naamsa

NATIONAL ASSOCIATION OF AUTOMOBILE MANUFACTURERS OF SOUTH AFRICA

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May 29, 2015

The Chairman: Ports Regulator
Private Bag X54322
Durban
4000

Attention: Mr Chris Lötter

Dear Sir

TARIFF STRATEGY FOR THE SOUTH AFRICAN PORT SYSTEM: SUBMISSION BY NAAMSA ON BEHALF OF THE SOUTH AFRICAN AUTOMOTIVE INDUSTRY (VEHICLE MANUFACTURERS, EXPORTERS AND IMPORTERS)

The National Association of Automobile Manufacturers of South Africa (NAAMSA) welcomes the process of engagement with the Ports Regulator which has contributed significantly towards a better understanding of the dynamics of the automotive industry in South Africa.

NAAMSA hereby submits its comments on the proposed Tariff Strategy for the South African Port System for consideration and trust that the proposed measures, once implemented, will improve the competitiveness of the South African automotive industry resulting in a sustainable mechanism of creating employment.

NAAMSA appreciates the constructive engagement with the Ports Regulator over recent years and would be happy to engage in further discussions on any points of mutual interest.

Yours faithfully

Original signed by

Vishal Sharma
Chairperson NAAMSA Supply Chain Working Group

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1 Introduction and Background

The National Association of Automobile Manufacturers of South Africa (NAAMSA) represents the interests of 22 manufacturers of all types of new motor vehicles in South Africa as well as the interests of 21 vehicle importers and distributors.

The operations of the South African automotive industry are governed by the provisions of the Automotive Production Development Programme (APDP) which has a vision of sustained growth in the domestic component and vehicle manufacturing industries through 2020 with the aim of doubling new vehicle production in the country.

The successful realisation of the 2020 APDP vision, namely, new vehicle production in South Africa of around 1 million vehicles per annum by 2020 depends, amongst other things, in a substantial and progressive improvement in the industry's competitiveness. Benchmarking of Port and Rail costs confirms South Africa as one of the most expensive countries to trade with in the world. Substantial improvement in the efficiency of South Africa's logistics value chain is essential to support efforts to achieve international competitiveness and to give effect to government's industrial policy objectives for the industry.

NAAMSA's submission should be evaluated in this context.

NAAMSA further wishes to acknowledge that a number of engagements between Transnet and the industry, over the past few years, have been positive and that the focus on efficiency improvements and cost reductions is accepted by all parties. However, substantial further progress in this regard is necessary.

2 Operation Phakisa

The industry is supportive of Operation Phakisa and welcomes all initiatives aimed to create value adding manufacturing sectors which will result in job creation. The implementation plans and funding of this initiative should be made transparent and be clearly communicated to industry. The new Tariff Strategy does not clearly define the Project funding of Phakisa.

Request:

NAAMSA would like the Regulator to clarify the plans the Stakeholders have on implementation and funding this project.

3 Situational Analysis: Global and local comparator studies

The Regulator's latest benchmark study has once again highlighted the concerns of the automotive industry surrounding grossly inflated tariffs levied on the industry, both in terms of RoRo as well as Containers, when compared to other ports globally. The root cause of this disproportion has been discussed at length and it is well known that tariffs are still effectively based on wharfage pricing (based on the value of goods) as opposed to user pays pricing (based on utilisation of port assets). In support of the Regulator's findings, the NPA's 2013 PPS document proposed markedly reduced tariffs for both RoRo and Container Cargo Dues.

The industry has noted the encouraging reduction in sector wide tariffs since 2012, but is nonetheless concerned with the slow rate of change. RoRo tariffs (before volume discounts) are still levied at close to 590% and Container tariffs just above 540%, when compared to the global average. Industry proposes that if the Regulator, Authority and Government policy are all in alignment on the issue of User Pays pricing forming the base tariff, greater adjustments should be made to expedite the correction of these historically influenced tariffs. The reductions in tariffs which have been proposed through the published "Pricing Strategy" are welcomed by the industry and also reflect the commitment by the Regulator to make our Port charges more competitive and in line with Global standards.

<u>Proposed Tariff Strategy and its Implementation</u>

<u>Requests:</u>

1. NAAMSA requests a detailed plan of implementation of the proposed pricing strategy including the full disclosure of detailed milestones and key performance indicators that the Regulator will hold the authority to account on.
2. Given the severity of the impact port tariffs have on the cost of doing business in SA, whilst the intent to deploy the proposed strategy over a period of 10 years is noted, NAAMSA requests the acceleration of this implementation. This is a great opportunity for SA to announce they are ‘open’ for business and leverage the goodwill associated with this initiative.

3. NAAMSA seeks further clarity on;

a. What methodology will be used to determine how the implementation of the Tariff Strategy be structured Year on year? How will this be considered against the prevailing economic conditions in that period?
b. What is the timing of the removal of Volume discounts table from the tariff book?
c. Assurance from the Regulator that the proposed Tariff strategy will indeed address the cross subsidisation and inherent prejudicing of sectors such as Automotive and Containers.
d. Clarification on the management of the adverse impact to the other Port Users who stand to receive increases?

4 Tenant (Port Operator) Tariff Increases

One of the key change points of the Proposed Tariff Strategy is the future cost allocation amongst cargo owners, shipping lines and port tenants. Whilst cargo owners stand to gain the most in this, overall they are also at the greatest risk of being tariff takers by way of the shipping lines and port tenants merely passing on their increased costs to the cargo owner via other contractual relationships. The authority is fully aware of this risk and the Regulator further acknowledges this as a Research Gap in the proposed tariff strategy. This awareness and acknowledgment however does not address the risk suitably and it is for this reason NAAMSA is really concerned as to whether the proposed tariff strategy will indeed enhance their members cost competitiveness or merely serve as an enabler for the shipping lines and port tenants to pass on their increased costs to the cargo owners.

The above is of serious concern to cargo owners, in particular those with cargo handling types (CHTs) which are exclusively processed by the State Owned Company (SOC) within the Republic. If they are compelled to accept such dictated tariff increases each cargo owner may have to consider the medium to long-term service offerings of alternative neighbouring ports.

NAAMSA also recognises the challenge the Regulator faces by way of the conflict within the Transnet Group with the Authority being regulated whilst the main tenant i.e. the Transnet Port Terminal is not. If the NPA is unable to curb what appears to be uncompetitive tariff increases levied on industry at present, it is unreasonable to expect it to do so in future.

The Authority has provided a degree of comfort in that, should it not have a mandate to curb Terminal Operators tariffs, nevertheless the matter may be raised with the Regulator. In turn the Regulator has shown willingness to protect the interests of port users in such event by stating “Where there is pass through, (it) should be factored in when the tariff book is rebalanced, so that the end game is not for users to sit with the same situation with charges just coming from a different source.”

Although the above again provides port users with a degree of comfort as to a solution, nevertheless we question how such mechanism would be applicable in view of the Required Revenue methodology approved by the Regulator.

Requests:

1. In view of the proposed tariff strategy which the industry has already requested for the Regulator to detail the deployment plan in detail, NAAMSA further requests clarity into how the Regulator proposes to take account of the passing through of additional cost between Transnet Group companies in the tariff.
2. The Regulator to engage each NAAMSA member on a 1 x 1 level to address Total Port Cost impact on their businesses. NAAMSA members have unique cost structures and these cannot be discussed or disclosed on an industry level. NAAMSA members will also seek to engage the Regulator on a 1 x 1 level to unpack these so that future Regulator decisions will be better informed in this regard.

5 Regulation of State Owned Companies [TNPA, TPT and TFR]

The Regulator has stated that "In terms of the National Ports Act of 2005, the Ports Regulator only has mandate over the NPA and not TPT. The DOT is currently investigating the form and content of a Single Transport Economic Regulator which would be cross-sectoral, thus may empower port economic regulation wider than is currently provided for in the National Ports Act."

Industry is fully supportive of a Single Transport Economic Regulator; however concerns have been raised about the lengthy process required to study, debate, test and ultimately legislate the mandate of such a body which would encompass Port, Rail and potentially Road Haulage. It is suggested that a short to medium-term solution would be to extend the ambit of the existing Ports Regulator's office so as to include economic regulation over terminal operators and other port tenants, in addition to the National Ports Authority. This would enable the Regulator to effectively fulfil its mandate within the Ports Act to "exercise economic regulation of the **ports system** in line with government's strategic objectives" (National Ports Act No 12 of 2005.Chapter 5. Paragraph 30.a).

The concern expressed by the SOC regarding regulation of private terminal operators, which trade alongside Transnet Port Terminals, is relevant and will no doubt be taken into consideration. This however is not applicable to all cargo types; RoRo volumes as an example are exclusively processed by TPT, with no competing terminal operators to ensure cost competitiveness.

6 Research gaps (p 33)

The Regulator identifies 2 vital research gaps as part of the proposed tariff strategy

1. Lack of transparency and information with regard to rental tariffs
2. Reduction in cargo dues might not……could also increase their tariffs.

NAAMSA believes that the Regulator needs to close these gaps as a matter of urgency as it will ensure that the Proposed Strategy achieves its intent and will positively contribute to enhancing the competitiveness of SA in the global arena.

7 Conclusion

NAAMSA would like to express its appreciation to the Ports Regulator for playing such a pivotal role in reducing the cost of business within South Africa, and for actively engaging with the Authority in the public domain at the roadshows. Furthermore the apparent ongoing willingness of the Authority, to ensure transparency, provides our industry with the comfort to know that a responsible approach is being applied to port planning and cost recovery, and is evident of the Regulator's influence.

NAAMSA members views the Records of Decision (ROD) as crucial indicators of the trend of port pricing and takes cognisance of such when competing with OEMs globally.

As the NAAMSA SC subcommittee, we are very appreciative of the constructive dialogue in which we engage with the Regulator. We therefore request for another engagement to further discuss the above points and address each of the NAAMSA requests before the next ROD is issued.