



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

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SOUTH AFRICAN SHIPPERS COUNCIL SUBMISSION

1. Introduction

The TNPA presentation focused on two main issues, namely **tariff methodology** and **pricing strategy**. The main objective of the presentation was to convince the market that TNPA's chosen tariff methodology and pricing strategy are appropriate. The primary aim of the presentation was to review the current **tariff methodology** to ensure that overall port charges are set at a level that will allow the organization to perform its functions efficiently without overburdening port users. In tandem with this, the Authority proposes a new **pricing strategy** that is aimed at supporting government policies and aligning with international norms and standards.

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

The SASC will examine these proposals and indicate its position in terms of appropriateness while making constructive critical comments on the way forward.

2. Tariff Methodology

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

2.1 Revenue Requirement

TNPA proposes to **retain the Revenue Requirement** tariff methodology in future tariff applications. (Page 23 of presentation).

TNPA did not initially pay for the infrastructure in our ports, they were effectively given it at no charge, with a got mandate to own, manage, control and administer the assets so as to ensure their efficiency and effectiveness. We therefore regard the ports infrastructure as a national asset which should be managed to serve the welfare of the nation without generating huge profits out of port operations. The 14.3% revenue increase generated by Transnet group in six months to September 30 2013 to R28.5b suggests that Transnet is doing extremely well, even in the current economic turmoil while other businesses are in a survival mode.

2.2 RAB

The regulatory asset base is determined through the DORC method. The fact that the assetbase has not been cleaned out, has led to a steep increase in asset values. The revaluation of TNPA's asset base from 2005 to 2009 resulted in a capital value that has more than doubled, which bears out the low level of confidence in this figure which has previously been expressed by the Regulator.



2.3 CAPEX Requirement

The capital expenditure projections should be accompanied by adequate information to determine the impact each individual project will have in terms of throughput, efficiency, pricing and revenue. A clear exposition of the detailed information supporting the market demand case for capital projects is required. It is believed that cross subsidization of Transnet divisions inflates cost in one area which could have been absorbed by the relevant division that actually uses and provides the service. For example, the cost of sleepers complying with Rail Safety Regulations should be incurred by Transnet Freight Rail as it is the user of that particular infrastructure. The meetings in which each PCC approves capex must have a quorum in order to legitimize the decision taken in that forum. We have some doubts as to whether all such decisions have been taken by properly constituted meetings and this will be scrutinized closely in future to ensure that the proper protocols are being followed.

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 proper integration of the flow of goods and services.

2.4 Labour Costs

Labour costs are increasingly becoming exorbitant due to excessive bonuses that are being paid to Transnet executives. We would require Transnet to lead by example by tightening their belts in a tough economic environment in order to set a standard that will encourage labour unions to moderate their demands. This should assist in mitigating the prevailing climate of labour unrest that is evident in South Africa at the moment, which in turn constitutes a strong deterrent to Foreign Direct Investments into the country. However, we appreciate and support training and development of personnel to ensure they are better equipped and to develop the necessary skills that will enable Transnet to improve productivity in delivering its mandate of creating supply ahead of demand.

3. Pricing Strategy

Pricing strategy boils down to one core question: "What port user is responsible for what assets and costs? The pricing strategy should be sustainable, comprehensive, competitive, compliant and implementable.

There are three role players in this scenario, namely **cargo owners, tenants** and **shipping lines** (Page 39 of presentation). Individual tariffs are set to meet Required Revenue at expected volumes (page 38). This implies that volume is a key determinant of required revenue and therefore the higher the volume the more revenue is generated. This therefore means TNPA should provide an enabling environment to incentivise industries to produce volume and thereby to increasing profitability while at the same time limiting the requirement for price increases. It is instructive to note that the current application is based on an anticipated increase of 3.5% in volumes, whereas all indications (and particularly the figures for April-September 2013) are that volumes will increase at a substantially higher rate. Setting the right rates for goods and services that go through TNPA facilities will encourage more investments



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and provide a competitive landscape to produce more volume and more jobs will be created.

Prices of our major commodities are determined by global trends, so that our industries must compete with products from other countries in the same global market. For example, RSA BMW, VW and Ford cars have to have the ability to compete with BMW, VW and Ford that are manufactured in the rest of the world in terms of price, regardless of their origin.

As the TNPA tariffs are currently structured, cargo owners are responsible for **61%**, shipping lines **20%** and tenants **19%** of TNPA's revenue.

The split does not position port users at an advantage as this effectively means cross subsidization. NPA does not have a mandate to dictate what is taking place in the TPT environment except as a matter of principle to pursue a lower cost of doing business which is not enforceable. It should also be recognized that any shift in the way tariffs are levied will not really assist cargo owners, because any increases levied on tenants and shipping lines will inevitably be passed on to cargo owners. It is the overall quantum of charges which is the challenge, and not the way in which they are allocated.

Alternatively, we could suggest that TPT should operate as an autonomous entity from the Transnet group as the monopoly Transnet enjoys makes it difficult to deal with its divisions separately. KPI's should be implemented in order to ensure that vessels are turned within specified times to improve efficiencies.

4. Beneficiation Promotion Programme

The introduction of a Beneficiation Promotion Programme is aimed at aligning TNPA'S tariff structure with national priorities, namely promotion of Government Industrial Policy.

The primary objective of this programme is to encourage the export of beneficiated goods. The beneficiation promotion creates disparity in terms of industries that will benefit from it. The SASC would like to see TNPA conducting a process of consultation with individual industries or sectors to explain the rationale behind beneficiation discrimination. The **import** of goods that **are not available** or available in limited quantity in the country should be **exempted** from the "penalty" imposed on imported goods. We all agree with the need to support local content but where a commodity is not available consideration should be given to facilitating the entry of such goods into South Africa to allow for the manufacture of beneficiated products that will boost exports.

Furthermore, bearing in mind that the various industries have done much research already in terms of beneficiation, we request that the industry through its forums such as SASC be involved and assist in the determination of the different stages of beneficiation.



5. Conclusion

In view of the above discussions, the following points are made in conclusion:

- The SASC proposes that the regulatory asset base should be cleaned out and independently valued to avoid inflating the asset value.
- The SASC proposes that projects with strong business cases need to be given priority for implementation.
- The SASC recommends that labour costs must be contained during tough economic times.
- The SASC proposes that the Transnet National Ports Authority and Transnet Port Terminals should not fall under the same Transnet group, and TPT should operate as an autonomous institution from the Transnet group.
- The SASC is in favor of Beneficiation Promotion to create business opportunities downstream.
- The SASC proposes that imports of goods not available in South African should be exempted from higher tariffs imposed on imported goods.

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