

China wins lion's share of Transnet's train tender

By [Razina Munshi and Mark Allix](#) 20 Mar 2014

China's two largest rolling-stock manufacturers are the biggest winners of a R50bn deal to manufacture more than 1,000 locomotives for Transnet, confirming South Africa's preference for doing business with members of the Brics alliance.



One of Transnet's old locomotives that will soon be replaced. Image: Transnet.

China South Rail (CSR) Zhuzhou will supply 359 electric locomotives to Transnet and China North Rail (CNR) 232 diesel locomotives, giving them a collective 56% of a tender for the manufacture of 1,064 locomotives.

They are earmarked for Transnet's general freight business, the most important area of its strategy to shift freight from road to rail.

Transnet aims to increase general freight volumes to 170m tons (Mt) from 82.6Mt by 2019.

Two other global manufacturers, Bombardier and General Electric (GE), will supply 240 electric and 233 diesel locomotives. All of the locomotives bar the first 70 will be manufactured in South Africa, and are expected to be delivered by 2019.

Transnet has moved to allay concerns about the quality of Chinese trains by saying that ten dual electric locomotives designed and manufactured by CSR Zhuzhou for Transnet, as part of a separate R2.6bn contract for 95 locomotives, were delivered ahead of schedule and exceeded quality standards.

Testing

Transnet Freight Rail's chief executive Siyabonga Gama said that after three months of testing, the locomotives would be added to Transnet's fleet.

CSR Zhuzhou was left to defend its record in other countries, after a subsidiary of the CSR group was accused of supplying Namibia with trains of poor quality.

CSR Zhuzhou president Zhou Qinghe said a problem with incompatible systems and the failure of the Namibian client to purchase spare parts led to the train failures in that country.

Gama and Transnet's chief executive Brian Molefe defended CSR, saying its record in South Africa had been good. The contract is CSR's biggest outside China.



Transnet's chief executive Brian Molefe. Image: Transnet

Molefe said the ability of bidders to adhere to an extremely tight delivery schedule was one of the key considerations in assessing the bids. It was one of the reasons the work had been divided between four bidders.

"It is our view that no single supplier would have the capacity or resources to deliver within the timelines we had envisaged," Molefe said.

The rolling stock will be manufactured at two Transnet Engineering plants: one in Koedoespoort, Pretoria and the other in Durban. Transnet wants to use the contract to build its own capability.

Transnet to become an OEM

It aims to become an original equipment manufacturer and its engineers have already begun to develop Transnet's own locomotive. "By the end of this process, we believe we will have sufficient knowledge to become an original equipment manufacturer," Molefe said.

Representatives of both Bombardier and GE told Business Day that helping Transnet to become an original equipment manufacturer and eventually a competitor was the nature of the collaborative rail industry.

"Similar development has happened elsewhere," Bombardier SA representative Aubrey Lekwane said. "Those who develop the competence will remain in business. It's good for the industry," he added.

GE SA's chief executive Tim Schweikert said developing local capacity and a local partner was important anywhere in the world.

Transnet Engineering will share about 16% of the programme, one third of which will be outsourced to black engineering and manufacturing firms.

The deal will have major spin-offs for local manufacturing firms. Steel & Engineering Industries Federation of Southern Africa's chief executive Kaizer Nyatumba said the multiplier effects for the rest of the economy included faster industrialisation.

"Overall, this means more jobs created. It also means that companies that may have been on the verge of closure are likely to have opportunities to supply the companies awarded Transnet contracts."

Partners

Manufacturing Circle executive director Coenraad Bezuidenhout said that there was excitement about Transnet's intention to procure locally.

The first locomotives are expected to be ready for testing within 15 months.



One of the first new locomotives built by CSR Zhuzhou. Image: Wikipedia.

Though Transnet would like to receive all 1,064 locomotives within three-and-a-half years Molefe said its official timeline for the programme was five years from the delivery of the first train.

"All four original equipment manufacturers had met or exceeded the bid's local content requirements," Molefe said.

The Department of Trade and Industry has stipulated that local content for the manufacturer of electric locomotives should be a minimum of 60%. For diesel, this drops to 55%.

Some of the empowerment partners selected may be controversial.

CNR has partnered with the Congress of South African Trade Unions' investment arm, Kopano Ke Matla, which was stripped of its licence to manage pension funds for workers last year, and has been accused of theft from an employee provident fund.

CNR's other partners are Linontando Investments, Azon Rail, Lineta Investments and Makana Investments.

CSR Zhuzhou's empowerment partner is the media-shy Matsete Basadi consortium, which partnered with CSR for the dual electric locomotive contract awarded in 2012.

GE has partnered with Primedia shareholder the Mineworkers Investment Company, while Bombardier's empowerment partners include three of its suppliers, Sadiphiri Transport Services, Jabatha Stationery and Masana Hygiene Services, as well as current and future employees.

Transnet said the deal would optimise private-sector investment. Ahead of the announcement last week, diversified heavy engineering group DCD said its rail division was gearing up for Transnet's investment in rolling stock.

The locomotive contracts are a part of Transnet's market demand strategy, which will see the company spend R307bn until 2019. Transnet's general freight business is earmarked to receive the biggest chunk of this investment.

The deal prices electric locomotives at R41m, and a diesel locomotive at R32m, before hedging and escalation costs.

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