CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

Date: 17 September 2020

To: Minister of Transport, Mr Fikile Mbalula and the Chief Executive Officer of the Ports Regulator of South Africa, Mr. Mahesh Fakir
By: Email
Copy to: Executive Mayor of the City of Cape Town, Dan Plato

CITY OF CAPE TOWN SUBMISSION ON TRANSNET NATIONAL PORTS AUTHORITY TARIFF APPLICATION FOR FINANCIAL YEAR 2021/22

Dear Minister Mbalula and Mr Fakir

The Ports Regulator of South Africa issued the Tariff Methodology on the 6th of March 2020 to be used to determine the Transnet National Ports Authority (TNPA) revenue, and this Methodology is applicable from 2021/22 to 2023/24.

Applying the Revenue Requirement Tariff Methodology, TNPA determined that a tariff adjustment of 19.74% for the 2021/22 financial year is required, and a subsequent adjustment of -0.29% in 2022/23 and -7.86% in 2023/24.

However, as it is captured in the Tariff Application document, Page 39 of 69, TNPA has asked the Regulator to consider an inflationary tariff adjustment for the 2021/22 FY, which is currently at 3.8%. TNPA has opted to request an average adjustment of 2.56% in Cargo Dues and 7.12% on Marine chargers (shipping lines).

This submission is informed by the public hearing session, hosted by the Regulator on the 1st of September 2020, attended by City of Cape Town Officials, existing reports, and our daily interactions with the business sector – across all sectors and business sizes; importers and exporters; rural- and urban- located – whose businesses have been suffered significant losses due to the various lockdown measures taken to contain the spread of COVID-19.

Firstly, we must point out that the economic performance projections used in the TNPA's application are based on data collected pre-COVID. While the impact has been considered in the narrative, considering the economic impact on GDP as well as business sustainability, it is not sufficient. It is the view of the City of Cape Town that reducing port costs and improving efficiencies is not only critical in times of relative normality, but in the current COVID context the pursuit of these key objectives should be accelerated.

Business Challenges

It is important that the challenges currently faced by local business port users, exporters and importers, are considered when contemplating any tariff increases. City officials have complied a list of challenges these businesses are currently dealing with, which are attached in annexure A. In short, businesses are faced with a weak national economy, a weakened currency, forced and self-imposed shutdown of business activities and the loss of shelf-space for many locally based exporting companies to competitors in other markets.

These factors combined mean that any increase in ports tariffs may prove fatal for too many businesses which are already struggling to stay open and pay salaries.

Position of the City of Cape Town

- Given the challenges which have been highlighted above, the CoCT does not support the application for tariff increases during this very difficult period for businesses, and the economy in general.

- While the City of Cape Town fully acknowledges the deviation by the Authority from the exorbitant Revenue Requirement Tariff Methodology value, especially for the 2021/22 financial year, there is still a concern that businesses will not be in a position to absorb these costs, without sacrificing jobs and/or volumes.

- Adjusting only the import and marine charges may seem plausible at this stage, but these costs end up being passed on to individual struggling businesses which rely mainly on imported inputs for local manufacturing.

- The scale of COVID-19 impact on businesses is not yet fully known, but it is clear that the business sector is paralysed, and it will take years for it to get back to pre-COVID-19 volumes and profitability levels. Furthermore, no one yet knows whether SA will experience a double COVID hit or not, and what will happen to the GDP.

- If there was ever a time to NOT increase any costs, in line with findings of the Regulator's commissioned study that time would be now. The Regulator's objective has been to bring port costs down, in line with other international ports, guided by the comparator study.

- The national objective should be to stabilise and grow the economy, increasing costs associated with exports will likely prove fatal to many exporters, or will have a lasting negative impact on the restarting of the economy.

- The view of the CoCT is that TNPA should look at the existing budgets at current tariff levels to creatively fund its operating requirements whilst at the same time ensuring that it is affordable and progressive for port users.

- To stimulate the economic growth through increased imports of inputs and exports of finished goods, this country cannot afford to increase the already high port tariffs – that would be catastrophic!

Please also see annexure B attached which is a summary of key authoritative Studies on South African Port Costs which further augment our arguments as to why no tariffs increases should be granted.

We look forward to your favourable response and thank you in advance.

Kind regards

Alderman James Vos
Mayoral Committee Member for Economic Opportunities and Asset Management

AND

Alderman Felicity Purchase
Mayoral Committee Member for Transport

ANNEXURE A

Business Challenges

- A weak national economy - For months prior to COVID-19, the South African Economy was shedding jobs, experiencing almost-zero-percent growth, struggling to attract both domestic and foreign investment – partly because of the downgrades by the rating agencies;

- A weakened currency, which translated into expensive imported inputs for local manufactures and producers of goods for both the local and export markets;

- Forced and self-imposed shutdown of business activities across the economic sectors, due to COVID-19;

- Inefficiency challenges at the ports, both historical and COVID-19 related, especially the Port of Cape Town;

- The COVID-19 related lockdowns in the destination markets for South African products, and the subsequent reduction in demand which drove down revenues; and

- The loss of shelf-space for many locally based exporting companies to competitors in other markets. This has caused many to either shutdown or divert their products to the local market which pays far less than the original secured markets.

ANNEXURE B

Authoritative Studies on South African Port Costs

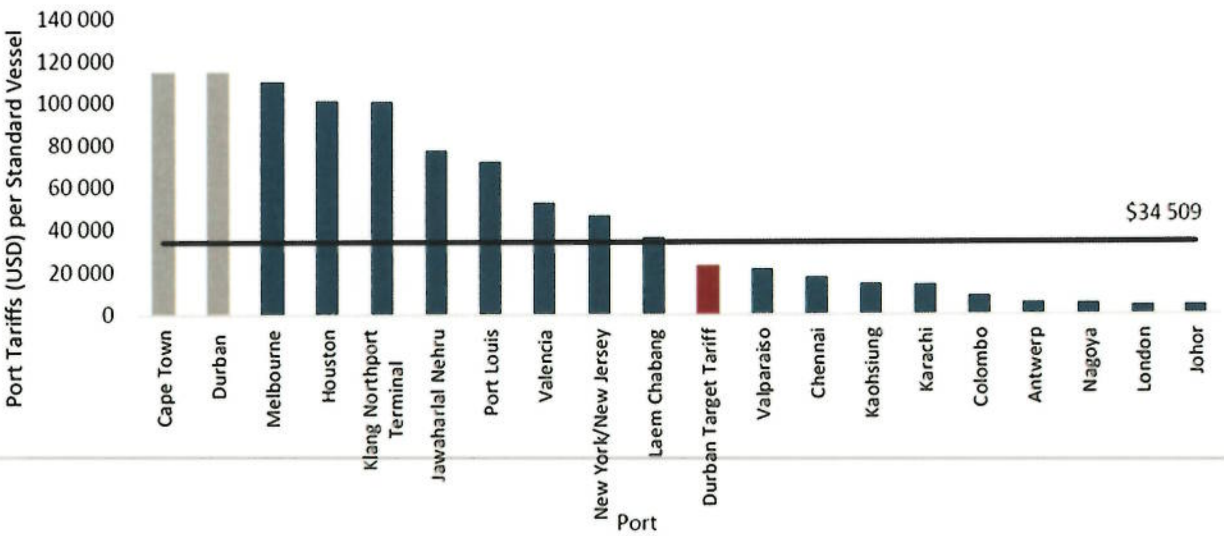
The below information from key studies illustrates some of the issues and concerns which must be taken into account.

a) Global Pricing Comparator Study (GPCS) - 2019/2020

This report, prepared by the Ports Regulator of South Africa, benchmarks South African ports against a pool of international ports. The study found that container cargo dues are still 233% above the sample average and that terminal handling charges (THC) are also at 117% above the sample average.

The THCs have increased from being 55% above the sample average in 2015 to 117% in 2019. This is a particularly concerning trend. The report states that, of the total cost of moving a container through SA ports, the THCs contribute about 65% to the cost, cargo dues contribute about 30%, and the remaining 5% are marine charges.

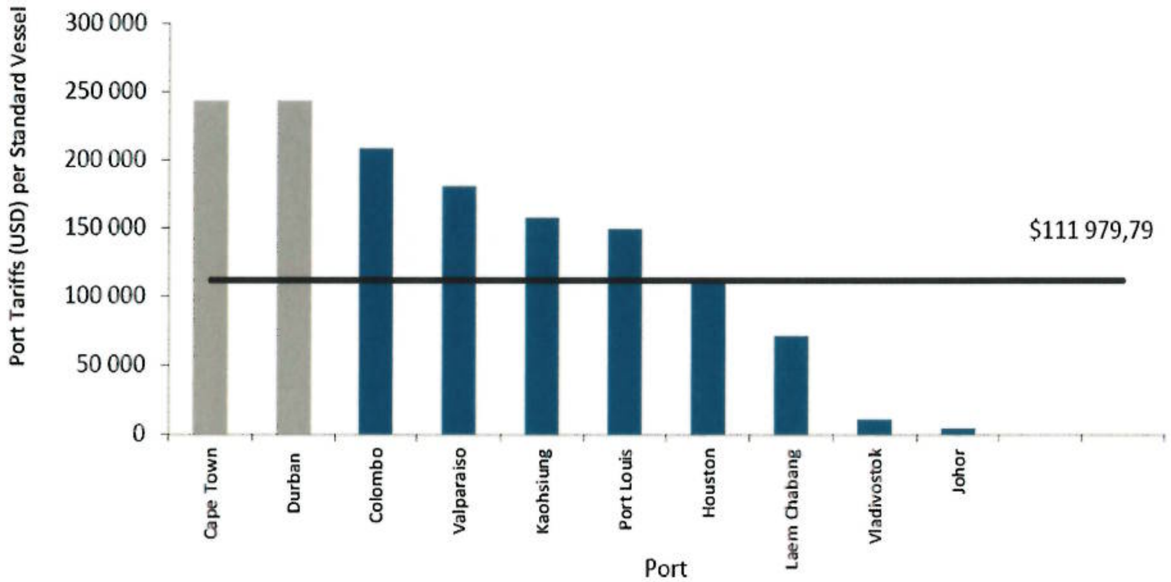
Figure 1: Container Cargo Dues per Port per STD Vessel (01 April 2019)



SOURCE: Global Pricing Comparator Study, 2019/20, Page 14

Figure 1 above clearly shows that South Africa has a long way to go in achieving the objectives of the National Port Tariff Strategy, and also the implementation of Transnet's mandate which is partly to "*Assist in lowering the cost of doing business in South Africa*" AND, to "*enable economic growth.*"

Figure 2 below shows Container Terminal Handling Charges (THC) per ton per STD Vessel (01 April 2019). It is clear that South African exporters are being charged exorbitantly, therefore any reduction will be welcomed by business, especially now during the economic crises.



SOURCE: Global Pricing Comparator Study, 2019/20, Page 16

b) World Bank's Sub-National Cost of Doing Business Report (SNCDB) - 2018

The Sub-National Cost of Doing Business (SNCDB) study found that maritime trade in South Africa is time-consuming, cumbersome and costly in comparison to global benchmarks.

The World Bank, in partnership with National Treasury, regularly conduct an analysis of the competitiveness of the South African Major Cities, including the trade ports. This is done through a combination of primary and secondary research, and the findings are published in a form of a study report named "Doing Business in South Africa".

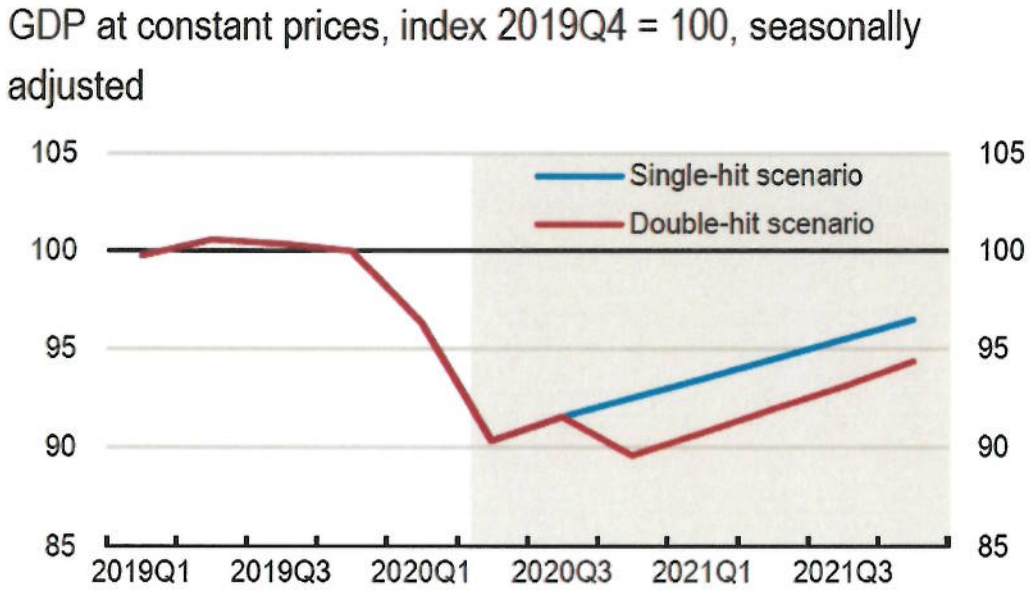
The most recent 2018 report highlighted the challenges of costs and port system inefficiencies which must be addressed. The study is used by various global Investment Promotion Agencies (IPA) around the world to guide how investments are guided from the respective individual countries.

c) OECD Economic Surveys – South Africa: July 2020

This report captures that the current 2020 recession follows almost a decade of modest growth which is attributable to the persistent electricity shortages, policy uncertainty, and other reasons.

The OECD warns that the South African economy will "*recover only progressively from the coronavirus recession as sectors reopen*", but the situation could worsen in a case of a double-hit.

Figure 3: Economic Growth Collapse Following a Modest Performance in the Past Decade



SOURCE: OECD Economic Surveys – South Africa: July 2020, Page 4

It is claimed that should there be a double-hit, further curtailment on exports and the deepening of recession to -8.2% in 2020 will be realised. The current single-hit projections point towards a fall in economic activity of 7.5% in 2020.

In line with Transnet's mandate to support economic growth, it would be difficult to justify any increase in port tariffs if the economy is being advised to improve business climate, reduce red tape and to increase participation in global value chains by our local manufacturers.

The OECD further warns that the coronavirus pandemic and lockdown have strongly hit the economy, and many SMMEs are struggling to survive.