

TRANSPORT: INVISIBLE FORCE – VISIBLE IMPACTS

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KEY MESSAGES

Africa has been and will continue to be one of the fastest growing economic regions in the world based on strong fundamentals

Transport is an important enabler of Africa's growth. However, current transport and logistics system are insufficient :

- Maritime sector is well positioned to boost African trade quickly
- Land-based transport will remain the challenge

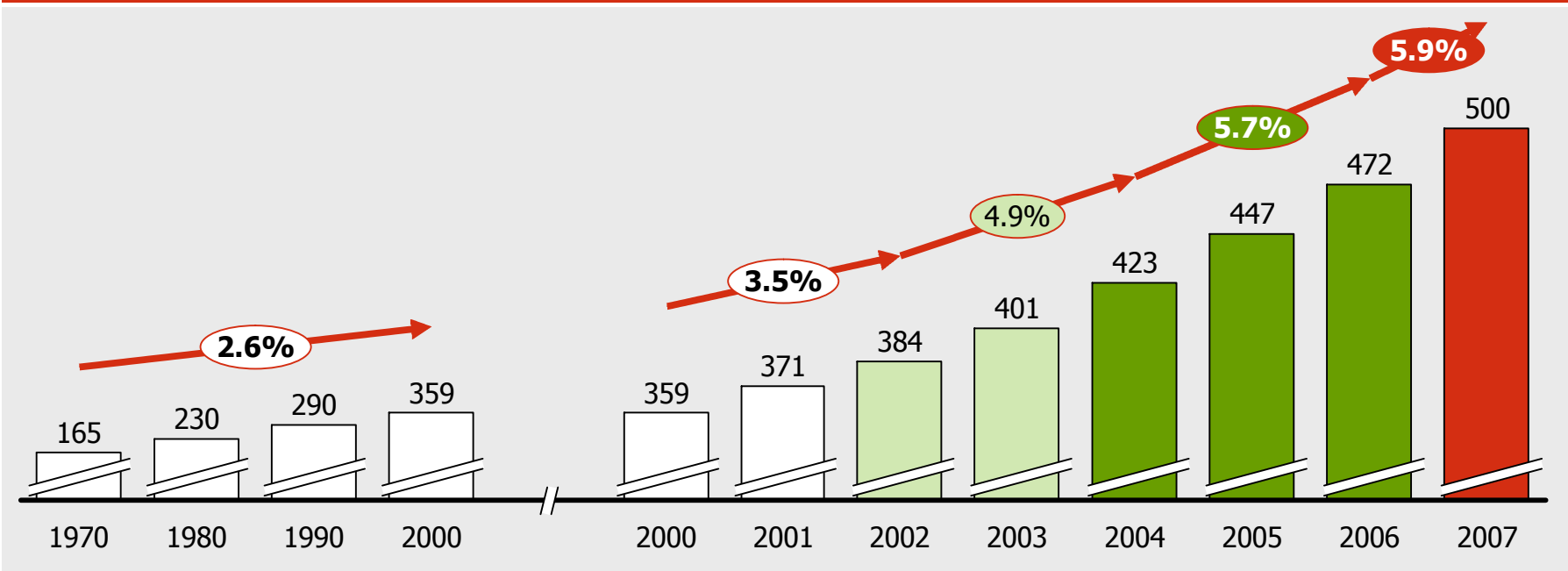
Combination of hardware (infrastructure) and software (policies) necessary to develop efficient transport and logistics players in Africa



AFTER THIRTY YEARS OF SLOW ECONOMIC GROWTH, AFRICA IS ACCELERATING



SSA GDP Real US\$2000bn, CAGR

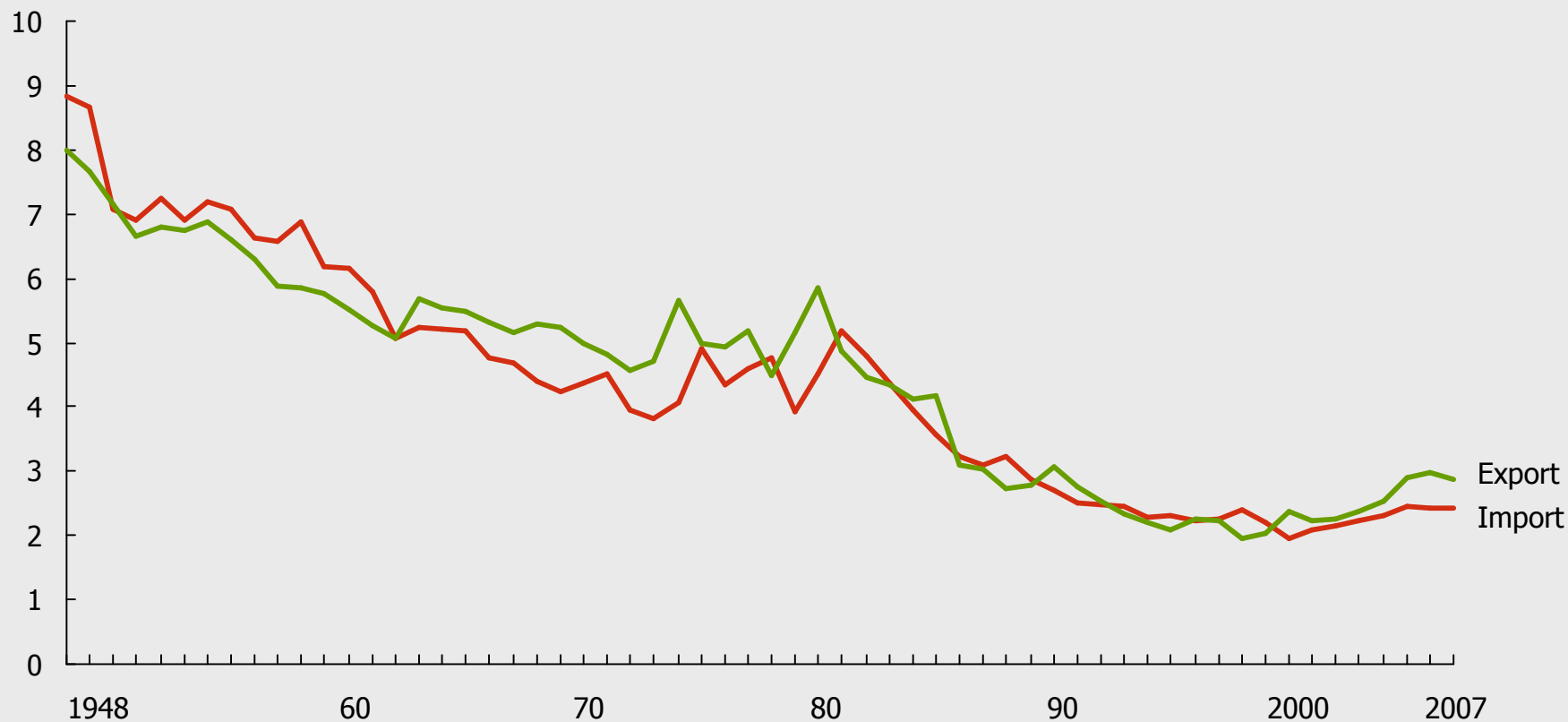


Source: UN data; WMM; McKinsey analysis



HOWEVER AFRICA'S POSITION IN WORLD TRADE IS DETERIORATING

Share of merchandise trade* – Developing economies: Africa % of total world



* Exports and imports

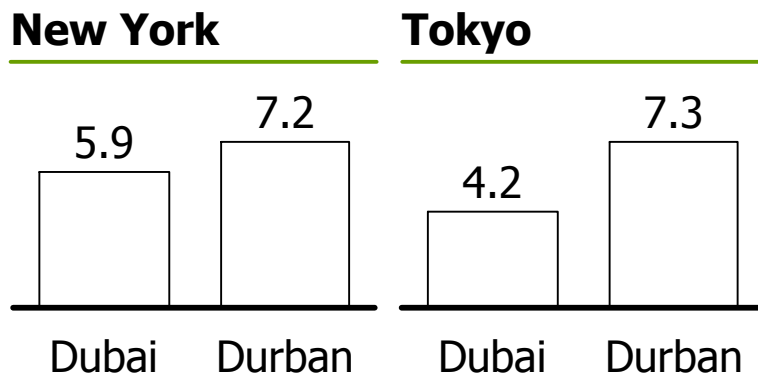
Source: UNCTAD, World Bank WDI



A NUMBER OF ISSUES MAKE AFRICA'S TRANSPORTATION AND LOGISTICS CHALLENGING

Long distances

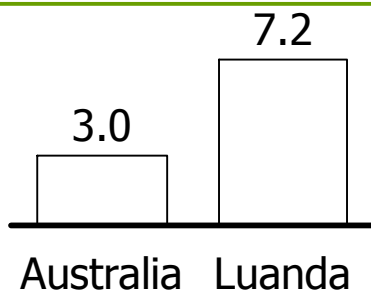
Distance in nautical miles (thsd) to



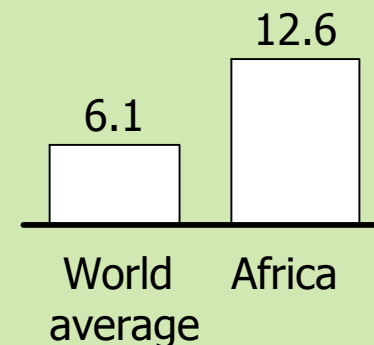
International transport costs faced by African countries are almost twice as high as the world average

High transportation unit costs

US\$'000 per TEU to Europe



Percent of GDP



Structural challenges

- Aging and unreliable infrastructure
- Incompatibility of technologies and standards
- Insufficient road network (only 10% paved)
- No effective transit agreements

* Exports and imports



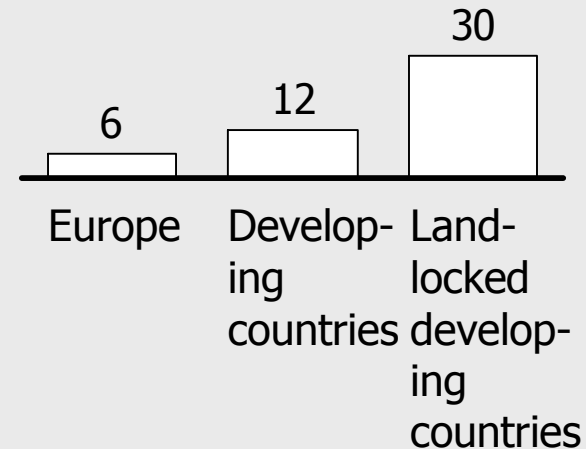
LANDLOCKED COUNTRIES FACE A BIGGER CHALLENGE

Scope and nature of challenge

- The handicap of being landlocked in Africa
 - Almost 1 country out of 3 is landlocked in Africa
 - 26% of African territory in landlocked countries
 - More than 200m inhabitants in Africa live in a landlocked country (or 25% of the population in Africa)
 - 12 out of 15 African landlocked countries are classified as low-income

Potential impact

Percentage of logistics cost of GDP



Case Example: DRC

Linking DRC with Central Africa via effective Roadlink could create upto UD\$30bn in Intra-African trade annually



LANDLOCKED COUNTRIES SUFFER EVEN MORE THAN MARITIME COUNTRIES

Landlocked countries

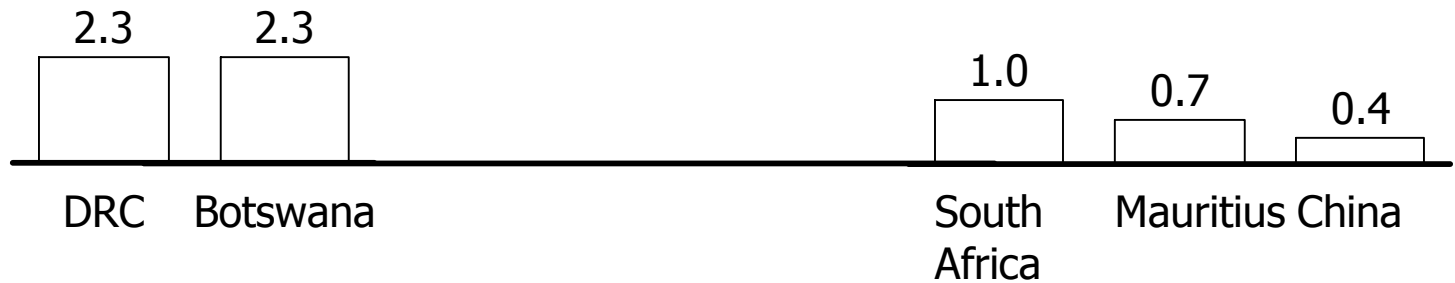


Maritime countries



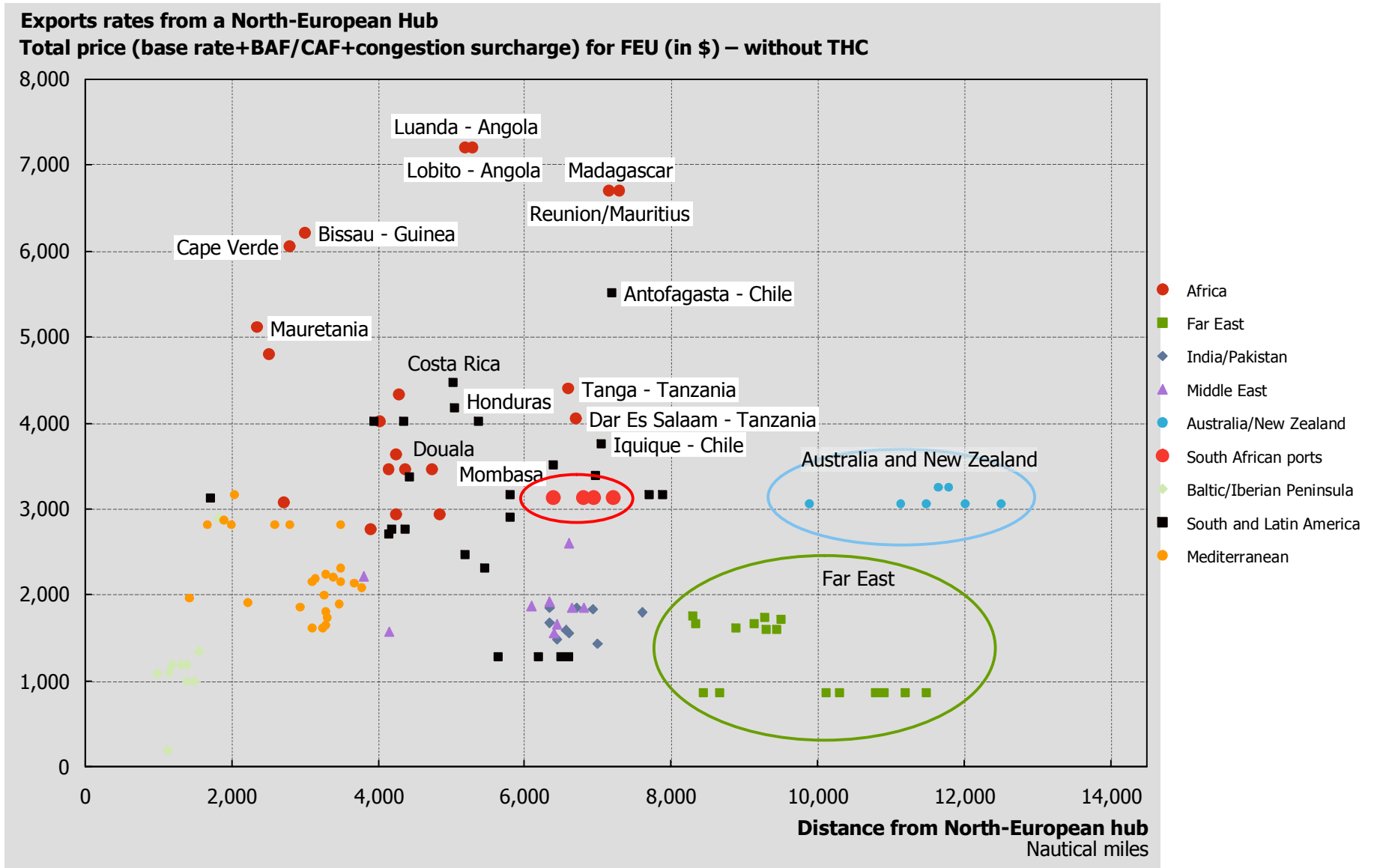
Cost to export containers

US\$'000/TEU



SEVERAL CHALLENGES AFFECT TRANSPORT IN AFRICA – IMPERFECT MARKETS

Distance (nm) and Sea Freight rates (USD/TEU) from North European hub, spring 2008



Source: Flynn Consulting

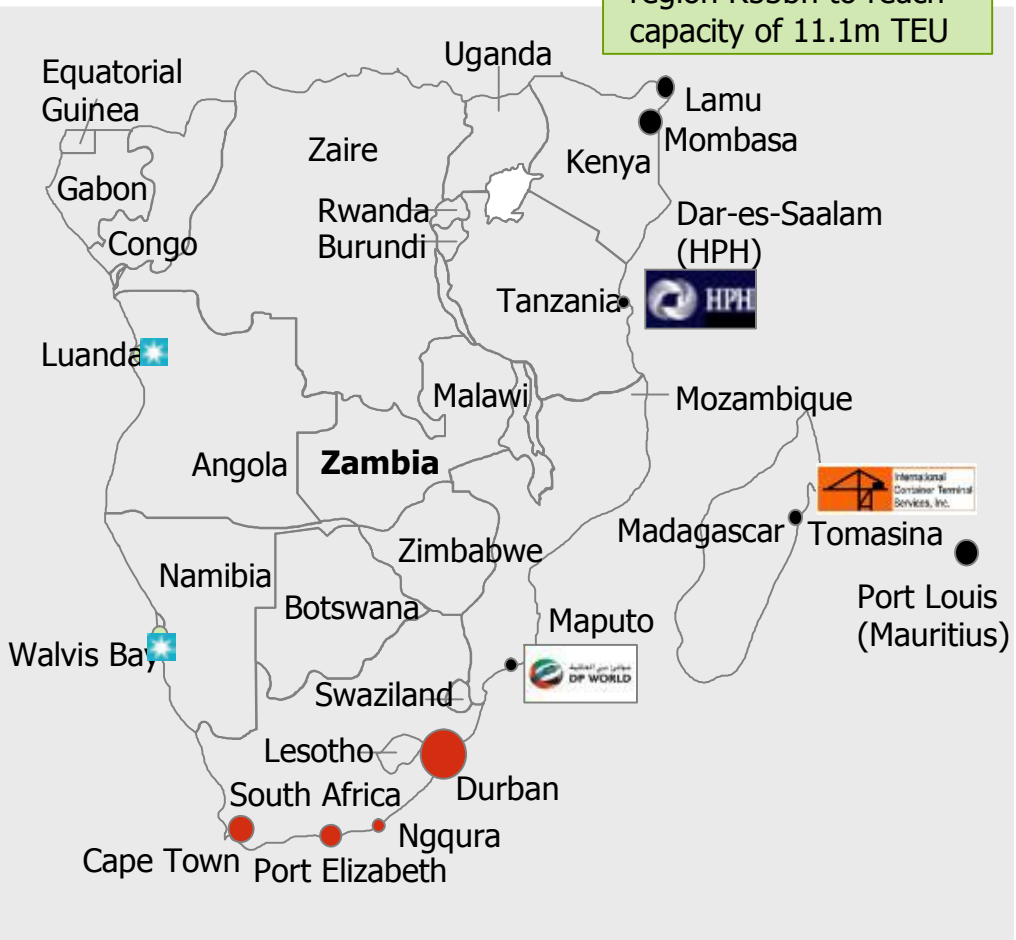


Substantial Port Capacity Available and Growing – However How Will This Be Financed in the Current Economic Crises ?

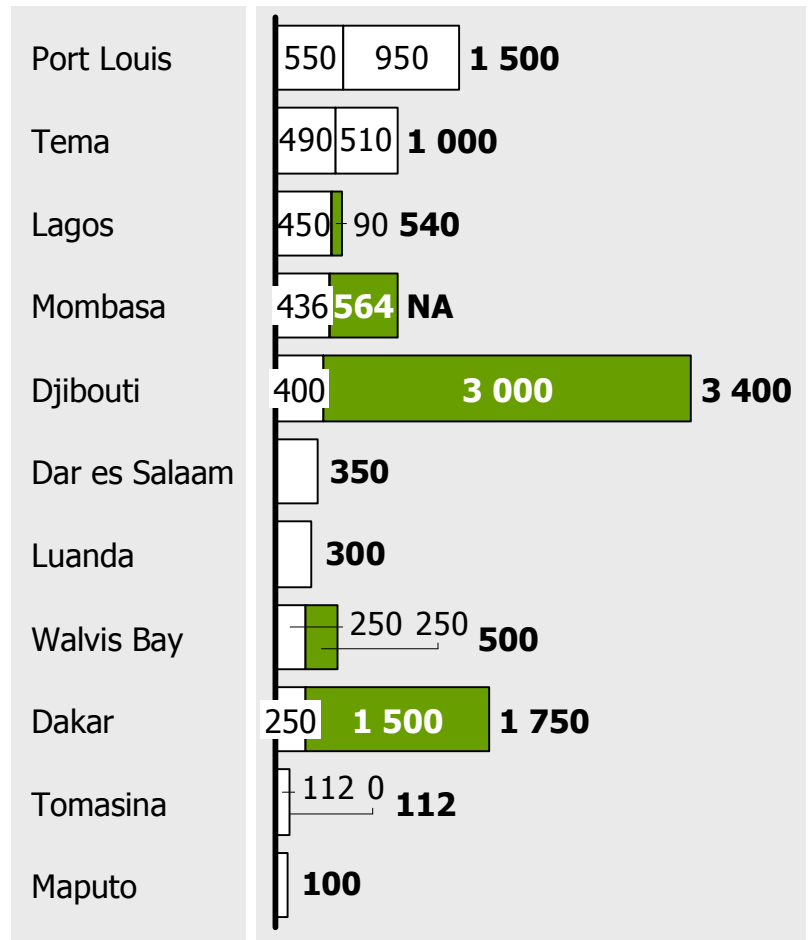


Major Sub-Saharan African ports

Total investment in the region R53bn to reach capacity of 11.1m TEU



Ports Capacity expectations '000 TEU

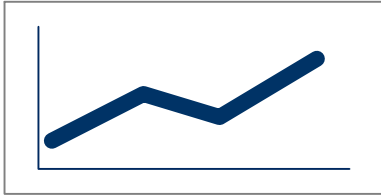


* Future capacity point



LOGISTICS PLAYER HAVE 3 CORE LEVERS TO RESPOND TO THIS FINANCIAL CRISIS – A SHIPPING LINE EXAMPLE

Structural levers



Example levers

- **Capacity reduction:** laying up/scrapping of significant capacity
- **Capacity acquisition:** adopting a dominant cost curve position based on negotiating favorable shipyard deals
- **Industry consolidation:** pursuing mergers on major trades lanes
- **Regulation:** engaging regulators on changes to allow structural consolidation

Typical characteristics

- Require bilateral or collective action

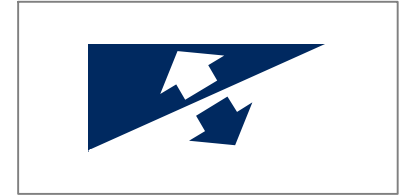
Operational levers



- **Operational excellence:** reduce cost positions including S&OP and cash operating cost
- **Transactional pricing:** manage margins and leakages
- **Contract/spot position-taking:** proactively renegotiate contracts to lock in long term volumes in return for short term rate cuts
- **Network redesign:** focus on niche trades and exiting unprofitable trunk corridors

- Potential for individual action

Diversification levers



- **Swing/flexible asset strategy:** exiting capacity ownership, focusing on charter market – e.g., sale and leaseback
- **Proprietary asset investment:** aggressively building bottleneck asset positions through vertical integration/long-term deals

- Potential for individual action



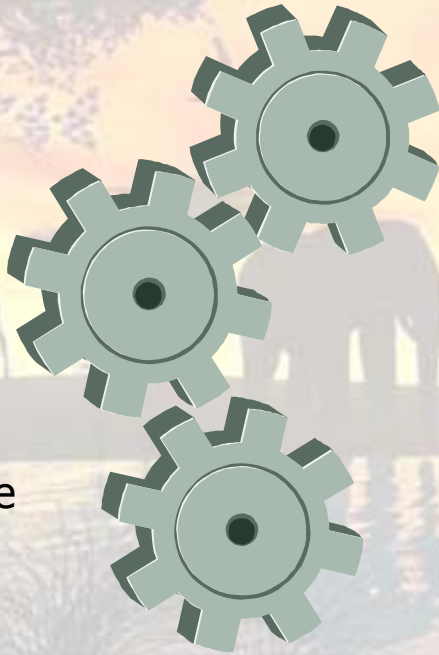
THOUGHT STARTERS FOR POSSIBLE SOLUTIONS

Core elements of effective transport/logistics solutions

Hardware: right infrastructure

Software: Policies, regulation

Players: effective logistics and Transportation companies



Potential starting points

- Focus on selected arteries/corridors
- Connect Africa to main trade routes through limited nodes/hubs
- Feed Africa through high-performing (short-sea) shipping network
- Build up skills and develop a culture of reliability



WHAT SHOULD BE THE POLICY RESPONSE FOR TRANSPORT SOLUTIONS ?

What we know already!

- Transport prices in Africa remains the highest in the World
- Africa will continue to grow and growth will raise the demand for transport solutions
- Being landlocked implies high transaction costs
- Lack of capital in this current depressed financial market to invest in infrastructure



What should policy makers do?

- **Foster a policy environment** that enables hardware and software to be developed to have competitive transport system
- Gear the policy environment to ensure both **public and private** sector has a role to play
- Seize the opportunity to advance a **structural reform** agenda in order to boost growth
- The **role of government** should be an active one to preserve economic stability as in the case of the Asian doctrine

KEY MESSAGES – SUMMARY

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Transport is an important enabler of Africa's growth. However current transport and logistics system are insufficient

- Maritime sector well positioned to boost African trade quickly
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Combination of hardware (infrastructure) and software (policies) necessary to develop efficient transport and logistics players in Africa

**THANK YOU . . . SEE YOU IN SOUTH AFRICA FOR THE 2010 FIFA
WORLD CUP**

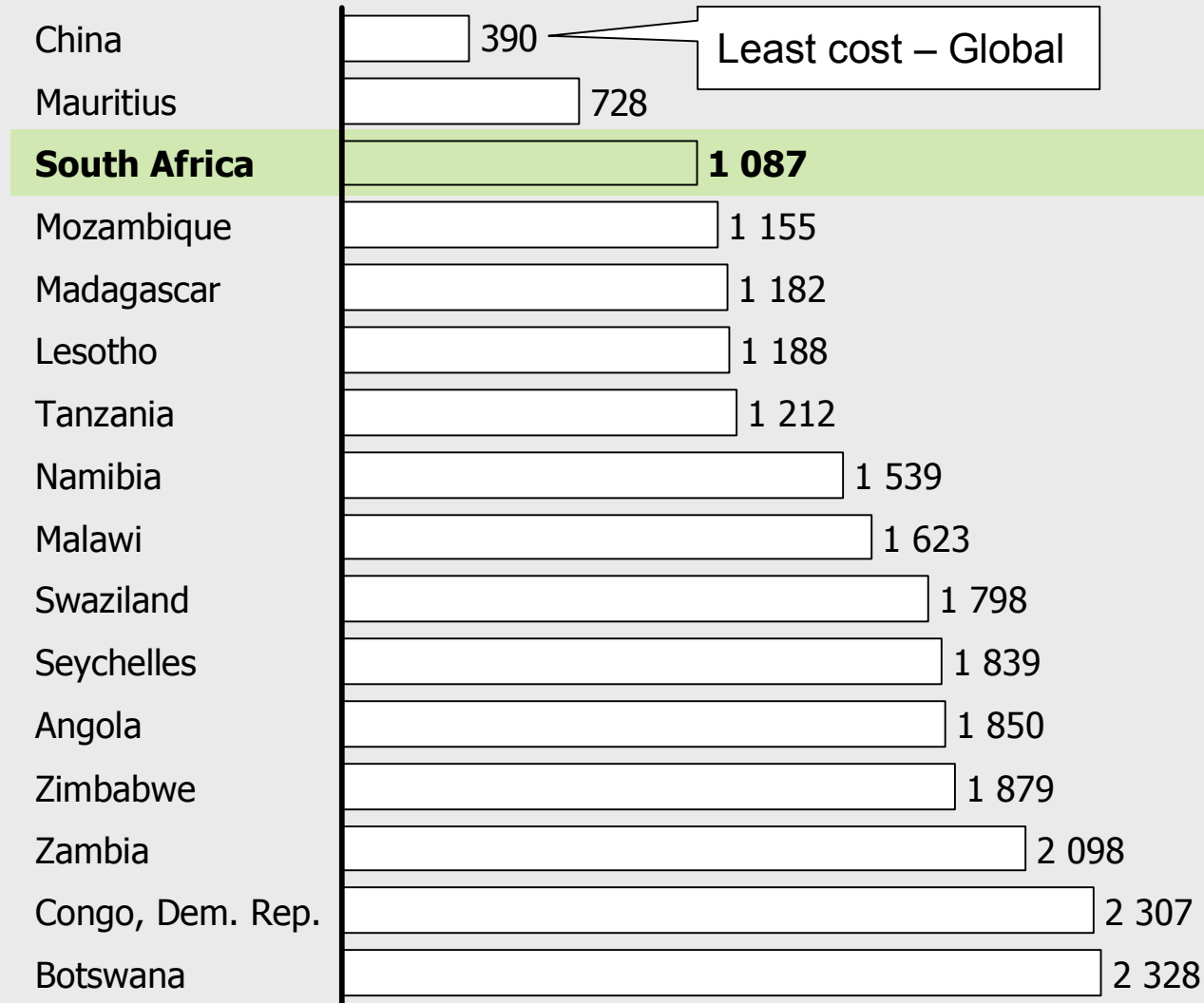


BACK-UP



SUB-SAHARAN AFRICA SUFFERS FROM HIGH COSTS TO EXPORT

Cost to export (US\$ per container)

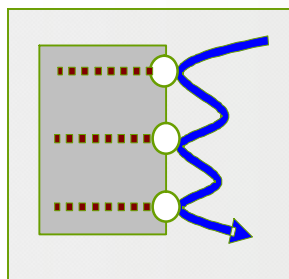




A HUB STRATEGY COULD LOWER THE COST OF TRADE

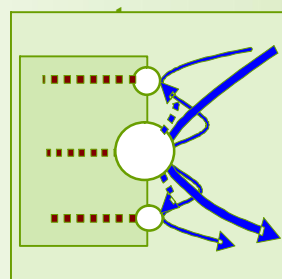
Definition

Sub-Saharan Africa today:
Multiple gateway system



Multiple medium-size ports that serve as gateway system for the country

Sub-Saharan Africa in the future:
Transshipment hub and large gateway feeder



Port of a significant size that has large volumes of transshipment volume (transshipment hub) as well as gateway volume (load-centre) and additional large ports that serve as gateway feeder

Benefits in a stakeholder perspective

Sub-Saharan African economy

- Additional economic activity originating from the hub will induce additional employment opportunities and stimulate growth
- Increased national trade competitiveness (through economies of scale, scope, and density)

Cargo owners

- Total yearly supply chain costs savings
- Improved service levels
- Improved time to cargo owner

Shipping lines

- Increased maritime connectivity improves access to regional & global markets
- Reduction in number of calls
- Optimisation of vessel utilisation (fewer stops and increased efficiency at hub)
- Improved port efficiency, feasibility, and speed

Operators

- Focusing of investments on facilities with critical mass instead of multiplication and scattering into subscale facilities
- Co-ordination of long-term capacity planning and scale economies
- Additional transshipment revenues