**Mr. Riad Khan**
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Dear Mr Khan

**Submission to the National Ports Regulator: Transnet National Ports Tariff Strategy 2013/14**

The Department of Trade and Industry (**the dti**) is encouraged by the direction Transnet National Ports Authority (TNPA) is moving with the proposed Ports Tariff Strategy. **the dti** similarly welcomes the significant downward adjustment of ports tariffs for 2013/14 by the National Ports Regulator.

**the dti** notes that a new port tariff regime has not been finalised and that the Port Regulator is presently engaged in a process of public consultation on a proposed new tariff regime.

Please find enclosed **the dti** submission in this regard marked Appendix A.

Kind Regards

**Lionel October**
**Director-General**
**Date:...31...05.....2013**

the dti
Department:
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## Appendix A:

### Submission to the National Ports Regulator: Transnet Ports Tariff Strategy Proposal 2013/14

Government policy, including the Industrial Policy Action Plan (IPAP) and the New Growth Path (NGP) prioritise a transition to a more value-adding and labour-intensive economy and manufacturing sector, from a relatively capital intensive industrialisation path inherited from the apartheid regime. A critical aspect of such a transition entails significantly increasing the extent of value-added manufacturing production for the export market. It is here that Sea Ports play a crucial role as growth enablers facilitating inward and outward bound commerce, alongside other ports of entry.

It is well-documented that Sub-Saharan Africa is one of the fastest growing and highest potential growth regions in the world. South Africa is well-positioned to take advantage of this growth activity through its well-developed infrastructure and industrial capability in a range of sectors. The critical issue for South Africa is to ensure that its product offering – infrastructure, operational capacity, incentives, tariff and customs regulation, to name but a few – are optimised at its Sea Ports and elsewhere.

Evidence however suggests that there are varied impediments associated with maritime related commerce and industrial development at Transnet ports. The primary area of concern stems from grossly distorted port tariffs as demonstrated in the National Ports Regulator Report (01/04/2012), in addition to significant infrastructure and regulatory related constraints at a number of South African ports.

The challenge of ensuring the price and operational competitiveness of national ports is common to many ports around the world. Transnet National Ports Authority (TNPA) takes the position that ports in South Africa play a complimentary role to each other. This will enable the various ports in South

Africa to specialise their operations thereby creating *hub ports* according to the particular type of economic activity. On this basis there are very significant plans for the upgrading of port and back of port infrastructure as part of government's overall plans to invest significantly in infrastructure falling under the Presidential Infrastructure Coordinating Committee.

A central component to ensuring the competitiveness of ports and with that the greater economy is to ensure that the ports tariff regime is aligned to national economic policy and development imperatives. DPE and the national department of Transport, in partnership with Transnet are the key stakeholders in this sector, and through recent commitment to port and rail infrastructure upgrading and expansion, have explicitly stated their commitment in aligning TNPA policy with the Industrial Policy Action Plan.

The latest iteration of IPAP targets beneficiation, infrastructure development, regional industrial integration and tapping in to new export markets, including further penetration into the BRICS countries as key growth opportunities in the short-term. The national ports infrastructure, alongside other key infrastructure, is central to realising these immediate economic opportunities.

Notwithstanding the commitment demonstrated at Executive and Ministerial level, and reflected in a principle commitment to significantly revise the National Ports Tariff Strategy, no concrete proposals nor acceptance of a new tariff regime has been finalised. In fact in discussion between the TNPA and **the dti** it has emerged that TNPA are experiencing considerable difficulties with finalising such a structure including for reasons of complexity surrounding what can be loaded into containers, including a recent trend to load bulk ores into containers.

**The dti** therefore argues that the following indicative principles should apply in determining the port tariffs:

- The high and misaligned port charges and ports tariff regime has been raised as a matter of great concern in successive iterations of IPAP;

- South Africa has amongst the highest port charges in the world;
- High port charges are compounded by significant ports inefficiencies and infrastructure backlogs;
- There exists a significant bias against local manufacturers/exporters of containerized value-added cargo evident in the tariff levied against local container owners/exporters;
- Container and automotive cargo owners face cost premiums of between 710% and 874% of the global norm;
- Un-beneficiated dry-bulk mining product export tariffs are 37% to 46% below the global norm;
- South African export manufacturers are essentially subsidising TNPA operations - with subsidies passed on to exporters of primary commodities (coal & iron ore) and importers of manufactured goods;
- This runs counter to the policy prescriptions set out in the IPAP, the NDP and NGP because the tariff regime acts as a disincentive to the export of value added manufactured or beneficiated products. The TNPA pricing strategy could potentially be compromised by moral hazard, for example as the port regulator has pointed out with respect to the Asset Valuation of the Ports – as TNPA is both player and referee.

**The dti** submission therefore proposes that the Port Tariff regime or pricing strategy is subject to international benchmarking including in relation to competitor developing economies:

-that the new tariff regime should place the onus on the exporter to declare the content of each container with stiff penalties for non-compliance;

-that the new export tariff regime and system should be simple and differentiate on a sliding, diminishing scale between the following categories:

- Un-beneficiated ores and primary raw materials including where such materials are exported in containers
- Beneficiated ores and primary raw materials, including where such ores are exported in containers