naamsa

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N29
14th December, 2012

Mr Riad Khan
Chief Executive Officer
Ports Regulator

Dear Mr Khan

THE NATIONAL PORT AUTHORITY'S 2013 / 2014 TARIFF APPLICATION: SUBMISSION BY NAAMSA ON BEHALF OF THE SOUTH AFRICAN AUTOMOTIVE INDUSTRY (VEHICLE MANUFACTURERS, EXPORTERS AND IMPORTERS)

Introduction and Background

The National Association of Automobile Manufacturers of South Africa ("NAAMSA") welcomes the process of engagement with Transnet that began in 2011 which has contributed towards the Authority's decision to review the Tariff Methodology and Pricing Strategy as well as the opportunity to provide comments on the Authority's 2013 / 14 tariff application.

NAAMSA represents the interest of 22 manufacturers of motor vehicles and 21 vehicle importers and distributors. All the major vehicle manufacturers are involved in high volume exports as well as the importation of built-up vehicles.

The automotive sector is the largest manufacturing sector in the economy and it contributes about 7% to South Africa's GDP. The industry is highly dependent on international trade. The track record of the industry in terms of exports and imports has been impressive and in 2012 vehicle exports should exceed 280 000 units rising to 361 000 units in 2013. Vehicle imports by the industry in 2012 will approximate 360 000 units rising to 400 000 vehicles in 2013 (see Schedule 2 attached).

Sustainability and Growth of the South African Automotive Industry

For the automotive industry in South Africa the issue of international competitiveness is imperative especially in view of the new Automotive Production Development Program (APDP) which will commence in 2013 with the vision, shared by government and Industry, to double vehicle production in the country to 1.2 million units by 2020. Inflationary pressures by the weaker rand, higher electricity tariffs, high logistics inbound and outbound costs and above inflation wage agreements not linked to productivity improvements - impacts on the cost of doing business in the country. This further impacts the Industry's ability to be considered for future new generation model projects, subsequent component investments and export contracts. The Automotive industry's contribution to international trade and to the national output should increase substantially and will remain the key engine of economic growth for many years to come. Hence, port operations and efficiencies will play a critical role in contributing to accelerating economic growth and development in the country. The achievement of government's objectives depends on the ongoing successes of priority sectors, such as the domestic automotive sector. Above inflation price increases in any area would undermine the Industry's competitiveness and growth potential.

The proposed relief for automotive exports recognises that tariffs for these products have been higher than other sectors for many years and that it is a strategic imperative for the country that exports be supported in every way so as to improve South Africa's global competitiveness. However, moving forward, support for automotive exports will be offset by proposed tariffs on imports. Whilst we understand that the revised pricing strategy has yet to be approved, we welcome the overall findings that cargo dues need to be reduced and also the authority's decision to begin bringing such reductions into effect in the 2013 / 2014 financial year. NAAMSA therefore appeals to the Ports Regulator to consider the substantiated arguments raised in this submission for the re-calculation of the tariffs as proposed below.

Comment on specific issues -

1. **Industry Overall reaction**

   NAAMSA endorses the new approach by Transnet (in a broader sense) and in particular NPA and TPT for bringing tariff reductions into the 2013 / 2014 financial period. Furthermore, we welcome NPA embracing the concept of providing visibility of future costs since this will assist planning on the part of exporters and importers.

2. **Container Cargo Dues**

   NAAMSA welcomes the immediate reduction of cargo dues on all containers (imports and exports), however we believe it is still higher than our global affiliates. We would like to highlight that automotive components imported for the purpose of local assembly as well as service parts have a direct impact on the end cost of vehicles (both exports and local market).

3. **Comment on Road Show Projections**

   Following the addendum forwarded to the Regulator and analysing it further, it has become evident that there are material differences which we wish to highlight to the Regulator for further consideration. Examples of this are: Imports - an increase of 4.8% has been shown in the addendum, but 5.4% in the road show. Similarly for exports, -33% in the addendum but -15% in the road show.

Comment on additional matters –

1. **High Port Costs relative to Other Ports (Refer Schedule 1)**

   We have provided the necessary benchmarks upon which we wish the Regulator to act. If one were to compare the most expensive non-SA Port (based on RoRo's) to our SA Ports, South Africa is many times higher. (UK Port highest in Schedule 1 at £9).

   These rates are paid by our affiliates abroad and they form part of agreements between our affiliates and the respective ports they use. It is for this reason we request the regulator to treat this information as strictly confidential. Whilst the business models of these ports aren't the same as the NPA since these ports are privately operated, our local port costs are compared to them by our principals in deciding whether or not to award us future manufacturing contracts.

Kindly note that we are providing the necessary proof on which we wish the Regulator not only to take note, but also to act upon. (Refer Schedule 1)

2. TNPA volume projections

The TNPA volume projections for 2013 / 2014 understate the industry's expected performance in terms of vehicle exports and imports. NAAMSA's projections – based on data supplied by automotive companies and RGT Smart – have factored in the likelihood of lower vehicle exports into Europe, however, these will be more than offset by increased export volumes to other markets. Currently, the industry exports vehicles to 148 international markets.

NAAMSA's projections – as detailed in Schedule 2 - represent at this stage the most accurate and realistic industry export and import figures. It is evident that by using the correct projected volumes both import and export tariffs will reduce and from our further comments below you will note the significant impact this will have as a result.

3. Ratio between Export and Import Tariff (Import subsidising Exports)

Dealing with the ratio between Export and Import Tariffs (Imports subsidising Exports), the NPA have proposed a ratio of 1:2 and have been implementing this for the last three years in support of government's policy to promote exports (as per NPA's slide 26). Schedule 3 reflects the impact of adhering to this principle and it can be seen that by so doing, there would be a substantial reduction in the tariff. The Regulator is hereby requested to consider this methodology.

4. Future growth of the industry

The South African automotive Industry has experienced above average growth in recent years and this is expected to continue through 2020. Logistics cost and port efficiencies – unless these become internationally competitive – could have a negative impact on the Industry's future growth potential both in terms of exports and imports.

5. RAB Methodology

Time has been rather limited for us to respond fully to all issues of concern. We would have liked to address the details of the calculations and issues relating to NPA's re-valuation of the RAB. Accordingly, we confirm that we rely on the Regulators' ability to address this aspect fully in the best interests of all parties concerned.

NAAMSA does however believe that this methodology does not necessarily promote competitiveness of the industry. Once the NPA decides its revenue requirement, it merely recovers this from port users via volume throughput. In the event the volume projections don't materialise, the NPA merely restates the recovery for the following year i.e. increased rates. Unfortunately as OEM's we can't afford this luxury. If we experience declining markets, we can't increase our prices to sustain profits, we need to drive down costs. These costs cuts often result in huge job cuts which negatively impacts the economy,

Our suggestion to the NPA would be not only to share in the joys of the economy but also to share in the spoils. We are open to further engagements on this matter to illustrate to the regulator the pricing methodologies we use.

6. **Fixing Tariffs beyond 1 year at a time**

NAAMSA supports the NPA's proposal to offer a smoothed tariff structure that would be applicable for say 3 or more years. This would move away from the annual tariff application and add more certainty to ports operations planning. However, unrealistic targets would be disastrous for competitiveness (i.e. not the SA CPI + a margin). The principle of a longer term tariff structure is attractive, but we must engage further to agree on a way that links this to either continued reduction in port costs or find a way to relate it to an economic statistic that is more realistic and that will promote global competitiveness (i.e. not the SA CPI + a margin).

Our suggestion is that the regulator set the NPA cost targets aligned to our benchmark information. Whilst the NPA cannot achieve these rates in the 13/14 year, NAAMSA suggests these are targets set for the NPA and need to be achieved over a period of 3 years. NAAMSA will fully support an approach of this nature since it secures some form of sustainability for our industry and the NPA has a target to work towards. This is a win-win for all parties. NAAMSA believes that this is the only way the regulator can assist in improving the competitiveness and viability of our industry in the long term.

7. **Sliding scale for CD discounts (page 63 of the ppt)**

NAAMSA welcomes that the volume thresholds have not been adjusted upwards as they were in the past. However, these do not favour major OEM's who are in the process of creating new export markets for SA. Therefore we propose that our original objection raised in 2010 be considered and the volume thresholds adjusted accordingly.

Concluding remarks and recommendation

We welcome the reduction in automotive container cargo dues as an immediate step. We recommend that NPA consider NAAMSA's latest volume projections supplied herewith (refer to Schedule 2) pursuant to NPA's request at the meeting held on Tuesday 11th December, 2012.

These figures represent each OEM/Importer's own verified volumes based on realistic projections as shown in Schedule 2. The tariffs for cargo dues on RoRo's (CBU Imports and Exports) for the 2013/14 year should be re-calculated using the volume projections as illustrated in Schedule 3.

In addition to the above:-

1. NAAMSA requests continuation of the process of engagement between NAAMSA and Transnet to refine tariffs and rates across all Transnet services.

2. NAAMSA supports bringing forward pricing strategy issues already identified that can provide immediate relief to the automotive sector. This will have the effect of stimulating trade rather than stifling competitiveness as a result of delays.

3. Support the engagement between NAAMSA and Transnet to explore the overall competitiveness of our ports.

Thank you for the opportunity to provide our views on the Authority's 2013 / 2014 tariff application. Please do not hesitate to contact us should there be any additional queries.

Yours sincerely

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