THE SOUTH AFRICAN ASSOCIATION OF FREIGHT FORWARDERS

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# Submission to the National Ports Regulator

## SUBJECT: TRANSNET NATIONAL PORT AUTHORITY

## TARIFF APPLICATION 2015 / 2016 FINANCIAL YEAR & INDICATIVE TARIFF INCREASES FOR 2016 / 2017 & 2017 / 2018

**PREAMBLE:**

The South African Association of Freight Forwarders (The Association) makes this submission on behalf of its members and its member's clients.

Included with this submission are two supporting annexure:

**Annexure 1:**

Provides a short description of the Freight Forwarding Industry internationally and in South Africa:

**Annexure 2:**

Establishes SAAFF as the sole voice of organised Freight Forwarding in South Africa:

**STRUCTURE OF SUBMISSION:**

In paragraph 5 of the Regulatory Manual for the Tariff years under review the Regulator indicated that the "Required Revenue" approach which had been used since the regulatory regime commenced would continue to be applied in the current application. Though the Association continues to question whether this represents a proper basis for tariff assessment as a consequence of this decision this submission will not question the various elements used in the calculation other than to comment on the Regulatory Asset Base, certain operating costs and the possible use of the Excessive Tariff Increase Margin Credit (ETIMC)

**SUBMISSION:**

**Regulatory Asset Base (RAB)**

In Paragraph 6.2 "Calculation of the RAB" the Regulator once again raised concerns regarding the original method used in arriving at the RAB. Whilst accepting that there is a clear need for certainty in the absence of alternatives, the Association urges the Regulator to complete the reassessment of the RAB valuations which have a material impact on the revenue required by the Authority.

**Cargo Volume Forecast:**

The volume / revenue increase forecast by the Authority at 2.8% for financial 2015 / 16 and lower for the following two years is a cause for considerable concern.

Volumes of the high revenue container traffic which realise up to 46% of all marine income (2014/15 revenue budget, application page 41) have been sluggish over recent years. Bulk and break-bulk volumes are marginally better but do not offer material revenue increases under the current tariff format. The Authority's analysis supported by Table 7 of the application summarises this position.

We believe this slow growth may continue into 2015 with hopefully better increases than forecast in subsequent years. It is therefore likely that the Authority's volume growth estimates for 2015 / 2016 are within reasonable bounds considering the state of the South African and global economies.

It is in this scenario of low growth and high planned capital expenditure that the "Revenue Required" approach to tariff adjustments begins to demonstrate its shortcomings as customers rather than shareholders and the State's tax revenue stream take the brunt of the cost increases. In a "normal" business environment lower sales during high capex investment periods usually result in diminished returns to shareholders and if anything reduced prices to customers.

**Requested Tariff Increase 2015 / 2016:**

The requested 9.47% increase for the financial year 2015 / 2016 requires careful analysis. The reduced volume forecasts for the year under review and the subsequent two years must raise questions over some of the capital expenditure planned.

The situation forecast for the next financial year both in terms of underperforming volume and increased capital expenditure and operating costs calls for use of a portion of the ETIMC. We quote here from the Regulatory manual:

*The Regulator may authorise the release of part or the whole of the value of the ETIMC facility to influence tariff levels whenever it deems necessary including, but not limited to spikes in tariffs (defined as an average tariff increase in excess of the inflation forecast) due to a sharp increase in capital expenditure, volume volatility, or any market related factor. The Regulator may also consider national objectives in any decision to add to, or to utilise the ETIMC facility to adjust tariffs.*

All of the conditions outlined by the Regulator, low volume, capex expenditure and possible tariff increases in excess of inflation are in play in the current application scenario.

The Association recommends that the Regulator releases an amount from the ETIMC sufficient to reduce the required increase to reflect the current CPI which is 6.4%. (STATS SA August 2014

The example in Table 1 below based on Table 19 in the application demonstrates the effect of a transfer of R240m from the ETIMC that will support a reduction in Tariff increase to 6.48%

**Table 1**

| **Marine Revenue** | |
|---|---|
| **Prior Year Revenue** | **7783** |
| **Estimated Volume Growth** | **2.8%** |
| **Revenue after volume growth** | **8001** |
| **ETIMC** | **240** |
| **Total Revenue plus ETIMC** | **8241** |
| **Required Revenue** | **8759** |
| ***Tariff Increase*** | **6.48%** |

**Capital Expenditure:**

The Authority's market demand strategy would appear to have overestimated demand, possibly resulting in capex projects being tabled and planned for completion well in advance of need. Though there are obvious and valid benefits to planning for future needs in advance, it appears that assumptions made assumed material growth which has not materialised and at least for the next three years is unlikely to do so.

Most of the current capex spend is essential and is supported by the Association, here we refer to such as the Maydon Wharf rehabilitation programme, the berth deepening at Durban and the purchase of new tugs.

Where this Association has serious concerns is the massive planned investment at Ngqura totalling 8, 5 billion over the three years. Though it is not clear from Annexure B (Capex), we assume a large proportion of this is for the planned manganese export facility.

Our position is firm in that such investments for specific cargo types should be ring fenced, costed and priced independently of the overall Authority's cost structure. The same can be said of the planned iron ore expansion at Saldanha Bay. We have no doubt that these facilities are well planned and will be of value to our economy but the cost should be carried by the ultimate users and not, as is currently the case, largely by importers and exporters of container traffic.

**Operating Expenditure:**

**Labour Costs:** The explanation for the 15% (R282m) increase in labour costs does not include a cost breakdown of remuneration, separating annual salary adjustments from new and planned increases in head count. Considering the low volume forecasts as noted above and the 2014 half year actual volumes which show a decline from the already low 2013 level we believe the planned increases in head count need to be reviewed.

**Pre Feasibility Studies**: The very substantial budgeted increase in this item is noted along with the explanation. We note that there is no comment on the studies undertaken at the Durban old airport site which may have been considerable and presumably are ongoing. We question if any future costs for this work are included in the current application and if so whether the Regulator believes this is appropriate considering the decision on the capital expenditure so far incurred.

**Record of Decision (ROD):**

Many port users experienced considerable difficulties with the late release of the ROD for the current financial year. To avoid a repeat we would request that future ROD's are made available by mid February of the preceding financial year.

**Incorporation of the Authority:**

For some considerable time the Association has questioned the strategy which requires that the Authority be placed in the Transnet Group as a Division rather than, at the least, a separate incorporated structure as was required in the National Ports Act 12 of 2005. Chapter 2 Paragraph 3 (2) of the Act reads: "*As soon as this Act takes effect the Shareholding Minister **must** ensure that the necessary steps are taken for the incorporation of the National Ports Authority of South Africa as a company"*

Clearly the intention was to ensure some separation of the Authority from Transnet to allow for more direct control over cash resources, greater accuracy in arriving at costs and consequently tariffs, and to enable the oversight of port users, as required in Chapter 3 of the same Act, to proceed at arms length particularly where other divisions of Transnet are concerned. We encourage the Regulator to request the Minister to move toward acting on the requirements of the relevant sections of the Act so as to provide the Authority with a greater degree of financial and management independence.

**Submission Conclusion:**

As a business Association representing the freight forwarding and customs broking industry it is not within SAAFF's mandate or capacity to interrogate our members or their clients cost structures or how specific changes to tariffs or pricing will impact on them. As a result we have focused all previous submissions to the Regulator on the broad impact of the Authorities costing on the South African economy and believe we have done so on this occasion.

We are confident that, as in the past, the Regulator will ensure that tariff increases stay within the current inflation environment and do not negatively impact on the economy or act as a constraint on South Africa's global trade.

D.H.Watts,
Consultant, Maritime Affairs,
South African Association of Freight Forwarders

**Annexure 1**

# THE SOUTH AFRICAN FORWARDING AND CLEARING INDUSTRY

The Forwarding and Clearing Industry (F&C) comprises economic and supply chain management activities that relate to all imports and exports of goods entering or leaving South Africa as well as those transiting this country.

The Industry serves as an input to nearly every industry in the national economy as well as many of those on the African continent.

The industry utilises all modes of transport involved in the carriage of cargo, be it ocean, air, rail or road. It is also a service provider of transport services, warehousing, customs licensed depots and the associated management of customs brokerage, shipment tracking, costing and accounting data.

It is estimated that the global F & C industry handles around 75% of general cargo moving between all continents. The statistic for South Africa will be equal to that if not higher.

One of the most critical areas of service provided globally by freight forwarders is the provision and management of through-transport to import, export and transit clients. As more and more companies turn to outsourcing their non-core activities the role of forwarders in providing over-arching supply chain services becomes increasingly critical to both national and international economic development.

The F&C Industry is critical to the ongoing performance of South Africa as an international trading nation. Its activities facilitate all forms of physical trade. Though there are many areas of commerce and industry essential to the long-term performance of the economy however, there are few more crucial than the F & C industry.

The Industry is populated by both large companies with substantial resources and associated international networks and smaller operations, the majority of whom operate with less than 50 employees but constitute approximately 80% of total industry participants.

Annexure 2

# THE SOUTH AFRICAN ASSOCIATION OF FREIGHT FORWARDERS

The South African Association of Freight Forwarders (SAAFF) is the sole Forwarding industry representative body in South Africa. It was formed in 1921 to further the interests of all Freight Forwarders and Customs Brokers. Throughout the years it has continued to represent the interests of members in every aspect of trade, transportation, customs and other areas where industry concerns are affected.

Today SAAFF is a modern and vibrant organisation representing over 300 firms. Membership, including regional branches of national organisations, totals in excess of 350 entities. Membership includes not only large international companies but also a substantial majority of small and medium enterprises, with an increasing number of those being empowered.

SAAFF liaises closely with government departments such as South Africa Revenue Services (SARS), the Departments of Transport, Trade and Industry and state owned utility companies such as all the divisions of Transnet.

The Association retains relationships with organised industry in all transport and trade related areas. In every case the purpose is to ensure that the interests of Freight Forwarders and their import and export clients are adequately represented and that whatever measures are contemplated or introduced are fair and reasonable and in the interests of facilitating South Africa's trade both import and export.

The Association also addresses Industry issues with private sector service suppliers such as shipping lines, airlines and their local, national and international forums.

SAAFF is the South African representative and member of the "International Federation of Freight Forwarders Associations" (FIATA). Based in Switzerland FIATA is the non-governmental organisation representing the Forwarding industry worldwide covering approximately 40,000 forwarding and logistics entities employing around 8-10 million people in 150 countries.