Prasa revamps rail services

Before the end of the year, one of seven international bidders will be awarded the most lucrative rail contract currently available in the world.

Ben Martins

It will be the Passenger Rail Agency of South Africa's (Prasa) first major tender, for the manufacture of new commuter coaches.

With an initial tranche of R40bn over 10 years, the new fleet is the biggest single item of government infrastructure spending since South Africa's preparation for the soccer World Cup.

It is the first part of a spending programme valued at R123bn over 20 years, for the replacement of Prasa's rolling stock.

This makes it more than double the value of the 1999 arms deal and as likely to generate debate and acrimony, given Prasa's pledge to revive the commuter rail industry and to raise the bar on the way the black empowerment component is implemented.

South Africa's commuter railways are in a state of disrepair. Three decades of little or no investment has brought the system to a grinding halt although the frequency of collisions is rising and the number of commuters who have been injured has soared over the past two years.

Prasa chief executive Lucky Montana says South Africa's commuter rail requirements are so critical that without an efficient and functioning system, efforts to grow and sustain cities and the economy will not work.

Prasa board chairman Sfiso Buthelezi is even more frank: "If we don't do something now, the system will collapse. This is the consequence of decades of no investment in rail."

The last time Prasa bought a train was in 1986, from a Japanese supplier.

The average age of Metrorail's fleet is 40 years. Metrorail is Prasa's commuter rail service in urban areas. Shosholoza Meyl, its regional and long-distance network, is only slightly better off, with an average coach age of 30 years.

The first 10-year tender will produce 3,600 coaches out of a total of ,7224 over 20 years. It will deliver modern commuter coaches to replace Metrorail's old, outdated and unsafe carriages.

A decision to procure a new fleet from manufacturers abroad would have been an easy option. But Prasa won't just buy trains, says Montana.

"If we are buying a train, we also want to buy local jobs, local skills and buy into a rail industry for South Africa. We must create the black industrialists of the future."

The size of the programme - all with guaranteed funding from national treasury - justifies the creation of an industry.

To revitalise the industry, as Prasa hopes, will require the transfer of technology, meaningful skills development and the creation of 66,000 new direct and indirect jobs. It also presents an opportunity for black economic empowerment (BEE) participants to get a foothold in the sector, which will help achieve Prasa's goals.

Entirely new fleet

It is rare that an entire fleet is procured all at once - usually coaches are acquired as and when old ones need replacing.

Unfortunately, government waited until it was almost too late to act. One-third of Prasa's coaches need to be retired within the next three years.

However, the magnitude of the expenditure and the fact that it will come from government's coffers is expected to forge a new industry.

Seven international companies and consortia have submitted bids, after a request for proposals which closed in September. Prasa says it will announce its preferred bidder in the first week of December.

Those in the running are Spanish firm CAF, Canadian Bombardier, China South Rail, China North Rail, Gibela Rail Transportation (comprising French manufacturer Alstom and SA company Actom), Dudula Rail (made up of Swiss company Stadler, ABB SA and Naledi Rail Engineering), and a seventh consortium of China South Rail and Wictra.

The tender comes at a time when rail manufacturers are scrambling to expand into new markets. The rail market in Europe is saturated, and demand during an economic crisis is low.

Even with fairly stringent requirements, this makes Prasa's tender an attractive prospect. Several bidders have praised the process so far.

Furthermore, the winning bidder will have to partner with an empowerment consortium which Prasa will select through a separate bidding process. It has set a minimum requirement of 30% for broad-based BEE in the project.

Over 20 years, the empowerment component is likely to be worth about R37bn.

Montana says a critical objective of the fleet renewal programme is to modernise the system. South Africa missed two or three revolutions in railways, he says. Technology has changed along with design systems and environmental issues.

"No local company has the technological capability. Local companies can build components, but propulsion and traction systems belong come with the new generation of technology," he says. This know-how will have to come from abroad. The rolling stock manufacturer will be required to bring this technology to South Africa. In doing so, it carries the biggest chunk of the project's risk.

Are Prasa's plans realistic?

Its job projections are not out of reach, says a transport analyst, because this programme carries the potential to develop an entire industry. The 20-year commitment justifies a high level of investment.

The analyst adds that small businesses are likely to benefit as well, but this will require commitment and funding from government and Prasa if it is to work. Collaboration, he says, is essential, particularly between rail entities, for example Transnet Rail Engineering (TRE), which provides services to Transnet as well as for export.

Rail expert John Batwell agrees. There is no indication from government about the preservation of existing jobs and long-standing skills. He is referring to TRE, which has beefed up its facilities in recent years, and Union Carriage & Works, a subsidiary of construction company Murray & Roberts. Both have secured Prasa's rolling stock maintenance and upgrade work for decades.

However, Montana says TRE won't be excluded from being a part of bids. A number of the bidders have visited its facilities, though it is unclear whether they have tendered with TRE as a partner. In addition, TRE has been designated the conduit through which all technology transfer will take place.

Batwell adds that a "makeover" for Prasa won't be enough on its own. It has a poor track record of staff discipline and professional conduct. Moreover, train services, which haven't stuck to schedules, have resulted in cases of arson, at a cost of millions of rand. Free-riders and train-surfing are also cause for safety concerns.

Prasa tried to address its safety record last year, when Metrorail took a harsher approach to the conduct of its drivers, Batwell says. It has made disobeying the speed limit or ignoring signals a fireable offence, after a series of incidents drew attention to the problem.

In one instance, a driver who was disciplined on a previous occasion for exceeding speed limits and put on probation for 12 months ignored two signals to stop. He also travelled at 85km/h in a 30km/h zone, and collided with a stationary train, injuring 857 people in Soweto last year.

Prasa created a R20m fund to assist victims of the accident who had valid train tickets. The cost of repairs was as much as R35m.

In the lead up to its "request for proposals", Prasa appointed a number of transaction advisers, made up mainly of firms with the know-how to compile the specifications of a tender of this nature. These include Interfleet Technology, Ledwaba Mazwai, Arcus Gibb, KPMG, Webber Wentzel, Vela VKE and Letsema Consulting.

Transport and national treasury officials are also part of Prasa's bid evaluation team.

Prasa's shareholder, the Department of Transport, has been supportive. Transport Minister Ben Martins says it fits in with the department's plans to improve public transport.

He has also shown Prasa support for its intention to revitalise South Africa's rail industry.

Prasa's other strength, after lengthy engagement with national treasury, is that it won't need to go to the market for funding to pay for the new fleet as it has guaranteed funds from treasury. Moreover, it doesn't have to concern itself with the spate of ratings downgrades to government and other parastatals that rely on debt funding.

Funding

Montana says the project was tested to determine whether seeking private funding would be an option. But feasibility studies confirm that would have been a more expensive option.

National treasury will give Prasa R40bn for the first 10-year tender. The full R123bn programme is fully guaranteed by government. Prasa has also received a separate R13,5bn to prepare its aging network for the new trains.

With this spending, and Transnet's intention to invest in the freight rail network, transport makes up the biggest chunk of spending on infrastructure in this year's budget, with an allocation of R80bn. It is also expected to rise by 8,4% in the medium-term, according to Finance Minister Pravin Gordhan In his medium-term budget policy statement to parliament last month, Gordhan said spending on rail rolling stock and signalling infrastructure would increase by nearly 20% a year.

But the agency will try to recoup at least some of its spending, in an attempt to create a fund for future investment requirements. Gasa says it will have to increase fares.

Metrorail increased its fares in April this year for the second time in almost 10 years. Consumers should expect further increases, although rail will still be the cheapest mode of transport.

For international rail manufacturers, winning this tender would be a stroke of good fortune at a time when most countries are cutting back on spending.

As expected, they praised Prasa. Stadler's vice-president for business development in Southern Europe and Africa, Felice Massaro, says this tender has been handled professionally, making for easy comparisons with European tenders.

Massaro says if Dudula Rail wins the tender, it is likely to build a manufacturing plant that is of the scale of its plants in Europe, where up to 1,500 people are directly employed.

Massaro is well aware that the winning bidder will have to support an empowerment partner as well as companies that supply the trains with parts. Because of Prasa's strict timeline, he says, Dudula will manufacture the first trains in Switzerland, if it wins the bid. Local suppliers will have to deliver parts to its plant in Switzerland.

Once the local manufacturing facility is complete (by mid-2017), trains can be assembled in South Africa.

Dudula has already identified between 30 and 40 potential suppliers. But Massaro says it will need to work with them to improve quality and capacity.

French bidder Alstom's managing director for transport in Southern Africa, Yvan Eriau, says that if Alstom wins the bid, its manufacturing plant employees will be 99,5% local. The company has achieved this level at most of its other plants elsewhere in the world. The bid, he says, has been complex. But the opportunity it offers is unrivalled. Eriau says its inclusion of maintenance allows the winning bidder to assure the quality of the entire process.

However, he adds that there are many successful cases abroad where companies service and maintain trains that were built by another manufacturer. Alstom, for example, supplied some of the fleet used on the West Coast Main Line, one of England's busiest routes. The route is operated by Virgin Trains.

The country representative for Bombardier, Aubrey Lekwane, says once the technology is transferred to South Africa, it creates an opportunity for the country to look further afield.

Like all the other firms, Bombardier's aim is to use South Africa as a base to grow opportunities on the rest of the continent. "We share the aggressive ambitions of government to make South Africa a base, rather than just a gateway for expansion into the rest of Africa," he says.

Lekwane adds that there is an opportunity to meet and exceed the required levels of local content. The long-term nature of the programme allows for a high level of investment.

"One needs between 10 and 20 years to execute meaningful transfer of skills and technology. We will ensure that local manufacturers are integrated into the global supply chain, making exports more of a reality."

Manufactures have, however, raised concerns about the time frames within which companies are expected to source supplies from local companies. This is usually achieved over a longer period, compared with what is prescribed in this bid, they say.

All, however, will do almost anything to win this bid.

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