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N29
16th October, 2014

The Chairperson

South African Ports Regulator

Dear Madam

NPA TARIFF APPLICATION 2015/16: 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 positively towards a better understanding of the dynamics of the automotive industry in South Africa.

NAAMSA extends best wishes to Mr Mahesh Fakir on his appointment as the CEO of the Ports Regulator and records appreciation for the role played by the Regulator in the last few years resulting in a substantial reduction in tariffs. We also appreciate the latitude in terms of timing in order to allow for questions and answers in preparation of final submissions.

NAAMSA hereby submits its comments in support of the proposed measures that, once implemented, should improve the competitiveness of the SA automotive industry resulting in sustainable automotive industry growth and employment creation.

In conclusion we trust that the State Owned Enterprises (SOE's), in conjunction with the Regulator, will accept extending the powers of the Regulator to encompass TPT and TFR or alternatively to appoint a separate Regulator to fulfill such functions.

Yours sincerely

VISHAL SHARMA

CHAIRPERSON NAAMSA SUPPLY CHAIN WORKING GROUP

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1 Introduction and Background

NAAMSA is the sole representative of all vehicle manufactures, importers and distributors and remains committed to ensuring the continuity and growth of component manufacturers as well as the tooling industry.

The industry places immense value in its engagement with both the National Ports Authority (NPA) and the Ports Regulator. We sincerely hope that the current submission will see the implementation of several proposed strategies some of which are crucial in securing the growth of our industry to achieve its goals.

The current submission is made in continuance to various similar issues raised in previous submissions.

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. Concerns have however been raised regarding the source of CAPEX required to create and/or improve the supportive port infrastructure required for these industries.

We are pleased that the Authority is “engaging with the Presidency and Transnet with regards to Operation Phakisa” in the context of regulatory certainty provided by the 3 year tariff methodology. NPA has confirmed that this puts it in a “better position to make a business case to Transnet regarding funding of projects.”

We would welcome the Regulator’s inclusion in such discussions, to raise this question before the NPA namely whether its shareholder would “consider retention of Return on Equity of the NPA to actually subsidise projects such as Operation Phakisa.”

3 Group Costs

The Authority was asked to provide an explanation as to the significant variance (only 64% spent) between budgeted and actual Group Costs for 2013/14. The response however, provided little insight as to the cause and correction of such gross over-budgeting of internal costs.

We request the Regulator to investigate further.

4 RoRo Costs

This subject matter is of extreme importance to our industry as it impacts directly on tariff increases. We specifically requested for the Authority to provide the industry with some indication of costs attributable to RoRo (including CAPEX and Rental) limited to the three ports of Durban, East London and Port Elizabeth. We are disappointed that a clear answer has been avoided and the matter was simply referred to as being “considered as part of the Pricing Strategy”.

We request the Regulator to obtain proper disclosure.

5 Beneficiation Promotion Programme (BPP)

The automotive industry is supportive of the proposed BPP included in the Authority's Proposed Pricing Strategy (PPS). The production incentive will enable increased tariff differentiation between value added exports and their import equivalents. Furthermore, with the subsidisation being borne by exports of unbeneficiated materials, the incentive to beneficiate locally will be compounded.

It's understood that BPP, proposed in line with Government's policies relating to beneficiation and strategic assets, is supported in principle by the Authority as well as the Regulator, but that NPA feels "the beneficiation promotion programme, could present an administrative nightmare. This is why it is relying on the work done by the Department of Trade and Industry to determine those levels (currently only done for the metal sector)."

Our industry, which produces export goods (RoRo, Components and Tooling) with maximum levels of beneficiation, is naturally supportive of the production incentive. However, we are concerned with the rate at which the complex and time consuming process of identifying beneficiation levels is being processed across all sectors. Additionally, it's unknown at this point whether the Authority's systems are able to identify individual items within containers and on what basis the incentive would be apportioned across these goods.

We request the Regulator to look deeper into this matter.

6 Tariff Increase – Unbeneficiated Exports

In alignment with the PPS, previous Record's of Decision (ROD) by the Regulator and Government policy, the Authority has proposed tariff increase differentials, away from the proposed average 9.47%, for:

- Container Exports (+8.5%)
- RoRo Exports (+8.5%)
- Marine Charges (+9.6%)

Furthermore, in response to stakeholder comments regarding tariff differentials not being proposed for dry bulk commodities which enjoy preferential tariffs, the NPA has stated that the "South African economy is heavily reliant on the export of raw materials (Dry Bulk) for growth… higher tariff increases may have been possible (i.e. as shown in the past ROD's), as they could be offset/absorbed by increase in volume, (but) growth prospects for the dry bulk category has shown subdued signs for FY 2015/16…"

Whilst the automotive industry is sympathetic to the concerns raised by the SOC and empathises with the challenges faced by suppliers due to subdued growth in export markets, one could argue that the effect of above average tariff increase on the spot rates of key dry bulk commodities would be negligible.

In an attempt to analyse the effects of a 10% increase in cargo dues levied on strategic Dry Bulk commodities, the following results have been revealed:

"COMMODITY A"		"COMMODITY B"		"COMMODITY C"	
Spot Rate (at 30 Sep 2014)	$82.38/Ton	Spot Rate (at 8 Oct 2014)	$2 300/Ton	Spot Rate (Sep 2014)	$67.86/Ton
Rand Value (@ $1 = R11)	R 906.18	Rand Value (@ $1 = R11)	R 25 300	Rand Value (@ $1 = R11)	R 746.46
Export Tariff FY2014/15	R 23.37	Export Tariff FY2014/15	R 16.36	Export Tariff FY2014/15	R 3.11
Proposed Increase of 10%	R 2.34	Proposed Increase of 10%	R 1.64	Proposed Increase of 10%	R 0.31
Increase as a % of Spot Rate	**0.258%**	**Increase as a % of Spot Rate**	**0.006%**	**Increase as a % of Spot Rate**	**0.042%**

The above clearly indicates that an increase of 10% (or perhaps even greater) is relatively marginal and that the Authority could very easily justify and implement such increases in tariffs for unbeneficiated goods. The impact would be minimal (if not zero) on the export pricing and subsequent demand by consumers abroad.

7 Automotive Cargo Dues – RoRo and Container Tariffs

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. Even after taking into account the considerable volume discounts on RoRos of up to 60%, it is evident that it will take an approximate tariff decrease of 50% across the RoRo sector in order to render the industry cost comparative to the global average with closer alignment to the cost of port assets utilised. Accordingly, we advocate a smooth predefined reduction of 10% per annum for the next five years for the sake of export planning.

Bearing in mind the Revenue Requirement methodology allowed by the Regulator, resulting in a "zero sum" consideration to any reductions or increases in tariffs, it would seem appropriate to propose above average tariff increases for those cargo handling types (CHTs) which have enjoyed below global average pricing as a result of historical effects of wharfage.

8 Automotive Cargo Dues – Export : Import Ratio

Considering the seemingly significant tariff reductions granted over the last 3 years, the reason for automotive related cargo dues still being well above the global average is due to:

i. The ever widening ratio (export:Import) on RoRo and Containers tariffs, and
ii. Tariff increase/decrease differentials being applied for the most part to exports

Not only have the predominantly one-sided decreases disproportionately skewed tariffs away from the 1:2 ratio (now 1:2.53 for RoRo and 1:3.04 for Containers), understood to be the level of cross-subsidisation necessary to support export activity, but due to the comparatively lower base rate on exports, the effect of the tariff decreases have been less effective in reducing overall tariffs for the sector.

For example, the tariff differential of 0.97% (difference between 8.5% and 9.47%) proposed for the FY2015/16 on RoRo, in effect translates into <0.4% decrease to the sector when considering export and import volumes and the differing base tariffs.

	RoRo Tariffs			
	Actual			Proposed
	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Exports	R 102.98	R 81.25 (-21.1%)	R 86.04 (+5.9%)	R93.35 (+8.5%)
Imports	R 205.94	R 205.94 (0%)	R 218.09 (+5.9%)	R238.74 (+9.47%)
Ratio	1 : 2	1 : 2.53	1 : 2.53	1 : 2.56

	Container (20FT) Tariffs			
	Actual			Proposed
	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Exports	R 1 081.60	R 614.35 (-43.2%)	R 650.60 (+5.9%)	R705.90 (+8.5%)
Imports	R 2 177.63	R 1 866.23 (-14.3%)	R 1 976.34 (+5.9%)	R2 163.50 (+9.47%)
Ratio	1 : 2	1 : 3.04	1 : 3.04	1 : 3.06

	Container (40FT) Tariffs			
	Actual			Proposed
	FY2012/13	FY2013/14	FY2014/15	FY2015/16
Exports	R 2 163.21	R 1 228.70 (-43.2%)	R 1 301.19 (+5.9%)	R1 411.79 (+8.5%)
Imports	R 4 355.23	R 3 732.43 (-14.3%)	R 3 952.64 (+5.9%)	R4 326.96 (+9.47%)
Ratio	1 : 2.11	1 : 3.04	1 : 3.04	1 : 3.06

The Rand value effect of this imbalance on RoRo in particular, is further compounded due to the nature of the RoRo Cargo Dues being the product of: *Tariff x 2 x Vehicle Length.* Based on FY2014/15 tariffs, vehicles with length equal to 4.0m would have a Rand value differential on exports and imports as follows:

Export = R86.04 x2x4m = R688.32
Import = R218.09x2x4m = R1 744.72
Difference **=R1 056.40 per vehicle**

We ask both the Regulator and NPA to take cognisance of the fact that with few exceptions the majority of stakeholders within our industry engage in extensive import activity to satisfy customer demand of variation and also to achieve price competitiveness in the entry level market. Furthermore, imported containers are crucial not only to OEMs direct and indirect manufacturing supply chains, but also to value adding service and support industries.

9 Efficiencies and Cost Savings

Our industry is pleased to see that the Terminal Operator Performance Standards (TOPS), introduced in July 2013, appear to be achieving successful results as outlined by the NPA:

Measure	Automotive Terminal Durban			COMMENTS
	Target	Average actual	Performance	
Berthing delays (hours)	0	0	-	• Standard has been met
Ship Working Hour (units/h)	120	137	114%	• Standard exceeded. TOPS SWH for Year 2 will be set at safe working levels.
Truck Turnaround Time (minutes)	45	42	93%	• Standard exceeded
Rail Turnaround Time (hours)	N/A			• This measure will be reflected in Year 2
Cargo Dwell Time (days)	Imp: 6 Exp: 13 Tx: 10	Imp: 4.3 Exp: 10 Tx: 12.6	Imp: 72% Exp: 77% Tx: 126%	• Terminal capacity is significantly impacted by dwell time. The design dwell time for this terminal is Import (3 days) and Export (10) days. Dwell times in excess of targets result from contractual arrangements. • The 126% reflected for transhipments indicates 26% longer than planned.
Throughput (units) September 2013 - June 2014	311250	324895	104%	• Standard exceeded

Measure	Automotive Terminal East London			Comments
	Target	Average actual	Performance	
Berthing delays (hours)	0	0	-	• Standard has been met
Ship Working Hour (units/h)	150	171	114%	• Standard has been exceeded. TOPS SWH for Year 2 will be set at safe working levels.
Truck Turnaround Time (minutes)	OEM driven	OEM driven	OEM driven	• OEM driven
Rail Turnaround Time (hours)	N/A			• This measure will be reflected in Year 2
Cargo Dwell Time (days)	Imp: 4 Exp: 14	Imp: 3 Exp: 12	Imp: 75% Exp: 85%	• Standard exceeded
Throughput (units) September 2013 - June 2014	33 476	29 664	89%	• The strike in the steel industry caused disruptions in the supply of components which impacted production negatively. • The introduction of the new export programme for Mercedes Benz went through a start-up phase. • The import volumes Chrysler and Fiat did not materialise.

Measure	Automotive Terminal Port Elizabeth			Comments
	Target	Average actual	Performance	
Berthing delays (hours)	0	0	-	• Standard met
Ship Working Hour (units/h)	150	180	120%	• Standard has been exceeded. TOPS SWH for Year 2 will be set at safe working levels.
Truck Turnaround Time (minutes)	OEM driven	OEM driven	OEM driven	• OEM driven
Rail Turnaround Time (hours)	N/A			• This measure will be reflected in Year 2
Cargo Dwell Time (days)	Imp: 10 Exp: 16	Imp: 5.2 Exp: 8	Imp: 52% Exp: 50%	• Standard exceeded
Throughput (units) September 2013 - June 2014	94 500	100 318	106%	• Standard exceeded

It is hopeful that that the Marine Operations Performance Standards (MOPS), Rail Operations Performance Standards (ROPS) and Haulier – Road Operations Performance Standards (HOPS) will similarly achieve their goals going forward.

With this in mind we bring to the Regulator's attention, a statement made by the NPA at the time of the PPS submission, in which it commented that "relatively minor improvements (<10%) in terminal handling productivity/turnaround times would allow them (Terminal Operators) to handle incremental volumes generating incremental revenues that will offset the increase in rent even without an increase in THCs. We are therefore confident that Terminal Operators will focus on driving efficiency in their own interest and to the benefit of increased overall port efficiency and limit the impact on THCs."

While volume growth has been relatively subdued over the period, there is nonetheless optimism from industry that efficiency improvements, as stated above, will result in only moderate tariff increases by the Terminal Operator, especially in view of the fact that the PPS has not been implemented.

10 TPT Tariff Increases

In response to concerns raised by stakeholders, regarding rental increases to TPT (and other terminal operators) being passed on to cargo owners, the National Ports Authority has stated that it "does not want to see the pass(ing) through of costs from one entity to the next". Furthermore answering the question raised, the NPA has conceded that "there are differing views as to whether the Authority can regulate terminal handling charges (THCs)" and that they are "still working out the mechanisms to ensure that systems are put in place and the users benefit, including the work done on the tariff strategy."

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 they may have to consider the medium to long-term service offerings of alternative neighbouring ports with seemingly more attractive rates.

For the FY2014/15 the automotive industry (RoRo) was issued with an excessive (well above inflation) non-negotiable tariff increase of 9.25% across the board in the context of:

A. the Proposed Pricing Strategy (PPS) not yet having been accepted and/or implemented, and therefore rental agreements are presumed to have remained unchanged,
B. no significant capital works having been undertaken or equipment procured by TPT (not NPA) for use of RoRo processing, and
C. the Terminal Operator Performance Standards (TOPS) programme having been introduced in 2013/14 and from the positive results stated above, they should have curtailed operating costs through efficiency improvements,

Furthermore according to the Authority the average rental increase over the period (2013/14 – 2014/15) was 4.5%.

Table 1: Breakdown of Real Estate Revenue

DETAILS	ACTUALS	BUDGET	ESTIMATE		
	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
	REVENUE (R'm)				
TOTAL EXTERNAL REVENUE	924	1 045	1 042	1 164	1 309
LEASING - DIVISIONAL	837	898	1 001	1 081	1 169
SUB-TOTAL	*1 761*	*1 943*	*2 043*	*2 245*	*2 477*
OTHER RECOVERIES	352	267	340	359	381
TOTAL REVENUE FROM TENANTS	2 113	2 210	2 383	2 604	2 859
REVENUE FROM NEW TENANTS	59	62	66	70	74
TOTAL REVENUE	2 172	2 272	2 449	2 674	2 932

The motivation for a tariff increase of 9.25% is therefore unacceptable. Furthermore the conflict within the Group as to one Transnet division limiting the extent of external tariffing by another, should not be ignored. If NPA is unable to curb what appears to be unjustifiable tariff increases at present, it is unreasonable to expect it to do so in future when the Terminal Operator's cost base increases markedly with rental adjustments.

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.

Lastly, the Authority's response to a request for information regarding the lettable area attributable per cargo handling type, as a percentage of the total lettable area of 27 000 km^2 (is the area stated correct?), clearly avoids providing adequate information by once again simply referring to the upcoming PPS. We therefore request the Regulator's intervention for appropriate disclosure of such high-level information.

11 Regulation of 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" (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.

12 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.

Our industry views the Records of Decision (ROD) as crucial indicators of the trend of port pricing and takes cognisance of such in manufacturing tenders issued when competing with OEMs globally.

May we request a further engagement with the Regulator, before the ROD is issued, to elaborate further on issues raised above in summarised fashion, for the sake of keeping our submission brief? We believe strongly that a positive ruling in favour of the NAAMSA recommendations will enable our industry to remain competitive, continue to grow and create sustainable employment.