

23 September 2020

The Chairman
Ports Regulator
Private Bag X54322
Durban
4000

By Email: comments@portsregulator.org

Dear Sir

TNPA TARIFF APPLICATION 2021/22 – NAAMSA COMMENT

naamsa represents the non-competitive interests of 49 new vehicle brands in South Africa comprising of 41 companies involved in the production and selling of cars and commercial vehicles..

naamsa welcomes the opportunity to comment on and provide input for consideration with regards to the TNPA Tariff Application 2021/2022.

The manufacturing sector is regarded as the engine of growth and as the largest manufacturing sector in the country's economy. The automotive industry accounts for 30.1% of South Africa's manufacturing output while the broader automotive industry's contribution to the GDP was 6,9%. Contribution to total exports is at 13.9%.

naamsa believes that the regulatory environment has resulted in notable increases in the level of transparency around port costs and revenues which in turn has achieved closer alignment of port service tariffing to the underlying cost thereof. 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.

Thank you for the opportunity to provide our views on the port charges. Please do not hesitate to contact naamsa should you have any queries.

Yours sincerely



Marthinus Brewis
Chairperson: NAAMSA Supply Chain Committee

Page 1 of 7

Index

Contents

Introduction	3
Industry Reset – COVID-19 Impact	4
Methodology	5
Single Transport Economic Regulator	6
Tariff Review Reflection	6
Conclusion	7

OUR STRATEGY: REIMAGINING THE FUTURE TOGETHER

OUR AMBITION: "the most credible thought leader and respected partner of a globally competitive and transformed automotive industry that actively contribute to the sustainable development of South Africa".

OUR VALUES: Partnership | Consistency | Trust



Introduction

The automotive industry in South Africa is a success story owing to the partnership between government and the sector to develop the industry. Long-term government support for the automotive industry is the major reason for the continuing health of this vital sector in the South African economy. The stability in support since 1995 has been a significant enhancement for investor confidence. The automotive industry is a crucial job creator in the country's economy and makes a significant contribution to the South African economy as a whole in terms of GDP, employment, compensation, government revenue, exports and capital investment.

On 22 November 2018, Cabinet adopted Phase 2 of the APDP, to support the South African Automotive Masterplan (SAAM) from 2021 to 2035. SAAM is the newly developed strategy plan for the long-term development of the South African automotive industry, and the APDP Phase 2 will now operate within the framework of the Masterplan. The SAAM's 2035 vision is the achievement of "a globally competitive and transformed industry that actively contributes to the sustainable development of South Africa's productive economy, creating prosperity for industry stakeholders and broader society". The Masterplan will create a framework to secure even higher levels of investments and production, and will enable the industry to plan for the future and invest with confidence. A key summary of the SAAM 2021-2035 is as follows:

1. Grow South African vehicle production to 1% of global production by 2035 (1, 4 million vehicles per Annum);
2. Increase local content in South African manufactured vehicles to 60%;
3. Double automotive employment in the supply chain;
4. Improve automotive industry competitiveness levels to that of leading international competitors;
5. Transformation of the South African automotive value chain; and
6. Deepen value-addition within South African automotive value chains.

Government's announcement of its commitment and support post-2020 provides an attractive proposition to global OEMs and their suppliers to realise the aspirations of a significant expansion in vehicle production volumes, much higher levels of localisation, substantial employment growth, as well as transformation in the domestic automotive industry.

In order to achieve the industry's strategic objectives as outlined in the South African Automotive Masterplan stakeholders must be globally competitive across the value chain. It is furthermore crucial that a reasonable degree of certainty exists in order to accurately forecast supply chain related costs on both inbound and outbound volume throughput.

OUR STRATEGY: REIMAGINING THE FUTURE TOGETHER

OUR AMBITION: "the most credible thought leader and respected partner of a globally competitive and transformed automotive industry that actively contribute to the sustainable development of South Africa".

OUR VALUES: Partnership | Consistency | Trust



Industry Reset – COVID-19 Impact

Reflecting on the new vehicle sales statistics for the month of August 2020, it was confirmed that aggregate domestic sales at 33 515 units continued the status quo and reflected a decline of 11 969 units or 26,3% from the 45 484 vehicles sold in August last year, although the performance of the medium and heavy commercial vehicle segments surprised on the upside. Export sales at 23 337 units also registered a huge fall of 20 623 units or a decline of 46,9% compared to the 43 960 vehicles exported in August 2019.

Overall, out of the total reported industry sales of 33 515 vehicles, an estimated 30 875 units or 92,1% represented dealer sales, 4,2% sales to government, 2,9% to industry corporate fleets, and an estimated 0,8% represented sales to the vehicle rental industry. The August 2020 new passenger car market at 19 545 units had registered a decline of 9 458 cars or a fall of 32,6% compared to the 29 003 new cars sold in August last year. The contribution by the car rental industry remained negligible and comprised only 8 units or 0,04% in August 2020 compared to the 18,0% in August 2019.

Domestic sales of new light commercial vehicles, “bakkies” and mini-buses at 11 336 units during August had recorded a decline of 2 719 units or a fall of 19,4% from the 14 055 light commercial vehicles sold during the corresponding month last year.

Sales for medium and heavy truck segments of the industry reflected a welcomed uptick and at 799 units and 1 835 units, respectively, showed an increase of 57 vehicles or a gain of 7,7% in the case of medium commercial vehicles, and, in the case of heavy trucks and buses an increase of 151 vehicles or a gain of 9,0% compared to the corresponding month last year.

Vehicle exports for August 2020 recorded a huge decline of 20 623 vehicles or 46,9% compared to the 43 960 vehicles exported in August 2019, which was the highest monthly total on record. The performance for the year to date now reflected a fall of 104 627 units or 40% compared to the level of the same period last year.

New vehicle demand improved slightly compared to the performance of the previous two months as South Africa’s lockdown restrictions eased further to Level 2 in August 2020. However, activity in the new vehicle market is expected to remain low for the remainder of the year due to the uncertainties relating to the economic impact of the coronavirus pandemic and as consumers and businesses continue to adapt to short-term budget pressures. Furthermore, not only will the economy have to contend with consequences of the economic lockdown, it now has to deal with further rolling blackouts which comes at the worst possible time for the South African economy. Eskom announced that the heightened risk of load-shedding will haunt the South African economy for another year. All this point to an already hard-hit economy with no expectations for a quick recovery any time soon.

OUR STRATEGY: REIMAGINING THE FUTURE TOGETHER

OUR AMBITION: “the most credible thought leader and respected partner of a globally competitive and transformed automotive industry that actively contribute to the sustainable development of South Africa”.

OUR VALUES: Partnership | Consistency | Trust



Vehicle export numbers seemed to have recovered to some extent, which bodes well for local manufacturers, although the numbers are still way off the same point last year. Positive news is that the domestic automotive industry's major export destinations are starting to ease their lockdown restrictions with many actively stimulating their new vehicle markets with financial government incentives.

Therefore, it is imperative that we remain cost competitive in order to ensure sustainability.

Methodology

naamsa supports the current Tariff Methodology but has previously raised concern regarding the following elements:

1. Capex Oversight

- a) Much emphasis has been placed on improvement/ procurement of assets to improved efficiency & service delivery with working capital and CWIP being included into the RAB.
- b) We support the expected outcomes of identified Key Projects, Operation Phakisa Projects and Strategic Capital Investment Projects. Our remaining criticism is the limited immediate direct benefit through these projects. As an industry, we understand that the benefit of these will only be realised in the future. It therefore becomes necessary that the project timelines are maintained and realised as such.

2. Weighted Efficiency Gains

- a. The ROD is acknowledged, however the benefit is still not realised. The repeated request for a baseline comparator is made in order to benchmark our port network at a global standard.
- b. Our current struggles remain:
 - i. Berthing Delays
 - ii. Vessel Turnaround Time
 - iii. Truck Turnaround Time
- c. As an industry we will be embarking on a benchmark study and hope to utilise this empirical data to initiate restudy of key KPI's. Our primary objective is to improve our competitiveness through unlocking of port capacity and potential.

Single Transport Economic Regulator

We welcome the Transport Economic Regulation Bill as gazetted by DOT and its intention to:

- promoting a competitive transport industry
- promote economic regulation of those elements crucial to an efficient logistical supply chain

On the example of the significant savings made through the efforts of the Port Regulator, one can only assume the benefits which can be achieved for the industry.

Tariff Review Reflection

PROPOSALS:	Import	Export	Previous Years
Cargo Dues			
Container	2.23%	0%	1.5%
Automotive	2.23%	0%	1.5%
Marine Charges		7.12%	9.7%

We acknowledge past remedial initiatives to remedy the exorbitant uncompetitive cargo dues faced by the automotive industry. In particular we acknowledge the 0% tariff increase in 2018.

According to the Ports Regulator Global Comparator Study of 2019/20,

- a. Imbalances in the systems still remain despite large decreases in container cargo dues and export automotive prices as well as relative changes in marine services
- b. Automotive cargo owners still face a 123% premium in 2019/20

With little certainty in respect of the easing of the COVID pandemic the expected economic recovery is projected for late 2021 into early 2022. Projections are for a substantial decline on exported manufactured goods.

Conclusion

1. As a very price sensitive commodity costs have to be kept as low as possible.
2. With exports expected to decline, tariffs on imports need to be low to ensure sustainability of the Automotive Sector.
3. As an industry we would request a 0% increase for the remainder of the tariff application period. Our primary concern still remains the operational efficiency of port services.
4. There is the very low level of investment which can be directly linked to automotive industry objectives (South African Automotive Master Plan (2035)).
5. We have a concern relating to the 7.12% increase on marine charges. In a very price sensitive environment the increase incurred by Shipping Lines will in some way be transferred to cargo owners. Our request therefore is also for a 0% increase on marine charges.

OUR STRATEGY: REIMAGINING THE FUTURE TOGETHER

OUR AMBITION: "the most credible thought leader and respected partner of a globally competitive and transformed automotive industry that actively contribute to the sustainable development of South Africa".

OUR VALUES: Partnership | Consistency | Trust

