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Submission to the National Ports Regulator

SUBJECT: TRANSNET NATIONAL PORT AUTHORITY

TARIFF METHODOLOGY AND PRICING STRATEGY

PREAMBLE:

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

The documents interrogated are:

- Position Paper on Tariff Methodology for the Setting of Tariff by the Port Regulator (First Edition)
- Transnet National Port Authorities Proposal for a New Tariff Structure.
- Transnet National Port Authority Road Show Presentation on Pricing Strategy 4-7 March 2013

Previous submissions to the Ports Regulator on National Ports Authority tariff applications included annexure providing short descriptions of the Freight Forwarding Industry and established SAAFF as the sole voice of organised Forwarding in South Africa. It is not considered necessary to again include these documents with this submission.

SUBMISSION:

1) Tariff Methodology:

The Tariff Methodology outlined in the document under review is largely identical to that in the Authority's application for the 2013/2014 financial year.
The Regulatory Asset Base (RAB), Weighted Average Cost of Capital calculation (WACC), Beta, Tax Treatment and other relevant calculations were addressed in depth by this Association and various other stakeholders in submissions made to the Regulator in response to that application.
Along with that submitted by SAAFF we refer specifically to those submitted by the South African Association of Ship Owners and Agents (SAASOA), Safmarine / Maersk and the National Ports Consultative Committee, all of which identified material elements in the application which inflated the Authorities revenue requirement.
This Association makes no further submission on the Tariff Methodology beyond referring the Regulator to past submissions which address shortcomings in the Authorities calculations of cost and consequent need for higher than necessary tariff increases.

<u>Multi Year Tariff Application Approach:</u>

The Association supports the notion that Tariffs be fixed for a period extending beyond one year, this will be to the benefit of all port users who will be able to plan for future trade and investment in the knowledge that unsupportable increases will not occur. The Association understands that this will also be of real benefit to the Authority not only in terms of revenue certainty but also release resources currently invested in annual tariff applications. However the Association has real concerns; it was clear from the Authorities tariff application for 2013/14 that the intention is to fix annual increases above the consumer price index and to roll such increases forward to 2018/19. (Page 46 Table 29 and text of the NPA's 2013/14 tariff application) If this is indeed the intention, the Association finds this completely unsupportable.

In documentation supporting past tariff applications the Authority mentions;
"Transnet's commitment to reducing the cost of doing business in South Africa".
The Association questions whether this "commitment" is in fact genuine if the Authority believes it is fulfilled by tabling future annual increases over a five year period of 3% above inflation!

Our concerns regarding the approach toward cost reduction are supported when past applications and the Regulators responses thereto are examined it is clear that the Authority has consistently applied for considerably higher increases than were granted or indeed were required as evidenced by the levels of claw back applied by the Regulator during the last three years.

The Association believes there has been little real intention to address the wider area of logistics costs in South Africa which are recognised in a variety of research as being in excess of global norms: (see 8th State of Logistics Survey at www.csir.co.za/sol). Though the Authority's tariffs are not the sole cause of South Africa's high logistics costs, the Regulator's past decisions have signalled to industry stakeholders that unsupported tariff increases in the ocean supply chain have over many years severely impacted on this country's trade competitiveness and consequent economic growth.

4) Proposed new tariff structure:

This element of the Association's submission confines itself to areas of the proposal which if implemented will directly impact on the Freight Forwarding Industry and its clients. All paragraph and figure references refer to the undated document entitled "TNPA Proposal for a new tariff structure" released by the Regulator at the time of the March road show.

Current Tariff Structure:

The observations in Paragraph 1.3 of the Authority's proposal concerning the shortcomings in the current tariff are supported by the Association. Of resonance are; the lack of transparency, clarity and pricing equity, subsidisation of one area of activity at the expense of another, the high level of cargo dues compared to other income streams, the low level of rental income and maritime service costs.

There is a realisation that virtually all port costs are ultimately for the account of cargo owners whether through increased ocean freight rates due to marine pricing, terminal handling costs due to rental increases or changes in cargo dues, nevertheless it is important that costs are reflective of the actual level of infrastructure and service used. The Association supports any effort to allocate all port costs in a more relevant manner on the basis of use.

Input from Stakeholders:

The stakeholder feedback outlined in Paragraph 5.1 Figure 2 mirrors the feedback this Association receives from its members and their clients. Serious shortcomings in Terminal efficiencies and unsupportable pricing conflicts are a prime source of complaint.

Comparison of cargo dues:

The statistics apparent from Figure 6 under paragraph 5.3.3 support the position taken by many port users that the long history of wharfage and subsequently cargo dues financing a bloated port administration and other areas of uneconomic state owned transport infrastructure continues. The impact on the country's trade development over decades is impossible to determine. Every effort by the Regulator and the Authority's management to reduce this burden on ocean trade is fully supported.

Port costs in relation to total industry costs:

Figure 9 Paragraph 5.4 using a reefer product concludes that NPA charges per pallet of fruit are marginal in comparison with overall logistics costs and some 20% of THC charges. Though it admits that port costs have a "significant impact" on producer revenue the use of cold chain products for comparison purposes is somewhat disingenuous. A more appropriate comparison would be between a standard TEU imported and exported. Using 2012/13 tariffs we arrive at a different conclusion:

Import 6m		Export 6m
THC	1159	1159
Cargo Dues	2177	1081 (excludes rebate)

We have excluded the rebate as it was a once off discount. The conclusion is that Import Cargo Dues are slightly less than double THC whilst export dues are the same, and we submit that this has been the case since the development of containerisation in this country.

Proposed asset allocation to user groups:

Figure 10 through 12, Paragraph 6.1.1 explains the transfer of asset cost from one port user to another. Specifically the wet infrastructure which the Authority believes should fall to shipping lines but due to the impact of high capital investment and consequent increase in costs raised on carriers this is transferred to cargo owners via cargo dues. The Association is of the opinion that carriers should bear the reasonable cost of the facilities they utilise and that such cost should be in line with international benchmarks. Ultimately we cannot see that “subsidising” carriers will be of any benefit to cargo owners or the South African Economy. It also flies in the face of the “user pays” principle.

The reallocation of a large portion of dry infrastructure assets from cargo owners to tenants appears to be a more justifiable apportionment though this Association is of the opinion that this will simply result in such increase cost cascading back to cargo owners via increased terminal charges. At the same time, it is also possible that tariff levels within the major terminal operator (Transnet Port Terminals), into which we do not have any insight, have been unrealistically high, and this might work to the advantage of cargo owners if future tariff increases from that company are reined in, as they appear to have been to some extent in the 2013/14 tariff.

Proposed Required Revenue by port user group:

Paragraphs 6.1.Page 23 explains that cargo owners directly bear the brunt (61%) of port charges through cargo dues. The assumption made is that by reducing this load to 46% and increasing tenants from 19% to 33% will result in terminal operators paying substantially higher rental costs and therefore motivate them to improve efficiencies and hold down pass-on cost to cargo owners.

The Association accepts that tenants should pay market orientated rentals and that such reflect the added value of port land and infrastructure. We are however not convinced that increased rental will necessarily lead to greater efficiency. The Authority draws attention to the probability that the planned increase in rental income, 77%, will eventually fall to the account of cargo owners, changing the status quo only marginally. Unless the Authority uses its oversight role over all Terminal operators (including those in the Transnet stable) to hold down handling charges then the proposed changes will have little or no impact as far as the ultimate end users (cargo owners) are concerned..

Implications and impact of the new tariff structure:

Paragraph 7.2.2 Figure 14 demonstrates the planned changes in overall revenue which the proposal will bring about, if implemented. The Association believes that since the introduction of containerisation some 35 years ago container tariffs via wharfage and subsequently cargo dues have subsidised all other port development and services to the detriment of South Africa’s trade performance. The Association supports any move to bring about an equitable balance in cost and revenue distribution.

However figure 15 supports the fears this Association has that changes in the allocation of costs to carriers and terminals will eventually fall to cargo owners accounts.

It is repeated that only by the Authority using its powers to ensure terminal charges are not unduly increased will these changes have a real and overall benefit to the economy. It has also been pointed out that there is a suspicion that over-recoveries within the port system have been utilised to subsidise other areas of Transnet's business, notably Transnet Freight Rail. The regulator has stated correctly that some level of cross-subsidisation may be justifiable, but we do not believe that supporting an underperforming rail system can be justified in this manner.

Proposed cargo dues tariff and structure:

The Association supports any move which addresses the uncoordinated structure of cargo dues tariffs presently in place. A reduction in the number of separate tariff items, merging of the same and similar categories of traffic and appropriate rates depending on handling type are all long overdue.

The proposal for a base rate per cargo handling type is logical and has the Association's support.

Using the number of vessel calls as a yardstick for assessing the proportion of cargo dues per handling type is debatable, with the possibility that cargo volume might be a more appropriate method. The Association does not express an opinion on this, but simply raises it as a point for more detailed investigation..

From figures 28 and 29 page 37 it is clear that the impact of the proposed changes will be considerable, negatively on dry bulk and a positively on containers. Whether a near doubling of dry bulk handling costs is appropriate or acceptable is a matter for those industries most directly concerned to address.

Cargo dues tariff design,

Paragraph 7.4.2 and figure 30 makes major proposals which will have an impact on the economy of this country and its trade performance. These proposals need to be interrogated in depth to ensure they do not have the opposite effect of that intended.

Though there has been a history of import cargo dues exceeding those levied on exports, the proposed changes go well beyond what has been the case in the past.

It is accepted that encouraging exports, particularly beneficiated products, is a national imperative as economic development and job creation are critical to the future of this country.

The Association does not have issues with plans to reduce export logistics costs, however it is clear that the intention in this proposal is to subsidise exports at the cost of imports. An imperative which is of critical concern to the nation as a whole is loaded on the shoulders of a narrow group, namely importers and users of imported goods. Some of these are for local consumption but a number of them are used in the production of the very exports which the proposal attempts to encourage.

The Association believes that support for export in the form of logistics subsidies should be financed by the national fiscus and not by importers only. It is also understood that higher charges on imports may go some way towards addressing the country's pressing balance of payments problem, but cargo dues as a percentage of landed cost are generally quite insignificant. Normal market forces (such as recent developments in foreign exchange markets) are more likely to achieve this object.

Beneficiation Promotion Programme:

Notwithstanding comments in the previous paragraph the Association has both strategic and practical concerns over the intention to encourage beneficiated exports via the proposal captured in paragraph 7.4.3.

With the exception of fully built up vehicles the bulk of beneficiated products, particularly those listed in Stages 3 & 4, of the DTI beneficiation framework will be exported in containers. These are products which require substantial local manufacture and are the most beneficial to the economy in terms of employment and GDP. It is reasonable to assume that the bulk of full exported containers are loaded with beneficiated product of one sort or another. The Association believes that as far as containers are concerned any cargo dues relief given should be across the board and not differentiated between products. Though there will be some less processed products receiving the benefit, overall the impact will be beneficial.

Other concerns are the practicality of the process, with both exporters and the Authority attempting to identify accurately which products fall under which Stage, the difficulty the Authority will have in recognising whether product declarations are accurate and the administrative burden on an already overloaded system. The Association firmly believes this proposal should be reviewed and a simple straightforward system to enable exporters of beneficiated products to enjoy lower rates be implemented.

Motor vehicles classification:

The Association is of the opinion that a change in the archaic classification of vehicle tonnage is long overdue and has in the past pressed for such a change, the proposals in Paragraph 7.4.4 are supported.

Proposed terminal operator lease management agreement:

As this Association is not a representative body of terminal operators or lease holders it will restrict comments to the possible impact of increased rental on our members and clients. The Authority believes that one result of increased rental will be that operators will perforce, improve efficiency.
This may be the case but whether any such improvement will mean that increased handling charges will not occur is in this Association's opinion highly unlikely and that once again cargo owners will bear the brunt of increased costs whether through handling charges or via cargo dues.

Conclusion:

Regardless of the opinions expressed in this document the South African Association of Freight Forwarders supports the efforts of the National Port Authority and the Port Regulator to modernise and simplify the tariff methodology and pricing strategy and ensure a fair distribution of port costs to all users.

The Association encourages the NPA to increase its efforts to improve terminal and overall port user efficiency in terms of its legislated mandate.

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