18 June 2013

SUBMISSION TO THE PORT REGULATOR ON TNPA'S PROPOSED TARIFF STRUCTURE

Introduction

Maersk Line appreciates this invitation to submit written comments on the proposal presented by TNPA.

TNPA, in its capacity as landlord of South African seaports, needs to determine the revenue required to fulfill its functions. Tariff levels are set by TNPA to meet the required revenue based on expected volumes of cargo flowing through the port system. In line with the National Ports Act, the revenue generated from the services offered by TNPA is used to maintain and develop the South African port system. To determine the total amount of revenue required from each port user, the Port Authority has applied a required revenue methodology and thereafter apportioned the total revenue amongst the various port users. The required revenue from assets accounts for 55% of the total revenue generated by TNPA. The additional source of income of 45% is derived from rental income (15%) and provision of marine services (30%). The current and proposed split of revenue between the port users will be elaborated on page 2 in this document.

Looking at the historical summary of tariff increase proposals from TNPA;

- In 2011/2012, TNPA requested a price increase of 11.91% but received a 4.49% increase.
- In 2012/2013, TNPA requested a price increase of 18.06% but received a 2.76% increase.
- In 2013/2014, TNPA requested a price increase of 5.4% but received a 0% increase.

While Maersk Line understands the revenue requirements set by TNPA to recover its investment and cost base, we have concluded that a more holistic approach must be considered in determining the implications of the proposed tariff methodology on all port user groups.

TNPA's Required Revenue

Table 1 below indicates the breakdown of actual revenue, required revenue and proposed revenue - from the perspective of TNPA and Maersk Line (as per previous submission to the Port Regulator).[1]

Table 1

	Actual Revenue (A) (2012-2013)	**Required Revenue (B) (2013-2014)**	**Proposed Revenue (C) (2014-2017)**
Stated by TNPA	7.49 BIO	9.16 BIO	9.15 BIO
Calculated by Maersk Line	8.41 BIO	8.19 BIO[2]	8.57 BIO
Difference in revenue	(0.92) BIO	0.96 BIO	0.58 BIO

The estimated revenue (A) for 2014-2017 is extracted from the previous submission made by Maersk Line to the Port Regulator, in December 2012.

[1] All amounts referred to this document are in local currency.

[2] Transnet National Ports Authority Tariff Application 2013/14 Study by T.Jones, A. Christison, B. Strydom, December 2012.

The required revenue (B) shown in the table below reflects the income received from total assets allocated to the various port user groups. This is drawn from TNPA's tariff review document and the estimate from Maersk Line is from last year's submission to the Port Regulator.

The proposed revenue (C) is derived from TNPA's tariff review document whereas the figure, according to Maersk Line, is adjusted according to the expected volume growth of 1.89% on the actual revenue from 2012/2013.

In our understanding, the actual revenue collected by TNPA is not inclusive of the rental income. The rental income is R 1.7 BIO which needs to be added to the actual revenue of R 8.41 BIO (FY 2012/2013) to fully indicate the total revenue (R 10.11 BIO) collected from all port users. Thus, it appears TNPA is over recovering to the tune of R 1.7 BIO. Maersk Line proposes to redistribute this surplus amount to all port users. This redistribution can be done in the form of a rebate to the various port users or by alternative means deemed acceptable by the Port Regulator.

Changes to tariff structure

The current required and proposed revenue(s) from TNPA in the preceding section are apportioned to the port user groups, according to the below contribution ratios;

Table 2

Port User Group	**Current contribution ratios**	**Rand Value (BIO)**	**Proposed contribution ratios**	**Rand Value (BIO)**	**% increase**
Cargo Owners	61	5.61	46	4.21	↓ 25%
Shipping Lines	20	1.85	21	1.93	↑ 4%
Terminal Operators	19	1.70	33	3.01	↑ 77%

Under the current structure, cargo owners bear the biggest burden of port charges through cargo dues, while shipping lines and terminal operators share the remaining portion of 39%. In TNPA's view, the current split of the required revenue from each port user group is fundamentally flawed and not based on a clear allocation of assets.

In the proposed structure, TNPA argues that increasing the contribution from terminal operators (77%) is in line with global best practice. Further, by decreasing the contribution from the cargo owners by 25%, TNPA aims to strengthen the competitiveness of certain industries in the export sector. From TNPA's standpoint, the main rationale behind their redesign is to reallocate assets to the port users according to the economic benefit derived from the asset's use.

Maersk Line's concern is the implication this re-allocation will have on the port users. As a consequence of the proposed structure, the terminal operator (TPT) cost will increase with R 1.3 BIO. Considering TPT uses the same RR methodology as TNPA, this cost increase will most likely result in a proportional TPT tariff increase thereby increasing cost of the industry. It follows that this approach would cause an unfavourable ripple effect of increased charges in the industry. Since The Port Regulator is currently not mandated to review charges of Transnet Port Terminal, this change in tariff structure effectively results in an increase of non regulated port costs.

ML's Proposal

In our view, the redesign proposed by TNPA will have a knock-on impact on the entire shipping industry and cannot be viewed in isolation per port user group. Our main concerns are two-fold;

1. TNPA's understated revenue
2. Risk of deregulating port costs

1. TNPA's understated revenue

Considering the actual revenue of R8.41 BIO as well as the rental income of R 1.7 BIO (refer to table 2), it is clear that TNPA's actual revenue has been understated. In our view this is further affirmed by the rejection of TNPA's 5.4% proposed increase by the Port Regulator as determined in March 2012.

Thus, on the basis of TNPA's understated revenue, Maersk Line proposes that a total amount of R 1.7 BIO be redistributed in a fair and equitable manner, as per the Port Regulator's tariff determination for the FY 2013/14 to all port user groups at the Port Regulator's discretion.

2. Risk of deregulating port costs

Due to the restructuring of the pricing methodology, the proportion of unregulated income received from TPT (terminal operators) has increased significantly from R 1.7 BIO to R 3.01 BIO, as per TNPA's proposed tariff structure. Moreover, as TPT applies the same pricing methodology, it stands to reason that if the terminal operators' costs increase this will result in higher tariff charges to shipping lines. Given the increase in the unregulated port costs, the Port Regulator's role in ensuring a fair rate charge to all port users will be reduced considerably.

In order for TPT to maintain the required level of return, the terminal operator will need to increase its revenue in line with the new cost levels. This increased revenue requirement could be passed on through increased terminal handing charges to the industry, which negates the intent to reduce the cost of doing business in South Africa.

To avoid this undesired effect on the cost of doing business, Maersk Line's proposes the Port Regulator mitigates the risk of TPT passing on any increases in their cost base to shipping lines by providing a stricter regulatory framework under which any tariff increases can be passed on from terminal operators to the other port user groups.