THE SOUTH AFRICAN ASSOCIATION OF FREIGHT FORWARDERS

12 Skeen Boulevard Bedfordview
Republic of South Africa
Tel: (011) 455 1726/1707
Fax: (011) 455 1709

P O Box 2510 Bedfordview 2008
Republic of South Africa
saaff@saaff.org.za

Submission to the National Ports Regulator

SUBJECT: TRANSNET NATIONAL PORT AUTHORITY

TARIFF APPLICATION 2014 / 2015 FINANCIAL YEAR

PREAMBLE:

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

The submission seeks to bring to the Regulator's attention areas in the application, particularly the rationale for the level of tariff increase, that the Association believes, if granted, will have negative consequences for importers, exporters, international trade, economic development and employment potential.

Included with this submission are four 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:

Annexure 3:

An assessment of annual volumes using the Authority's figures for the six months ending 30th September 2013

Annexure 4:

An assessment of forecast volumes and revenue utilising the figures in Annexure 3

STRUCTURE OF SUBMISSION:

As the Authority's application does not include a schedule of tariffs for the various activities it undertakes, this submission will focus on the actual percentage increase indicated and certain other matters.

In the Record of Decision (ROD) covering the Authority's tariff application for the year 2012/13 the Regulator accepted the general methodology and revenue requirement calculation used in that application. As the tariff methodology has yet to be finalised and in view of the Regulator's acceptance of the revenue calculation this submission will address the Authority's volume and operational cost forecasts.

In Paragraph 5.6 of the ROD for the year 2012/13 the Regulator indicated a "low level of confidence" in the Regulated Asset Base (RAB) and has commenced a process to assess the accuracy of the valuations. The Association, which also has concerns regarding the RAB, supports these efforts and requests that the Regulator ensures that only assets directly attributable to the Authority be included in the RAB and that the actual value of such assets is verified.

For a submission from port users and port stakeholders to ultimately have value the planned tariff and breakdown of service charges and cargo dues rates have to be available to enable stakeholders to comment prior to the Regulator finalising its decision. We trust that once the Regulator provides the Authority with guidelines on an amended tariff book stakeholders will again be given the opportunity to make constructive submissions.

SUBMISSION:

1) **Cargo Volume Growth Forecast:**

Basis for calculating actual volumes:

The Association understands that when preparing the annual application for tariff adjustment the Authority has little choice but to use budgeted volume figures for the current year as a guide for forecasting volumes in the following period. Clearly when actual volume statistics become available, which is the case when port users are asked to comment, assessing future growth becomes a more precise exercise. The Authority has provided via the Regulators web site actual volume statistics for the six months September 30th 2013. It is now apparent that the increase in traffic through all ports is ahead of budget and well ahead of the same period in financial 2012.

Annexure 3, prepared by the Association using the volume statistics provided by the Authority show that volumes having generally decreased in 2012, increased substantially this year in all but two areas; chemicals "other" and vehicle exports. The latter most likely affected by the automotive industrial action mid-year. What is very noticeable is the increase in high revenue traffic such as full container imports which are 27% above the same period in 2012.

<u>The information provided in the actual half year volume schedules provided by the Authority and posted on the Regulator's web site concerning vehicle imports for the period April – September 2012 is incorrect at 101874 units. The port of Durban alone recorded 138446 units during the period to August. The figure for 2013 appears to be correct.</u>

Annexure 4 utilises the figures provided for first half 2013 and extrapolates them over a full year using a factor of 2 in all cargo areas except transhipment, vehicle exports and liquid bulk where notes comment on the different assumptions. The Association believes that using the actual 2013 half year and assuming a doubling by year end is a more accurate forecast guide than utilising budget as a base. What becomes apparent is that in all cases barring vehicle exports, break bulk exports and liquid bulk the Association's forecast for actual volumes 2013 /14 will materially exceed the Authority's forecast for 2014/15.

In the same document, utilising the Authority's own per unit revenue base the Association calculates that forecast cargo dues revenue for 2013/14 should reach R6,086 billion versus the Authorities R5,883 billion, an increase of R202 million.

Forecast for 2014/2015 volume levels:

Section 6.3 of the Authority's application outlines the many local and global influences both trade and economic which impact on volume growth. The global economy has been showing signs of improved performance, apart from other indications the reported cargo volume increases we are seeing in 2013 certainly indicate growing demand and improved global trade performance.

The United States continues on a recovery path with increased consumer demand whilst China's GDP growth though not at previous high levels exceeds 7%. These developments alone indicate an increased demand for South African exports. Africa is also experiencing healthy growth which will continue to feed export and transhipment traffic expansion. Higher demand for our exports also means greater import volumes as manufacturers and suppliers feed this local and export demand.

The Association has carefully considered both the Authority's rationale for the forecast growth rate of 3.5% and considering its own analysis of the actual figures for 2012/2013,our opinion for ongoing economic and trade growth is that a growth rate of a minimum of 5% is more appropriate and has every chance of being reached. Taking this into account and utilising the information provided in Annexure 3 and 4 we table the following marine revenue graph and potential tariff adjustment.

Marine Revenue	With ETIMC contribution	Excluding ETIMC contribution
Latest Estimated Revenue FY 2013/14	7462	7462
Plus submission adjustment	203	203
New Estimated revenue	7665	7665
Plus 5 % Forecast Volume Growth	383	383
Forecast Revenue	8048	8048
Required Marine Revenue	8834	8834
Less ETIMC	-454	
	8380	8834
Tariff increase	4,12%	9,76%

The Regulator will note that a column excluding the recommended ETIMC contribution has been added reducing the Authority's full increase requested from 14.39% to 9.76%. The Association believes that the need to keep port and overall logistics costs to a level below that of the CPI is critical to the performance of the economy and therefore the contribution of R454 million from the ETIMC should be made bringing the recommend tariff increase to 4,12%. It should be noted that this recalculation of volumes and related revenue does not take into account any possible reductions in the in the quantum or value of the RAB or adjustments to the budgeted operational expenses

2) **Operating Expenditure:**

The 5.7% proposed increase in the Authority's operating expenditure budget for 2014/15, excluding group costs, would appear to be in an acceptable range. However a closer examination of these costs over recent years indicates that control of operating expenditure has not been a priority of Authority management in the past. The 2011/12 actual, excluding group costs was R2,505 billion the forecast for 2014/15 at R3,738 billion is an increase of marginally less than 50% over the four year period. We believe the Regulator should require that the Authority's management is incentivised to keep manageable costs under the South Africa's inflation rate.

The Association has difficulty with the analysis of sundry costs appearing on Annexure C of the application.

In the third line of the schedule "Intra cc recoveries (positive)" appear as a negative. We assume that recoveries should reduce the overall cost of sundry expenses and not increase them. We ask the Regulator to obtain clarity on this. Further to this we question whether it is appropriate to include substantial revenue and recovery items in sundry costs. The amounts forecast for 2014/15 total R568 million, excluding the aforementioned recovery. This has the effect of reducing apparent overall costs by a material amount and distorting the Authority's cost structure.

3) **Regulated Asset Base:**

In Paragraph 5.6 of the ROD for the year 2012/13 the Regulator indicated a "low level of confidence" in the Regulated Asset Base (RAB) and has commenced a process to assess the accuracy of the valuations. The Association supports these efforts and requests that the

Regulator ensures that only assets directly attributable to the Authority be included in the RAB and that the valuations are accurate.

4) **Transhipments:**

The Association's submission on the tariff application for the year 2013/14 the following comments were made on the matter of container transhipment cargo dues:

"The Association accepts that overall port costs for transhipment containers must be set at a level which matches those available in foreign ports in our region and does not discourage carriers to by-pass our ports. Assuming that offering a considerably reduced cost on transhipment containers ensures carriers do in fact service our ports it is logical to conclude that terminals are a material beneficiary of this traffic and should provide at least a portion of the discount. The current policy with the Authority being the only provider of low cost service effectively means that other port users, including this Association's clients, are carrying a substantial and unreasonable added cost burden. We would ask that the Regulator addresses this anomaly with the Authority and that at least a portion of the discounted cost is born by terminal operators".

The Association believes that the Authority's sister company Transnet Port Terminal's push for increased transhipment traffic particularly through the port of Ngqura is the correct policy for the operator and that increasing through-put at that port should remain a priority. However the fact that the 2013/14 cargo dues tariff for a dual leg move of a transhipment box is some 92% lower than the equivalent combined rate for import/export containers it is clear that the "user pays" principal does not apply here and that South African importers and exporters are effectively paying for the infrastructure at Ngqura.

We again point out that if increasing transhipment traffic is an appropriate business policy for terminal operators then they should carry an increased share of the cost of the infrastructure they use. In support of this, we would point out that at current levels, cargo dues in themselves are not a significant cost to vessels performing transhipments. On the other hand terminal and marine charges are highly significant, and we believe that serious attention should be paid to modifying these tariffs so as to secure existing transhipment business and attract new business.

5) Ports Regulators Record of Decision 2013 / 2014

The Association reminds the Regulator of its comments regarding the Port Consultative Committees in the most recent ROD which were;

"......however, the level of engagement at PCC and NPCC level has not delivered the requirements of stringent assessment of the capex programme. This is not due to any particular fault of the NPA, but more related to the way in which they have been responded to. If this platform fails to deliver the kind of robust engagement that the Regulator requires a clear set of parameters and process would need to be set out in the regulatory manual to assist with compliance on this issue."

The Association's supports the Regulator in this matter but points out that postponement or cancellation of meetings particularly those of the NPCC which have been a regular feature of this process for some year's leaves industry participants sceptical of the commitment to the meetings by the relevant Ministries. The Ports Act requires that the NPCC meets on a quarterly basis and to the best of our knowledge, this has never happened. Delegates to the NPCC are tasked with elevating matters raised at the regional PCC's, and have clearly been unable to do so.

6) Submission Conclusion:

This document is the Association's fifth consecutive submission to the Regulator on the annual tariff adjustment applications made by Transnet National Port Authority. Once again we comment that the requested increase is in excess of that which the Authority's own figures indicate is necessary to enable it to fulfil the requirements laid out in the National Ports Act.

The current quantum of the ETIMC at well over R 2 billion indicates that regardless of the Regulator's efforts to restrain this country's port costs over recent years the Authority has consistently realised excessive revenue and surpluses which directly impact on South Africa's international competitiveness. Among these surpluses is some R 125 million of the rebate granted in the 2012/13 financial year which remains unallocated, we would appreciate clarity in this regard

We trust that once again the Regulator will ensure that any overall increase granted does not place South Africa's trade under further competitive pressure.

D.H.Watts,

Consultant, Maritime Affairs,

South African Association of Freight Forwarders