naamsa

NATIONAL ASSOCIATION OF AUTOMOBILE MANUFACTURERS OF SOUTH AFRICA

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The Chairman
Ports Regulator
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4th November 2019

comments@portsregulator.org

Dear Sir

REVIEW OF THE PORT TARIFF METHODOLOGY: SUBMISSION BY NAAMSA ON BEHALF OF THE SOUTH AFRICAN AUTOMOTIVE INDUSTRY (VEHICLE MANUFACTURERS, EXPORTERS AND IMPORTERS)

The National Association of Automobile Manufacturers of South Africa (NAAMSA) represents the interests of 41 vehicle manufacturers and importers of new vehicles in South Africa. NAAMSA would like to thank the Ports Regulator of South Africa for the opportunity to once again provide input for consideration in terms of the future multi-year Port Tariff Methodology.

The automotive industry is highly dependent on international trade and more specifically a competitively priced ports network which will allow the South African automotive sector to effectively compete with other global automotive manufacturing sources for export contracts. NAAMSA members remain considerably reliant on the cost and efficiency of South African port operations. Working together with the National Ports Authority as well as Port Users, we believe that the regulatory environment has resulted in notable increases in the level of transparency around port costs and revenues. This has in turn achieved closer alignment of port service tariffing to the underlying cost thereof.

Thank you for the opportunity to provide NAAMSA's views on the multi-year tariff methodology. Please do not hesitate to contact NAAMSA should you have any queries.

Yours sincerely

Marthinus Brewis

Chairperson: NAAMSA Supply Chain Committee

Office Bearers: President - **Andrew KIRBY**, Chief Executive Officer, Toyota South Africa [Pty] Ltd
Vice-President: Manufacturers - **Tim ABBOTT**, Managing Director, BMW Southern Africa [Pty] Ltd
Vice-President: Importers and Distributors - **Ray LEVIN**, Commercial Executive, Motus Corporation
Immediate Past President - **Mike WHITFIELD**, Chairman, Nissan South Africa [Pty] Ltd
Executive Director: **Michael M. MABASA**: NAAMSA Chief Executive Officer | PBO No.: 930/023/609 | VAT No.: 4070109972

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Introduction

The National Association of Automobile Manufacturers of South Africa (NAAMSA) welcomes the opportunity, afforded by the Ports Regulator of South Africa (Regulator), to comment on the future multi-year Port Tariff Methodology. Comprising of 21 motor vehicle manufacturers and 20 motor vehicle importers and distributors, the body's membership represents substantial port volume in terms of both throughput and value.

In 2018, the automotive industry contributed 6,8% to the country's GDP, 14,3% of total South African exports and 13,1% of total South African imports under the Automotive Production Development Programme (APDP). Current industry performance has been underpinned by domestic sales of 552 226 vehicles in 2018 with a market that remains under pressure due to the weak macro-economic climate in the country. However, record vehicle export volumes through South African ports have supported growth in vehicle production volumes over recent years.

Despite decreases in tariffs for select stakeholders over the last few years, the automotive industry remains burdened with charges that are not reflective of the true cost to provide the service. Furthermore, while there may be stark differences in the funding models employed, tariffs are nevertheless well above global comparator ports.

NAAMSA wishes to reiterate that the South African Automotive Masterplan 2021-2035, announced on 22 November 2018, will create a framework to secure even higher levels of investments and vehicle production in the country. However, for the objectives of achieving growth in vehicle production to 1,4 million vehicles per annum by 20235, increased automotive component localisation, doubling of industry employment levels, increased transformation and improved international competitiveness of the domestic automotive industry one of the key pillars to realise the Masterplan's objectives is improved logistics costs.

After careful analysis NAAMSA herewith provides the following comments on the multi-year tariff methodology for consideration. NAAMSA's response does not deviate much from our previous consultation response but we would like to add the following:

Rate of Return Regulation

NAAMSA supports the continuation of the Required Revenue (RR) Methodology and deems it essential for the following reasons:

- It provides adequate revenue required by NPA to fulfil its mandate
- Risks are mitigated through revenue allowance as well as the clawback mechanism
- Enables competitive financing by the Authority
- Ensures strategic assets are developed, maintained & replaced
- Allows only reasonable profits to be earned by the monopolistic SOC
- Provides port users with protection against excessive tariff increases

NAAMSA's stance remains that the role of the Regulator remains critical to assist MPA and Port Users to:

A. Determine whether the quantum is appropriate where there are no standard regulations
B. Make sure that standard regulations are correctly applied

NAAMSA's standing concern is still that the methodology does not favour increased efficiency or competitiveness which is a main focus item of the 2035 South African Automotive Masterplan.

Capex Oversight (Working Capital and Capital Works in Progress)

Much emphasis has been placed on improvement/ procurement of assets to improve efficiency & service delivery with working capital and CWIP being included into the RAB.

NAAMSA supports the clawback mechanism in place relating to the capex not fully implemented.

The role of the PCC's is vital in Capex input and implementation oversight.

The Appropriate Period of Methodology

Industry supports the rolling multi-year period with annual review. NAAMSA is also appreciative of the opportunity afforded through the consultation to challenge / respond to significant changes in the tariff methodology through a structured process.

Beta (β)

The industry supports the view that a lower Beta should be applicable to the NPA. This given the very unique operating environment of the monopolistic SOC, which is largely void of systematic risk due to the RR methodology employed including a clawback mechanism.

We note the complexity of the task to establish an appropriate β and look forward to a methodology being developed prior to the review of the Tariff Methodology in 2020/21. It is further proposed that once determined, the appropriate Beta be applied in following FY similar to that of Regulatory Valuation Methodology outcome.

NAAMSA is cognisant of various industries calling for a zero-based beta due to the systemic low risk due to NPA having very little or no exposure to market risk.

Operating Costs

Operating costs, including Transnet Group costs, remain an area that requires greater transparency and analysis.

The process is reliant on motivations by the NPA, which are not necessarily comparable to global equivalents due to the unique nature of the Authority. Justification of Group costs in particular requires intense scrutiny due to the interrelated operations of the SOC and potential for cross-subsidisation.

NAAMSA supports the Regulator's right to claw-back all or any portion of the amount in future tariff decisions, should the Regulator not be satisfied that the expenditure is within the scope and mandate of the NPA, and that the amounts are reasonable, or reasonably allocated to the NPA.

Excessive Tariff Increase Margin Credit (ETIMC)

Given the Regulator's overarching view of the variables, present and future, influencing RR and resultant Tariffs, the current position on ETIMC is supported.

The quantum and timing of ETIMC utilisation cannot be forecast due to the dynamic nature of CAPEX programmes, port volumes, etc. As such the Regulator is deemed to be best placed to consider the appropriate application of the "revenue collected from port users" to curb excessive tariff increases in future.

Industry is confident that the responsibility to safeguard against potential excessive tariffs is carefully considered by the Regulator against the opportunity to reduce port costs in order to stimulate volume growth.

Weighted Efficiency Gains from Operations (WEGO)

The industry fully supports an efficiency incentive and supports the framework of the existing WEGO incentive.

However, the current base comparison for reviewing performance does not provide a competitive challenge to the Authority.

WEGO results in FY18/19 – showed marked declines on previous years' performance, with ship productivity indicators and berth productivity substantially lower than the previous inefficient baseline comparison.

NAAMSA's request is that a review of the baseline comparator needs to be done in order to benchmark South Africa's port network at a global standard.