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Zondo Commission – flawed proposal for locomotives approved despite engineer's questions

A business proposal presented to the Transnet board in January 2014 to request a confinement to China South Rail (CSR) in the procurement of 100 electric and diesel locomotives for use on the company's coal line between Mpumalanga and KwaZulu-Natal was grossly flawed, and should never have been approved. This is the view of the lead engineer in the business case for the programme, developed by Transnet Freight Rail (TFR) amid high demand and a delay in the bigger, more ambitious locomotives project for 1 064 locomotives it had set out for in 2012.

Francis Callard, now retired, told the commission of inquiry into state capture on Friday that Transnet executives, who included then TFR CEO Siyabonga Gama, group CFO Anoj Singh and group CEO Brian Molefe, submitted a business case riddled with material factual errors and inaccuracies to the board, alongside the memorandum requesting a confinement. It was a misrepresentation of what both Transnet and CSR could do on their respective ends, said Callard.

The document had been manipulated so many times at different stages, that material changes had been effected to the original document he had presented in April 2013, at Gama's request. Oddly, the same strategy had been used to request a confinement for CSR rival Mitsui, from Japan, just three months earlier, in October 2013. Only names and a few frivolous details were changed to effect a revoking of the Mitsui confinement, and to advance the one to CSR.

According to Callard, there were risks involved in the conduct of the executives, who used the grounds of compatibility in both confinements. They ignored material recommendations he had made, as the original author of the proposal. Callard's technical experience in the area of specifications of locomotives is the reason he had first been asked by Gama in 2009 to develop a fleet plan for TFR that would help the division respond to market demand for fully-functioning locomotives. Callard did this with the help of several experts in TFR, and in 2010 handed over the concept to a colleague who was more senior, and thus developed a five-year plan for buying locomotives.

The five-year plan was presented to the board in 2011, and it was approved at a projected cost of R26-billion, subject to a full funding plan accompanying the next presentation. However, it was around this time that the strategic planning changed in the organisation. It was also around this time that Molefe arrived as GCEO. The new plan was to turn road freight traffic into rail traffic, as Transnet had lost out on this market over some time.

The onus was then on Transnet to build capacity on their freight rail service, so the initial fleet projection of 776 locomotives increased to 1 064 units and the scheduled time was also increased to seven years. There was, however, some delay in setting the programme in motion, given its size. In the meantime, there was a need for 100 locomotives for the coal line, and a plan had to be made for their acquisition.

In April 2013 Callard prepared a business case, which went through some changes before eventually being modified and signed off in October that year by Gama, then chief procurement officer Garry Pita, general manager of capital strategy Mohammed Mohamedy, and group chief financial officer Anoj Singh. Further to their signing off, the group also recommended a confinement to Mitsui on grounds of compatibility. Their recommendation was signed off by Gama.

Three months later, in January, Mitsui's name on the confinement had to make way for that of CSR, despite the initial argument that Mitsui as a manufacturer was most compatible with what Transnet required. The same grounds were used for the CSR confinement. One of the material errors picked up by Callard in the second proposal is because Mitsui is a Japanese company, the pricing specifications in the confinement relating to it were in Yen. The modified document for CSR should been converted to the relevant currency.

Another odd factor came up just before the executives finalised the document in support of CSR. Callard received a surprising e-mail from Lindiwe Mdletshe, a manager within the supply chain management unit, with an attachment he was requested to insert into the document he had authored, to effectively change some aspects of it. While he did this, he also noted to Gama the changes to the specifications that he had included in his original business case, that had now been altered to reflect a significantly different business case.

Evidence leader Mahlape Sello then brought up a submission of evidence in the form of e-mail exchanges between Gama and Singh, in which the two men acknowledge Callard's concerns. The final memorandum to the board, said Callard, included the changes he had raised the alarm on, despite the fact that none of the executives had responded to him or asked him to substantiate these concerns.

Thus the confinement to CSR was approved, at a cost of R3.8-billion to TFR.

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