FORESTRY SOUTH AFRICA

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Wednesday, October 30, 2013

The Chairman
Ports Regulator of South Africa
Private Bag X54322
DURBAN
4000

Dear Sir

Re: SUBMISSION REGARDING PROPOSED CARGO DUES TARIFF INCREASES FOR 2014/15

Forestry South Africa (FSA) is an Association which represents the interests of its members. Although voluntary in its nature, FSA's membership includes all 9 corporate timber companies operating in South Africa, 1 100 commercial timber farmers and 20 000 emergent black timber growers. This membership represents over 90% of the Industry as a whole and virtually all the private sector involved in the Industry and FSA is, as such, seen by all role-players, including Government, as the Industry's representative body.

The Industry views itself as an important sector of the economy in that it employs some 160 000 people in the forestry and downstream processing industries which it supplies with raw fibre, mainly in impoverished rural areas, generates R35 billion in turnover annually and provides substantial net forex earnings – its exports of R13.8 billion produced a positive trade balance of R2.2 billion in 2012.

FSA is involved in a host of areas such as research, education and training, water and environmental affairs and transport. This submission, for which we are grateful of the opportunity to be able to make, is made on behalf of the South African Forestry Industry by Forestry South Africa's Transport Committee.

By way of background, total trade (imports and exports) of forest products in 2012 totalled over R25bn. In terms of exports, the local Forest Products Industry exports a great deal of products both in terms of tonnage and by value. In terms of value, exports for the 2012 calendar year were as follows:

• Pulp	R5 890 m
• Paper	R4 707 m
• Wood Products (total) of which:	R2 680 m
➢ Woodchips	R1 407 m

•	Matches and Tannin	R 555 m
	Total	**R13 832 m**

Due to the high volume of Industry exports any increase in port tariffs will have significant cost implications. The proposed across-the board-increase requested by the National Ports Authority of 14.39%, will cost the Industry many millions of Rands extra on the substantial fees that it already pays the National Ports Authority (NPA). These extra charges would, if allowed, have a negative impact on the cost of doing business and as a result thereof, hurt the Industry's competitiveness (and profitability).

Notwithstanding this request from the NPA, FSA is, however, pleased that the Ports Regulator has seen fit during the past year to:

- deny a general increase to the NPA for the 2013/14 year;
- reduce certain tariffs for 2013/14 to make our ports more competitive;
- institute an investigation into SA port charges compared to those charged in other jurisdictions; and
- institute an investigation into the methodology which the NPA uses to calculate their tariff increase requests.

With regards to the NPA's requested increase, FSA would like to make the following points:

1. It has become a worrying trend that "administered price" inflation is consistently out of line with the general inflation rate, with parastatals frequently requesting (and often being granted) tariff increases which bear absolutely no relation to the CPI or PPI inflation rates. Even though an increase was not granted to the NPA for the 2012/13 year, the amount requested for 2014/15 is, nevertheless, above the inflation rate over the two year period. Such above-inflation increases are not sustainable in the long-term.

2. Like certain other parastatals, most notably Eskom, the National Ports Authority occupies a monopolistic position and hence operates in an environment which is not based on those "normal" commercial business principles that would need to be adopted by a private company operating in a competitive market. Of particular concern is the NPA's current "revenue requirement" model which is used to determine the revenue required for the following year given a number of variables including, amongst other things, a wish list of capex projects as well as provisions for tax, profit, and a pre-determined rate of return on investment. Once these are built into the model, the tariffs needed (at the estimated volumes and demand for services in the coming year) to yield the required revenue are determined. This methodology simply does not incentivise the organisation to critically look at how it could improve its operational performance and thus reduce the need to apply for such large tariff adjustments.

3. However, our main concern is that the principle established through the use of the "revenue requirement" model that capital expenditure be paid for through user charges, is in our opinion, wholly inappropriate and certainly one of the main reasons why port charges in SA are amongst the highest in the world.

4. As alluded to above, port charges in the vast majority of countries in the world are cheaper than those applicable in South Africa. The main (although not only) reason for

this is that the authorities in these jurisdictions charged with running their ports do not have to include in their user charges provisions to cover the cost of capital projects. Capital costs are thus invariably provided for either off their balance sheets or through the provision of cheap loans or grants from Government (or a combination thereof). In the case of grants, this occurs where Government's regard their ports as key national assets and as such fund part or all of the capital cost of upgrading or expanding them from the fiscus.

5. Although we can, to a certain extent, sympathise with the NPA's situation by not having received an increase in tariffs last year, it would appear that they have not taken cognisance of the (continuing) depressed nature of the local and global economy when applying for their above inflation increase. The NPA (and Government in general) should be striving to create an environment in which businesses can prosper, thereby creating job opportunities and yet at the same time, not harming their competiveness. The proposed increase does not assist in achieving this. Exporting under current circumstances is difficult enough without additional and substantial costs being levied on Industry – costs that cannot simply be passed onto its customers.

In conclusion, FSA strongly recommends that:

(a) the Ports Regulator finalises its investigation into the "revenue requirement" model used by the NPA to determine tariff increases as soon as possible;
(b) the model be extensively revised to reflect a more competitive outcome;
(c) the Ports Regulator reject the current tariff request; and
(d) until such time as a decision is taken on what tariff model should be used by the NPA, tariff increases be limited to the CPI or PPI.

It is hoped that the Ports Regulator will take cognisance of our concerns and recommendations.

Yours faithfully

Roger C Godsmark
Chairman: FSA Transport Committee