City of Cape Town submission to the National Ports Regulator
4th November 2013

The City of Cape Town is opposed to either the 14.4% increase for year 2014/15 or the 8.5% smoothed tariff increase suggested by the Transnet National Ports Authority (TNPA). Indeed, the City of Cape Town is opposed to any significant increases in port tariffs and certainly nothing above the rate of inflation, until costs and efficiency levels at South African ports are more in line with our international competitors. The Global Port Pricing Comparator Study (2012) commissioned by the Ports Regulator indicated that, generally, charges levied at South African ports are well above the international benchmark. This is depicted in the two graphs below sourced from this study.

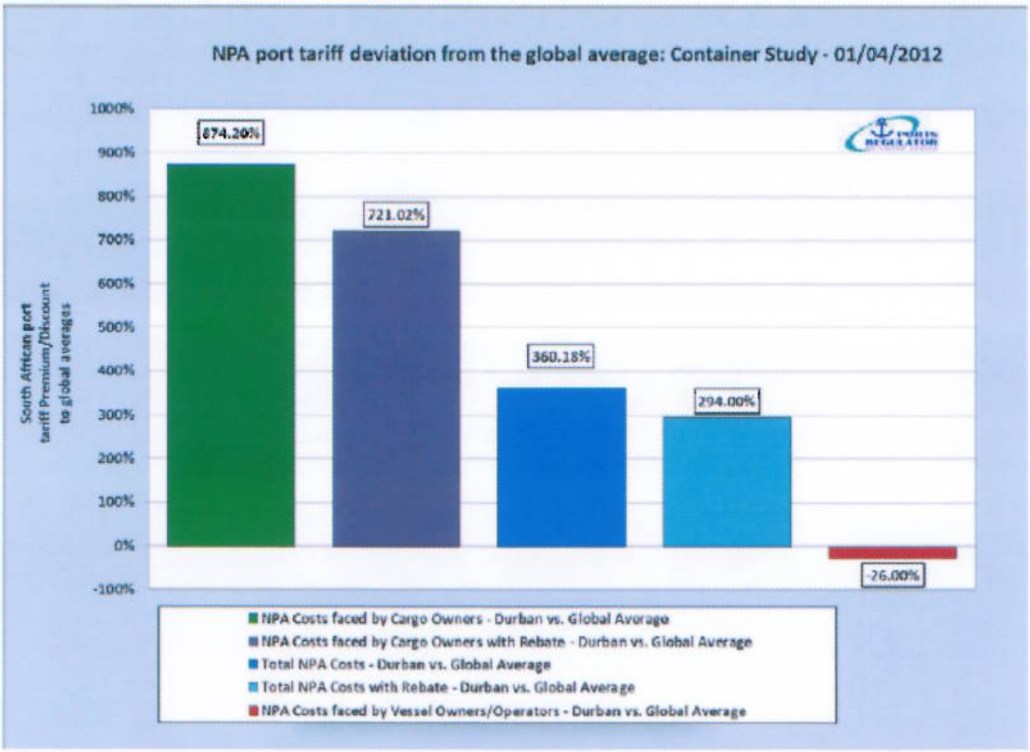
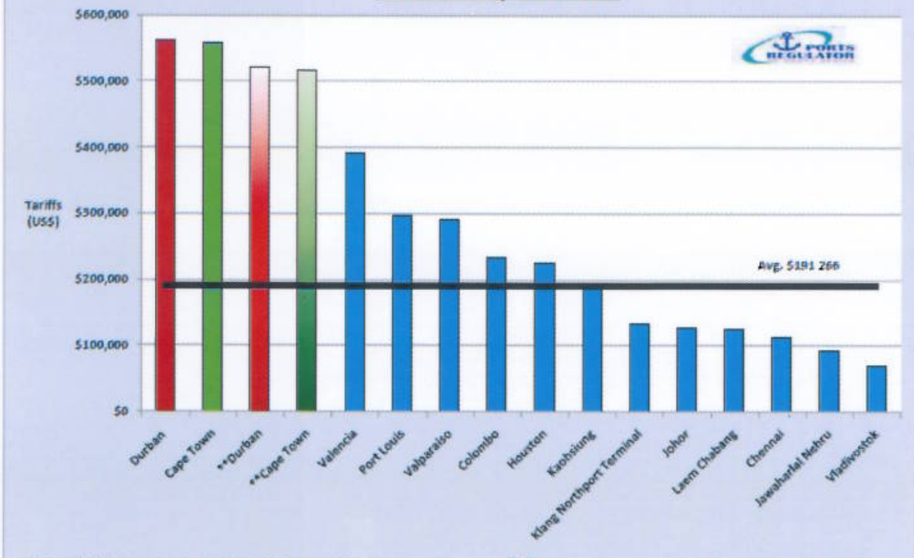


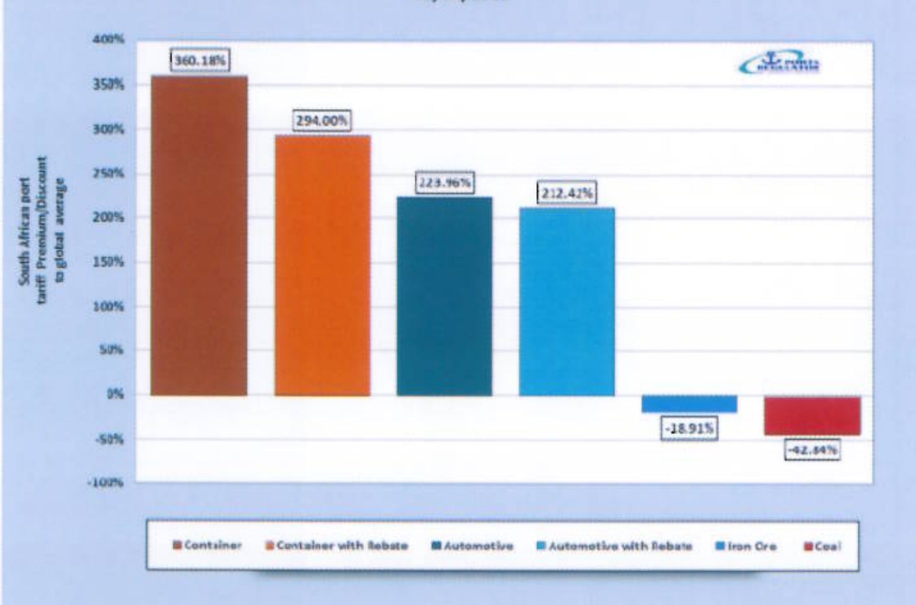
Figure 21: Total Port Pricing (US$) including Port Authority & terminal handling charges: Container Study - 01/04/2012



** South African port price including 2012 cargo due rebate

Worryingly the value- added/manufactured products, which are those identified to create most new jobs, are particularly poorly treated carrying charges between three and five times more that of our competitors, as shown in the graphs below (Port Pricing Comparator Study, 2012). Only coal and iron ore are charged rates below the international benchmark identified in the report.

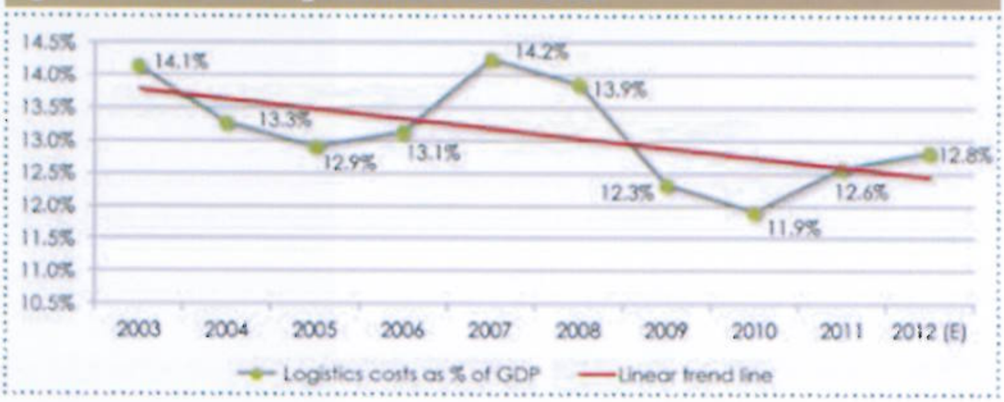
Total NPA tariff deviation from the global average across selected commodities: 01/04/2012



If promoting exports is a priority, as indicated by the Reserve Bank (Business Day, 10 October 2013), then charges levied at our harbours cannot be out of line with international standards. In addition, if as it is stated, the objective of the National Government is to add-value to the country's raw materials then ports charges are working contrary to this as the only products on which competitive rates are charged are coal and iron ore.

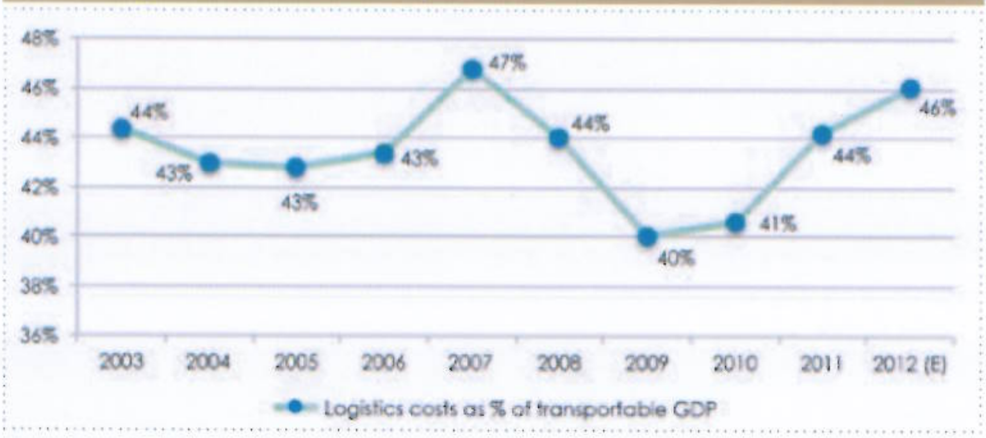
Port charges are an important component of the national logistics chain. Given this position it is therefore of further concern that the 9th Annual State of Logistics Survey for South Africa (2012), undertaken by the Council for Scientific and Industrial Research (CSIR) in conjunction with the University of Stellenbosch, found that logistics costs as a percentage of Gross Domestic Product (GDP) had for the second year in succession increased. The linear trend over a 10 year period had been in the correct downward direction but since 2010 that trend has been reversed. See Figure 2 from that report. Logistics costs as a percentage of GDP is one of the measures by which the Transnet Group is meant to measure its' performance.

Figure 2: South Africa's logistics costs relative to GDP



Although the recent downward trend could be reassuring, it does not paint a representative picture. The total GDP comprises the primary (extraction), secondary (beneficiation) and tertiary (services) sectors. The primary and secondary sectors are considered 'transportable' as these involve the movement of raw materials and manufactured goods. The tertiary sector does not generate significant demand for logistics services. When considering logistics costs as a percentage of only the transportable GDP (**Figure** 3), the situation is dire, approaching 50%.

Figure 3: Logistics costs as % of transportable GDP



The report goes on to state that, "the total GDP comprises the primary (extraction), secondary (beneficiation) and tertiary (services) sectors. The primary and secondary sectors are considered 'transportable' as these involve the movement of raw materials and manufactured goods. The tertiary sector does not generate significant demand for logistics services. When considering logistics costs as a percentage of only transportable GDP (Figure 3) the situation is dire, approaching 50%" (pg. 5). This finding is the same as that contained in the Global Port Pricing Comparator Study (2012) in that manufactured products are charged rates well above the international benchmark. It appears that the whole logistics system is in need of reform. Clearly this is a situation that constrains the growth of the country's key target employment sectors.

There are many economic benefits associated with well-functioning ports. For example the Organisation for Co-Operation and Development (OECD) report entitled, 'The Competitiveness of Global Port-Cities: Synthesis report' (2013) found that "doubling port efficiency of two countries is found to increase bilateral trade volume with 32%. One tonne of port throughput is on average associated with USD 100 of economic value added..." (pg. 7). See table 7 from this report below.

Table 7. Link between port efficiency and trade/freight costs

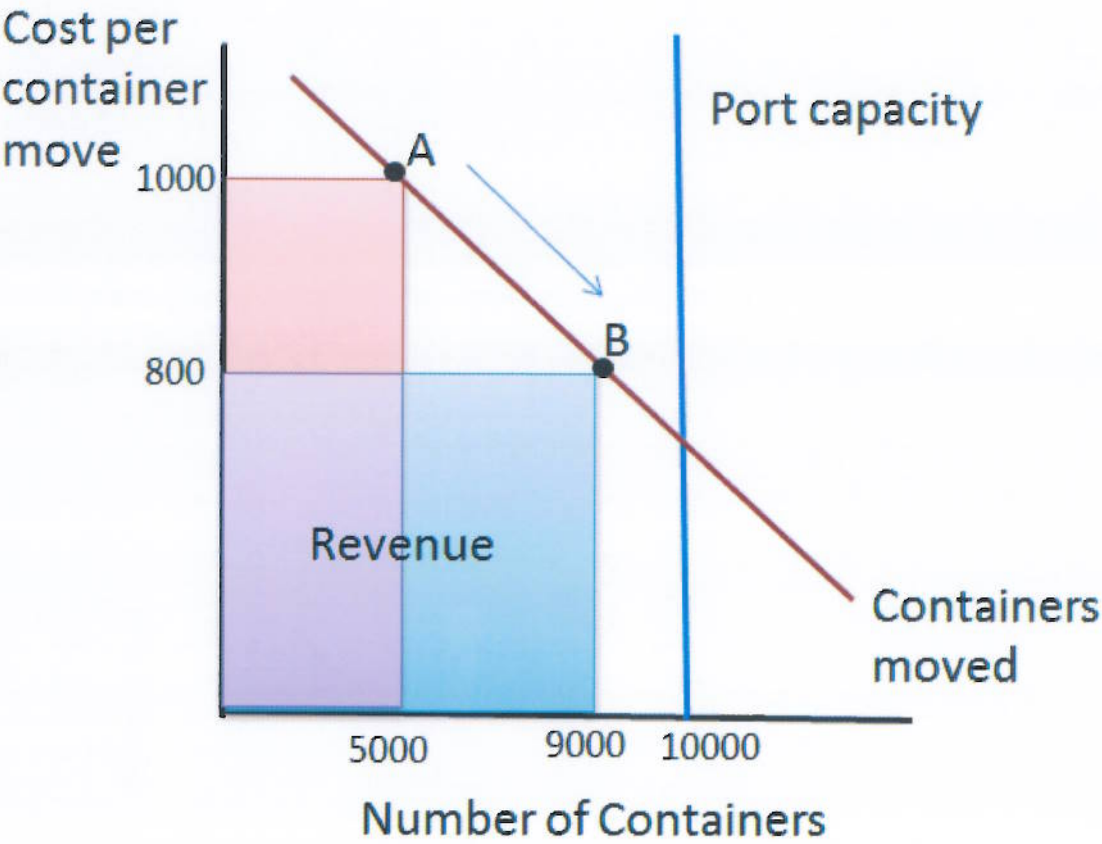
Port efficiency measure	Impact on trade	Characteristics	Source
Double port efficiency	32% increase of trade volume	Top 100 non-US and top 50 US ports; 1991-2003	Blonigen & Wilson 2008
From 75th to 25th percentile	25% increase of trade volume	59 countries, 1996-2000	Clark et al. 2004
From lowest score to highest	Decrease of freight cost by 25.9%		Wilmsmeier et al. 2006
One point rise on WEF-index	4.3% reduction in ad valorem transport costs		Abe and Wilson 2009
All ports as most efficient port	82.5% increase in export volumes	14 Brazilian ports	Haddad et al. 2010

Source: Own compilation of the sources indicated in the table
Note: The WEF-index refers to the port quality index of the World Economic Forum, ranging from 1 to 7.

The report also states that, "value added creation by ports and port-related industries can be substantial. For example, the value added of the port cluster in Rotterdam in 2007 was calculated at EUR 12.8billion, representing approximately 10% of regional GDP. Even higher shares of regional and national GDP are attained for the port cluster of Le Havre/Rouen, representing more than 21% of regional GDP..." (pp. 20-21). Clearly, the performance of a port is critical to the economic and therefore job creating capacity of a country and region, particularly one such as South Africa whose economy is dependent upon international trade.

There is no questioning that we have an unemployment crisis in this country and all efforts, both public and private, need to be directed towards creating employment. Only the private sector has real capacity to create sustainable jobs. However government has a critical role to play in helping to create the conditions conducive to investment, economic growth/development and job creation. In the South African context business is totally dependent upon parastatals which have a monopoly position, and determine key input costs. Given this position Transnet National Ports Authority (TNPA) needs to be judged in terms of whether it is providing the service required to assist local business to prosper. Clearly charging tariffs which are internationally uncompetitive is not a satisfactory way to help local business to succeed in international markets.

The best method to ensure that the port does charge competitive rates would be to introduce competition into the system. The capital cost of port infrastructure and equipment far outweighs the operational cost. This lumpiness (unevenness) is an inducement for ports to achieve optimal operation. Provided the marginal (operating) costs of handling one extra operation are covered, every additional operation within the harbour will contribute to port revenue up until operational capacity is full. In essence if the infrastructure is built then use it to its' maximum. The following graph has been developed to illustrate this point. It shows that tariff charges should be at a level which enables the number of containers handled to intersect with the operational capacity of the port to achieve the greatest returns.



Point A: 5000 containers at R1000 a move = R5m revenue

Point B: 9000 containers at R800 a move = R7.2m revenue

Given this position, at least a measure of independent port pricing would enable harbours with spare capacity to price their offering to attract new business that would not otherwise necessarily come to South Africa, in order to achieve optimal operation. For example, Ngqura/Coega could target container transhipment traffic to enhance its' position as a global hub or Cape Town, Saldanha or Richards Bay could bid for more oil and gas rig maintenance work. In all these cases, not only would it enable the Transnet Group to obtain additional revenue but importantly the move would create much needed additional employment.

A further consideration would be to introduce more intra-port competition. In most ports Transnet Port Terminals is the only supplier of cargo handling services. If different terminal operators were allowed to operate in the same harbour and to compete for the same market then undoubtedly costs would be reduced. Such an arrangement is catered for in National Ports Act, it just requires commitment and action to implement the concept.

Ports internationally are more than just a provider of services to local commerce but a business in their own right. Ports such as Rotterdam, Antwerp, Le Havre, Hong Kong and Singapore are of far greater value to the national and regional economy than just providing a logistics service to local business. These ports are important role-players in the national economy attracting business from beyond their national borders and act as container transhipment hubs, centres for ship and rig repair, cruise liner bases, victuallers as well as places where retail, sport and recreation activities take place. Instead of waiting for business to "beat a path to their door" these major ports are promoting themselves worldwide with great entrepreneurial spirit. South African ports need to start operating in a similar manner and aggressively market their services internationally. For example with the building of cruise liner terminals in both Cape Town and Durban, Southern Africa has the potential to become a destination base for the cruise liner industry. To date TNPA has not been particularly active in promoting this concept and yet they will be one of the main beneficiaries of this activity.

In our submission to the Ports Regulator in 2011 we questioned the practicality of the port's existing financial model and this remains an area of concern. We can do no better than repeat some of those concerns in that there is a definite inability of the current model to capture or internalise the multiplier effects of tariff increases. Getting to grips with the impact of increasing input costs on business and by extension, employment is a difficult task by any standards and we understand that resource constraints deem this impossible. However, should there not be some attempt at capturing the economic and social consequences of increasing port tariffs?

It is important to note that the 'Claw Back' principle does not take into account the irreversible damage to industry demand for the port caused by a dramatic tariff hike. Apart from Cape Town's port being solidified as 'unreasonably expensive' in the minds of cargo traders – an image which might be very difficult to reform - it is a relatively inelastic industry and once having made the move to Namibia or Mozambique traders will not easily be convinced to return to Cape Town despite the nature of future tariffs. We cannot act as though we have the monopoly in terms of access to the African market with the Walvis Bay Port providing an ever increasingly efficient and cost-effective service.

There is an element of the TPNA cost structure that relates to administration charges levied by Transnet which are impossible to analyse. The costs levied are not transparent and, given the fact that the ports are the most profitable component of the Transnet operation, it is likely that they cross-subsidize the other various operations of the parastatal. A strategy that reflects user-pay principle, intra-port competition and preferably independent port pricing or at least more transparency would be appropriate.

However it is recognized that TPNA is placed in a difficult position by the financial model imposed upon it. Unlike most harbours around the world, TPNA are expected to fund many marine

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operations which are not generally considered to form part of the costs of ports. Worldwide marine services such as pilotage, dredging and navigational aids are generally covered by an arm of government other than the harbour authority, and this is again another form of inappropriate cross-subsidization. See table below produced by TPNA which highlights this issue.

Institutional responsibility for port investments

TRANSNET

delivering on our commitment to you national ports authority

Major Category	Sub-Items	Korea (Busan, Gwangyang)	Singapore	Taiwan (Kaohsiung)	Malaysia (Tanjung Pelepas)	China (Waigaoqiao)	China (Yangshan)	HK	Antwerp	SA
Maritime Access Infra-	Channel	CG	CG	PA	CG	CG	CG	LG	CG(*)	PA
	Breakwater etc	CG	CG	PA	CG	CG	CG	LG	CG(*)	PA
	Navigation Aids	CG	CG	CG	CG	CG	CG	LG	CG(*)	PA
Port Infrastructure	Land	PA	PA	PA	TO	TO	LG	TO	PA	PA
	Berths	PA	PA	PA	TO	TO	LG	TO	PA	PA
	Docks	PA	PA	PA	TO	TO	LG	TO	PA	PA
Dredging	-berth	TO	TO	TO	TO	TO	TO	LG	PA	PA
	-turning basin	CG	CG	PA	CG	PA	PA	LG	CG(*)	PA
	-channel	CG	CG	PA	CG	PA	PA	LG	CG(*)	PA

Notes: CG: Central Government; LG: Local Governments ; PA: Port Authority; TO: Terminal Operator; Others: see below.
* Ports, roads, airports and inland waterways in Flanders are the responsibility of the Flemish Government that governs the region of Flanders, the Dutch-speaking part of Belgium. Flanders
has its own government on top of the federal Belgian government. There are three regional governments in Belgium each with their own government: Flanders, Wallonia (French-speaking
part of Belgium), and Brussels Capital.
+ Railways are the responsibility of the federal Belgian government. Investments in rail infrastructure are done by the state-owned company Infrabel.
# Kowloon Canton Railway

TPNA's responsibilities should be focussed on port operations and not maintaining lighthouses and the like which should be a function of central government. Removing this responsibility from TPNA will enable them to reduce the charges imposed on port users.

In conclusion, the City of Cape Town is opposed to any increases in port tariffs until their charges are in line with those charged internationally. TNPA should be benchmarked against a basket of comparable ports overseas and work towards meeting these same standards. The role of the ports in helping business to growth and create jobs is too important to allow TNPA to continue with the present system of increasing tariffs year after year. It is time to change the system to one that better suits the economic and social objectives of the country.

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Reference List:

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