

# Spoornet

## *a labour strategy for reconstruction*

**L**ike all the big parastatal companies, Spoornet is being buffeted by change while burdened by its apartheid past.

Spoornet is a division of Transnet, and comprises Transnet's freight and long-haul passenger businesses.

Spoornet is a huge company and performs a vital role in transporting goods and people to and from all corners of our country (see box on p 44). It is also inefficient, and often provides poor and inflexible service to its customers. This makes it difficult for the company to face the challenge of changing transport markets and increasing competition within those markets.

Spoornet has a history of under-investment in technology and infrastructure, and it has inherited a management culture that is inefficient and bureaucratic, with inadequate human resource practices. New black managers have been appointed, many of whom are dynamic and innovative but lack railway or transport experience.

Government plans to address these problems by breaking Spoornet into five separate operations and concessioning them to private-sector operators. It believes concessionaires will introduce the necessary managerial expertise and business orientation as well as new investment in infrastructure.

Management's turnaround-consultants

*Labour's proposals for the reconstruction of Spoornet pose public ownership, union-management co-operation and worker innovation as alternatives to privatisation.*

*Karl von Holdt argues that the labour proposals may be the beginning of a second wave of union strategies for reconstruction.*

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judge that Spoornet can become profitable through selling, concessioning or closing half the rail network and reducing staff by about 17 000.

In contrast, SATAWU has developed comprehensive proposals for the company to remain a public corporation, and for efficiency and service to be addressed through a focus on management-union co-operation in addition to the necessary investment in infrastructure, technology, human resource development and management transformation. The focus of 'reconstruction' at Spoornet, argues the union, should be on its important role in the socio-economic reconstruction of South Africa.



## Developing a union vision

SATAWU's vision of, and concrete proposals for, reconstruction at Spoornet were developed through a series of workshops with Spoornet shopstewards, union officials and researchers from Naledi, COSATU's research institute, in their capacity as advisers to the union on the restructuring of Spoornet.

In the workshops, the shopstewards discussed the problems at Spoornet, possible solutions to those problems, their overall vision for the company, and strategies for engaging management. In the second and third workshops they discussed and refined a set of draft proposals drawn from their previous discussion.

This process demonstrated quite clearly that workers have a rich work knowledge that could make an invaluable contribution in the drive to make Spoornet more efficient. The challenge for management is to accept genuine co-operation with labour as the necessary condition for workers to make this knowledge available as a productive force.

In the third workshop the SATAWU shopstewards were joined by representatives of the unions for artisans (TWU), drivers (SAFSA) and salaried staff (SALSTAFF) whose membership consists mostly of white workers, who were themselves concerned about the plans of government and management, and wished to understand the SATAWU proposals. The contribution of their officials and shopstewards, with their long experience and quasi-managerial knowledge of the company, was extremely valuable. The result was the tabling of a joint labour plan for the reconstruction of the company.

This is not to deny conflicts of interest and racial tension between white and black employees. Indeed, the delegations agreed to convene a special workshop to

address these issues. Many of the white unionists are the very supervisors, skilled workers and trainers whose practices are strongly criticised by black workers. Once the projects for reconstruction are implemented at workplace level these tensions and contradictions will probably create difficulties, but all four unions share concerns about management inefficiency and about government's proposals for privatisation, and this has laid the basis for a degree of co-operation.

## Analysing the problems

The labour document observes that 'Spoornet management has, both as a result of mismanagement and intentionally, adopted a narrow focus on a core of highly profitable lines, withdrawing capacity and attention from smaller regional and branch lines and their customers and potential customers. For example, marketing and sales functions have been withdrawn from the regions and centralised in head office. The result is poor client management in the regions and the complete absence of strategies for developing new clients there...

This is an unacceptable business strategy, which concentrates all resources on the massive clients and high-density lines that are easily profitable, and runs down the rest of the network and ignores regional lines and smaller customers. It then becomes all too easy for management to motivate closing down "unprofitable lines" that have been run down by its own strategies.'

Spoornet strategy involves a reduction of freight volumes as the company neglects the less profitable sectors of its business. Management probably feels it is complying with government's mandate - and rhetoric - concerning the primacy of 'return on assets' and profitability. The issue of volume is crucial to labour's critique of government and management's



policies, as well as to its own proposals discussed below.

Lack of management innovation and customer service is responsible for reducing the volume of Spoornet business even further. Labour goes on to comment that under-investment is running the company down and 'is a major cause of poor service and inefficiency'. Spoornet 'cannot increase volumes or win back market share without a high level of investment'.

Furthermore, the inadequacy of human resource management at Spoornet makes efficiency gains impossible. 'We have identified inadequate training and skills development, low morale, poor work organisation, weak supervision, authoritarian management, racial tension and poor industrial relations as important sources of inefficiency in the company. To overcome these problems will require a major investment in human resource development.'

The problems identified above indicate serious weaknesses in management. The union criticises low levels of managerial skill and singles out the quality, style and accountability of management; marketing, sales and customer management; the lack of a flexible customer-centered and business-oriented approach to operations and planning; and ineffective response to breakdowns and repairs, as serious problems.

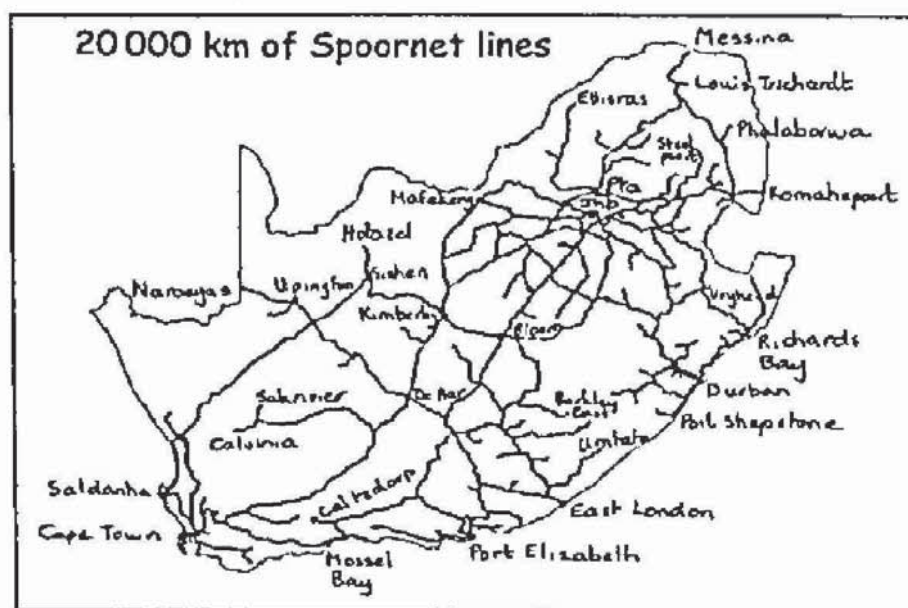
Finally, there is the problem - beyond management control - of competition from road transport. Not only is there unfair competition (see box on p 44), but the state should as a matter of policy exert pressure for as much freight as possible to be

moved by rail rather than road. Road hauliers in South Africa are subject to one of the highest tonnage limits in the world - a limit that is in any case virtually never policed. The result is high costs to the public and the state in the form of damaged roads with expensive maintenance backlogs, traffic congestion, accidents and pollution.

## The labour proposals

In contrast to the de facto strategy implemented by management, labour proposes a strategy focused on increasing volumes. On the one hand, according to labour's proposals, this means developing a new focus on smaller customers and a differentiated transport market, and specifically on regional socio-economic development. On the other, it means improving efficiencies, customer service and marketing, investment in technology and human resources, developing integrated transport solutions, and putting in place the innovative and strategic management required to implement such strategies.

Increasing volume would improve Spoornet revenue and make some unprofitable regional and branch lines profitable, but the union proposals point





beyond this. There may be many lines that do not have the potential for profitability, but nonetheless perform important socio-economic functions for specific regions, sectors and localities as well as for the state and the public in general.

Several examples can be made. A recent provincial study of eight branch lines found that the annual cost to the state of R40-million for maintaining the lines compared favourably with the projected cost of R130-million for additional road maintenance if the rail traffic was diverted onto the road network.

In a different example, a consultant to Spoornet suggested that Spoornet should cease operating lines servicing maize farmers because unpredictable drought tended to reduce the freight volume and render the service unprofitable. The impact on an important economic activity in rural areas can be imagined.

Finally, SATAWU has been working closely with the Eastern Cape government to investigate the feasibility of revitalising the East London-Umtata line. Their study suggests that a faster and more efficient service would have a tremendous impact on socio-economic activity along the line, although it may well not be profitable.

In all these cases, labour argues, the rail network is vitally important for socio-

economic development. Closing such lines would have an unacceptable social and economic cost. Privatisation – whether through concessioning, as government plans, or through listing on the JSE securities exchange – would make such closures inevitable, since private sector companies whose goal is profit would not be able to cross-subsidise unprofitable but socially necessary services. The labour proposal for a strategy of volume therefore points both towards profitable volumes as well as towards unprofitable volumes with an important socio-economic effect. This is why, according to the union, Spoornet should remain in the public sector, regulated according to government's socio-economic goals, with access to state funding, and with profitable operations subsidising unprofitable operations.

In line with this strategy, labour proposes that Spoornet 'undertake a systematic engagement with all provincial governments concerning the actual and potential role of rail transport with a view to expanding volumes and services'. Labour adds that Spoornet should re-establish 'regional capacity to develop solutions for customers, at the levels both of marketing/customer management and operations'.

The labour proposals also call on

## Spoornet's operations

by Jane Barrett

Spoornet owns and operates 20 000 kms of track in South Africa. It is comprised of six business units: General Freight Business (GFB), Coal-Link (carrying coal for export from Richards Bay), Orex (carrying iron ore for export from Saldanha Bay), Main Line Passenger Services, Luxrail (a luxury passenger rail service), and a business unit Link-Rail that is currently a shell.

Spoornet overall is presently operationally profitable. In the financial year

ending March 2000, a profit of R84-million was recorded on a turnover of R9,14-billion. Between March and September 2000 a profit of R207-million was recorded. The profits being recorded are an improvement on the situation in 1998/99 when a loss of R135-million was recorded. Spoornet receives no government subsidy either for operational expenses or for infrastructure investment. All developments are self-financed.

Spoornet carries 180 million tons of rail freight per annum. This is 59% of all freight



volumes transported internally. Freight volumes moved by Spoornet rose by 20% in the financial year ending March 2000.

Spoornet employs just under 45 000 people, the majority of whom work in GFB. There is a moratorium on all new employment in place, except in areas agreed between management and labour to be critical. Six thousand jobs were shed in 1999 through Mutual Consent Packages. A big proportion of Spoornet's workforce are so-called unskilled. And yet there is a chronic shortage of some categories of skilled workers, such as train drivers. Hence joint labour's proposals for a thorough audit of training.

### **GFB's financial troubles**

The Coal-link and Orex lines are highly profitable, whereas GFB is not. In the year ending March 2000 GFB made a loss of R1,7-billion. The scale of the losses has put GFB at the centre of all discussions on restructuring.

The significance of GFB lies not only in its current losses, but more importantly in the scale of its operations. It has 1 850 customers and moves a vast range of goods in tankers, in containers, in bulk trucks, and on flat trucks. Of its 1 850 customers, its ten biggest customers account for 40% of revenue, 90 customers make up 50% of revenue and the rest account for only 10% of revenue.

Thirteen thousand kilometres of the lines used by GFB contribute only 6% of revenue. Overall within Spoornet about half the network is considered light density and there are 1 250 kms of track currently not used at all. It is this imbalance of volumes that lies behind management and government's thinking to spin off around half the track into privately owned or operated branch lines, and to allow those that cannot survive to close down. SATAWU is vehemently opposed to such a move in the absence of an investigation that takes into account the social and wider economic role played by many of these so-called peripheral lines.

While a particular line may be on its own financially loss-making, the long-term social and cost implications for the economy and country as a whole could be enormous. The most obvious cost would be to the road system, as inevitably more freight would move to road transport.

The financial troubles of GFB are compounded by competition from road freight. While Spoornet has to reinvest 33% of its turnover into track maintenance (this excludes expansion or upgrading), road hauliers do not pay directly for the maintenance or building of roads. However, competition between road and rail does not boil down simply to price. In fact the rand per kilometre rail rates between Durban and Johannesburg, for example, are highly competitive. Not only this, internationally the rates are comparatively low, compared to internationally high rates for road freight. The real problem is time inefficiencies. It takes just over half a day for a container transported by road from Durban harbour to reach its final destination in Gauteng, compared to 4,9 days for the same container to be transported by rail and then delivered to its destination. It is these time inefficiencies that SATAWU is interested in engaging with management on.

Added to the problem of competition from road, Spoornet pays a diesel levy that goes straight into the fiscus. In 1999/2000 Spoornet paid a total of R28,7-million in such a levy. SATAWU is fully in support of management's view that Spoornet should immediately be relieved of this levy.

### **Investment**

In October 2000 Spoornet management announced its intention to spend R600-million in the upgrading of 200 locos over four years. Five hundred million rand would be spent locally with R100-million spent in imported components. The work would go to Transwerk and other non-Transnet suppliers and the investment would result in a reduction of the life cycle cost of locos as well



as improve safety and reliability. The locos were bought in the late sixties and mid-eighties but to replace instead of upgrade them would cost more than R4-billion.

The loco upgrading programme is part of a bigger R15-billion capital renewal programme to be rolled out over 15 years. This includes the installation of a new electronic braking system on some wagons (R10-million) as well as the electrification of the line between Kimberley and de Aar (R180-million). This 231 kms of track is the only section of line between Johannesburg and Cape Town that is not presently electrified. While the Spoornet unions are consulted over the implementation of such investment decisions at the Operational Efficiency Committee, they are not currently consulted over the decisions themselves. Spoornet workers, however, have strong views about certain bad investment decisions in the past, and are keen to have an input into discussions about future investments. Hence the unions' proposal that investment plans be spelt out and debated with labour.

Spoornet has invested heavily outside of South Africa – its foreign investments are largely via its subsidiary Comazar. Spoornet owns 20% of the Tanzanian Railway Corporation and is involved amongst other things, in a feasibility study on the development of an inland port in Uganda. It also has a stake in a rail concession in Argentina. SATAWU is uncomfortable with Spoornet's role in the privatisation of railways outside of South Africa.

On the question of the profitable Coal-link and Orex, SATAWU views the possibility of concessioning off these lines to private operators as cherry-picking. Internationally, general rail freight businesses tend not to be very profitable, and therefore cross-subsidisation in one form or another from profitable bulk operations is not unusual. In some cases, such as in a number of Australian states, the bulk operations are distinct state-owned business units paying tax to the government, and the cross-subsidy is in the form of a direct and transparent subsidy to general freight operations.

## MLPS

Main Line Passenger Service (MLPS) currently contributes only 2,7% of Spoornet's overall turnover. But it carries 5 million passengers every year, and could potentially carry a great deal more. It is the cheapest form of long distance travel and is relied upon by many. Given the cost to the country of the high rate of accidents on our roads, the attraction of a greater number of travellers onto rail makes social and economic sense. This is why the Spoornet unions wish to engage in discussions with management over strategies to grow MLPS's market share. Interestingly, MLPS currently receives no subsidy from central government. It is subsidised internally by the profitable sectors of Spoornet.

Internationally, almost no long distance rail passenger service operates without a state subsidy. SATAWU therefore supports the argument that MLPS should be entitled to a state subsidy in order to grow and develop its service. Such a service must remain in state hands, however. We cannot have a situation where routes that are unprofitable on the books are closed or reduced and passengers are left without affordable options of travel.

Luxrail, whose operations include the Blue Train, contributes 0,5% of turnover to Spoornet. Luxrail has in the past few years made a loss but is expected to break even in the year ending March 2001. While Luxrail clearly does not add any particular social or economic value to Spoornet itself, its operations are seen as something of a flagship for South African tourism. In SATAWU's view, concessioning off to a private operator could result in this being lost.

The future shape and size of South Africa's major rail operations is still in the melting pot. At the end of the process of restructuring, SATAWU hopes that the system will be one that provides a socially and economically useful service, that is affordable to users, that is efficient, that provides good quality jobs, and above all, one with which railway workers feel proud to be associated.



government to commit itself with some urgency to providing the resources for proper policing of the road tonnage limits, and to commit itself at the same time to a reassessment of the regulation of road freight to take account of the negative impact of increased road freight haulage.

## Union co-operation

Labour argues that trade union co-operation is essential for the reconstruction of SpoorNet. In its proposals, labour states that it requires the commitment of management and government to a serious discussion of its proposals in order for it to be able to co-operate fully.

Labour also requires a three-year moratorium on retrenchment in SpoorNet, on the grounds that it would take at least that time for an efficiency strategy to start showing results in terms of increasing volume that could save jobs. 'Real productivity and efficiency gains can only take place in a climate of job security,' the unions argue.

An Operational Efficiency Committee (OEC) with strong union representation meets weekly at SpoorNet. The powers and procedures of the OEC are similar to the workplace forums of the LRA, although the OEC is a union-based rather than an independently elected forum as intended by the legislation. Labour believes that the OEC provides a valuable forum for engaging with management, although its actual functioning leaves much to be desired:

- ❑ Union preparation and co-ordination is weak.
- ❑ The OEC discusses management proposals rather than union proposals, with the result that the unions are reactive rather than proactive.
- ❑ The OEC tends to get bogged down in details and fails to consider broader and

more long-term issues.

- ❑ The SpoorNet chief executive officer (CEO) provides quarterly information briefings to selected trade unionists, but these do not form part of the OEC programme, nor do they provide for serious engagement.

Labour proposes therefore that the work of the OEC needs to be restructured to include broader and more long-term issues. The quarterly information briefings should be replaced with quarterly plenary sessions of the OEC, attended by the CEO and the executive committee, where SpoorNet performance, and its progress in terms of reconstruction and the implementation of OEC projects, should be reviewed.

In addition, the trade unions should meet once per month in a labour caucus to assess OEC meetings and prepare for future meetings. The individual unions should also commit themselves to improved preparation.

## Proposed projects

The labour document lists ten suggested projects as concrete examples of ways to address its central strategic concerns discussed above (see box on p 49).

## Where to next?

Labour rejects privatisation because it is likely to undermine socio-economic development, as argued above. It also draws attention to disastrous results in other countries: In the United Kingdom, where the state-owned British Rail was broken into 50 separate privatised companies governed by contract, competition and price, the result has been increased fares, poor service, an increase in the state subsidy – and a shocking safety record. In the case of Argentina, the rail network was broken up and concessioned. A few years into the contracts, the



concessionaries insisted on renegotiating the contracts, reducing investment and social obligations – which the state has now had to finance. Hence labour's view that government's faith in private sector operators is misplaced.

Labour's proposals were presented to management in September last year, and to the Minister of Transport in November. SATAWU is awaiting a response from the Minister of Public Enterprises – the key minister in relation to ownership and privatisation issues – to its request for a meeting to discuss the proposals.

Spoornet management appears to be unable to formulate a response, and the union plans to table specific proposals at the OEC. The Minister of Transport was sympathetic, but has no powers in relation to the government proposals for the concessioning of Spoornet.

The union has also begun to mobilise its members in support of the ITF International Railway Workers' Action Day on 29 March, and in South Africa the focus of the campaign will be opposition to government's privatisation plans.

Thus the fate of the labour proposals is in the balance. Both government and management are aware of these proposals, but both have avoided a serious exchange of views about them. Indeed, it often seems that government is structured in such a way as to prevent serious engagement. Proposals are presented, but decisions are referred elsewhere.

Whether there is a serious discussion about the future of rail transport seems to depend entirely on whether SATAWU has the political will and capacity to take its ideas into the public arena, and to compel government to engage.

## Significance

The nationwide strike by railway workers in 1995, which compelled government to

negotiate the National Framework Agreement (NFA), created an institutional space and resources for all trade unions to develop proactive strategies in relation to the restructuring of 'State Assets'. By and large the trade union movement failed to make constructive use of this opportunity, and approached restructuring in a reactive and defensive way.

The labour proposals for reconstruction at Spoornet represent a more strategic and proactive approach. These proposals, driven by SATAWU, constitute the most comprehensive alternative to government proposals for privatisation since the railway workers went on strike six years ago. It is fitting that once again it is the union of the railway workers that is taking the lead. Its proposals pose public ownership, union management co-operation and worker innovation as alternatives to privatisation in the drive to improve service delivery and focus on socio-economic development.

The SATAWU strategy is based on workers' knowledge and their strategic judgment about setting priorities and achievable goals in the workplace. This distinguishes the Spoornet proposals from the first wave of union strategies for shaping reconstruction, which was driven by NUMSA, and which focused on technically complex grading and training systems negotiated at sectoral level. This strategy tended to disempower shopstewards and neglect the crucial site of change – the workplace.

Will the Spoornet proposals by labour prove to be the beginning of a second wave of union strategies for reconstruction? ★

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*Karl von Holdt heads Naledi's Workplace Reconstruction Unit which is advising labour on restructuring at Spoornet. He is also a member of the Bulletin's editorial board.*



## Extracts from the labour proposal

These suggested projects are included in the document to give management an idea of some of the concrete areas that labour feels could be effectively dealt with in the OEC.

## Volume and efficiency projects

### 1 *Volume and efficiency on the Durban-Johannesburg corridor*

Since this is the most profitable corridor for the General Freight Business it is important to investigate ways of increasing efficiency, quality of service and traffic capacity as part of a strategy for increasing volume. Establish a joint management-labour project team to identify problems and solutions, and ensure the implementation.

### 2 *Volume and efficiency on a selected regional line*

Establish a similar joint management-labour project team for a selected regional line to demonstrate the potential for growth in business on such lines.

### 3 *Workplace pilot projects*

Select two to three workplaces as pilot projects for workplace reconstruction focusing on efficiency, quality of working life etc. The workplaces selected should be key workplaces identified in terms of projects 1 and 2 (for example, City Deep, Durban Marshalling yard, Central Rand, specific workplaces on the selected regional line, etc).

## Human resource projects

The implementation of several of these projects could be focused on the workplaces/lines identified in 1 to 3.

### 4 *Improving supervision*

The lack of competent supervision is a major problem at SpoorNet. We should propose a plan for the reconstruction of supervision in a specific workplace/ function as a pilot project.

### 5 *Training/grading*

Training and upgrading of workers would make a significant contribution to improving efficiency and the quality of workers' jobs. Specific job grades/categories should be targeted for improved training.

A medium-term plan for the upgrading of the skills of existing general workers is critical in this regard. Currently general workers are considered unsuitable for existing vacancies in higher grades, and are therefore being made redundant.

### 6 *Work organisation*

It is important to introduce new forms of work organisation that improve workers' skills, their control of work, and the quality of their working life. Pilot projects should be selected in specific workplaces.

### 7 *Grading*

We need the OEC at some stage in the future to do a full review of the grading structures, starting with an overview of the existing grades. The union in the meantime is committed to find out as much information as possible internationally about trends in grades in railway systems.

### 8 *Improved race relations*

Poor race relations is creating tension and conflict on the shop floor, and also creates barriers to the advancement of black workers. The OEC needs to develop strategies for dealing with this issue.

### 9 *Improving the implementation of the equity plan*

This to be on a project-by-project basis.

### 10 *Improving security and loss control*

The lack of adequate security allows a high level of theft and corruption. The OEC should discuss ways of improving security. Labour is committed to assisting to eradicate theft and corruption, but to really take effect, workers need to feel reassured about their future in the company.