



THE SOUTH AFRICAN ASSOCIATION OF FREIGHT FORWARDERS

T: +27 11 455 1726 • F: 086 624 3939 • enquiries@saaff.org.za
12 Skeen Boulevard, Bedfordview, Johannesburg
PO Box 2510, Bedfordview, 2008 • www.saaff.org.za



5th October 2018

The Chairman
The Ports Regulator
Private Bag X54322
Durban
4000

E-Mail: comments@portsregulator.org

Dear Sir

Submission: Transnet National Port Authority, Tariff Application 2019 / 2020.

Please find attached a submission from the South African Association of Freight Forwarders on aspects of the Tariff Application of the National Port Authority for the financial year 2019 / 2020.
Your confirmation of receipt would be appreciated

Yours faithfully
The South African Association for Freight Forwarders

A handwritten signature in black ink, appearing to read 'Mike Walwyn'.

Mike Walwyn
Executive Director



Submission to the National Ports Regulator

SUBJECTS:

THE RECALCULATION OF THE REGULATED ASSET BASE OF THE AUTHORITY

AND

THE TRANSNET NATIONAL PORT AUTHORITY TARIFF APPLICATION FOR THE 2019 / 2020 FINANCIAL YEAR

Regulatory Asset Base (RAB):

It is apparent from the regular submissions this Association and other port users have made over the past 10 years that the valuation of the Regulated Asset Base (RAB) has been a major concern since it was determined in 2008. The excessive level of the valuation has meant the Authority's tariff and consequently revenue stream, after covering all other costs, has been materially higher than should have otherwise been the case.

The result of the revaluation has endorsed the position this Association and other port users have taken on the level of the RAB during the past decade.

The Association notes and supports the Regulators decision to utilise the trended original cost (TOC) value for assets acquired post 1990 and historical cost value for assets acquired prior up to 1990 and that such fully depreciated pre 1990 assets will have a zero valuation (excluding capitalised maintenance) for the purposes of calculating the RAB.

The Authority has been utilising substantially inflated asset values to arrive at an RAB; this has had the effect of materially increasing tariffs and revenue. The impact on the Transnet group is apparent from its 2018 annual financial reports where the Authority's Profit before tax of R3815m was 50% of the group's figure of R7629m.

The Regulator's 2017 / 2018 Global Pricing Comparator Study indicates that the level of South Africa's port pricing has over recent years come closer to global norms however in a number of areas, particularly containers, port pricing remains well above global norms.



In the past the Authority has indicated that the fact that South Africa's ports are self-financing with no state subsidies has been the driving force behind high port costs compared with similar foreign facilities. It is now not unreasonable to assume that in fact the excessive asset valuation and consequent required return on those assets has been a real cause of South Africa's excessive port pricing.

The Association believes that the Authority and holding group must now recognise that previous over valuations need to be corrected and that revenue expectations must be adjusted downwards in current and future tariff applications.

Tariff application for the 2019 / 2020 financial year

It is clear from the Authority's tariff application document and subsequent information provided at the Regulator's road shows that the current application which utilises the previous asset valuation methodology will be unacceptable and that further discussions will be necessary between the parties. In the circumstances it is this Association's belief that any in depth commentary will be largely irrelevant until such time as there is clarity on how the substantial reduction in revenues when utilising the corrected RAB values will be addressed

However considering the current position, at the very least, the Association believes that there should be zero across the board increase for the 2019 / 20 financial year pending clarity on the future use of the correct methodology for valuing assets. This does not stop the continued adjustments of various tariffs to coincide with the published tariff strategy and address cross subsidisation and other anomalies.

Real Estate Revenue

The Association has some concerns over the declared level of real estate revenue. The Authority's application has under the heading "Real Estate Revenue" the following comment: "*The process of leasing follows an open, transparent, competitive and fair process.*" As lease income has a direct impact on the Authority's overall revenue requirement and therefore impacts on the level of cargo and marine tariffs the Association asks if the regulator is satisfied that the Authority does declare revenue accurately and that the process described above is indeed applied.