SASC

SOUTH AFRICAN SHIPPERS COUNCIL

Cargo handling, warehousing and transportation by all modes from origin to destination

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SOUTH AFRICAN SHIPPERS COUNCIL SUBMISSION

1. Introduction

This year presentation is focused on reducing regulatory uncertainty and is more geared towards presenting a balancing act of ports users and service provider of infrastructure. The process followed is still fundamentally similar to previous determinations however significant strides have been made to consider contributions of the stakeholders in the past.

Attempts to make available detailed information and the basis of calculations seems to be on the cards going forward and a long terms Tariff Strategy to be crafted is set to address anomalies experienced in the past processes.

The basis on which to set increases should be guided by economic performance of the country and that of global economies as South Africa is a global role player. The hard reality is weak economic growth still characterizes the world economy, six years after the start of the global recession. Fiscal and monetary policies no longer support economic growth.

2. The multi-year methodology

The principle of multi-year annual adjustment is welcome and the forthcoming Tariff Strategy will make reference. Robust discussion is required to deliberate on what the envisaged tariff strategy will seeking to achieve.

3. Components of Revenue Required Tariff Methodology

3.1 Regulatory Asset Base

The regulatory asset base is determined through the DORC method and the fact that the asset base is not cleaned out, gives rise to a steep increase in the asset value. The RAB represents the value of asset that the NPA is allowed to earn a return on. Each year, estimated capital expenditure and depreciation is added to the closing balance for the previous year to arrive at an updated closing balance for the current year. The expected working capital balance is added to arrive at a total RAB estimate, which is averaged over the year to account for the progressive spending of capital work in progress over the period.

In the previous determinations the regulator never had confidence in the method used by applicant for calculating the increase and method used previously resulted in steep increases in the asset value. Year on year RAB adjustment is applied as a correction, but to date there is no reliable, transparent and credible mechanism with integrity to deal with RAB assessment criteria. This confirms high level of no confidence in the asset base. The SASC recommend to TNPA to engage in constructive discussions with stakeholders together with consultants to come up with agreeable innovative solution to deal with this challenge. As things stand the RAB may be regarded as artificially inflated with the effect of giving apparent justification to high tariff increases.

3.2 Market Risk Premium (MRP)

The MRP is still premised on the theories propagated by Dimson, Marsh and Staunton professors and the regulator is set to use the latest theory from same scholars. MRP reforms brought about by these scholars should be used as basis for calculation and must be transparent and details should be made available to stakeholders for verification on the authenticity.

Market risk premium analysis assumes relatively competitive markets. TNPA presides over an intrinsically uncompetitive institutional structure for the ports, in particular in the key revenue earning container and automotive terminals. Care needs to be taken to distinguish between institutionally caused and market driven risk factors.

3.3 Operating Costs

The NPA is required to provide detailed and complete motivation for each of the expenses applied for, in particular on labour and energy. Whilst doing this, NPA should take into cognizance, the South African economy is under strain and salary increases must be looked at closely to ensure they are in line with inflation. This must be taken seriously as it is a fundamental measure of economic performance.

This sentiment was echoed by Mr Nene Minister of Finance, that anything above inflation will compromise headcount. The level of unemployment is sky rocketing in South Africa and any attempt to inflate salaries and bonuses will exacerbate the problem.

The SASC has in the past three years have had grave concern about TPT operating space with regard to lack of regulatory body to contain costs. TPT is not controlled like NPA and for this reason imposes increase to the industry without any institutional challenge. In 2014/2015 financial year, TPT imposed non-negotiable tariff increase of 9.25%, despite CPI being in the region of 5.9% in February, 6% in March 2014 respectively. The industry has always been assured that NPA will curtail excessive tariff increase by their tenants, but this is not happening.

The SASC recommend zero increase and no bonuses to NPA executive to set a shinning example of concerted efforts which are being made at all levels to contain costs. It is evident in some of private sector segmentation that senior management doesn’t get increase and this must be encouraged in all sectors.

Mr Nene further said in Business Times, 13 October 2014 “wage negotiations should move from percentage increases to examining the living conditions of employees and improvement of productivity". This assertion is driven and motivated by sluggish economic growth and inefficiencies in the ports that do not justify huge increases.

It is imperative that NPA observe requests to submit externally audited financial report and in addition to providing an externally and independently audited financial report no later than 1 December of the same financial year. This will heighten transparency and credibility of the audit report. It is important that such reporting reveal the nature of financial relationships among Transnet divisions, including any dependence on TNPA accounts by Transnet Commercial in applying for bond funding for the group generally and Transnet Freight Rail in particular. The reason is related to above concerns about RAB and MRP where institutional privilege as well as actual performance, may be affecting TNPA's case for tariff adjustments.

4. Comparative Trends

The comparison of South African ports costs with the rest of the world.

4.1 Container and Ro-Ro tariffs

It is evident from the presentation that container and Ro-Ro costs far exceed the average in the world. This needs to be reviewed to implement drastic reforms on the costs. In essence containers and Ro-Ro subsidize bulk and this is in contradiction of directive 23 (1) (f) – the avoidance of cross-subsidization, save where in the public interest.

4.2 TPT Tariff

The TPT tariffs remain high and this is a concern to port users. Dramatic adjustments are required to be in line with the rest of the world. TPT must operate as an autonomous entity from Transnet group as the monopoly Transnet enjoys makes it difficult to deal with their divisions separately. Again, TPT is not regulated, in 2014/2015 financial year, imposed 9.25% tariff increase across the board, which is 3% above inflation. These increases place strain on industries' cost structures and directly impact on long-term business sustainability as industries depend on Imports and Exports to survive. The SASC believe same costs mitigating initiatives should be embarked by TPT to make South African businesses sustainable despite weak global markets.

We are informed government originally set economic growth projection for next year at 2.7% and indications are; this may be revised to 2.4% growth. This is a worrying factor and institutions such as TPT should align their increase projections in line with economic realities of this country and the world at large.

4.3 Vessel Costs

Vessel costs require adjustment to be competitive. The RSA charges remain relatively cheaper compared to the rest of the world. The equitable vessel costs will ensure foreign ports users contribute positively towards infrastructure development costs. Currently foreign ports users enjoy free rider when they do business in South African water.

5 CAPEX Requirements

The capex need to be accompanied by adequate information to determine the impact each individual project is making in terms of throughput, efficiency, pricing and revenue. A clear statement of detailed information supporting market demand case for capital projects is required. It is believed that cross subsidization of Transnet divisions inflates cost in one area which should have been absorbed by the relevant division that actual uses and provides the service. For an example, the cost of sleepers to Rail Safety Regulations should be incurred by Transnet Freight Rail as it is the user of the infrastructure. The meetings in which PCC approves capex need to constitute a quorum in order to legitimize the decision taken in that forum.

The infrastructure development at the ports should not be pursued in isolation of other linkages. It is therefore imperative that ports development is synchronized with hinterland developments to ensure that there is synergy of flow of goods and services. This will ensure better coordination of sea, land transport and container terminal facilities.

6. Conclusion

- Regulatory asset base must be cleaned out to avoid inflating the asset value.
- Labour costs must be contained during tough economic times like now and responsibilities need to be combined where possible to enlarge roles.
- The SASC propose that the National Port Authority and Transnet Port Terminals should not fall under the same Transnet group and that both the National Port Authority and Transnet Port Terminals should operate as autonomous institutions from Transnet group. In this regard, the National Ports Act provisions should be taken as the primary source of direction.
- Tested and credible MRP reforms methodology should be agreed upon.
- South African tariff costs need to be aligned with the rest of international trends.
- It is recommended that in the light of the current economic situation in SA as well as globally, the increase on Transnet businesses be zero percent

(0%). It should be a reduction in tariff as the RAB is grossly over inflated and open for questions.

- It is further recommended that the Beta currently set on 0.5 be further reduced to 0.3 as TNPA does not have any business risk as any other port in the world and has collateral from government.