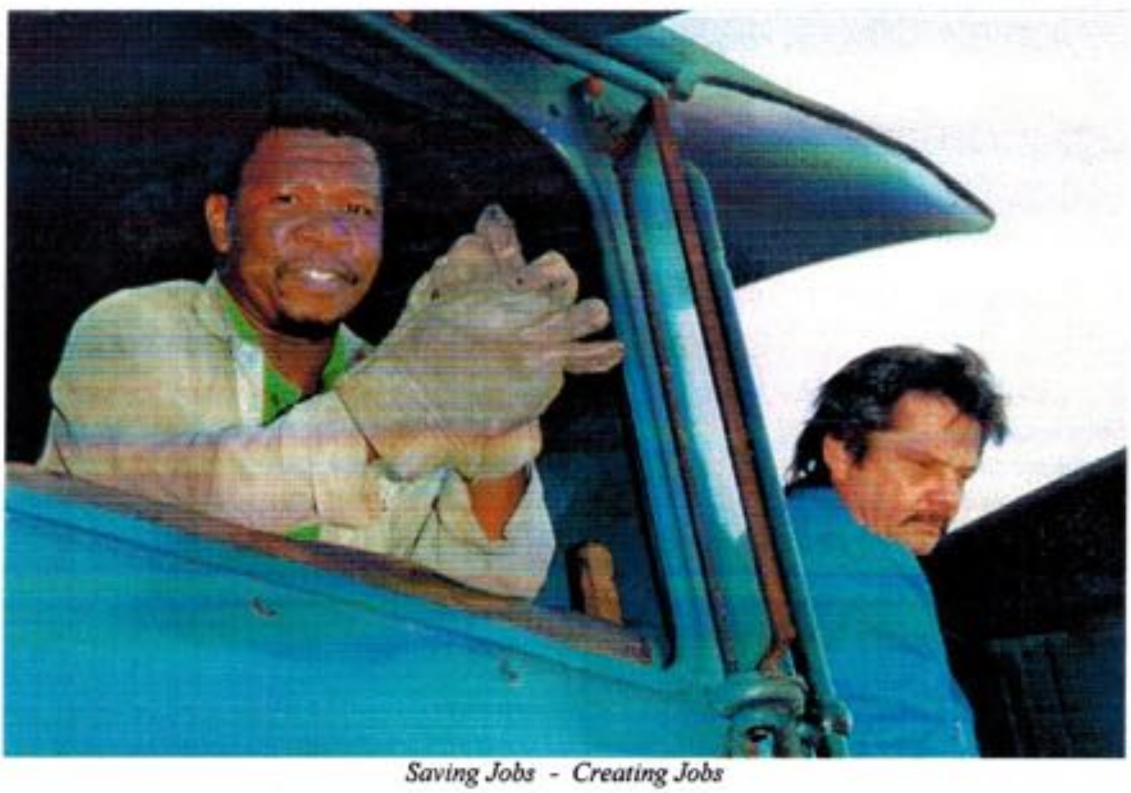
WHERE TO PRIVATE RAIL USE IN SA?

NOTHING GREAT WAS EVER ACHIEVED BY MANKIND WITHOUT ENTHUSIASM !



Saving Jobs - Creating Jobs

DOCUMENT SPONSORED BY SANDSTONE STEAM RAILROAD COMPANY IN THE NATION'S INTEREST
OCTOBER 1997

8 BUSINESS DAY, Monday, September 22 1997

INTERNATIONAL

Australia embarks on a rail revolution

SYDNEY — Trains are staging a comeback in Australia as privatisation and huge new projects promise a transport revolution.

Part of the government-owned railway system has been sold to private capital, more sales are planned and ambitious schemes promise to take railways through the most remote areas.

Politicians, business and transport academics agree that developments by Prime Minister John Howard's conservative government amount to an unlikely industry revolution.

Can trains get city people out of their cars? Prof William Young of the civil engineering department, Monash University, thinks not. "It's part of our culture," he said. However, the upheaval does aim to reverse rail's declining share in long-distance passenger and freight markets.

The sell-off of Australia's railway system is based on the logic that the business sector will offer services and control work practices better than government. Thus, the government has learned from entrepreneurial truckies who have left the railways standing still over the past two decades.

In 1975, rail carried twice as much domestic freight as road in Australia, 60-billion tons-kilometres against 34-billion by road, 101-billion by sea — the main route for bulk commodities — and 0,11-billion by air.

By 1990 rail's share had slumped after faster road transport performance. In that year, trains carried 87-billion tons-kilometres against road's 91-billion, sea's 94-billion and air's 0,08-billion.

City passenger transport shows similar trends, with road and air passenger kilometres rising strongly, but rail's falling to 2,5-billion in 1990 from 6,1-billion in 1971. Car use over the same years motored to 137,5-billion from 66,5-billion in 1971.

Now the Howard government is moving with surprising speed to remove historical barriers to long-distance rail growth. The latest development was an agreement last week between the federal and state governments for the national network to be managed as a "one stop shop" for investment, access and pricing.

Without it, a new carrier wishing to enter the Melbourne-Perth rail run would have to negotiate with 13 state-based government, regulatory and rail authorities. "That is an enormous disincentive," federal Transport Minister John Sharp's spokesman said.

"It's a revolution," said Young.

In recent weeks, the federal government has sold the Australian National Railways Commission, pledged A$100m for a 1 410km Alice Springs-Darwin railway and pushed negotiations for a Sydney-Canberra "very fast train".

Now the government is moving to sell more, primarily its majority stake in National Rail, a move which has private investors manoeuvring to buy.

Macquarie Bank, part of a consortium which recently paid A$16mfor the passenger rail businesses of the Australian National Railways Commission, says it remains interested in bidding for rail assets. Macquarie's purchases include the Sydney-Adelaide-Perth Indian Pacific, the Adelaide-Alice Springs Ghan and the Adelaide-Melbourne Overland. The sales have attracted Britain's GB Railways Group and Serco Group into the Macquarie consortium.

The government's recent privatisation moves also include the sale of South Australia's intrastate freight and maintenance business for A$57,4m to US-based Genesee & Wyoming and the Tasmanian freight business for A$22m to Australian Transport Network, which includes US operator Wisconsin Central and its New Zealand offshoot Tranz Rail.

The Queensland government also says it has privatisation plans, some aimed at Orient Express-style adventure services.

The next step will likely be Canberra's sale of its 72,8% stake in New South Wales and Victoria freight operator NR.

"If the sale of the railways commission is any guide, there is substantial domestic and international interest," Sharp's spokesman said.

"Priced on profits, they're worth nothing, (it's) an industry kept alive by government subsidies, for 100 years its been a dog's breakfast," said Mark Norville, Macquarie Bank division director. However, in private hands and profitable the assets would be worth billions.

Suddenly Australia's railway sector looks a little crowded.

The proposed A$1bn Darwin-Alice Springs railway seems closer to reality after Howard's funding pledge. The even more ambitious Melbourne-Darwin railway plan also remains on track, its chief promoter, Everald Compton, said.

Compton's dream is for a railway which travels through southeastern Australia's wool and wheat areas, north to the New South Wales coal fields, through Queensland's sugar and coal districts, to Mount Isa's base metals mine before ploughing through the Northern Territory's goldfields and on to Port Darwin. Backing had been committed by finance houses in London, New York and Tokyo, Compton said. Accounting firm KPMG has declared a A$5bn single-line track profitable.

The government is speeding negotiations for a A$2bn-plus Canberra-Sydney "very fast train". Interest has been received from France, Germany and elsewhere in Europe for tilt-trains, magnetic levitation and speedtrains able to reach 450km/h on dedicated tracks.

Darwin residents say they will believe it when they see it. But in boardrooms across Australia, rail is being taken seriously again. — Reuter.

BUSINESS DAY, Monday, September 22 1997 3

Africa 'should market itself to high-spending tourists'

Josey Ballenger

AFRICAN governments needed to put more money towards marketing the continent's attractions overseas — particularly in "untapped" high-spending markets — if they wanted to draw more global travellers in an increasingly competitive marketplace, experts said at the EcoWorld Congress in Midrand on Friday.

Environmental affairs chief director of tourism Mike Fabricius said almost 66% of SA's visitors came from its "traditional market" of Europe, which meant "huge untapped markets" like the Far East, Southeast Asia and the US were ripe for capture.

He said that 3,7-million tourists from other African nations brought in only R2,6bn to SA last year, while the 1,2-million visitors from overseas spent R13,8bn.

Fabricius said that if SA took an aggressive strategy of innovative marketing, the sector would grow by 17% to 20% a year up to 2000 and by 10% to 15% in the following five years. Simultaneously, the country would enjoy foreign exchange inflows of R46bn and the creation of 1-million jobs in eight years.

Fabricius said tourism marketing parastatal Satour's budget was R102m, of which government contributed R63m. Environmental affairs was working on a proposal to introduce a "tourism growth fund" which would invoke a "one-off" levy on tourists to supplement bed levies and the general fiscus. Ultimately, government hoped to have an annual marketing budget of R300m.

Experts also said national parks and other state assets needed to commercialise if nations wanted to preserve their conservation prowess and maximise tourism potential.

"There is a new mood, new confidence and new opportunities. But they will be realised only if there are partnerships between private and public sectors, non-governmental organisations, banks and communities," said Development Bank of Southern Africa CE Ian Goldin.

Industrial Development Corporation CE Khaya Ngqula said it aimed to unlock the potential of underdeveloped state-owned conservation land, resolve claims and develop transfrontier parks.

Former Kenya Wildlife Service head Richard Leakey warned the audience not to overlook the environment in its rush to develop.

The future success of our railways is tied to greater involvement with the private sector which when intelligently interlinked nationally provides a strong and successful total structure. It is for that reason that we have had to reassure various officials over and over again that a successful branch line operation in the Eastern Free States ***does not threaten the national rail programme***. We are very often asked if we intend to ***interfere*** with the Richards Bay Coal Line, the Blue Train and other important parts of Transnet's strategy. Those questions are irrelevant because the Eastern Free State line is a major project in its own right, and it is to the credit of South Africa's massive and impressive rail network that it is only considered to be a branch line. We are fortunate however that the potential scale of our project will attract the international investor.

7. *Our children*

Our children deserve a legacy from us as adults. We expect to leave them with a better education than we enjoyed, and we should leave them with positive projects to build on. A country's infrastructure and how it developed is a largely non-political issue. The railways of this country have served different masters since the middle of the last century and their history and legacy are of educational significance. There is no sounder way of assisting future generations to understand how a country developed than to see with their own eyes, maintained examples of infrastructure from a bygone era.

We have been shocked to discover that only items in private ownership are easily accessible. South Africa had one of the finest selections of rolling stock in the world. However, for whatever reason, a policy implementation is in process now which is bent on destroying much of this rolling stock. There is a ***desperate need to review this policy*** and allow the private sector to acquire them, restore them, display them and - entirely in co-operation with the authorities - to use them ***for the benefit of the country***, through tourism, education and commercial prosperity.

It is inconceivable that a situation should have developed where attractive financial offers, made to purchase rolling stock above any value that could be obtained by scrapping the items, are ignored. These are accompanied by all the necessary assurances that these items will in no way be used to prejudice the economic interest of the railways. It implies that Transnet does not wish to generate income from the sale of assets and it implies that there is a desctructive element in the whole policy making process. We have analysed each and every rationale that might be applied and we can find no reason why any commercial organisation should ignore offers made with strong financial backing to buy assets about to be scrapped. We have offered amounts substantially higher than any residual scrap value that might accrue. ***Despite that, many valuable items have been scrapped.***

Buildings

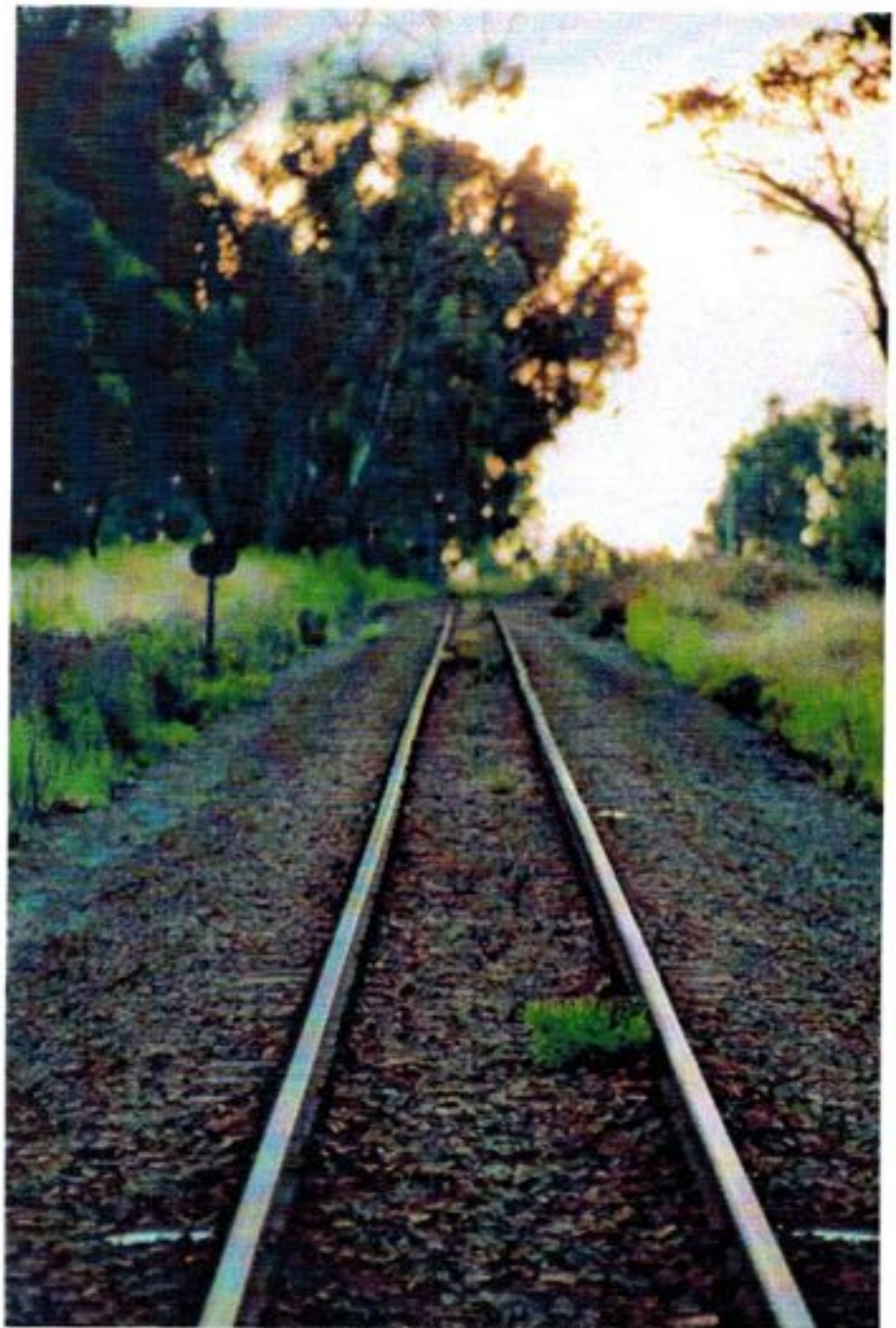
The wholesale demolition, destruction and permitted vandalism of houses, workshops, stations, etc. along this line would automatically be reversed if the line was permitted to operate actively. Is South Africa so wealthy that it can allow its accumulated asset base to be destroyed? Bureaucracy, apathy and an aversion to private enterprise initiatives lies at the heart of this ongoing destructive process.

No accident - this is man made destruction

On the brink - only private initiative and capital can pull them back

9. *Summary*

We hope that this report will add some weight to the current debate. Unfortunately procrastination is the thief of time and we are all losing ground. We are dealing with many officials in good faith who simply cannot move because the policy making framework in which they operate does not exist. We suggest restrictions be lifted now which will allow us to commence operations. The longer term aspects of the privatisation process do not have to be finalised now. Fairly minor obstacles are holding us back which can be dealt with by Transnet and Spoornet management.



Does this track lead to success or failure ?
TRANSNET - it is in your hands !!!

WILFRED E MOLE
01/10/97

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Refer to attached Appendix A

PRIVATELY OWNED COACHES AND LOCOS ON SPOORNET LINES ... A REVIEW OF THE ADVANTAGES OF "OPEN ACCESS"

Overview

Since our re-admission to the world, South Africa's tourist industry is attracting an increasing number of foreign visitors. The declining value of the Rand against major currencies has also forced South Africans to look to this country for their leisure, further growing our tourist industry.

These tourists are a major source of job creation, often to places which have little industry and employment prospects. The international tourists generate a large amount of foreign exchange which improves the nation's economic fortunes.

It is Spoornet's corporate philosophy that it is not in the tourist market, with the notable exception of the Blue Train, which can only cater for a fraction of one percent of our tourism requirements. Spoornet rightly has to consider its business of transporting passengers on a scheduled basis from Point A to Point B. This is as it should be.

Past situation

For many years Spoornet, and its predecessors, have catered for the charter market, such as it was, on an ad hoc basis. Rail tours, trains to special events, steam train enthusiast trips and others were run, usually by internal departments, using normal service or vintage rolling stock. The vintage stock was generally available because old rolling stock was retained far beyond its normal life span.

Various enthusiast groups were able to run their own locomotives provided they were inspected by the relevant railway authority and met legal certification requirements. This worked well.

Present situation

There are a number of non Spoornet organisations arranging charter trains using Spoornet rolling stock and locomotives. Some of these such as SANRASM, Reefsteamers and Friends of the Rail are steam enthusiast groups, while others such as Sandstone Steam Railroad Company, Trains Galore, Bushveld Safaris, Pieter Marx, Spier Estates, *etc*., are commercial concerns.

These operations bring in considerable revenue for Main Line Passenger Services and thus for Spoornet. However, for a three month period from November 1996 to end January 1997, no charter train bookings were accepted whilst the charter train policy was under review. We recently had another period of uncertainty pending the introduction of new tariffs, which have not been implemented.

We are also in the position that with the growth of scheduled traffic, ***coaches for special trains are not available*** at certain times of the year.

It was this situation that prompted the industry to seek to operate its own equipment if it was to survive. It is also apparent that overseas and corporate passengers expect a superior vehicle to those currently available as First Class coaches from Spoornet. This is not surprising given the fact that the basic Spoornet coach design dates back to the early wooden coaches in the late 1920's, while the improvements that have taken place in European, American and Japanese railways in the last ten years have left us far behind.

Restored Canadian Pacific Dining Car (Banff Canada) The work of a private company offering a first class experience.

Many overseas passengers are disappointed when they board trains. This is often not due to the state of the train, which is often excellent, but with the dated drab interior, lack of air conditioning etc.

In addition, the condition of the coaches seems to be slowly deteriorating, not through any fault of the personnel concerned, but simply because the maintenance infrastructure has been so reduced over the years that it is now highly stressed.

A South African coach on its way to an ignominious end

The number of coaches available for charter use is restricted, and they are insufficient at peak periods. Also Lounge Cars, Dining Cars and Kitchen Cars are very scarce, which leads to a loss of business as food and drink are essential on long distance and corporate trains.

Many groups have been deprived access to locomotives and coaching stock, often resulting in trains being cancelled at short notice with considerable loss of revenue and reputation for all concerned. All this while beautifully restored private loco's stand idle. Foreign tourists are left stranded.

WHAT IS THE SOLUTION?

Coaches

In order to satisfy the requirements of tourist customers private operators need suitable coaches. We have already established that generally such vehicles are not available or in short supply, therefore operators need to purchase/lease and modify to their own requirements and specifications.

This is not as easy as it sounds as it is very difficult to source coaches from Spoornet. For example Spier Estates in the Western Cape decided to purchase and refurbish a set of coaches from Zimbabwe, while our own stock was being destroyed.

It should be noted that Rovos Rail, Spier Estates and Umgeni Steam Railway already run private coaches on a regular basis, producing revenue with no ill effects to Spoornet. However, other well managed organisations such as Sandstone Steam Railroad Company and others are subject to the " DIT IS NIE MOONTLIK NIE " policy imperative.

We appreciate that unrestricted access to all sorts of untried vehicles is not the answer and a proper contract needs to be drafted.

Such a document has been talked about in the corridors of Spoornet for some time but has never, as far as we are aware, seen the light of day. Such a contract should cover maintenance to Spoornet's requirements, inspections, lifting and insurance.

The following advantages accrue from allowing private rolling stock to operate :

1. The amount of rolling stock needed to be provided by Spoornet will be much reduced, ensuring better utilisation of assets.
2. Rolling stock of a high standard will be available at no cost to Spoornet.
3. Extra business will be generated at little cost to Spoornet.
4. Private owners will manage their own fleet bookings and availability.
5. Jobs will be created/safeguarded on Spoornet.
6. More tourist business will be attracted to South Africa for the good of the country.
7. Jobs in the tourist industry will be created.
8. Investors worldwide will be encouraged to invest in this liberated rail environment.

4 / ...

Locomotives

One of the greatest drawcards for tourist rail travel is the opportunity to travel behind a steam locomotive. Transnet Heritage Foundation has found the provision of such locomotives too great a burden and has now retreated to the George to Knysna line and the area around Cape Town. Even in these areas demand has outstripped supply and business is being lost.

There are a number of Transnet Heritage Foundation affiliated 'clubs' who have locomotives on a lease lend basis and these locomotives are permitted to operate relatively freely. However, being mainly volunteer organisations their manpower is restricted and they are unable to meet the demand, particularly around Johannesburg and other major centres.

Again we find certain operators such as Rovos Rail, Umgeni Steam Railway, David Shepherd and others whose privately owned locomotives have been allowed to operate on the main lines, again seemingly without detriment to Spoornet.

We are now in the situation where companies with resources, such as the Sandstone Steam Railroad Co. (Pty) Ltd based in Bethlehem, have purchased or had donated steam locomotives to run their own trains.

Some of the steam 'clubs' are also acquiring locomotives from the mining industry which at present they are not allowed to run. Strictly speaking in a 'Spoornet' sense one should count Transnet Heritage Foundation locomotives as 'private' as they are a separate business from Spoornet. With this in mind it should be noted there are a number of legal requirements regarding pressure vessels, the operation of steam locomotives *etc.*, applying to industry in general, some of which are more stringent than Spoornet's own requirements.

SUSAN - the pride and joy of "Reef Steamers"

Once again we come to the question of satisfying Spoornet's requirements. Should a locomotive satisfy the legal requirements and pass a roadworthy inspection by qualified Spoornet personnel, why should it not run? It is accepted that Spoornet crews will man these locomotives. There is no question of 'foreign' crews being let loose!

INSURANCE INDEMNITY

A sufficiently comprehensive insurance policy, or insurance policy, or insurance arranged through Spoornet's own organisation, as per the Transnet Heritage Foundation locomotives would of course be compulsory.

Buying a piece of South Africa's steam heritage

There are investors, both local and overseas who are ready and willing to purchase and finance the restoration of steam locomotives provided they can see use on Spoornet track doing real work.

The following advantages come from allowing such locomotives to operate :

1. It eases the load, both financial and material on Transnet Heritage Foundation as custodians of our steam heritage.
2. Serviceable steam locomotives will be available at no cost to Spoornet or Transnet.
3. Extra business will be generated at little cost to Spoornet.
4. Private owners will manage their own fleet bookings and availability.
5. Jobs will be created/safeguarded on Spoornet.
6. More tourists business will be attracted to South Africa for the good of the country.
7. Jobs in the tourist industry will be created.
8. Spoornet Traction are not in a position to repair privately owned steam locomotives, thus if they are not allowed to run on the main line they have no future and will be scrapped.

Fitters working on privately owned locomotives. Twelve men are employed on this site alone.

A CONSIDERABLE NUMBER OF THE JOBS CREATED WILL BE RELATIVELY LOW-TECH AND IN AREAS OF POOR EMPLOYMENT PROSPECTS

LINK RAIL

The regional and short lines will undoubtedly wish to establish tourist attractions in the form of steam locomotives. In fact, given the low initial cost of a refurbished steam locomotive, the intermittent nature of traffic, job creation considerations, *etc.*, such lines may choose to rely on steam power. This cannot be attained by Lease Lend locomotives as any investor needs to have title over the loco and a free hand in its use.

As previously stated we have been approached by investors willing to purchase and restore locomotives for use on regional and short lines. In fact the Sandstone Steam Railroad Co. (Pty) Ltd, which is interested in the Bloemfontein to Bethlehem line has already purchased 3 x GMAM Garratts, 1 x 25 NC, 1 x 15F, 1 x A Class tank and other locomotives. One of the Garratts will be ready for service within weeks and the 15F needs only painting and Spoornet inspection. We have also had enquiries from a number of local industrialists from New Zealand, USA, UK, Germany and Australia, where privately owned stock is used extensively in the tourism and short line markets. A recent report confirmed that privately owned coaches were allowed to run in the Ukraine which was until recently part of Russia!

It is also possible that diesel railcar type vehicles will acquired, whether it be of the 'Botswana' type, historic Michelin types, or vehicles of the British pattern. This opens up the possibilities of low cost "commuter" type passenger rail transport.

In terms of the government's commitment to keep our railway route network intact, ***the provision of private equipment is the only chance of success.***

THIS PROPOSAL IS NOT AIMED OR STRUCTURED TO BE COMPETITION TO SPOORNET'S CORE BUSINESS, NOR A FREE FOR ALL OPEN ACCESS POLICY. PROPERLY MANAGED IT WILL ASSIST SPOORNET TO FULFIL ITS MANDATE, AND PRODUCE EXTRA TRAFFIC TO SHARE THE FIXED COSTS OF THE NETWORK.

In this we have now gone full circle, the private stock either assisting the retention of the regional and short lines or meeting the needs of tourist traffic which is not Spoornet's market.

Static (Off Line) Coaches

Many of the items being scrapped could be used for fixed purposes. These will be refurbished and used for a variety of tourist purposes. There will be coaches for sleeping accommodation, craft shops and other local initiatives which will be of great benefit to the local population. This will also ensure that the fabric of the stations is not vandalised and destroyed as is starting to happen already. Ladybrand station is already a first class tourist facility. Two private coaches are being refurbished at present off track to provide additional accommodation. We will also need to purchase further rolling stock, thus saving a number of historic items from destruction and saving Spoornet the task of scrapping them. A number of suitable and historic items have been scrapped recently or are standing on the brink of destruction in a number of centres. While you read this report, rolling stock is being cut up at Kroonstad and other centres.

South Africa has a wonderful window of opportunity to move our railways forward into the 21st Century. Allow private equipment and private enterprise to join the national rail network.

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