction requirements should incentivise an increasing share of zero-emission heavy-duty vehicles being deployed… as well as ensuring that innovation in the automotive value chain and the associated high-quality jobs can be maintained."

But IRU EU advocacy director Raluca Marian warned: "From the perspective of the infrastructure necessary for upscaling the deployment of zero-emission heavy-duty vehicles, we are somewhere at 'moment zero' – it just started.

"From the perspective of awareness and willingness of our sector's customers to share the high cost of the transition, we slowly passed moment zero, but are still far off. In other words, until now legislators have worked based on ideals, now it is time to put together the numbers and see what the EU economy can actually deliver."

Indeed, the haulage sector has been struggling with rising operating costs and reduced customer demand, resulting in tightening profit margins that make investment into new vehicles unfeasible.

And an IRU spokesperson told *The Loadstar* smaller haulage companies, with less capital to invest in electric or lower-emission vehicles, would be "heavily impacted" by the new rules.

"The high upfront costs of transitioning to cleaner technologies can be prohibitive for these companies, potentially limiting their ability to compete with larger firms that have more resources to invest in new vehicles.

"Without the ability to update their fleets, these companies might face reduced operational capabilities, especially as cities and countries implement stricter emission regulations."

The spokesperson warned that this could lead to a decrease in market competitiveness and even force some SME hauliers out of business.

The EC said a "transition pathway" was being developed to accompany the "transition of the automotive value chain", but has yet to release details. It said this would "pay particular attention to small and medium-sized enterprises in the automotive supply chain".

The commission also noted it was looking at appropriate actions and incentives to boost the affordability of zero-emission heavy-duty vehicles and “assist micro-enterprises in purchasing”.

Large companies have more purchasing power when it comes to zero-emission fleet options, which could drive consolidation in the industry. DB Schenker announced today it was “heavily embracing electric trucks”, and would be the first company in Sweden to start testing the R 450e electric truck from Scania on regular long-distance routes.

Heavy-duty vehicles are responsible for more than a quarter of greenhouse gas emissions from road transport in the EU, according to the EC.

Italy, Poland and Slovakia yesterday voted against the bill, proposed on 14 February 2023, while the Czech Republic abstained and all other member states voted in favour.