

ARIA Chairperson's address, James Holley

Thank you for attending the open session of the Africa Rail Industry Association's Annual General Meeting. As always, Mesela and the team at ARIA have assembled an outstanding list of speakers today.

There are two metrics that really measure the performance of any nations' railways. These are very simply 1. how many people travel by trains, and 2. how much freight is moved by rail. Looking at both these metrics, we are in a really bad place at the moment.

While we do not have access to the newest statistics, we understand passenger volumes have grown during the year, but we estimate the numbers to still be more than 80% lower than the late 2000's. In the freight rail sector, the key statistics are as follows: in 2018 Transnet moved 226 million tonnes and in 2022 Transnet moved 173 million tonnes. ARIA anticipates that in the financial year ending tomorrow, Transnet will have moved between 155 and 160 million tonnes. This would represent a 29% decline in 5 years.

As Prof Jan Havenga will explain in his keynote address, the implications for the future of the country are significant and we seem to be approaching a critical inflection point with regards to our railways. If we don't change direction quickly the ramifications for our industry are very concerning, but perhaps more so are the consequences for the upstream economy. If the economy was a human body, the upstream economy would be our heart. Right now, our heart is under severe strain because we are blocking the blood it needs to survive. Without it we cease to exist.

The problems that our passenger and freight sectors experience are complex and well-documented and don't need to be repeated here. What we do wish to concentrate on (today) is the path to recovery: the proverbial light at the end of the tunnel.

During the last financial year, the ARIA board conducted two strategy sessions. One on the Passenger Rail Sector and the other on the Freight Rail Sector. The outcomes of these sessions inform many of the positions I will outline now:

Regarding Policy alignment ...

The first principle is that the rail industry and the SA economy in general need to coalesce and support our Government's reform plans and agenda. We have a Gazetted Rail Policy. Why then do we still debate Policy? The time surely to debate Policy was when the Green Paper and White Paper were released for comment. We took 14 years to develop a progressive policy that can ignite the South African economy. Now is the time to implement the Policy and no longer to debate it!

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PRASA devolution

The primary reform for our passenger sector is the devolution of PRASA into the Metros. Through the MOU that ARIA has with the DoT, ARIA stands ready to support the DoT and PRASA in the development of the Devolution Strategy for Commuter Rail as proposed in the NRP. It is encouraging to see the appetite from Metros such as Cape Town and Johannesburg for the implementation of this important policy intervention.

While we cannot fool ourselves that there is a long road ahead of us, the fact that PRASA is on track to spend its CAPEX budget for the first time since 2016 needs be recognised, and just might represent the first real signs of progress in passenger rail that we have seen for some time.

Infrastructure integrity

To address the problem of the critical maintenance backlog in South Africa's rail infrastructure, ARIA has started and will continue engaging with and contributing to the public participation process that the DoT has embarked on for the Private Sector Participation Framework. This will set the guidelines for unlocking private sector funding into track infrastructure. The PSP Framework will ensure that an independent PSP structure is created that will manage the process and guide the collaboration between SOE's and the private sector.

Track infrastructure investment is potentially the most difficult problem to solve in the rail industry today. ARIA has previously reported that it estimates the track maintenance underspend over the last decade to be approximately R26.8 billion. For perspective on this, the recently revalued book value of the track infrastructure is approximately R55 billion. Remarkably, the maintenance underspend alone is therefore approximately 50% of the rail network's underlying value.

What is easily forgotten is that this backlog is money that is no longer spent in the supporting railway products and services ecosystem. This contributes to the systemic undermining of the future of rail in South Africa. The affected companies are our members, and many are under severe strain.

ARIA estimates that more than R100 billion needs to be spent to restore the track integrity. At a National Treasury webinar in February, reported on by News24, Transnet stated that it required R111 billion in capital expenditure to restore operations and indicated a further funding shortfall of R80 billion. In his address, Professor Havenga will point out that to restore the integrity of the 5 500km of track, where strong demand exists on the General Freight core network, the cost will be about R60 billion. Bearing in mind we have a national freight network of 21 000 km, the task that lies ahead is great.

There are three potential sources of this capital: Transnet; Government and the Private Sector. We celebrate the fact that Transnet was able to refinance \$1 billion of its debt earlier this year. However, with the ongoing breach of the Cash Interest Cover debt covenant and current trading performance, ARIA believes Transnet's ability to raise further capital will be constrained.

The various pronouncements by our National Treasury and the realities of South Africa's fiscal position indicate to ARIA that National Treasury does not intend to provide this level of grant funding to restore railway infrastructure.

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This leaves one source of funding remaining which is the private sector. The good news, great news in fact, is that the appetite to do so most certainly exists. The appetite is there because the underlying freight volumes are there.

What is needed urgently now is the framework to guide its implementation. The vertical separation of railways into the roles of Infrastructure Owner, Infrastructure Managers and Train Operating Companies, together with the Private Sector Participation Framework are critical for this success.

As the Association we must commend Transnet for taking the bold step of inviting private sector funding to solve the infrastructure backlogs on the Container Corridor through the proposed 20-year Operating Lease, now in RFQ phase. Our main concern with this step is the potential that, if poorly implemented, this will result in a private sector monopoly replacing the current public sector monopoly.

We call on Government to play its oversight role through the IRERC as an interim mechanism as stated in the National Rail Policy until the Transport Economic Regulator is in place to ensure that the rules of engagement are fair and benefit South Africa as a whole. In addition to this, through the MOU that ARIA has with DoT, ARIA stands ready to support the DoT through technical knowledge in the development of this critical work.

We expect that we are at a juncture where decisions like the rationalisation of our core network will soon be considered. Is it better to have a smaller, well-capitalised and high-performing railway network than the vast network that we have today? These decisions need to be made with careful consideration and in the context of the realities of our current situation.

Third-Party Access

In 2022 ARIA obtained two legal opinions from Weber Wentzel. The first confirms that there is nothing in regulation or law that prevents the immediate implementation of Third-Party Access (3PA). The second confirms that a Complaint against the act of preventing access to critical rail infrastructure would, depending on the specific nature of the complaint, most likely be upheld by the Competition Commission.

As Prof Havenga will shortly explain in more detail, the need to implement the critical reform of 3PA has never been more important for the rail industry and our economy. For private operators to meet the requirements of South African freight owners new train capacity needs to be invested in.

The lead-time for the delivery of new locomotives or trainsets is approximately 24 months. ARIA fully supports the implementation of the Regulation of Transport Bill, the Rail Masterplan, and the Rail Transportation Bill. However, ARIA does not support the notion that 3PA should wait for these to be implemented. We say this because we do not believe the rail industry, nor the economy can afford to wait any longer.

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Why advocacy?

It is important to consider why there is a need for advocacy. The answer to that is simple: *the only route we can see for the rail industry to recover from the beleaguered position it finds itself in now is through the implementation of our Government's reform agenda.* It is of critical importance that not only our Association, but the industry as a whole, unite behind and support Government's well considered vision for the South African railway industry. It is not until we address the root cause of the structural problems in our railways that we will experience the economic prosperity our beautiful country deserves.

Closing

In closing I would like to congratulate and thank Mesela Nhlapo, CEO of ARIA for the incredible and brave work that she and the team at ARIA do. The association is in good standing and is now, I believe, the de facto voice of the railway industry in South Africa. The work you do Mesela is meaningful, supports our members and moves our country forward.

ENDS

About ARIA

The African Rail Industry Association (ARIA) represents companies that are Original Equipment Manufacturers (OEMs), Rail operators, or Rail Services Companies in the rail sector and associated industries. It is a fully-fledged Export Council acknowledged and supported by the Department of Trade, Industry and Competition. The Export Council is committed to creating opportunities for the South African business industry on the continent and globally. All of the major private rail operators in South Africa are members of ARIA.

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