Date: 31 MAY 2013

SOUTH AFRICAN SHIPPERS COUNCIL SUBMISSION

1. Introduction

The TNPA presented its Tariff Road Show in the week of 4 to 7 March 2013. This was aimed at informing its stakeholders how they plan on basing their future tariffs charges at the Ports.

The primary aim of the presentation was to review the current **tariff methodology** to ensure that overall port charges are set at the right level to allow the organization to perform its functions efficiently without overburdening port users. The Authority propose new **pricing strategy** that will support government policies and aligning with international norms and standards.

The Authority also proposes a **beneficiation promotion programme** to encourage export of beneficiated goods.

The SASC will look into all these proposals and indicate its position in terms of these going forward. The SASC will also make its proposed solutions amid the challenges facing the port users.

2. Tariff Methodology

Tariff methodology assist in the application of the regulatory framework to determine revenue for the Authority which is fair and reasonable and should also be in compliant with the Ports Act and Directives.

2.1 Revenue Requirement

TNPA proposes to retain the Revenue Requirement tariff methodology for future (Page 6 of presentation)

TNPA did not pay for the ports infrastructure, they got it free and were just mandated to manage, control and administer. In fact the ports infrastructure belongs to the nation and therefore must be managed to serve the welfare of the nation without generating huge profit out of its operations.

The SASC is opposed to Revenue Requirement tariff methodology and propose institutional change in TNPA to become a **corporatised** institution which will allow it to operate on commercial grounds. The corporate model can provide financial security, institutional autonomy, flexibility, governance and can improve efficiencies and reduce costs. This model has proved to be effective in most countries around the world.

Operating cost is also high without regard to embarking of operations that would enhance continuous improvement and give incentive to users of Port infrastructure.

2.2 Beta value as determinant

TNPA uses "comparator approach" for estimating its beta as it is not possible to estimate beta from trading data. The Authority used the top 40 JSE companies to acquire a good proxy in order to determine an appropriate asset beta (page 12). The 40 companies still does not articulate substantial argument in determining the appropriateness of the selection as proxies due to uniqueness of the Authority operating environment.

In the absence of good proxy SASC object **beta principle** and feels the beta should be set at **0.5** due to lack of risk or there should be **no beta** at all as the government serve as collateral when the authority obtains loans from financial institutions. Again, the "**claw back**" mechanism is available for under/over recovery neutralization.

Expenses forecast (page 13) is based on an estimates and the fact that the Authority never under recover for sometimes suggest forecast is over inflated and resultant in high tariff for port users. The SASC propose that only those projects that are profitable be included in the expense forecast in order set the expenses at realistic levels.

2.3 Multi-year tariff approach.

The Authority proposes to adopt multi-year tariff approach from 2014/15 to 2018/19 as it executes the Market Demand Strategy (page 19).

In terms of Port Act 12 of 2005 72 (1) (a) stipulates that the Authority must, with the approval of the Ports Regulator, determine tariffs for services and facilities offered by the Authority and **annually** publish a tariff book containing those tariffs.

The SASC appeal to the Port Regulator to oppose multi-year tariff approach as this change will prolong “claw back” mechanism intervention and in the process port users will be facing high tariff cost. Ports users still need **“claw back”** relief annually to be competitive.

3. Pricing Strategy

Pricing strategy boils down to one core question: “What port user is responsible for what assets and costs” (page 12).

There are three role players in this game, namely **cargo owners**, **tenants** and **shipping lines**.

According to current tariff structure cargo owners are responsible for 61%, shipping lines 20% and tenants 19% of the costs. The proposed tariff structure results in redistribution of charges across port users (page 13), cargo owners 46%, tenants 33% and shipping lines 21% of the costs.

What is the rationale for deciding on this split? According to operational environment principle cargo owners must be responsible for dry infrastructure and shipping lines wet infrastructure. The shipping lines cost went up by only 1 percent which is a big concern for SASC.

The SASC propose for **equitable distribution** of costs to level the playing field. The tenants (TPT) must be **deterred** from transferring the cost to the cargo owners or tenants must be placed under the same regulatory framework to impede it from gaining unfair advantage in the redistribution of costs. KPI’s must be implemented in order to ensure Vessels are turned within allocated time to improve efficiencies

3.1 Beneficiation Promotion Programme

The introduction of Beneficiation Promotion Program is aimed at aligning the Authority infrastructure with national priorities, namely promotion of Government Industrial Policy (page 26).

The primary objective of this program is to encourage the export of beneficiated goods.

The beneficiation promotion creates disparity in terms of industries that will benefit from this program. The SASC would like to see TNPA conducting individual industry or sector consultation process to explain the rationale of beneficiation discrimination.

4. Conclusion

- The SASC is opposed to Revenue Requirement and is in favor of Corporatisation of TNPA.
- The SASC propose that Beta value principle must not be applied or be kept at 0.5 as it lacks grounds for justification.
- The SASC is opposed to multi-year tariff approach for it takes away the benefit of claw back mechanism.
- The SASC is in favor of equitable distribution of costs among port users.
- The SASC is in favor of BPP, but still seek clarity on the discount disparity.
- An attempt by the authority to align costs with rest of the world is acknowledged and appreciated and this will provide a good platform to compete globally.