Press Statement

Ports Regulator Record of Decision

on the Tariff Application by the National Ports Authority

for the Tariff Years 2017/18 - 2019/20

On 1 December 2016, Mr. Mahesh fakir, CEO of the Ports Regulator of South Africa stated:

"The National Ports Authority, on 1 August 2016, applied to the Ports Regulator of South Africa for the approval of the tariffs for port services and facilities offered by the National Ports Authority for the period 1 April 2017 to 31 March 2018, and indicative tariffs for the following two years. This is the third and last tariff assessment since the introduction of the multi-year tariff methodology in 2014; and progress continues to be made towards increased levels of transparency and consistency in port tariffs.

On 1 August 2016, the National Ports Authority (the NPA) applied to the Ports Regulator of South Africa (the Ports Regulator) in terms of Section 72 of the National Ports Act, 12 of 2005 (the Act) for approval of the following average tariff increases for services and facilities offered by the NPA: 8.02% for the period 1 April 2017 to 31 March 2018, and indicative tariffs of 25.11% for the period 1 April 2018 to 31 March 2019 and 9.54% for 1 April 2019 to 31 March 2020.

In summary the NPA application proposed the following differentiated tariffs for the 2017/18 financial year:

An average Tariff Increase of 8.02% differentiated as follows:

- 13.25% on marine charges (shipping lines);
- 8.30% on all bulk;
- 5.00% on containers; and
- 5.00% on automotives

In response to a call for comments published on the 2nd of August, and with a closing date of the 30th of September, a number of submissions were received. There were amongst others submissions received from: shipping agents and owners, freight forwarders, vehicle manufacturers, shipping lines, National Port Consultative Committee, Local Government, and Chambers of Commerce. At the beginning of September 2016, a series of stakeholder consultations on the NPA Application were held in major centres across South Africa (Johannesburg, Cape Town, Port Elizabeth and Durban).

After considering the application and the written and oral submissions by all stakeholders during the consultation period, and based on latest available data, the Ports Regulator in considering the proposed average 8.02% tariff increase for the 2017/18 tariff year, decided that an appropriate overall increase in average tariffs for 2017/18 shall be 5.97%.

The Ports Regulator further concluded that all cargo dues for 2017/18 are to increase by 6.0%, except for marine services and related tariffs (Sections 1-8 of the Tariff Book, excluding Section 7 that deals with cargo dues) that are to increase by 7.9%, full container cargo dues are to increase by 4.9% and all RoRo (Automotive) tariffs are to increase by 3.9%.

With regards to the incentive for South African flagged vessels announced in the 2016/17 ROD, all marine tariffs (Sections 1-8 of the Tariff Book, excluding Section 6 and 7 that deal with ship repair and cargo dues respectively) for existing commercial South African flagged cargo vessels as well as those registered in South Africa in 2016/17 will continue to receive a 30% discount applicable year on year up to 31 March 2019. Those registered in South Africa in 2017/18 will receive a 20% discount up to 31 March 2019 and similarly those registered in 2018/19 will receive a 10% discount up to 31 March 2019. The discount will thereafter be reviewed.

The above reductions only apply to vessels registered as part of chapter 4 part 1 of the Ships Registration Act (58 of 1998) but excludes the following vessels:

1. All “small” vessels as defined in the Merchant Shipping Act
2. All “fishing” vessels as defined in the Merchant Shipping Act
3. All non-cargo working vessels

In conducting its assessment, the Ports Regulator takes a view on a number of cargo volume and market-related factors, including the inflation outlook and the cost of debt, the operational requirements of the National Ports Authority, as well as relative port pricing benchmarking.

Some of the key elements in this regard as included in the 2017/18 decision:

- Average Volume growth expected: 2.97%
- Inflation expected: 6.10%
- Profit (return on Equity) allowed: R2 699 million

The Ports Regulator is confident that the Record of Decision reflects a balanced and sustainable average negative real tariff change that will result in a 10% year on year increase in allowed revenue. The NPA will be allowed to recover R12 185 million vs the R12 231 million applied for. Albeit lower, this will however still ensure the Authority’s sustainability and also provide the financial space to ensure that the capital program included in the application totalling R4.05 billion is fully implemented. This is very important, because, whilst it may be tempting to cut back on capital expenditure in a downturn, it is critical as a facilitator of trade to be ready for the eventual upswing in economic growth.

As such, it must be noted that operational as well as capital expenditure applied for was allowed for fully, thus ensuring the sustainability and further development of the South African ports infrastructure system. This was done by applying the Regulatory Manual in the best interests of South Africa and its people whilst still allowing a profit in excess of two and a half billion Rand, commensurate with the National Port Authority’s risk in owning, and managing the ports system. This should support any perceived credit risk of the Authority thus leading to lower debt cost over the long term.

In addition, the Ports Regulator took cognisance of the expected subdued economic activity over the tariff period and as indicated in the past, opted to utilise a portion of the Excessive Tariff Increase Margin Credit (ETIMC) to maintain overall average tariffs close to the inflation target band, as defined by the South African Reserve Bank mandate, over the period under review. The Regulator utilised R 593 million of the ETIMC in order to keep the average tariff increase below inflation.
This view remains for the outer years and the Regulator's indicative tariff for 2018/19 and 2019/20 is 6% average or lower for each year.

It must be noted that this outlook is held despite the review of the current Tariff methodology. The new tariff Methodology will be in place prior to the 1 August 2017 NPA tariff Application for the 2018/19 tariff year. Public consultations on the new tariff methodology have already taken place through a series of workshops in October in four cities across South Africa (Johannesburg, Cape Town, Port Elizabeth and Durban) and submissions have been received from stakeholders. It is envisaged that the Regulator will publish a draft tariff methodology early next year for public comment before finalisation.

The Ports Regulator is committed to reducing the cost of doing business within the South African ports system and the average real decrease on all cargo dues, whilst addressing areas of imbalances in the tariff system elsewhere, is considered the most prudent course of action for the 2017/18 period."

End.