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Transnet update

A December 2024 statement by Transnet signals movement towards greater **private-sector participation in freight rail.** It holds the promise of future improvements in the sector, but important stumbling blocks remain. The updated Network Statement (NS) – issued by the new Transnet Railway Infrastructure Management (TRIM) division and reflecting revisions urged by the freight industry – drops a previously mooted 5% flat rate tariff on train operating companies (TOCs) to zero and reduces the rates of other tariffs. This makes it more feasible for TOCs to lease infrastructure from Transnet Freight Rail (TFR).

However, the question of who is responsible for maintaining and expanding railway infrastructure remains a **potential dealbreaker.** As things stand, state-owned TFR will retain these responsibilities and remain in control of the infrastructure. In effect, private TOCs will only be allowed to operate equipment and infrastructure, raising the concern that the tariffs they pay might not be used to maintain and upgrade the railway infrastructure to an adequate standard.

Disagreements around tariffs and responsibilities show that the government often has **an unrealistic view** of how to encourage private-sector participation. The state and its entities often set overly onerous conditions and are unwilling to cede real control and input to the private sector.

The situation becomes starker in the context of a TRIM estimate that **R65 billion will need to be spent** over the next five years to meet the target of moving 250 million tonnes of freight per year by 2030 (See Figure 1 on page 2). Although TFR has applied to the National Treasury's Budget Facility for Infrastructure (BFI) initiative to harness funding, it is unclear whether it will be able to meet BFI funding conditions. BFI loans are likely to demand concession agreements.

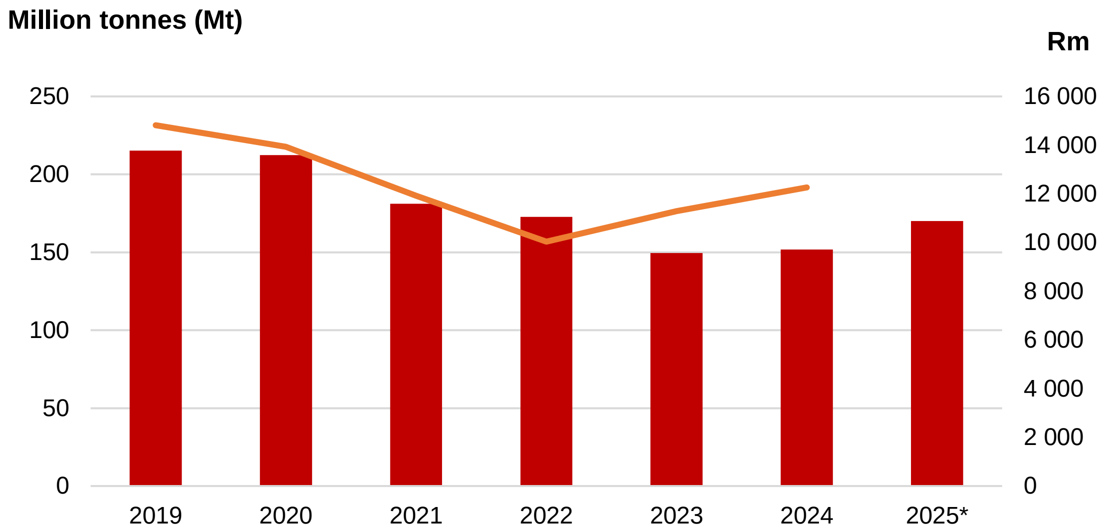
Considering the current condition of the railway infrastructure under TFR management, and the problems of cable and diesel theft, it is unlikely that TFR will be able to handle the **operational and maintenance pressure** of increased freight volumes. The project scale of the drive to draw in the private sector poses a further potential challenge. In the past, TFR has only worked with the private sector on small-scale projects. This project, however, has a far greater scope of private-sector participation than TFR has ever had to deal with.

All this considered, the deal the NS proposes with the private sector is not enough to turn TFR around. **To truly maximise output,** TFR will have to agree to a concession model where TFR remains the owner of the infrastructure, but the private sector is given full responsibility for operating and managing specified sections of the infrastructure and the equipment.

TFR is being forced into this situation because of its own management decisions and **political interference** over many years. It needs private sector participation to operate efficiently. New Group CEO, Michelle Phillips, told *Business Day* that she is committed to turning TFR around and accommodating private sector participation in its system. Although this might seem like a logical step forward for a struggling state-owned enterprise, such an announcement and cooperation would have been unimaginable even only two years ago.

Although there are still many obstacles to overcome, the signs of life and engagement with industry on the part of TFR are a **positive short-term sign.** If the new concession model, as proposed in the NS, is implemented freight volume will improve (especially compared to TFR's performance over the last ten years). However, if higher freight volumes than TFR's average are to be achieved, and to make TFR globally competitive, a more robust concession model must be implemented. **- Carika Middelberg**

Figure 1: Transnet Freight Rail volume output in relation to expenditure, 2019-25



*Target
Source: Transnet

Figure 1 visualises TFR output per million tonnes, and capital expenditure over the past five years. To turn TFR around to reach higher output volumes and capital expenditure, TFR will need a more aggressive turnaround strategy, which involves greater private sector involvement.

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