

FREIGHT TRANSPORT BY ROAD

Siccode 7123

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1. INTRODUCTION

This report covers the transport of freight by road where the total income for the sector in 2014 was in excess of R125bn, indicating that South Africa's road transport contributes at least 3.7% to GDP. Statistics SA's estimate of a total outsourced contract road freight payload of 574,560,000 tons for 2014 can be doubled as there is a 50/50 split between outsourced and in-sourced road freight transportation. It is a highly competitive sector, with a tight profit margin of 4%, and in order to improve efficiency and increase profits, industry players are optimising innovation and smart partnerships to develop more collaborative operations using multi-modal and intermodal transport options. As the road freight sector and the economy enjoy an interdependent and symbiotic relationship, the challenges facing the global and local economy have a knock-on effect on the volumes of goods requiring transportation by road.

2. DESCRIPTION OF THE INDUSTRY

Stated simplistically, freight transport by road is the movement of goods from all economic sectors by road from a point of origin to a point of consumption or use. The sector excludes the operation of terminal facilities, crating and packing for transport purposes, and delivery departments of warehouses operated by business concerns for their own use. Freight services cover items or shipments above 30kg in weight. The road freight industry may provide just-in-time services or be an important link in supply chain management logistics. The essence of the industry is to balance costs and service levels.

Transportation for sale or purchase may consist of the basic movement of finished products from point A to point B, such as the delivery of Fast Moving Consumer Goods (FMCG) from a supplier to a warehouse, or from a warehouse to a retailer. The flow of goods is direct and no other processes or networks are involved. At the other end of the scale this transportation activity may form part of a complex and interconnected supply chain process involving the movement of raw materials or components from a point of origin, through production, manufacturing and processing, and via the wholesaler and retailer to the point of sale. The flow of goods is interrupted at various stages, involving a number of different activities and role-players. Each link in the chain could involve the movement and storage of goods, information and documentation flow, tracking and monitoring systems, change of ownership and financial transactions. In some instances, logistics companies become involved even earlier in the supply chain, for example, land clearing, fruit harvesting and run-of-mines operations.

Supply chain management is essential to ensure that every link in the chain interconnects at the right place, at the right time and in the most cost-efficient way.

Businesses in this industry range from large corporates such as Barloworld Logistics Africa (Pty) Ltd, the Laser Group and Imperial Holdings, to small family businesses and owner-driver operations. In the informal sector animal and hand-drawn vehicles may be used to transport goods. The Road Freight Association (RFA) describes the sector as being characterised by the consolidation of logistics and transport companies. The market is therefore dominated by large companies offering flexible and integrated end-to-end supply chain management and logistics solutions for a wide variety of commodities to a wide variety of customers. These companies use a network of fixed fleet, specialist operating companies, subsidiaries, accredited sub-contractors and joint venture partners.

Owner-driver schemes offer opportunities for new entrants into the industry. Road freight companies may sub-contract work to owner-drivers, implement their own schemes or convert their existing fleets to owner-driver schemes. Possible operational options include:

- ◆ Company financed employees owning their own vehicles and driving on behalf of the company;
- ◆ Company financed owner-drivers managed by the company itself or a third party;
- ◆ Owner-drivers entering into a service agreement as independent contractors;
- ◆ Drivers owning a single vehicle or a small fleet, or owning the truck-tractor but not the trailer; and
- ◆ Owner-drivers operating as independent contractors and registering with an outsourcing agency.

The removals industry offers domestic and international household relocations, for individual families and corporate employees, plus the relevant import, export, immigration and settling-in services. Specialised services include the relocation of cars, boats, motor cycles, art and antiques. Commercial and industrial relocations offer added-value services such as the dismantling and reassembling of office furniture, electronic equipment and plant and machinery.

Due to the extent of the customer base, the variety of freight, and external influencing factors, logistics companies are often required to offer dynamic, flexible and customised solutions to meet specific needs. The sector also has to handle disruptions caused by road conditions, traffic congestion, vehicle

breakdowns, accidents, hijackings, public holidays, labour disputes, protest action, poor weather conditions and natural disasters. IT support software is valuable in providing solutions to these issues.

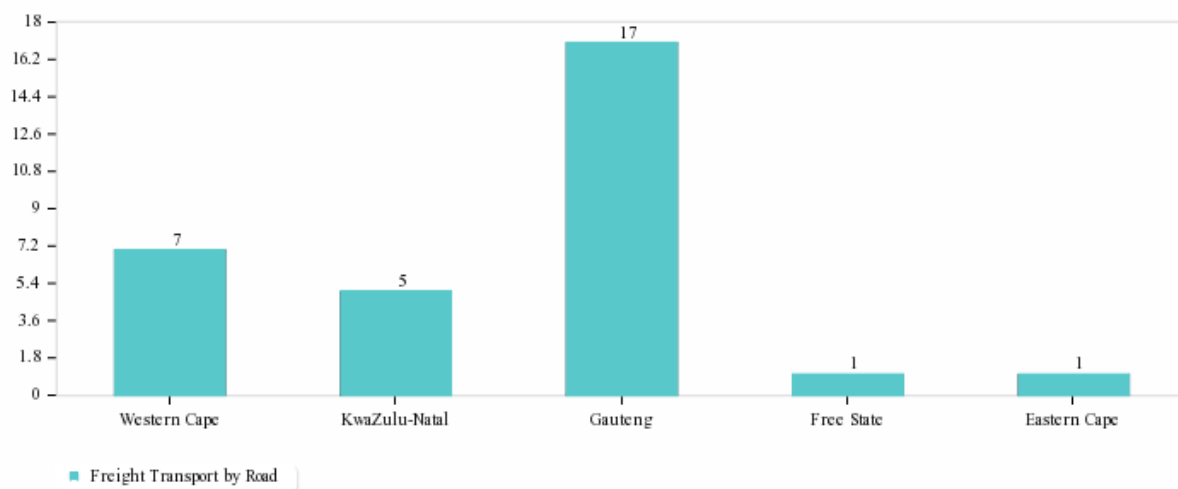
2.1. Industry Supply Chain

The road freight industry's market includes all sectors of the South African economy, including agriculture, manufacturing, automotive, textiles, construction, FMCG, mining, petrochemicals, pharmaceuticals and retail.

Apart from the industries at the freight supply points of origin, subsidiary or complementary industries to the road freight sector include: Rail transport; Air transport; Shipping; Insurance; Inventory control; Warehousing; Terminal management; Freight forwarding; and Vehicle manufacture and sales. Major third party logistics companies (3PL) that own their own vehicles include Imperial Logistics, Unitrans, Super Group and Value Logistics. Fourth Party Logistics (4PL) companies such as Barloworld Logistics and Bidvest Freight do not own vehicles but contract the services of 3PL companies.

2.2. Geographic Position

Concentration of Companies Profiled per Province - Registered Head Offices



3. SIZE OF THE INDUSTRY

The Transport Education and Training Authority (TETA) Sector Skills Plan Update 2014/2015 states that due to the considerable movement of freight on South African roads, the road freight sector has the highest number of enterprises in the total transport sector, with Gauteng, Western Cape and

Mpumalanga having the most. The breakdown is given as 255 companies in the 0-49 employee category, 144 with 50-149 employees, and 105 in the 150+ employees' category.

The Road Freight Association (RFA) reports that using Statistics SA Land Transport Statistics, applicable only to road freight for contract, and "assuming that at least another 50% gets transported by road by own transport carriers, then the total income to road freight was in excess of R125bn in 2014. This means that South Africa's road transport makes up at least 3.7% of GDP".

The table from Statistics SA's Land Transport Survey (preliminary) for October 2015 below depicts the volume of goods transported and income for the period January to October 2015.

Road Freight Transportation Estimates January–October 2015

2015	Payload		Income	
	Weight ('000 tons)	Y-o-Y% change	(R million)	Y-o-Y% change
January	43,819	3,2	6,791	2,8
February	44,265	-1,6	7,010	0,3
March	46,075	-0,2	7,182	2,8
April	44,340	-8,1	6,978	-4,6
May	44,451	-10,2	7,233	-5,9
June	45,016	-7,5	7,238	-6,0
July	46,306	-6,9	7,383	-5,5
August	45,299	-8,0	7,163	-6,5
September	49,104	-1,2	7,578	-4,2
October	49,848	-2,1	7,803	-1,7

[Source: Stats SA's Land Transport Survey (preliminary) for October 2015]

The Stellenbosch University Logistics Barometer South Africa 2015 states that in 2013, the total transport sector was responsible for 362 billion tonne-kilometres, with the road freight sector accounting for 221 billion tonne-kilometres or 61% as follows:

- ◆ Long distance corridors between cities: 96 billion tonne-kilometres;
- ◆ Metropolitan networks within major cities: 76 billion tonne-kilometres; and
- ◆ Between rural areas and the long-distance corridor or metropolitan networks: 49 billion tonne-kilometres.

Summary of Main Players

Company	Fleet Size	Services	Areas	Employees	Revenue
Eastern Cape					
Vincemus Investments (Pty) Ltd t/a Kempston Group	3,000 Vehicles	◆ Freight services	South Africa	4,500	
Free State					
Ezethu Logistics (Pty) Ltd	10 Trucks	◆ Freight services	South Africa	45	
Gauteng					
Aspen Logistic Services (Pty) Ltd	100 Vehicles	◆ Freight services ◆ Storage & warehousing	Southern Africa	150	
Barloworld Logistics Africa (Pty) Ltd	180 Trucks	◆ Freight services ◆ Storage & warehousing	Southern Africa	4,100 (Logistics Group)	R33,213.0m (2015) (Barloworld Ltd's Automotive/L ogistics segment)
Biddulphs Removals and Storage SA (Pty) Ltd t/a Biddulphs International	120 Trucks	◆ Furniture removal ◆ Storage & warehousing	South Africa	450	
Cargo Carriers Ltd	300 Vehicles	◆ Freight services ◆ Storage & warehousing	Sub-Saharan Africa	1,083 (Group)	R913.43m (2015) (R904.7m - Transport Services)
Digistics (Pty) Ltd t/a Digistics Digital Logistics	15 Vehicles	◆ Freight services ◆ Storage & warehousing	South Africa	500	
Elliott Mobility (Pty) Ltd	100 Trucks	◆ Freight services ◆ Furniture removal ◆ Storage & warehousing	Global	600	

Company	Fleet Size	Services	Areas	Employees	Revenue
Imperial Group Ltd	7,133 Vehicles	<ul style="list-style-type: none"> ◆ Freight services ◆ Storage & warehousing 	Global	51,361 (Group)	R107,453.0m (2015) (Imperial Holdings Ltd) (R67,101.0m - South Africa; R10,481.0m - Rest of Africa; R29,871.0m - International)
Namibia Logistics (Pty) Ltd t/a Namlog	80 Vehicles	<ul style="list-style-type: none"> ◆ Freight services ◆ Storage & warehousing 	South Africa Namibia Swaziland	311	
OneLogix Group Ltd		<ul style="list-style-type: none"> ◆ Freight services ◆ Storage & warehousing 	Southern Africa	1,862	R1,387.72m (2015)
Roadwing (Pty) Ltd		<ul style="list-style-type: none"> ◆ Freight services 	South Africa	94	
RTT Group (Pty) Ltd	1,700 vehicles	<ul style="list-style-type: none"> ◆ Courier services ◆ Freight services ◆ Storage & warehousing 	Sub-Saharan Africa	5,000	R2,500.0m (2015)
Super Group Ltd		<ul style="list-style-type: none"> ◆ Freight services ◆ Storage & warehousing 	Global	8,579 (Group) (5,952 - Supply Chain Segment)	R27,525.19m (2015) (R7,696.8m - Supply Chain, R2,139.3m - Fleet Solutions, R6,069.1m - Dealerships, R9,601.0m - Services & Intercompany Elimination, R624.4m -

Company	Fleet Size	Services	Areas	Employees	Revenue
					African Logistics, R522.7m - Fleet Africa, R1,616.6m - SG Fleet)
Transnet SOC Ltd		◆ Freight services	South Africa	66,665 (Group) (55,506 - Permanent; 11,159 - Temporary)	R61,152.0m (2015) (R37,758.0m - Freight Rail; R9,712.0m - Port Terminals)
United Bulk (Pty) Ltd t/a Onelogix United Bulk	230 truck-tractors and tanker-trailers	◆ Freight services	South Africa	400	R245.0m (2015)
UTi South Africa (Pty) Ltd		◆ Courier services ◆ Freight services ◆ Storage & warehousing	South Africa	4,000	
Value Logistics Ltd	4,600 Vehicles	◆ Courier services ◆ Freight services ◆ Storage & warehousing	Sub-Saharan Africa	2,617 (Group)	R1,653.0m (2015) (Value Group Ltd's General Distribution Segment)
Vital Distribution Solutions (Pty) Ltd		◆ Freight services ◆ Storage & warehousing	South Africa	240	
KwaZulu-Natal					
Access Freight Logistics (Pty) Ltd t/a Access Warehousing		◆ Freight services ◆ Storage & warehousing	Global	80	

Company	Fleet Size	Services	Areas	Employees	Revenue
Bidvest Freight (Pty) Ltd		<ul style="list-style-type: none"> ◆ Freight services ◆ Storage & warehousing 	Global	4,784	R29,058.66m (2015) (Bidvest Group Ltd's Freight Segment)
GAC Laser International Logistics (Pty) Ltd		<ul style="list-style-type: none"> ◆ Freight services ◆ Storage & warehousing 	Global	180	
Gan-Trans (Pty) Ltd	100 Vehicles	<ul style="list-style-type: none"> ◆ Freight services 	Southern Africa	150	
Grindrod (South Africa) (Pty) Ltd		<ul style="list-style-type: none"> ◆ Freight services ◆ Storage & warehousing 	Global	5,322	R5,653.51m (2014) (Grindrod Ltd's Freight Services segment)
Western Cape					
Crossroads Distributions (Pty) Ltd		<ul style="list-style-type: none"> ◆ Courier services ◆ Freight services ◆ Storage & warehousing 	Global	2,400	
Damco Logistics (Pty) Ltd		<ul style="list-style-type: none"> ◆ Freight services ◆ Storage & warehousing 	Global	84 (11,400 - Group)	
DPD Laser Express Logistics (Pty) Ltd	300 (Dawn Wing) 437 (Time Freight)	<ul style="list-style-type: none"> ◆ Courier services ◆ Freight services 	Global	1,900	
The Laser Group (Pty) Ltd		<ul style="list-style-type: none"> ◆ Courier services ◆ Freight services ◆ Storage & warehousing 	Global	2,700	
Laser Logistics (Pty) Ltd	136 Vehicles	<ul style="list-style-type: none"> ◆ Freight services ◆ Storage & warehousing 	Sub-Saharan Africa	379	

Company	Fleet Size	Services	Areas	Employees	Revenue
The Laser Transport Group (Pty) Ltd		<ul style="list-style-type: none"> ◆ Furniture removal ◆ Storage & warehousing 	Sub-Saharan Africa	1,210	
Unitrans Supply Chain Solutions (Pty) Ltd	3,000 Vehicles	<ul style="list-style-type: none"> ◆ Freight services ◆ Storage & warehousing 	Sub-Saharan Africa	9,800 (Group)	

The furniture removals industry in South Africa is dominated by two players, The Laser Transport Group, which includes Stuttaford Van Lines, Pickfords Removals, AGS Frasers International Movers and Magna-Thomson International Movers, and Elliott Mobility.

The Value Group, Imperial Truck Rental and Super Rent are the major companies that offer vehicle rental options with a driver and crew.

4. STATE OF THE INDUSTRY

4.1. Local

General

In December 2014, the Minister of Transport launched the **National Transport Forum** responsible for the development of an integrated transport system, a transformed transport sector, a world-class infrastructure and increased connectivity. The table below sets out the road-related policy and regulation activities for the period 2015/16 to 2019/20 as reflected in the Annual Performance Plan for the Department of Transport 2015/16. More details are included under 4.1.2 Regulations.

STRATEGIC OBJECTIVE	PROGRAMME	TARGETS				
		2015/16	2016/17	2017/18	2018/19	2019/20
Facilitate integrated macro-transport systems planning to guide investments in the sector	National Transport Master Plan (NATMAP) 2050	Submit final draft of NATMAP 2050 to Cabinet	Submit final draft of NATMAP 2050 to Parliament	Monitor implementation	Monitor implementation	Review NATMAP 2050

STRATEGIC OBJECTIVE	PROGRAMME	TARGETS				
		2015/16	2016/17	2017/18	2018/19	2019/20
	White Paper on National Transport Policy (NTP)	Stakeholder consultations on reviewed NTP White Paper	Submit NTP White Paper to Cabinet	Monitor implementation	Monitor implementation	Monitor implementation
	Draft Transport Infrastructure Funding Framework (Roads and Ports)	Complete Framework and submit to Minister for approval	Monitor implementation	Monitor implementation	Monitor implementation	Monitor implementation
Promote national, regional and continental integration of transport infrastructure and operations	Funding Strategy approval for the Durban-Free State-Gauteng Logistics and Industrial Corridor projects	Develop the Harrismith Hub Framework	Monitor implementation	Monitor implementation	Monitor implementation	Monitor implementation
	Road Freight Strategy (RFS)	Submit Draft RFS to EXCO for approval	Submit Road Freight Strategy to Cabinet	Monitor implementation	Monitor implementation	Monitor implementation
	National Railway Policy (NRP)	Publish Green Paper for public comment. Develop Draft White Paper	Submit NRP to Cabinet and develop National Railway Bill	Submit Bill to Cabinet	Submit Bill to Parliament. Develop National Railway Strategy	Monitor implementation of Strategy
Ensure a sustainable transport infrastructure network	Draft Road Transport Policy	Submit Draft Green Paper of Road Transport Policy to Cabinet	Stakeholder consultations on Green Paper	Develop White Paper on Road Transport Policy	Submit White Paper to Cabinet	Monitor implementation of White Paper
	Draft Road Infrastructure Policy	Construction & maintenance of national and provincial roads in line with budget	Oversee and monitor construction & maintenance of national and provincial roads in line with budget	Oversee and monitor construction & maintenance in line with budget	Oversee and monitor construction & maintenance in line with budget	Oversee and monitor construction & maintenance in line with budget

STRATEGIC OBJECTIVE	PROGRAMME	TARGETS				
		2015/16	2016/17	2017/18	2018/19	2019/20
	Access Road Development Plan	Conduct status quo analysis on the municipal road network	Develop Draft Access Road Development Plan and conduct stakeholder consultations with identified rural municipalities	Consider stakeholder inputs and submit Draft Access Road Development Plan to Cabinet	Monitor implementation of Access Road Development Plan	Monitor implementation of Access Road Development Plan
Regulate and enhance transport safety and security	Administrative Adjudication of Road Traffic Offences (AARTO) Amendment Act	Submit AARTO Amendment Bill to Cabinet	Submit AARTO Amendment Bill to Parliament and roll out implementation	Roll out implementation of AARTO Amendment Act	Monitor implementation of AARTO Amendment Act	Monitor implementation of AARTO Amendment Act
Enhance socioeconomic transformation of Transport Sector	Single Transport Economic Regulator (STER)	Submit STER Bill to Cabinet	Submit STER Bill to Parliament and establish the Regulator	Roll out of STER Implementation Plan	Roll out of Implementation Plan	Roll out of Implementation Plan
	Private Sector Participation (PSP) Framework	Develop PSP Framework	Submit PSP Framework to Cabinet	Monitor implementation	Monitor implementation	Monitor implementation

[Source: Department of Transport]

Trends

- ◆ Mark Prommel and Cobus Rossouw of Imperial Logistics identified the following trends in the road freight industry.
- ◆ Outsourcing of supply chain activities in order to focus on core functions provides an opportunity for growth in the road freight industry. 50% of transport in South Africa is still in-sourced, with major retailers such as Spar and Shoprite Checkers still managing their own large fleet of vehicles on a national basis.
- ◆ South African road-based logistics service providers are affected by consolidation processes driven by the fast-moving consumer goods sector.
- ◆ A practice that is gaining traction in overseas markets among manufacturers is reshoring, which entails sourcing more product locally, to reduce the number of kilometres travelled to transport goods to their destination and reduce carbon emissions.

- ◆ Mergers and acquisitions continue to take place on a regular basis both locally and internationally. The industry has been characterised by consolidations, with operators such as Bidvest, Imperial, Unitrans, Super Group, Grindrod, Crossroads, Value Logistics and Laser Logistics expanding through a process of acquiring their competitors. See 4.1.1 Corporate Actions for more information.
- ◆ Operators offer specialised services and build up their fleets according to industry and client requirements, thereby diversifying their fleets and widening the portfolio of clients.
- ◆ Locally the larger more well-established logistics companies are making acquisitions to gain access to new markets and to diversify into new industries.
- ◆ Road transport has become a commoditised service and certain companies are trying to dilute their reliance on revenue from their basic transport operations.
- ◆ In order to expand operations into Africa, logistics companies realise they have to make acquisitions to gain entry into selected African companies. It will be very difficult to establish greenfields operations in a foreign country and then expect to receive support from the locals within that country.

The following is a list of trends identified by other market players.

- ◆ The need for efficient use of data and information to enhance competitiveness.
- ◆ Greater focus on customer demands, collaboration and relationships, rather than physical and functional elements such as road infrastructure, inventory levels, warehousing and distribution.
- ◆ Pharmaceutical cold chain logistics is set for major growth over the next five years, resulting in a greater demand for more innovative and collaborative temperature-sensitive supply chains.
- ◆ Growing trend in cold treatment of perishables, a temperature treatment process which involves lowering the fruit pulp temperature to a specified level and maintaining it for a specified time period. In this way exporters can exterminate insects and larvae such as the fruit fly. It also fulfils quarantine requirements established by the phytosanitary authorities of the importing countries.

4.1.1. Corporate Actions

The following table highlights corporate actions for the period October 2013 to December 2015.

Company	Date	Corporate Action
Barloworld Logistics Africa (Pty) Ltd	September 2014	Acquisition of 80% shareholding in specialised transport provider Kumkani Heavy Haulage to be rebranded as Manline Kumkani.
	March 2015	Partnership with LBH Africa, with offices in all major South African, Mozambican and Namibian ports, to offer dry bulk commodity supply chain solutions to clients into and out of southern Africa.
	November 2015	Merger with KLL Group Proprietary Limited.
	December 2015	Merger between Barloworld Transport (Pty) Ltd and Aspen Logistics Services (Pty) Ltd.
Bidvest Holdings - Bidvest Freight Division	November 2013	Acquisition of majority shareholding in outsourcing company Mvelaserve Limited for R846,6m.
	October 2015	Restructuring of business operations into three distinct and independent companies: <ul style="list-style-type: none"> ◆ Bidvest Industrial Holdings Proprietary Limited housing the current Bidvest South Africa division and the Bidvest Namibia interest; ◆ Bidvest Foodservice International Limited housing the international and local foodservice operations; and ◆ Bidvest Capital Proprietary Limited housing the South African property portfolio and the investments in companies in which the Bidvest Group does not own majority stakes or exercise management control.
Capespan (Pty) Ltd	November 2014	Merger with Aspen International Services whereby Capespan will hold 75% of the issued shares in Aspen and accordingly a controlling shareholder of Aspen.
DHL Group	October 2014	Announced investments amounting to €30.5m in South Africa, by both its Supply Chain (€14.5m) and Global Forwarding (€16m) divisions.

Company	Date	Corporate Action
Grindrod Freight Services (Division of Grindrod Ltd)	July 2014	Competition Commission approval without conditions of the merger between Grindrod Shipping SA (Pty) Ltd and Unicorn Calulo Shipping Services (Pty) Ltd.
		Competition Commission approval without conditions of the merger between Grindrod Holdings SA (Pty) Ltd and Sturrock Grindrod Maritime Holdings (Pty) Ltd.
	August 2014	Competition Commission approval of merger between Seaboard Overseas Trading and Shipping (Pty) Ltd and The Oilseed Business of The Atlas Trading and Shipping Division of Grindrod Trading (Pty) Ltd; and The Atlas Trading Division of Grindrod Trading Asia PTE Ltd.
Imperial Holdings	July 2014	Acquisition by Logistics Africa Division of 62.5% of issued share capital of pharmaceutical wholesaler Pharmed Pharmaceuticals (Pty) Ltd, for a cash consideration of R148m. The company is to be integrated into Imperial's Health Sciences division.
		Establishment of Imperial Managed Logistics, a flexible and asset-light business model providing transport capacity through a dedicated fleet of 450 vehicles, comprising both Imperial Logistics and suppliers' vehicles, and formal partnerships with some 1 000 sub-contractor transporters.
Labat Africa Ltd	October 2015	Acquisition of 100% stake in bulk logistics company Reinhardt Transport Group (Pty) Ltd for R560m.
OneLogix	September 2013	Acquisition of 51% stake in logistics company Madison Freight Lines (SA) (Pty) Ltd.
	October 2013	Acquisition by subsidiary Onelogix (Pty) Ltd of 51% of Midrand-based logistics business Madison Freight Lines (SA) (Pty) Ltd.
	December 2013	Agreement with Izingwe Holdings (Pty) Ltd to repurchase all 23,750,000 of the OneLogix shares held by Izingwe.

Company	Date	Corporate Action
	May 2014	Acquisition of a majority stake in Durban-based handling company Andre Niemand. The extensive warehouse in the Durban harbour will offer OneLogix Projex, the group's abnormal load specialist, the necessary infrastructure and facilities to expand its product offering. The new company will be rebranded as OneLogix Projex Cargo Solutions.
	May 2014	<p>Announcement of concluded agreements as follows.</p> <ul style="list-style-type: none"> ◆ With the trustees of the Denmar Trust to acquire its 25% shareholding (25%) in and claims against Commercial Vehicle Delivery Services Limited for a purchase consideration of R14m. ◆ With Tanker Solutions Proprietary Limited to acquire part of Tanker Solutions' shareholding (14%) in and claims against United Bulk Proprietary Limited for a purchase consideration of R13m.
	April 2015	Acquisition of 74% stake in Jackson Transport, Jackson Fleet and Buffelshoek Transport from Jacques du Rand who retains the remaining shares.
	July 2015	Acquisition of remaining 25% minority shareholding, resulting in 100% ownership, of United Bulk (Pty) Ltd.
	October 2015	Through subsidiary United Bulk, acquisition of 100% stake in Vision Transport, specialising in transportation of acids and solvents, for R110m.
RTT Group (Pty) Ltd	July 2014	Acquisition of 80% of RTT by consortium led by Ethos Private Equity, along with London-based Development Partners International (DPI) and the Public Investment Corporation. RTT's current senior management team and a black empowerment staff trust will hold the remainder of RTT's share capital.
	September 2015	Competition Tribunal approval of merger with Courierit SA (Pty) Ltd and Warehouseit (Pty) Ltd.

Company	Date	Corporate Action
Santova Logistics (Pty) Ltd.	December 2014	Acquisition of 100% of the share capital in Masterfreight Internationale Spedition GmbH, a freight forwarding and clearing company based in Frankfurt Germany.
Super Group	November 2015	Acquisition of 75% stake in German-based time-critical delivery services company In Time Holdings GMBH, Germany, for R900m.

4.1.2. Regulations

The road freight industry in South Africa is governed by the **National Road Traffic Act 1996 (NRTA)**, plus other generic legislation such as the Occupational Health and Safety Act, National Credit Act, Consumer Protection Act, Companies Act, Basic Conditions of Employment Act and the Labour Relations Act.

National Road Traffic Act 93 of 1996 and regulations as amended.

A professional driving permit (PrDP) is required by drivers employed by companies carrying their own goods, or for reward for other companies. Drivers of loaded or empty heavy goods vehicles are required to have a licence card, endorsed with an appropriate PrDP. Regulations providing for the move of the transportation of dangerous goods legislation, specifically the issue of fire permits, from the jurisdiction of the National Road Traffic Act to the Fire Services Act have been withdrawn, due to the concerns expressed by the Road Freight Association.

The so-called **Consignor/Consignee legislation**, effective from January 2015, requires those transporting goods to have a written declaration containing:

- ◆ The agreement between the consignor and the operator, stipulating loading instructions and the responsibilities of the parties;
- ◆ The particulars of every consignor and consignee;
- ◆ The nature and quantity of the goods transported; and
- ◆ Proof of insurance cover for both vehicles and goods to be transported “for damages that can occur as the result of an incident.”

In terms of the National Road Traffic Act a consignee or consignor may not enter into a contract with an operator if the vehicle is overloaded. The consignor is obliged to keep a record of the mass of every

load transported from his or her premises, which must be made available to a traffic officer if requested.

Stakeholders commented, “The vague, unclear and unenforceable regulations have created uncertainty and confusion in the road freight industry”. Speaking about the insurance provisions, Peter Lamb of Norton Rose Fulbright stated, “They are completely unconstitutional. As a private entity you can choose whether or not to insure your risks. The public liability aspect can be easily addressed; it must just be properly drafted. It’s very difficult to comply with this legislation”.

With effect from 1 November 2015, amendments to the National Road Traffic Regulations provide for compulsory verification of all personal particulars by all the drivers of a motor vehicle and all persons registered on the **Electronic National Administration Traffic Information System (eNaTIS)**, or wish to make use of its services. In future vehicle owners will only be able to renew vehicle licences or drivers’ licences if they are able to furnish proof of residence.

In June 2015, the Pretoria High Court declared the current extension of the eNaTIS system contract awarded to Tasima from 2010 to 2015 invalid due to tender irregularities. The judge ordered the Department of Transport to request the transfer of the system within five days of the date of the order, and that the handover be completed within 30 days of the request. As Tasima has lodged an appeal, the order has been suspended pending the finalisation of the appeal process.

The implications of the **Amendments to the National Road Traffic Act Regulations** (Notice 411 of Government Gazette 38772 of 11 May 2015) are discussed under item 5.1.

Although only implemented on a pilot basis, the **Administrative Adjudication of Road Traffic Offences (AARTO) Act 1998** provides for a points demerit system to discourage road traffic contraventions. The **Administrative Adjudication of Road Traffic Offences Amendment Bill of 2015** simplifies the existing Act and introduces modern and effective means of servicing documents. The Department of Transport plans to introduce the demerit system in April 2016.

The **Transport Laws and Related Matters Amendment Act 3 of 2013** provides for future national road infrastructure development and the legalisation of the electronic toll (e-toll) collection system on the Gauteng Freeway Improvement Project and other future toll highway projects.

The **Transport Planning and Implementation Bill**, in the development stage, will provide for most of the new institutions proposed in NATMAP 2050 and for making NATMAP 2050 a statutory planning instrument.

The **Road Transport Management System (RTMS)** is a voluntary, self-regulatory scheme for the road logistics industry, based on the ISO 9000 quality management standard that protects road infrastructure, improves road safety and increases the productivity of the logistics value chain. Accredited RTMS transport operators gain legal concessions such as the opportunity to follow Performance Based Standards (PBS) in vehicle procurement, design or operation. Accredited operators may design a vehicle outside the current legal limits, by complying with certain safety and other requirements, and can therefore carry heavier payloads, or use certain imported or modified vehicles such as abnormal loaders. Sappi and Mondi have both developed PBS vehicles, one being operated by Timber24 and the other by Super Group.

Initially planned for implementation in July 2015, the new customs acts affecting all cross-border and international services, the **Customs Control Act no 31 of 2014**, the **Customs Duty Act no 30 of 2014** and the **Excise Duty Act** are still not in operation. The South African Revenue Service (SARS) is aware of industry concerns and confirms that extensive stakeholder consultation will take place prior to implementation, which will only occur once the relevant rules, systems, forms and processes are in place. The new legislation will not result in the closure of inland terminals. Phased implementation of the **Excise Duty Act** will start in the 2016/2017 financial year.

The **Cross Border Road Transport Act (No. 4 of 1998)** requires operators to apply to the Cross-Border Road Transport Agency for the appropriate cross-border transportation permits to ensure compliance with all cross border road transport legislation as well as to the Southern African Development Community (SADC) Protocol. Proposed amendments to the regulations have been published for public comment.

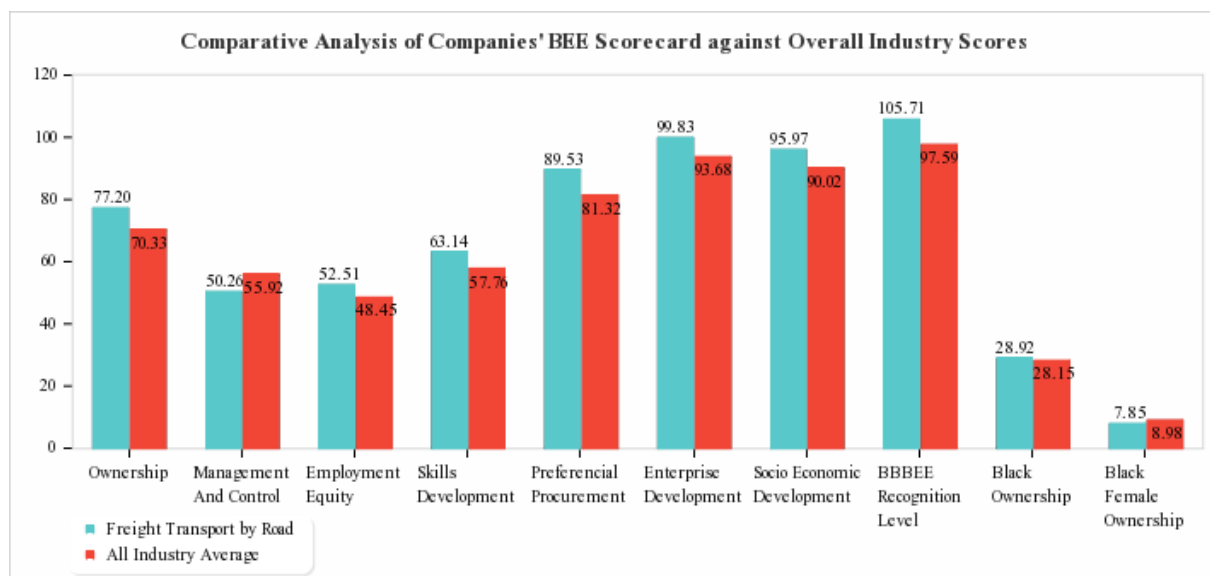
The **Border Management Agency (BMA) Bill, 2015**, approved for introduction to Parliament, provides for the establishment of a single agency responsible for consolidating the management of border security and control, within the context of South Africa's regional, African and international obligations. According to Freight & Trading Weekly, because of the complexity of its framework, "The BMA concept has been accused of being unwieldy and unworkable. There are serious concerns about

the ability of one entity to manage the diverse requirements of border control at 72 designated ports of entry in SA”.

The Professional Movers Association has introduced the **Accredited Mover of South Africa (AMOSA)** initiative. As an independent auditing service to measure quality standards, AMOSA aims to encourage continuous improvement in the industry by setting common and measurable standards resulting in improved performance and customer service.

Apart from those listed above, there are a number of policy documents that have a direct or indirect impact on the road transport industry such as the National Transport Policy, the White Paper on Transport (2014), Public Transport Strategy 2007-2020, the Rural Transport Strategy for South Africa (2007) and the Department of Transport’s Reduction of Transportation by Road.

4.1.3. Enterprise Development and Social Economic Development



The revised Broad-Based Black Economic Empowerment (B-BBEE) Codes of Good Practice came into effect on 1 May 2015, thereby rendering the current Transport Charter (Road Freight Sub-Sector Code) obsolete and invalid. The Road Freight Association (RFA) reports that it has been in consultation with the Department of Transport in the development of the new charter which includes proposals that are “vastly different to the existing Charter. The new Charter is set to change the playing field as it will have a major impact on the road freight industry once implemented, especially in terms of the Enterprise and Supplier Development element, which relates to procurement, particularly when it

comes to vehicles, fuel, tyres and maintenance spares”. The Imperial Group Annual Report states, “The new codes of good practice for B-BBEE, although challenging, present an opportunity for competitive differentiation and the logistics division is engaging with its South African clients in this regard. Supplier and enterprise development initiatives are already underway, and the division is considering options for meeting the new ownership requirements. The deadline for the logistics industry to comply with the new codes has been extended to 1 June 2016”.

The Department of Transport is finalising a transport sector BEE audit that will provide a clear picture of participation of black entrepreneurs in the sector. In December 2014 the Minister of Transport launched the Transport Sector B-BBEE Charter Council to promote the entry of black people into the transport sector. The Department of Trade & Industry (DTI) is to establish a B-BBEE Commission, with the main functions being to:

- ◆ Oversee, supervise and promote adherence with the B-BBEE Act of 2003;
- ◆ Strengthen collaboration between the public and private sectors;
- ◆ Receive complaints; and
- ◆ Launch proactive and reactive investigations in any B-BBEE matter.

The following table sets out the rankings and scores obtained by companies in this sector for the EmpowerDex Top 100 Empowerment Companies Surveys for 2015 and 2014.

Rank 2014	Rank 2015	Company	Total BEE Score 2015
26	18	Barloworld Ltd	88.93
58	59	Bidvest Group Ltd	79.42
66	66	Value Group Ltd	76.46
56	68	Super Group Holdings (Pty) Ltd	75.49
76	85	OneLogix Pty Ltd	68.84
74	87	Cargo Carriers	68.55
83	88	Distribution and Warehousing Network Ltd	68.31

[Source: EmpowerDex]

Opportunities for SMMEs

Current B-BBEE, SMME and Job Creation initiatives and opportunities in the road freight sector include the following.

- ◆ Grindrod's acquisition of the equity interests held by its long-term B-BBEE partners Calulo Investments and Solethu Investments in certain operating subsidiaries and joint ventures. A consortium, including Calulo Investments, Solethu Investments, Adopt-a-School, Brimstone Investment Corporation and Safika Holdings, invested R1.6bn in Grindrod at holding level, resulting in an 8.4% B-BBEE ownership.
- ◆ Through Imperial's B-BBEE programme, John Morajane, an employee at Imperial Cargo Solutions, established NOTOS Cleaning Services, an on-site yard and truck-cleaning service, responsible for washing and cleaning over 400 Imperial trucks a month, as well as cleaning of the yard, wash bays and rest room services on site. Co-operation agreement between Imperial Logistics group company Resolve and emerging black owned supply chain advisory business, Zakusa, with the option for Resolve to acquire equity in the organisation at a later stage.
- ◆ OneLogix start-up, OneLogix Linehaul, increased its fleet by 30% in one year. Purchase of shares by new B-BBEE partner Kagiso Capital, a wholly-owned subsidiary of the Kagiso Charitable Trust, resulted in a total beneficial interest in OneLogix of just under 10% of the total issued ordinary shares. In early 2015, OneLogix implemented two share participation schemes with rights vesting in 2020 as follows:
 - Employee Share Participation transaction entitles eligible employees other than directors and prescribed officers of the group to obtain an 8.91% indirect shareholding interest; and
 - Management Share Participation transaction entitles management and executive directors to obtain a 4.46% indirect shareholding in OneLogix. These participation schemes were implemented during January and February 2015, with rights vesting in 2020.
- ◆ The Road Freight Association has developed an SMME Starter Kit providing guidelines on starting a transport business including aspects such as business plans, obtaining finance, business statutory requirements, operational elements, technical information, transport legislation, contracts and tenders.
- ◆ Edu-Fleet offers accredited training for SMME Road Freight Operators and Trucking Business Start-Ups.
- ◆ A public-private partnership between the Ekurhuleni Metropolitan Municipality and various companies, including Imperial Logistics, where unemployed graduates are placed in private and public organisations to hone their skills and acquire work-related experience.

4.2. Continental

Infrastructure Development, Competitiveness and Trade

The road freight industry on the African continent is dependent on infrastructure, regional integration and trade. The World Economic Forum (WEF) Global Competitiveness Report 2015-2016 uses 12 pillars to determine the competitiveness of 140 economies. Namibia is the top African economy in terms of road quality competitiveness, ranked at 28, with others in the top ten African countries including South Africa (34), Rwanda (37), Mauritius (39), Côte d'Ivoire (40), Swaziland (50), Morocco (55), Seychelles (59), Kenya (60) and The Gambia (62). The report explains that “factors such as road quality, quality of rolling stock, customs and port duties, delays, coordination issues, and bribes all contribute to high transport costs. In addition to the poor quality of transport infrastructure and services, high transport costs in Africa can be explained by the absence of competition and inefficient regulation of the freight logistics sector”.

Although there are still many barriers limiting the creation of regional supply chains, the continent has seen a 60% increase in intra-regional trade between 2010 and 2015. Each year the African Development Bank (AfDB) commits US\$1.7bn toward the financing of transportation infrastructure and currently has a portfolio of more than 100 transport projects under implementation in 44 countries representing more than US\$10bn in commitments.

The International Telecommunications Union reports that Africa has a 20.7% internet penetration, with a 17.4% mobile broadband penetration and a 0.5% fixed broadband penetration. At a recent African Digital TV Development Seminar, Africa’s mobile phone penetration was estimated at 67%. This lack of telecommunications infrastructure has a severe impact on the critical role that information technology plays in supply chain logistics and cross-border transport management.

Please refer to Appendix 1 for a detailed list of current and future road-related infrastructure projects that will increase trade and strengthen regional integration, thereby contributing towards the development of the road freight sector on the continent.

The Road Freight Sector

Tom Moyane of SARS explains that although trade between South Africa and its neighbouring countries is growing, “Congestion at borders remains a concern and it is imperative that this is addressed to further facilitate cross-border trade”. Although Etienne van Ravesteyn, CEO of Time Freight, confirms

the problems caused by border post delays, he believes that many countries on the African continent offer numerous and diverse opportunities for growth for South African companies. According to Dr Sonja Carter, of the School of Economics at North West University, “The sub-Saharan region currently has one of the slowest border crossing times in the world and it takes, on average, about 85% longer to import into the region and about 60% longer than the global average to export across borders.” She further emphasises that other countries are “making progress in regional integration, improving their trade corridors and enhancing their infrastructure and could soon leave South Africa behind in the quest for gateway status”.

Companies with a Presence on the African Continent

The following table lists major South African road freight companies that operate in Africa.

Company	Area of Operations and Corporate Actions
Agility	Kuwait-based logistics firm plans to invest up to US\$100m to increase its presence in Africa, in particular, Angola, Nigeria, Mozambique and Ghana, which are all oil-producing countries.
Barloworld Logistics Africa (Pty) Ltd	Barloworld Manline Logistics manages 20,000m ² of warehousing from 15 depots across the SADC region.
Bolloré Africa Logistics	Integrated logistics network in Africa consisting of 200 offices in 43 countries with 21,000 permanent staff. Operates container terminals in Cameroon, Ivory Coast, Nigeria, Ghana, Gabon, Congo, Benin, Sierra Leone, Togo and Guinea and provides logistics services for mining projects, especially in Kenya, Uganda, Tanzania in East Africa and South Africa, Mozambique, Democratic Republic of the Congo in Southern Africa.
Cargo Carriers Ltd	Cross-border services include the fuel, grain, sugar and mining industries in Namibia, Zimbabwe, Zambia, Mozambique and the Southern Democratic Republic of the Congo. One-way traffic is one of the biggest contributors to logistics costs, so ensuring that trucks never travel empty creates an immediate saving. The company proposed disposing of shareholding in Buks Haulage Limited (BHL Zambia) and Bulk Haulage Logistics (BHL Namibia) to Zambian-registered transport company Beefco Limited for US\$1,943,000.

Company	Area of Operations and Corporate Actions
DHL Supply Chain (South Africa) (Pty) Ltd	Operates in all 51 African countries, with a fleet of more than 2,000 owned and subcontracted vehicles and 17 aircraft and plans investment in excess of €17m in 2015.
DP World	Due to the inadequate or non-existent rail transport infrastructure, costly road transport, bureaucratic systems and state protectionism, the company is negotiating with authorities in South Sudan to set up a river port to transport containers along the White Nile to Lake Victoria, where cargo can better access countries such as Rwanda and Burundi.
Elliott International	Offices in Angola, Kenya, Botswana, Zambia, Swaziland, Namibia, Senegal, Ghana and Tanzania.
Grindrod Freight Services	Distribution of fuel from South Africa and Mozambique to neighbouring countries. Plans for a R10bn project pipeline to create new or replacement infrastructure in sub-Saharan Africa during 2014-2016.
Imperial Group (Pty) Ltd	<p>Divisions or operating companies providing transportation include Imperial Cargo Namibia (Namibia), Etosha Transport (Namibia), Transport Holdings (Botswana), Truckafrica (Zambia), Express Cartage (Botswana), Imperial Health Sciences, formerly RTT Trans Africa, (SADC countries and West and East Africa), CIC Holdings (8 African countries).</p> <p>Recent initiatives to expand its footprint on the continent include the following.</p> <ul style="list-style-type: none"> ◆ Acquisition of Nigerian pharmaceutical distributor Ecohealth, for US\$74m, which has a distribution network supplying pharmaceutical products to 4,200 hospitals, 8,000 pharmacies and 2,000 clinics in West Africa. ◆ Acquisition of 70% of Imres BV, a Dutch wholesaler of medical supplies, for €46m to expand its pharmaceutical distribution in Africa. ◆ Establishment of a 9,564m² pharmaceuticals storage and distribution facility in Nairobi, Kenya. ◆ Establishment of a transport depot in Ndola, Zambia.

Company	Area of Operations and Corporate Actions
	<ul style="list-style-type: none"> ◆ Acquisition of Snyman Transport that will operate as Snyman Transport Zambia to provide transport and logistics services to the Copperbelt region.
Kuehne & Nagel (Pty) Ltd	Operations in Angola, Equatorial Guinea, Kenya, Mauritius, Morocco, Mozambique, Namibia, Nigeria, Réunion, Tanzania, Uganda, Zambia, Zimbabwe.
Manica Africa (Pty) Ltd	Port operation in Maputo and Beira in Mozambique. Container parks (inland ports) in Zimbabwe, Malawi and Zambia, supported by road freight services in Botswana, Zimbabwe, Zambia, Malawi, Mozambique and the DRC.
OneLogix	Operates in Angola, Botswana, Malawi, Mozambique, Namibia, Tanzania, Zimbabwe and Zambia.
Panalpina	Acquisition of its Egyptian freight forwarding, customs clearance and logistics agent, Afifi.
RTT Group	Footprint extends across sub-Saharan Africa, comprising over 120,000m ² of warehousing and cross docking facilities.
Stuttaford Van Lines	Branches in Lesotho, Mozambique, Nigeria, Swaziland and Namibia.
Super Group Supply Chain Division	Strong footprint in Africa with operations in Mauritius, Zimbabwe, Zambia, Malawi, Mozambique, Democratic Republic of Congo and Ghana. Whelsons Divison transports a variety of cargo including fuel, edible oils, chemicals, fertiliser, tea, tobacco, sugar, flour, salt, steel and all other general cargo. In Zimbabwe, Zambia and Malawi.
Unitrans	A large customer base in southern and eastern Africa, extending from forestry contracts in the Western Cape, through the sugarcane growing and milling regions of KwaZulu-Natal, Swaziland and Mpumalanga, then across borders into Mozambique, Malawi and Tanzania. The company's footprint also extends to Botswana, Namibia, Zambia, Madagascar and Lesotho.
Value Group	Branch network extends to Namibia and Botswana.

4.3. International

Economic Growth and Trade

The global economy and world trade drive exports from South Africa which in turn has a very strong influence on the road freight sector. The World Bank's January 2016 Global Economic Prospects report forecasts the following.

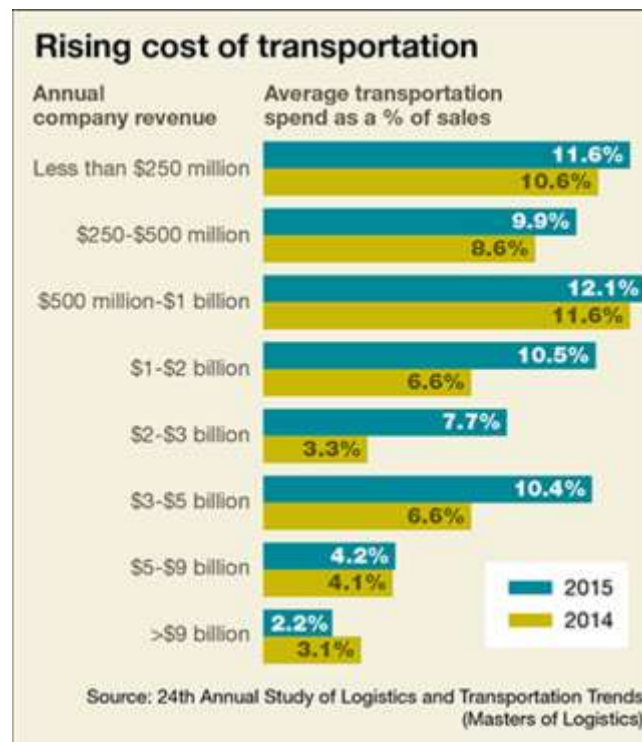
- ◆ Modest recovery of global economic growth to 2.9% in 2016 and 3.1% in 2017-18 after falling short of expectations at 2.4% in 2015 due to “weak capital flows to emerging and developing countries, weak trade and low commodity prices. The simultaneous slowing of four of the largest emerging markets—Brazil, Russia, China, and South Africa—poses the risk of spillover effects for the rest of the world economy.”
- ◆ High-income countries growth strengthening from 1.6% in 2015 to 2.1% in 2016-2018.
- ◆ Growth in developing countries rising from 4.3% in 2015 to 4.8% in 2016 and 5.3% in 2017–18.

According to the World Trade Organisation, global merchandise trade for 2015 is estimated at 2.8%, down from the previous estimate of 3.3%, as slowing import demand in China, Brazil and other emerging economies reduces the exports of trading partners. Merchandise trade growth in 2016 should pick up to 3.9%, down slightly from the last estimate of 4.0%, and still below the average for the last 20 years of 5%. “Risks to the forecast are firmly on the downside, the most prominent being a further slowing of economic activity in developing economies and financial instability stemming from eventual interest rate rises in the United States”.

The Road Freight Sector

- ◆ The MarketLine Global Road Freight Industry Guide estimates an anticipated compound annual growth rate (CAGR) of 6.6% for the road freight sector for the five-year period 2014 - 2019, which is expected to drive the sector to a value of US\$3,135.3bn by the end of 2019.
- ◆ The International Transport Forum (ITF) Outlook 2015 estimates that international freight transport volumes will grow more than fourfold by 2050, with the average transport distance across all modes increasing by 12%.
- ◆ Growth in world road and rail freight volumes ranges from 230% to 420% based on GDP growth.
- ◆ On average, road freight accounts for 59% of total surface freight, expressed in tonne-kilometres, in low income countries, 62% in middle income countries and 78% for high income countries.

The Logistics Management’s 24th Annual Study of Logistics and Transportation Trends is based on input from companies with annual revenues greater than US\$3bn, and in-depth interviews with vice presidents and directors of transportation, logistics, and supply chain at Fortune 100 companies, as well as discussions with CEOs of the top ranking truckload (TL) and less-than-truckload (LTL) carriers. As can be seen in the table below, there has been a significant increase in transportation costs as a percentage of sales for companies with annual revenues of US\$1bn to US\$5bn.



As mentioned under item 4.2 Continental above, road quality is evaluated as one of the components of infrastructure in the WEF Global Competitiveness Report 2015-2016. The top five countries with the best road infrastructure were identified as United Arab Emirates, Netherlands, Singapore, Portugal, and Hong Kong. The bottom five countries were Myanmar, Mozambique, Paraguay, Madagascar and Guinea. South Africa was ranked at 34.

Companies with a Global Presence

Local corporates forming part of multinational companies or with a global presence include Barloworld Logistics, Grindrod, Imperial Logistics International, Super Group, Bidvest, Laser Group and Elliott Mobility.

5. INFLUENCING FACTORS

5.1. Implications of Amendments to the National Road Traffic Act Regulations

The amendments to the National Road Traffic Act Regulations, published for comment in Government Gazette 38772 of 11 May 2015, include the following proposals, mainly aimed at reducing road accident.

- ◆ Reduction of speed limits as follows:
 - 40 km/h for urban areas;
 - 80 km/h on public roads outside of urban areas other than freeways; and
 - 100 km/h for freeways when passing through residential areas with 120 km/h to remain for freeways outside of residential areas.
- ◆ Renewal of driving licence cards subject to an eye test as well as successful completion of an oral test on rules of the road, traffic signs and driver traffic signals.
- ◆ Prohibition of trucks weighing more than 9,000kg from driving in urban areas between 06:00 to 09:00 and 17:00 to 20:00 Monday to Friday except public holidays.
- ◆ No more than five workers may be carried in the goods compartment of a vehicle.

Paul Nordengen from the CSIR emphasises that, “Maintenance, driver health, speeding, breakdowns and overloading are the major causes of truck accidents. Banning trucks is not going to address these issues”. Gavin Kelly of the Road Freight Association (RFA) confirmed that the association “urges the Minister of Transport to seriously reconsider such draconian measures, which will damage the economy. It would be far better to focus resources on proper law enforcement, eradication of bribery and corruption and increase the number of officers on duty during peak periods”. The RFA included the following economic implications, as estimated by economist Mike Schussler, as part of its submission to the Department of Transport.

- ◆ With only 15 actual hours per day currently available to transport operators, a six-hour ban could result in an operational loss of 40%.
- ◆ A 40% increase in costs due to the increase in the number of trucks, drivers and fuel consumption.
- ◆ 40% cost increase would result in an increase of 1.5% to the total cost base of the South African economy.

- ◆ Lowering of speed limit would add between 15% and 20% to time and cost of road transport, adding between 0.55% and 0.75% to the cost of doing business in South Africa.
- ◆ Increase in CPI and PPI of at least 2% directly and 2% indirectly as cost pressures lead to second round effects.
- ◆ The total effect on the cost to the economy would be 2% or more taking transport costs from current 12.5% to 15% of GDP.

5.2. Road Conditions and Infrastructure

The quality and efficiency of the road freight industry is dependent on the quality and efficiency of the total transport infrastructure, including road, rail, air and sea, but especially the road infrastructure. In South Africa, road conditions have a critical effect on the cost and efficiency of logistics. According to KPMG infrastructure advisory head De Buys Scott, South Africa's road network is critical to its economy, as road freight is the primary mode of goods transportation.

Badly maintained roads not only cause damage to vehicles and tyres, but the associated downtime during the repair period is also a factor to be considered. Where road maintenance does take place, the resulting diversions or road works lead to increased travelling distances and delivery delays. Vibrations resulting from badly maintained or gravel roads can also affect the cargo, especially fresh produce in the agricultural industry. Inadequate road capacity causes traffic congestion and subsequent delays. Johannesburg Mayor Parks Tau estimates that traffic congestion costs the economy over R1bn.

As part of his revised Medium Term Expenditure Framework (MTEF) budget, the Minister of Finance announced that approximately R4.8bn has been reprioritised for upgrades and maintenance of the national and provincial road networks.

5.3. Movement from Road to Rail

Imperial Logistics' Mark Prommel believes that to make the country more competitive in the global market place, South Africa needs to move more freight from road to rail, especially commodities such as minerals, ores and containers. Professor Jan Havenga of Stellenbosch University estimates that an average of 3,000 trucks travel on the Johannesburg-Durban corridor every day. Without a significant move of freight from road to rail over the next 30 years, the number of trucks would more than

quadruple to 13,000 daily. However, if suitable cargo is moved from road to rail, the number would only double to 6,000 trucks a day.

A key element of Transnet's R336.6bn Market Demand Strategy is the shift of freight traffic from road to rail by capturing rail-friendly traffic. TFR has been allocated R210.5bn to expand rail infrastructure to create capacity and increase cargo volumes so that the rail sector share of the market increases to 35% by 2019. In order to attract time-sensitive and high value cargo that has never been on rail, TFR plans to introduce a daily express rail service between Durban and Johannesburg that will cut throughput time to around 40 hours. Nisha Jones of TFR emphasises, "Our intention is not to put anybody out of business. We want to collaborate; we want to make sure we all stay in business. Road and rail complement each other; you never have any logistics solution with either one without the other". Paul Vorster agrees stating, "We must move away from the current either-or paradigm and embrace an integrated approach".

In order to overcome potential volume losses and provide support to the road-to-rail initiative, the road freight sector is investigating and implementing intermodal partnerships. Some logistics companies, such as the Super Group and Grindrod, have rail divisions. James Mackay, of Transnet Group Transaction Advisory Services, believes that public-private intermodal partnerships with road freight operators are essential to provide a complementary first and last mile delivery service which TFR is unable to offer. The following partnerships were announced.

- ◆ A Memorandum of Understanding between Imperial Logistics and TFR to explore multimodal collaboration opportunities within the logistics and transport sector.
- ◆ A Memorandum of Understanding between Barloworld Logistics and TFR to shift rail-friendly cargo from road-to-rail has resulted in the following projects:
 - Investigations into the establishment of freight consolidation hubs at Musina and Nelspruit;
 - Increasing rail volumes from Distell;
 - Transporting fuel to and from Luiperdsvlei; and
 - Identifying underutilised rail legs and wagons to be offered to Barloworld.
- ◆ Proposal between Sephaku Cement and TFR to move approximately 1 million tons of clinker and coal from road to rail that includes building a new siding at Delmas and developing a container handling facility at Lichtenburg.

Rion Henning, UTi Ocean Freight Manager, reports that the company has moved at least 10,000 containers off the road in the past year in the Western Cape as part of a pilot scheme that will eventually be rolled out across the country. Eskom reports that its 2015/2016 target for moving coal from road to rail is 13.6 million tons.

5.4. Economic Environment

The road freight industry, as an essential part of the supply chain process, stimulates the economy by transporting goods to a final destination for sale or export. The local and global economic situation together with any change in mining, agricultural, automotive and manufacturing outputs, retail and wholesale sales and imports and exports affect the payloads and therefore the profits of the road freight industry.

According to Imperial Holdings Ltd Annual Report for the year ended 30 June 2015, the performance of the road freight sector has been negatively affected by the following factors characterising the South African operating context.

- ◆ **Low and slowing economic growth**, with the South African Reserve Bank revising down its growth figures for 2015 to 1.4%, and 1.5% for 2016. According to Statistics SA, in Q3:2015 real GDP at market prices increased marginally by 0.7% quarter-on-quarter, seasonally adjusted and annualised. In January 2016 the IMF cut the country's economic growth from 1.3% to 0.7%.
- ◆ **Lower commodity prices.** The decline in global commodity prices as well as a weak demand for South African commodities, which form a significant portion of the country's total exports. The October 2015 World Bank Commodity Markets Outlook reflected a decline in all main commodity price during 2015, with only a modest recovery expected in 2016.
- ◆ **Low export growth.** A high trade deficit of R21.4bn was recorded in October 2015 with exports falling by 6% and imports rising by 15.7% from September to October. However, SARS reports on a first trade surplus in five months for November 2015, with exports growing by 10.3% and imports falling by 13.5%, compared with October.
- ◆ **A volatile and steadily depreciating currency.** Following the unexpected firing and reshuffling of finance ministers in December 2015, the rand hit an all-time low of R16.04 against the dollar, with analysts reporting a drop of 25% against the dollar during 2015. Following a short-lived recovery, the value of the rand fell to a new record low of R16.20/\$ in early January 2016. Although a weak rand benefits the country's exports, it has a negative impact on the price of fuel, imported commercial vehicles and parts required for freight transportation, sophisticated

IT systems required for logistics management, as well as on the machinery, equipment and materials imports required for infrastructure development.

- ◆ **Pervasive electricity shortages and increasing costs.** In November 2015, Eskom submitted an application to the National Energy Regulator of South Africa (NERSA), which could, if approved, result in a tariff increase of 16.61% from April 1, 2016, inclusive of the 8% already sanctioned for the year.
- ◆ **High and rising unemployment.** Statistics SA's Quarterly Labour Force Survey for Q3:2015 reflects an unemployment rate of 25.5%.
- ◆ **A scarcity of skills** as discussed in item 5.10.3 below.
- ◆ **Excessive consumer debt.** Household debt-to-disposable-income ratio at 78.3% in Q3:2015. In November 2015 the Monetary Policy Committee of the South African Reserve Bank increased the repurchase rate by 25 basis points to 6.25%, taking the prime lending rate to 9.75%.
- ◆ **Violent social and labour unrest.** R6.1bn in wages and 10.2 million work days were lost due to strike action during 2014.
- ◆ **An increasing regulatory burden,** as discussed in item 4.1.2 above.
- ◆ **High rates of crime and corruption.** Crime is discussed in item 5.13 below. The latest Transparency International's Global Corruption Barometer reveals that more than half of respondents surveyed see corruption to be on the rise in Africa, with South Africa emerging as one of the worst performers.

Factors affecting the mining, manufacturing, agriculture, forestry, bulk liquids, FMCG, chemicals and automotive sectors, have a knock-on effect on the road freight sector in terms of volumes requiring transportation, revenue growth and operating margins. The following are some of the most recent examples.

- ◆ Resolution of issues relating to trade benefits under the Africa Growth and Opportunity Act (AGOA); halting or banning of imports from South Africa by the European Union, such as citrus products; and the total banning by Zimbabwe of all imports of fresh fruit and vegetables.
- ◆ The National Association of Automobile Manufacturers of South Africa (NAAMSA) reported a 4.1% year-on-year decline in domestic new vehicle sales for 2015 and forecast a decline of between 3.0% and 5.0% for 2016. On the positive side. 2015 vehicle exports represent the highest annual industry export figure on record with a 21.5% year-on-year increase, with a 12.5% growth forecast for 2016.

- ◆ The drought is expected to result in a 29% decrease in South Africa's summer crops compared to the 2014/2015 harvest. The South African Sugar Association expects cane yields to drop by six million tons in the 2015/16 season and preliminary estimates indicate that the 2015 maize crop will be cut by almost 50%. Grain South Africa estimates that South Africa might need to import between 5 million tons and 6 million tons of maize during 2016. Although the economy and the agricultural sector will be badly affected, the road freight industry could benefit from crop imports requiring transportation.

5.5. Government Initiatives

Due to the strong links between the economy and freight transport, any initiatives to develop and strengthen the economy will impact positively on the freight transport sector and vice versa. Government initiatives to boost manufacturing, agriculture and the automotive industry and infrastructure projects will increase the amount of goods requiring transportation. The following are examples of some government initiatives.

- ◆ R813bn Strategic Infrastructure Projects (SIPS) to promote economic development and develop, strengthen and optimise freight corridors.
- ◆ Establishment of ten Specialised Economic Zones (SEZs) in eight provinces to boost regional development in areas that lack industrial development. The R4.8bn, 1,000 ha Maluti-a-Phofung SEZ being built near Harrismith will provide road and rail logistics and handling facilities for the Gauteng–Durban port corridor and a link to the Bloemfontein–Cape Town corridor.
- ◆ Five Industrial Development Zones (IDZs) focusing on exports and located close to ports and airports, including Richards Bay IDZ in KwaZulu-Natal, Gauteng IDZ near OR Tambo International Airport and Saldanha Bay IDZ in the Western Cape.
- ◆ Transnet's Market Demand Strategy (MDS) investment of R336.6bn in capital projects over a seven-year period.
- ◆ Aerotropolis developments at Dube TradePort, OR Tambo Airport, Cape Town International Airport and the Mahikeng Airport City Project.
- ◆ R2bn government funding for the national roll-out of 44 agri-parks, farmer-controlled entities that serve as catalysts for rural industrialisation.
- ◆ Proposed Western Cape R1bn Halaal agro-processing food park.
- ◆ Initial funding of R1bn from the Department of Trade and Industry (DTI) and R23bn from the Industrial Development Corporation for the Black Industrialists Programme.

5.6. Private Sector Initiatives

In addition to government initiatives discussed above, private sector investments in network services, hubs and distribution centres will contribute towards the growth of the road freight industry as a whole. However, the establishment of these centres could become a source of competition in the hands of the fast moving goods and retail sectors, traditional clients of the road freight sector.

- ◆ DHL's two new developments at Plumbago Business Park, east of Johannesburg, consist of Global Forwarding's €16m facility occupying 12,000m² of warehouse space and 5,500m² of office space, and the Supply Chain's €14.5m multi-user warehouse facility occupying 25,000m².
- ◆ OneLogix R130m Umlaas logistics hub, near Cato Ridge, has integrated the group's existing facilities in the KwaZulu-Natal region on one 14 ha site. Phase 2, comprising a further 10 ha, has been completed and is fully operational.
- ◆ Imperial Cold Logistics has awarded Resolve Capacity a R160m contract to design and project manage the development of a state-of-the-art, 25,500m² cold storage warehouse in Linbro Park, Johannesburg,
- ◆ Tru-Cape Fruit Marketing, South Africa's largest distributor of apples and pears, launched a more than 4,000m² depot in City Deep, Johannesburg, to service sub-Saharan Africa.
- ◆ Grindrod Intermodal's R200m intermodal facility in Denver, Johannesburg occupying 130,000m², consists of an undercover warehouse, mining mineral yards, full and empty container stacking areas, transport and office facilities.
- ◆ Fresh-food logistics company division IDL Fresh South Africa recently opened its new 15,300m² distribution centre in Lancaster Park, Boksburg, with two-thirds of the warehouse being refrigerated, with the remaining third operating at ambient temperatures.
- ◆ Automotive, air and fuel filtration manufacturer Ryco's 23,000m² warehouse and distribution centre in Midrand will house an assembly facility for hydraulics and stock to provide a service to the mining, marine, forestry and agriculture industries in sub-Saharan Africa.
- ◆ International heavy-equipment engine manufacturer Cummins' 20,833m² regional distribution centre in Woodmead, Gauteng, serves 11 Southern Africa countries and holds more than US\$20m worth of stock, including filters, parts, components, refurbished engines, new engines and generators.
- ◆ Investment by machine-moving and abnormal loads company Lovemore Bros in a new 2,000m² equipment handling and storage facility in the Bayhead area of Durban port to meet the increasing demands of clients involved in infrastructure development.

5.7. Rising Operating Costs

As shown in the table below, operating costs are increasing. The Stellenbosch University Logistics Barometer provides statistics of the costs of providing logistics services for South African economic commodities for 2013, estimates for 2014 and forecasts for 2015.

South African Logistics Costs 2013-2015

	2013 (actual)	2014 (estimate)	2015 (forecast)
Total logistics costs (Rbn)	393	434	468
% of GDP	11.1%	11.4%	11.7%
% of Transportable GDP	50.5%	52.7%	53.9%

[Source: Stellenbosch University Logistics Barometer South Africa 2015]

A breakdown of logistic cost components reflects that freight transport costs are the largest component.

Cost Contribution of Logistics Components 2013 to 2015

Component	Cost Actual 2013	% of Total Cost	Cost Estimate 2014	% of Total Cost	Cost Forecast 2015	% of Total Cost
Transport	R235bn	60%	R258bn	59%	R273bn	58%
Warehousing	R56bn	14%	R60bn	14%	R65bn	14%
Inventory carrying cost	R53bn	14%	R61bn	14%	R68bn	14%
Management & Administration	R49bn	12%	R55bn	13%	R62bn	13%

[Source: Stellenbosch University Logistics Barometer South Africa 2015]

The table below confirms that that fuel remains the largest contributor to road transport costs.

Percentage Cost Contribution of Transport Components 2013-2015

Component	% of Total Cost Actual 2013	% of Total Cost Estimate 2014	% of Total Cost Forecast 2015
Fuel	81.9	89.4	86.4
Driver wages	29.2	32.1	33.2
Maintenance and repair	26.2	29.6	35.5
Depreciation	23.2	25.7	29.2
Cost of capital	14.6	16.6	19.3
Insurance	13.7	16.3	18.5
Tyres	5.9	6.8	8.0
Toll fees	3.6	3.6	3.8
Licences	1.7	1.7	1.8
Rail costs	30.5	31.1	32.4
Pipeline costs	4.4	4.5	4.6

[Source: Stellenbosch University Logistics Barometer South Africa 2015]

Prof Jan Havenga of Stellenbosch University believes that delays at ports have a significant impact on logistics costs, possibly between R2bn and R5bn a year. “Long queues of trucks waiting to enter the port means that the number of loads per truck would be diminished, pushing up transport costs of all goods carried in a particular vehicle rather than one particular load. Delays would also push up inventory costs, increase safety costs owing to unpredictability and increase administration costs”.

5.8. Information Technology

In the road freight industry, the function of information technology is to:

- ◆ Automate business processes;
- ◆ Interface with customers;
- ◆ Manage the vehicle fleet and drivers; and
- ◆ Manage the logistics process.

Dr Paul Vorster, a member of the Intelligent Transport Systems (ITS) Policy Committee of the International Road Federation and a founder member of the ITS Africa Working Group, believes that

available information technology is a game changer for the transport sector to move towards an integrated and intermodal freight transport system. He emphasised that the use of appropriate information technology can also make a critical contribution towards addressing crime and security issues. This is confirmed by Grant Fraser of MiX Telematics (Africa) who explained, “Telematics technologies ensure full visibility of fleet vehicles at any time to allow for the early detection of potential theft and are, therefore, one of the biggest advances in combating crime”.

The following are examples of how information technology is being used in the industry, both locally and globally.

- ◆ DriveRisk’s monitoring solution for fleet operators includes reports to help identify, analyse and manage on-road risk and to protect its corporate image.
- ◆ Imperial Logistics uses “DriveCam”, based on a dual lens in-cab video camera and reporting software that records what is happening on the road ahead of the vehicle as well as in the cab.
- ◆ MiX Telematics is developing a smart device app that tests the level of fatigue of truck drivers before they get behind the wheel.
- ◆ The Logistic Directory is a live, central database that enables customers to contact freight companies and match their logistic needs with reputable transport suppliers. Users enter the type of goods requiring transportation, the current location, the arrival destination and then hit the search button to obtain suitable suppliers and service providers.
- ◆ The TRANSPark app enables transporters to identify the locations of border posts, weighbridges, toll booths and secure parking areas along the North-South Corridor in southern Africa, fleet managers to locate trucks, monitor transport times and analyse delays at key check-points.
- ◆ Remote and real-time tracking and monitoring of perishable goods and container internal conditions to preserve and control quality.
- ◆ The movethisStuff app enables customers to obtain quotes from furniture removals companies by uploading photographs of items to be moved, from smartphones, tablets or personal computers, and providing information on current location and delivery destination.

5.9. Technology, R&D and Innovation

The road freight industry relies on a variety of standard and specialised heavy vehicles and loading and lifting equipment to transport goods, which may be configured into various combinations as required. Road freight research, development and innovation initiatives include the following

- ◆ Accredited Road Transport Management System (RTMS) transport operators may use vehicles based on performance-based standards (PBS), outside the current legal mass and dimensional limits, by complying with certain safety and other requirements. So-called “smart trucks” are being developed by the University of the Witwatersrand, Council for Scientific and Industrial Research (CSIR), the Department of Transport and some major industry players such as Barloworld, Unitrans and the Super Group.
- ◆ To minimise the risk of jack-knifing and potential accidents, Volvo Trucks has introduced the Stretch Brake that automatically retards the trailer and straightens up the rig on slippery or downhill roads.
- ◆ Mercedes-Benz’s Highway Pilot allows a loaded heavy vehicle to drive itself along a stretch of highway at speeds of up to 80 km/h, with the driver acting as a caretaker, in the driver’s seat, able to attend to other tasks. It uses a combination of radar sensors at the front and sides of the truck, a stereo camera behind the windscreen, precise three-dimensional maps and vehicle-to-vehicle and vehicle-to-infrastructure communication.
- ◆ Imperial group company Milotek has developed the Futran System, an innovative transportation system using a modular, elevated lightweight steel track that can be constructed over rural and built-up areas. Various types of automated, driverless vehicles, propelled by powerful electric motors, are suspended from the elevated track and used to transport goods.
- ◆ The CSIR has developed a visual surveying platform to assist with the maintenance of road infrastructure by timeously identifying and geo-locating road surface defects such as cracks, edge breaks and potholes.
- ◆ The South African Bureau of Standards has been appointed as the operator of South Africa’s first thermal test chamber for refrigerated vehicles, comprising an insulated hall designed to maintain standard temperature conditions and determine the effectiveness of insulation.

5.10. Labour

The TETA Sector Skills Plan Update 2014/2015 states that road transport sector employment comprises 58% of the total transport sector. Of the total 518,718 people employed in the road transport sector, 332,045 were involved in the formal sector and 186,672 in the informal sector.

Unions

In September 2015, after intense negotiations, unions and negotiators reached consensus on a three-year wage agreement for the road transport industry. Although the unions initially demanded an annual 25% increase, the final settlement signed was for 9% in 2016, and 8.5% in 2017 and 2018. This multi-year wage deal between the transport unions and the Road Freight Employers' Association means that no industrial action will take place during the next three years. As can be seen in the table below, there was a sharp drop in industrial action by the transport industry in 2014 compared to 2013.

Industrial Action Statistics for the Total Transport Industry

Industry: Transport	Working days lost	
	2013	2014
No. of stoppages	12	5
Working days lost	477,355	25,309
Working days lost per 1000 employees	134.9	26.5
Working hours lost	3,825,742	204,561
No of employees involved	22,331	1,224

[Source: Department of Labour's Annual Industrial Action Report 2014]

The National Union of Metalworkers of SA (NUMSA) has received approval from the Department of Labour to expand its scope to organise workers in a range of new sectors, including mining, construction and transport. In September 2015, a former SATAWU president was elected to lead a breakaway union known as the Democratic Transport and Allied Workers Union (DETAWU). In 2012 a breakaway group formed the National Transport Union, which replaced SATAWU as the majority union at South African Airways. The National Bargaining Council for the Road Freight and Logistics Industry (NBCRFLI) has called for the registration of all employers and employees who fall under its jurisdiction in order to address the sometimes exploitative working conditions under which vulnerable truck drivers often operate.

<p>South African Transport and Allied Workers Union (SATAWU) Registered 23/10/2000 Tel No: +27 11 403-2077 / +27 72 613-1332 FaxNo: +27 11 403-2021 Email: Phala@satawu.org.za Mosai@satawu.org.za bukie@satawu.org.za Website: www.satawu.org.za</p>	<p>Professional Transport and Allied Workers' Union of South Africa (PTAWU) Registered on 23/1/1980 Tel No: +27 11 333-0904 / +27 11 492-3022/3 Fax No: +27 86 691-7873 / +27 11 492-3024 Email: headoffice@ptawu.co.za rcksnbaloyi6@gmail.com ptawu1@telkomsa.net Website: www.ptawu.co.za</p>	<p>United National Transport Union (UNTU) Registered on 22/6/2012 Tel No: +27 11 728-0120 / +27 82 566-5516 Fax No: +27 11 728-8257/58 Email: headoffice@untu.co.za annemarie@untu.co.za steve@untu.co.za pieter@untu.co.za Website: www.untu.co.za</p>
<p>Solidariteit / Solidarity Registered on 17/6/2004 Tel No: +27 12 644 4300 / 94 Fax No: +27 12 664 1302 / +27 12 664 1198 Email: nica@solidariteit.co.za paulize@solidariteit.co.za danet@solidariteit.co.za Website: www.solidarity.co.za</p>	<p>National Transport Movement (NTM) Registered on 27/9/2012 Tel No: +27 11 394 8032 / +27 11 057 5965 Fax No: +27 86 609 2610 / +27 86 544 1833</p>	<p>National Bargaining Council for the Road Freight and Logistics Industry (NBCRFLI) Tel No: +27 11 703 7000 x 1067 Fax No: +27 11 403 0150 / 086 600 4305 Email: tersia.stroh@nbcrfli.co.za anette.mostert@nbcrfli.co.za Website: www.nbcrfli.org.za</p>

Skills and Training

Neil Henderson, CEO Barloworld Transport Solutions emphasised, “The scarcity of skills, particularly in areas such as qualified drivers and technicians, has an impact on vehicle operating costs, accident rates, fuel consumption, vehicle downtime and lifespan. Training costs, increased pressure for higher wages and related labour unrest also impact on the costs and efficiency of road transportation in the country”. There is a high turnover of drivers in the industry as they burn out quickly due to long working hours and stressful working conditions. The TETA’s main focus is to train more drivers to build reserves and increase the pool of skilled professional drivers. In November 2015, the Minister of Higher Education gazetted a sweeping proposal on the future of the SETAs, giving them two more years to operate as authorities and then become advisory boards (SETABs) with very little of their current

operational role remaining. The SETAs will lose control of 40% of the skills levy estimated to reach R16.7bn this year, which will be centrally administered by the National Skills Fund.

Dr Paul Vorster, CEO of the Intelligent Transport Society of South Africa (ITSSA), estimates a shortage of between 150 and 250 intelligent transport system (ITS) engineers, technologists and technicians, especially in the public sector, skills essential for the development of integrated and multimodal transport systems. Respondents to the Barloworld Logistics Supply Chain Foresight 2015 survey ranked the lack of relevant skills and talent as the third most critical strategic business constraint over the next five to ten years. In response Eddie van Ravesteyn of Time Freight believes that skills shortages can be met by effective training and a commitment to good customer service.

As part of a freight accident investigation project launched by the Department of Transport in 2014, researchers identified the possible role of human error, driver behaviour and a lack of training and education in heavy vehicle accidents on South African roads. The research indicates that currently very few formal education and training facilities for heavy vehicle drivers are available in South Africa. Larger operators have in-house training facilities or driver training academies and offer refresher training.

- ◆ The Barloworld Transport Training Centre provides training for 1,500 professional drivers each year on the specifics of the company's fleets. New drivers complete an intensive three-week professional driver induction and training programme before getting behind the wheel. Annual refresher courses, which focus on defensive driving techniques and other advanced skills, are mandatory for all drivers.
- ◆ The Imperial Logistics Academy graduate development programme provides relevant on-the-job experience and exposure through job rotation, work assignments and special projects. The programme has been extended to include:
 - Partnerships with the TETA and local government to provide workplace experience programmes for interns; and
 - Partnerships with the Universities of Technology and FET Colleges to identify graduates with a non-degree qualification to operational positions across a range of levels in the company.
- ◆ ProfiDrive is the umbrella brand name of MAN Truck & Bus worldwide professional driving academy. For training purposes, the company uses a fully-laden interlink with a combination mass of 56 tonnes.

- ◆ The Chartered Institute of Logistics and Transport: South Africa (Ciltsa) has appointed its first accredited training service provider to present a 12-month training certificate in Logistics and Transport that could serve as an entry into the three-year B Com Logistics Management degree.
- ◆ In an effort to reduce fatal truck collisions in the province, the KwaZulu-Natal Department of Transport has launched a three-dimensional mobile truck simulator, constructed in a caravan, as part of a two-phase pilot project intended to improve the skills of truck drivers. The first phase of the training is to aid drivers through e-learning sessions on a computer.

5.11. Cyclicity

The road freight industry is closely linked to the economy and the industries that it services. Cyclicity is therefore determined by the global and local economy, consumer demand and the cyclicity of the agricultural, mining, petrochemicals, manufacturing, automotive, retail, pharmaceutical and construction sectors. In general, the first six months of the year are slow, with the build-up starting in July and peaking in October, November and early December. The peak season times for agricultural products, especially fruit, depend on the harvesting periods. Cyclicity in the mining sector is determined by commodity prices. The FMCG sector experiences extreme peaks in sales volumes from October through to December. The transportation of goods imported from China is low during February when most production closes down for the Chinese New Year period. Local and global adverse weather conditions resulting in the closure of ports can cause delays in the loading and offloading of freight requiring transportation by road. Month-end is the peak period for furniture removals.

5.12. Environmental Issues

According to the National Treasury, the transport sector contributes approximately 10.5% of South Africa's carbon emissions, 75% of which are caused by fuel consumption, with the second-largest source being electricity consumption at warehouses and offices.

In November 2015 National Treasury published the Draft Carbon Tax Bill for public comment with the first tax to be levied on emissions produced during the period commencing 1 January 2017. Interested parties have identified the following issues and concerns associated with the proposals.

- ◆ The Davis Tax Review Committee has urged government not to introduce the carbon tax in the current fragile economic environment and recommends that it be introduced with an initial zero liability to allow for pilot testing of the system.

- ◆ Economist Mike Schussler comments that as the carbon tax would not be ring-fenced and would thus go into general Treasury coffers, tax paid by the logistics industry would not necessarily be spent on improving road or other logistics operational efficiencies.
- ◆ Mike Schussler reports that a carbon tax will increase the costs of electricity and the input costs of the country's goods producing industries, particularly mining, manufacturing and agri-processing. High input and operating costs could reduce production, thereby reducing the amount of goods requiring transportation by road. Price increases passed on to consumers could reduce consumer demand thereby reducing the amount of goods requiring transportation by road.

5.13. Crime and Security

The Road Freight Association estimates that truck hijackings, often carried out by sophisticated syndicates, cost companies and insurers more than R1bn a year. 80% of hijackings target the goods, rather than the vehicle, especially high value electronic goods or goods that can be easily sold such as fuel, cigarettes or foodstuffs. If trucks are stolen, they are mainly sold across the border. Stakeholders believe that there is a high correlation between truck hijackings and a deteriorating economy. SAPS reports that the cargo stolen from trucks is often sold to informal traders at highly undercut prices and the police force is looking at innovations, such as tracking products through barcoding, to see where the goods are being sold.

The South African Police Services (SAPS) crime statistics reflect that the number of reported truck hijackings for 2014/2015 increased by 29.1%, compared to a decline of 17.8% for the previous year. Gauteng, with the highest rate and the highest contribution to the total number of incidents, showed an increase of 47%, while Mpumalanga, second highest, showed a decrease of 21.3%. Limpopo off a lower base, reflected the highest increase at 107.7%.

SAPS Reported Truck Hijackings 2014/5

Province	No. of incidents 2014/15	% Contribution	% change y-o-y
Gauteng	804	62.9%	47.0%
Mpumalanga	155	12.1%	-21.3%
Free State	89	7.0%	25.4%
Kwazulu-Natal	63	4.9%	37.0%

Province	No. of incidents		% change y-o-y
	2014/15	% Contribution	
Western Cape	62	4.8%	55.0%
North West	45	3.5%	-2.2%
Eastern Cape	34	2.7%	9.7%
Limpopo	27	2.1%	107.7%
Northern Cape	0	0.0%	0.0%
Total RSA	1279	100.0%	29.1%

[Source: SAPS]

Dr Graham Wright of the Consumer Goods Council of South Africa supports a collaborative industry and government partnership to address serious crime in the retail and logistics industry. As part of its Consumer Goods Crime Risk Initiative, he proposes the establishment of a Transport/Logistics Forum to serve as a national anti-hijacking collaboration and information-sharing platform to pro-actively address transport operator and freight service provider vulnerabilities and risks.

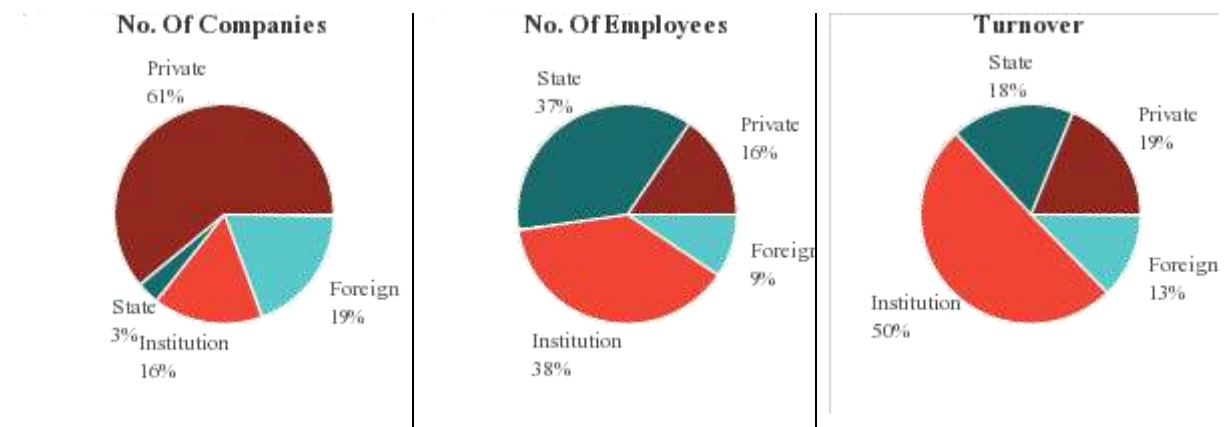
5.14. Electricity Supply Constraints

The following are the major impacts of load shedding on the road freight sector.

- ◆ Uninterrupted power supply is critical for the road freight industry's strong reliance on 24-hour IT and communication systems associated with automated business processes, customer interface, tracking and tracing and fleet management. Power outages have a direct impact on turnover, lost revenue, decreased productivity and missed opportunities.
- ◆ Out-of-commission traffic lights result in traffic congestion causing delivery delays and severely impacting on tight delivery schedules, as well as reckless behaviour by frustrated and impatient drivers.
- ◆ Out-of-commission street lighting results in a lack of visibility and increased risk of hijacking and smash-and-grab incidents.
- ◆ Interruptions to security systems at warehouses and storage depots increase the risk of crime.
- ◆ Unreliable power supply affects the operation of temperature-controlled and heavily automated warehouses, and creates a serious risk for perishable goods.
- ◆ Disruptions to the manufacturing, mining, automotive and agricultural sectors reduce output, thereby reducing the volume of products requiring transportation.

6. COMPETITION

Ownership Analysis of the Industry



The World Economic Forum (WEF) Global Competitiveness Report 2015-2016, reflects that South Africa has reversed its four-year downward trend and improved its ranking from 56 to 49 out of a total of 140 countries, mainly due to: increased uptake of ICT; improvements in innovation; an efficient financial market; strong domestic competition; and an efficient transport infrastructure by regional standards. The quality of South Africa's road infrastructure is ranked at 34, up from 37 the previous year. However, the following factors require attention: reducing corruption (76); the security situation (102); an inflexible labour market (107); inefficient electricity supply (116); and the burden of government regulation (117).

With tight profit margins of only 4%, the saturated road freight industry is highly competitive, with companies facing competition from the following sources:

- ◆ Other industry players;
- ◆ Companies, mainly in the retail sector, who in-source their transport operations; and
- ◆ Establishment of hubs and distribution centres by FMCG and retail companies, traditional clients of the road freight sector.

Mark Prommel of Imperial Logistics explains that the situation has become more critical as production, import and export volumes decline due to the current economic downturn. PricewaterhouseCoopers believes that the high degree of competition in the road-based logistics sector has served as the primary driver of consolidation, whereby companies expand their service offerings through a process of acquiring their competitors. Etienne van Ravesteyn, CEO of Time Freight, believes that mergers,

acquisitions and collaboration can increase competitive edge by creating efficiencies and improving industry standards. To achieve a competitive edge, companies are also offering added value services such as truck rentals, insurance, freight forwarding, supply chain modelling and customs clearance. As mentioned in item 5.3 above, the trend towards intermodal or multi-modal solutions provides an opportunity to create complementary and mutually beneficial business relationships between the road and rail sectors.

In an article in the Centre for Competition, Regulation and Economic Development Quarterly Review, Mohlahlego Cornelia Matumba reports that the Competition Commission of South Africa (CCSA) has investigated 69 firms involved in collusive tendering in the furniture removal industry. A cartel operating from 2007 to 2014 throughout South Africa involved numerous firms in each geographic area. Where settlement agreements have not been reached, the Competition Tribunal has given notice of complaint referrals from the CCSA re allegations of engagement in prohibited practices in contravention of section 4(1)(b)(iii) of the Competition Act 89 of 1998, as follows.

DATE	COMPANIES
2015.12.09	Baxter International Movers CC JH Retief Transport CC.
2015.09.07	Afriworld 142 (Pty) Ltd Sifikile Transport CC JH Retief Transport CC Matthee Furniture Removals CC.
2015.09.07	Elliot International (Pty) Ltd JH Retief Transport CC Cape Express Removals (Pty) Ltd.
2015.09.11	Pickfords Removals SA (Pty) Ltd JH Retief Transport CC Sifikile Transport CC Cape Express Removals (Pty) Ltd.
2015.08.20	Majorshelf 35 (Pty) Ltd Cape Express Removals (Pty) Ltd JH Retief Transport CC

DATE	COMPANIES
2015.06.11	Mini Maxi Movers CC JH Retief Transport CC
2015.06.11	Core Relocations (Pty) Ltd Cape Express Removals (Pty) Ltd JH Retief Transport CC Pro Pack Removals CC Sifikile Transport CC
2015.06.01	Stanley's Removals CC Cape Express Removals (Pty) Ltd.
2015.06.01	Langs Removals CC Cape Express Removals (Pty) Ltd.
2015.06.01	J & H Furniture Removals (Pty) Ltd JH Retief Transport CC Cape Express Removals (Pty) Ltd

6.1. Barriers to Entry

Entry into the road freight industry requires very large capital outlays to cover the necessary equipment, which counts against small business start-ups. An entrepreneur planning to offer a local service can expect to pay about R200,000 for a 1-ton truck and trailer, with ongoing operating costs including wages, petrol, oil, tyres, regular maintenance, licensing and insurance. According to Mark Prommel, obtaining finance is often conditional upon the applicant concluding a contract.

Opportunities are available for owner-driver, subcontracting or franchise schemes. Competition will come from other small contractors, companies offering in-house transportation and distribution, and large established road freight and logistics companies.

Apart from the access to start-up capital and running costs, anyone planning to start a new business in South Africa is faced with bureaucracy, red tape and legal compliance requirements at a point when they can ill afford it due to financial and other constraints.

7. SWOT ANALYSIS

Strengths	Weaknesses
<ul style="list-style-type: none"> ◆ 88% of goods moved in South Africa are transported by road. ◆ Road freight, despite increasing costs, is still more efficient than rail freight. ◆ The road freight industry is flexible and able to deliver goods door-to-door. ◆ Well supported by information technology for all aspects of logistics management 	<ul style="list-style-type: none"> ◆ Road freight industry is negatively affected by global and local economic conditions. ◆ Critical shortage of skilled professional drivers. ◆ Poor co-ordination of and collaboration between road, rail, air and sea transport modes leads to inefficiencies in the supply chain process. ◆ High accident rate caused by human error, unroadworthy vehicles, traffic violations and overloading. ◆ High carbon emissions from vehicles.
Opportunities	Threats
<ul style="list-style-type: none"> ◆ If implemented, government economic development projects will increase mining, manufacturing and agricultural outputs requiring transportation. ◆ Government investment in infrastructure projects should strengthen the logistics and road transport corridors and improve access to ports. ◆ Trend towards intermodal transport offers opportunities for collaboration with rail sector. ◆ Infrastructure projects and agreements to facilitate inter-regional integration and co-operation between African countries will increase trade in goods requiring transportation, harmonise customs regulations, reduce border post delays and improve road infrastructure. 	<ul style="list-style-type: none"> ◆ Further deterioration in the global and local economies. ◆ Further weakening of the rand which will lead to an increase in the cost of fuel, imported vehicles, parts and IT systems. ◆ Increase in the already high operational costs associated with the transportation of goods. ◆ Competition from Road-to Rail programme. ◆ Impact of proposed restrictive legislation.

8. FUTURE OUTLOOK

As growth in the road freight sector is determined by local and global economic growth and estimates for domestic economic growth have been revised downwards to 0.7% for 2016, road freight volumes are not expected to grow significantly. Mark J Lamberti, Chief Executive Officer of Imperial Holdings Ltd, commented, “The factors contributing to heightened uncertainty and volatility in economies, markets and industries globally are well-publicised, as are the additional consequences of unemployment, low growth and confidence, increasing socio-political tensions, and electricity supply failures facing South African business. None of these are expected to change markedly in the short to medium-term”. On a positive note, however, the International Transport Forum estimates that international freight transport volumes will quadruple by 2050. Paul Vorster believes that the road freight industry should embrace technology and become part of a future integrated and intermodal freight system. This is in line with the Minister of Transport who has highlighted the need for an integrated multi-modal transport system throughout the southern African region.

9. INDUSTRY ASSOCIATIONS

- | | |
|--|--|
| <ul style="list-style-type: none">◆ Association for Operations Management of Southern Africa (SAPICS)
Tel No.: +27 11 023 6707
Fax No.: +27 11 86 575 2979
Email: mail@sapics.org.za
Website: www.sapics.org.za
◆ Chartered Institute of Logistics and Transport South Africa (CILTSA)
Tel No.: +27 11 789 7327
Fax No.: +27 11 787 7865
Email: info@ciltsa.org.za
Website: www.ciltsa.org.za | <ul style="list-style-type: none">◆ Chartered Institute of Purchasing and Supply (CIPS)
Tel No.: +27 12 345 6177
Email: infos@cipso.org.za
Website: www.cips.org/en-ZA
◆ Cross-Border Road Transport Agency (C-BRTA)
Tel No.: +27 12 3481357
Fax No.: +27 12 3482077
Email: sipho.khumalo@cbrta.co.za
Website: www.cbrta.co.za
◆ Federation of East and Southern African Road Transport Associations (FESARTA)
Tel No./Fax No.: +27 11 468 5277 |
|--|--|

Email: fesarta@iafrica.com

Website: www.fesarta.org

◆ **Intelligent Transport Society South Africa (ITSSA)**

Tel No.: +27 (0)11 442 7191

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Website: www.itssa.org

◆ **Maputo Corridor Logistics Initiative(MCLI)**

Tel No.: +27 (0)13 755 6025

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Email admin@mcli.co.za

Website: www.mcli.co.za/

◆ **Professional Movers Association (PMA)**

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Website: www.pmamovers.co.za

◆ **RailRoad Association of South Africa (RRA)**

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APPENDIX 1

Current and Future Road-Related Projects on the African Continent

Country	Road-related Project
Angola	Allocation of US\$22.6bn to develop an integrated intermodal land transport infrastructure network through 2025, including the Lobito Corridor, a stepping stone to connecting other countries such as Tanzania, Zimbabwe, the Central African Republic, Rwanda and Burundi, and eventually establish direct transport routes between the Atlantic and Indian Oceans
Benin	Memorandum of Understanding with South Africa on transport-related matters: including standards for roads infrastructure development; cooperation in infrastructure related projects and services; industry development; technology transfer; capacity building; exchange of information; technological expertise; joint ventures between South African companies and transport sector companies in Benin.
Botswana	Memorandum of Agreement with South Africa, including the Upgrade of the Road and Bridges Infrastructure Development Initiatives which entails cooperation in all designs, construction, financing, rehabilitation and maintenance.
Cameroon	The African Development Bank (AfDB) has approved Yaoundé-Brazzaville corridor transport facilitation project linking the capital cities of Cameroon and Congo. At an estimated total cost of US\$424m, the project consists of road works, ancillary infrastructure, transport facilitation, transport sector studies and institutional support, biodiversity support, and project management. Apart from developing trade between the two countries, the project will also contribute to regional integration in Central Africa by facilitating highway interconnections linking Cameroon, Congo, the Democratic Republic of Congo, Gabon, Equatorial Guinea and the Central African Republic.
Côte d'Ivoire	The five country Abidjan–Lagos Corridor includes a 1,028-kilometre road connecting Abidjan, Accra, Cotonou, Lagos and Lome, considered to be West Africa’s largest and most economically dynamic cities. A US\$300m bridge, connecting the two halves of the city of Abidjan through the Ébrié Lagoon, forms part of a more complex motorway development.

Country	Road-related Project
DRC	AfDB provides US\$108m to develop the Tshikapa-Mbuji Mayi route and the repair of related agricultural and rural infrastructure in the province of Western Kasai
Ethiopia	World Bank approval of US\$370m credit resulting in increase of safe and efficient road network from 26,550km to 99,522km.
Gambia, The	European Union funded €76.5m for the rehabilitation and construction of 273 kilometres, almost 50% of the paved road network in the country
Guinea	AfDB loan agreement of US\$50m to finance the Road Improvement and Transport Facilitation Project in the Mano River Union including the tarring of roads in Guinea, Côte d'Ivoire and Liberia.
Kenya	The US\$26bn Lamu Port-Southern Sudan-Ethiopia (LAPSSET) transport corridor to improve transport linkages between Kenya, South Sudan and Ethiopia comprises rail lines, highways, an oil pipeline, resort cities, airports and a port.
Madagascar	European Investment Bank provided a €300m loan for rehabilitation of roads, power and energy infrastructure.
Malawi	AfDB loan of US\$73.6m to Malawi and Zambia for Nacala Road Corridor Phase IV, linking Mozambique, Malawi and Zambia.
Mozambique	<p>Road projects include:</p> <ul style="list-style-type: none"> ◆ Chinese loans of US\$780m for construction of new road between Maputo and Ponta do Ouro. ◆ World Bank funding of US\$73.6m for Roads and Bridges Management and Maintenance Programme. ◆ Loan of US\$400m from Chinese export-import bank (Exim Bank) to finance full rehabilitation of road from the port of Beira to Machipanda, on the border with Zimbabwe.
Namibia	Namibia plans to become the logistics hub of SADC through the Port of Walvis Bay, the Trans Kalahari Corridor, the Trans-Caprivi Corridor, the Trans-Cunene Corridor and the Trans-Oranje Corridor. The allocation of dry port facilities at Walvis Bay to landlocked Zambia, Zimbabwe and Botswana provides an alternative link to Europe, North and South America..

Country	Road-related Project
Nigeria	Nigeria is to set up a US\$25bn infrastructure fund to invest in the country's transport and energy sectors, to be withdrawn from local and international sources, including Nigeria's sovereign wealth fund and domestic pension funds. Nigerian financial services firm the ARM Infrastructure Fund is to raise US\$250m to invest in transport, energy and utility sectors across West Africa. Nigeria requires approximately US\$50bn a year for the next decade to develop badly needed infrastructure, especially for power, roads and water, to help boost economic growth.
Senegal	€130m investment in extension of the Dakar toll road through a 25-year concession contract to design, build, operate and maintain the dual carriageway toll road.
South Sudan	Requires funding of more than US\$10bn to build and upgrade around 10,000 km of roads. Memorandum of Understanding whereby South Africa will assist in constructing roads and airports, and will provide training for road engineers and air traffic controllers.
Swaziland	AfDB to provide US \$47m to improve standard and quality of Manzini-Mbadlane highway.
Tanzania	US\$2bn project to build new roads and a bus rapid transit system to unclog traffic in commercial capital, Dar es Salaam,
Togo	Governments of Togo and Burkina Faso signed a protocol agreement worth 2.34 million Units of Account (UA) with the AfDB to fund the Multinational Togo-Burkina Faso road rehabilitation and transport facilitation project on the Lomé-Cinkanse-Ouagadougou corridor.
Tunisia	AfDB US\$285m loan for road infrastructure projects in Tunisia, an SME development project in Kenya, and a youth employability and integration in growth sectors project in Togo. Tunisia's Road Infrastructure Modernization Project (PMIR) seeks to rehabilitate 719 kilometres of classified roads, mainly in the country's inland (West, Centre-West and North-West) governorates
Uganda	AfDB loan of US \$109m to finance Road Sector Support Project V which supports the country's National Development Plan and Vision 2040 of Uganda. The project's objective is to improve road access to socio-economic facilities and the quality of transport service levels in south-western and eastern parts of the country.

Country	Road-related Project
Zambia	AfDB loan of US\$243m for rehabilitation of the Chinsali-Nakonde Road, a section of the North-South Corridor in Zambia, connecting Tanzania. US\$492m contract to construct 406 km of urban roads in Copperbelt region.
Zimbabwe	Government negotiating with several investors for a multi-billion-dollar land transport project to link the country to a seaport north of Beira, Mozambique. US\$400m contract with a South African company to upgrade dilapidated Harare road network.