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N29
20th March, 2017

The Chairman,
Ports Regulator,
Private Bag X54322,
Durban,
4000

Dear Sir,

PORT TARIFF METHODOLOGY FY2018/19 TO FY2020/21: 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 would like to thank the Ports Regulator of South Africa for the opportunity to once again provide input for consideration in terms of the Port Tariff Methodology for FY2018/19 to FY2020/21.

Working together with the National Ports Authority as well as Port Users, we believe that the regulatory environment has resulted in notable increases in the level of transparency around port costs and revenues. This has in turn achieved closer alignment of port service tariffing to the underlying cost thereof.

Our members remain considerably reliant on the cost and efficiency of South African port operations. In order to achieve the industry's strategic objectives as outlined in the Automotive Production Development Plan (APDP) and post 2020 South African Automotive Master Plan (SAAMP), stakeholders must be globally competitive across the value chain. It is furthermore crucial that a reasonable degree of policy certainty exists in order to accurately forecast supply chain related costs on both inbound and outbound volume throughput. To this end we are grateful for the multi-year Tariff Methodology and long-term Pricing Strategy as set out by the Regulator.

NAAMSA hereby submits its final comments for consideration in terms of the stakeholder engagement process.

Yours sincerely,

1 **Brett van Zyl**
CHAIRPERSON: NAAMSA SUPPLY CHAIN WORKING GROUP

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Introduction

The National Association of Automobile Manufacturers of South Africa (NAAMSA) welcomes the opportunity, afforded by the Ports Regulator of South Africa (Regulator), to comment on the Port Tariff Methodology for FY2018/19 to FY2020/21. Comprising of 22 motor vehicle manufacturers and 21 motor vehicle importers and distributors, the body's membership represents substantial port volume in terms of both throughput and value.

In 2015, the automotive industry contributed R256.7bn (7.2%) to the country's GDP. In the same period the sector was attributable for an estimated 431 973 jobs, excluding those in the informal sector as well as other dependent but not directly related industries. Industry performance was underpinned by domestic sales of 617 648 units and local production of 617 192 units, with Import and Export volumes, primarily through SA ports, balanced at approximately 334 000 units each.

2016 proved somewhat challenging for the industry, with domestic sales dropping to 547 406 units, owing to a weak rand, reduction in disposable income and a lack of consumer confidence. However, a marginal increase was still achieved on exports, with a record high of 344 859 units recorded for the period.

Whilst the Authority's port pricing has seen significant decreases for select stakeholders over the last few years, with export tariffs reduced and the maximum volume discount effectively implemented across the board, the industry remains burdened with charges that aren't reflective of the true cost to provide the service. Furthermore, while there may be stark differences in the funding models employed, tariffs are nevertheless well above global comparator ports.

After careful analysis of the draft multi-year Tariff Methodology, NAAMSA provides its final comments acutely aware of the effect that the National Ports Authority's (NPA /Authority) revenue requirement will have across the various Port Users once the Pricing Strategy is applied.

Rate of Return Regulation

The industry supports the continuation of the Revenue Required (RR) Methodology, with adapted elements to address the unique requirements of the NPA. The model is deemed essential for the following reasons:

- It provides adequate revenue required by NPA to fulfil its mandate
- Risks are mitigated through revenue allowance as well as the clawback mechanism
- Enables competitive financing by the Authority
- Ensures strategic assets are developed, maintained & replaced
- Allows only reasonable profits to be earned by the monopolistic SOC
- Provides port users with protection against excessive tariff increases

However, the methodology is only effective if the inputs are correct. For this reason the role of the Regulator remains critical to assist NPA and Port Users to:

A. Determine whether the quantum is appropriate where there are no standard regulations
B. Make sure that standard regulations are correctly applied

Regulatory Asset Base (RAB)

As port users, we support the development of a standard Regulatory Valuation Methodology ("RVM") for assets included in the NPA's RAB.

We are pleased to note that implementation will include rebasing of the RAB, by retrospectively applying the appropriate valuation methodology to assets originally included. Furthermore, it is noted that implementation will be expedited as the Regulator *"will reflect the appropriate changes in the next ROD to affect the RAB value in the following tariff year"*.

CAPEX Oversight

Whilst the RVM will determine appropriate valuations for assets included in the RAB, it is deemed considerably more important to appropriately determine which assets are to be developed and/or purchased and when this should take place.

It is comforting to note that whilst the PCCs will remain the principal cross-stakeholder structures to assess and motivate NPA's CAPEX procurement, there will be a greater degree of high level Regulatory oversight for the extended six-year project plan spanning the review of the Methodology. This is considered imperative since the proposed methodology, including WEGO, does not incentivise efficiency/frugality in CAPEX procurement. Perhaps this is an issue to be considered when developing the RVM.

Beta (β)

The industry supports the view that a lower Beta should be applicable to the NPA. This given the very unique operating environment of the monopolistic SOC, which is largely void of systematic risk due to the RR methodology employed including a clawback mechanism.

We note the complexity of the task to establish an appropriate β and look forward to a methodology being developed prior to the review of the Tariff Methodology in 2019/20. It is further proposed that once determined, the appropriate Beta be applied in following FY similar to that of Regulatory Valuation Methodology outcome.

Operating Costs

Operating costs, including Transnet Group costs, remain an area that requires greater transparency and analysis.

The process is reliant on motivations by the NPA, which are not necessarily comparable to global equivalents due to the unique nature of the Authority. Justification of Group costs in particular requires intense scrutiny due to the interrelated operations of the SOC and potential for cross-subsidisation.

Weighted Efficiency Gains from Operations (WEGO)

Industry is supportive of the proposed efficiency incentive included in the methodology. The principle should provide the Authority with requisite motivation to achieve and maintain higher levels of operational efficiency without being unduly/unintentionally "penalised" by the clawback.

We reserve further comment following a review of the outcomes of the first period of implementation.

Excessive Tariff Increase Margin Credit (ETIMC)

Given the Regulator's overarching view of the variables, present and future, influencing RR and resultant Tariffs, the current position on ETIMC is supported.

The quantum and timing of ETIMC utilisation cannot be forecast due to the dynamic nature of CAPEX programmes, port volumes, etc. As such the Regulator is deemed to be best placed to consider the appropriate application of the "revenue collected from port users" to curb excessive tariff increases in future.

Industry is confident that the responsibility to safeguard against potential excessive tariffs is carefully considered by the Regulator against the opportunity to reduce port costs in order to stimulate volume growth.

Positive Incentives to Support National Objectives

It is noted that the *"Regulator still retains the right to include, at any time during this methodology period, positive incentives in support of any national objectives....".*

To this point we would like to bring to the Regulator's attention the matter of coastal shipping, in particular relating to RORO. The short sea service is deemed to be in line with national objectives and Government strategies for the following reasons:

- Moves coastwise volumes off the national road network
- Increases utilisation of port assets
- Improves regional market development and integration
- Supports existing Government strategies (APDP, Phakisa)

The industry anticipates roll-out of a pilot RORO coastal shipping service in the upcoming financial year. It is however unclear whether any volumes for such have been anticipated in the NPA's forecast for the period. It is furthermore unclear which tariffs, if any, have been applied for the budgeting process in this regard.

Whilst the upcoming FY does not fall within in the methodology period for comment, the Regulator is nevertheless urged to consider the principle. If found to be supportive of national objectives, it is requested that the pilot, and full scale implementation thereafter, be supported through positive incentives applied to related marine charges and cargo dues.

Single Transport Economic Regulator (STER)

The industry remains a strong advocate, in the absence of adequate private sector participation, for Regulatory oversight to be extended across all strategic port and logistics infrastructure. These tenants have a considerable impact on NPA's operations as well as its revenue allowance as determined by the Tariff Methodology.

It is maintained that the current ambit of the Ports Regulator is not sufficiently extensive to fulfil its mandate in terms of the Ports Act, namely to "Exercise economic regulation of the ports system in line with government's strategic objectives" and "Promote equity of access to ports and to facilities and services provided in ports".

To this point we reiterate our support for consideration of a STER. We would welcome any feedback/update the Regulator may have on the progress, if any, in this regard.