THE SOUTH AFRICAN ASSOCIATION OF FREIGHT FORWARDERS

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Submission to the National Ports Regulator

SUBJECT: TARIFF STRATEGY FOR THE SOUTH AFRICAN PORT SYSTEM

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 draft strategy document with which the Association has concerns and alternatively where the Association supports the proposals.

In all past submissions to the Regulator the Association has included annexures which provide a description of the global Freight Forwarding Industry and established SAAFF as the voice of Freight Forwarding in South Africa. This and any future submissions to the Regulator will not include such annexures unless it is felt appropriate or should there have been material changes.

STRUCTURE OF SUBMISSION:

The submission is structured along the lines of the draft using the same paragraph configuration used in the draft. It will only address issues where the Association believes comment is required and appropriate.

SUBMISSION:

1.2 Approach

The Association supports the Regulator’s general approach and in particular the efforts to bring South African port charges more into line with levels at comparative global ports. We support the consolidation of the extensive and unwieldy schedule of bulk, break bulk and liquid bulk tariff lines and the removal of many of the tariff distortions which have negatively affected cargo owners over many years. .

1.3 Implementation of the Tariff Strategy

The need to phase in the changes tabled in the tariff strategy to avoid undue market disturbance is understood and supported. It is however felt that consolidation of the non containerised cargo tariffs could be implemented in a shorter period without causing any material impact on port users or inconveniencing the Port Authority in any meaningful way.

2. Guiding Principles for setting the base tariff

The preamble to this submission indicates that it takes into account the interests of the members of the Association and the clients of members who as cargo owners are the Authority’s principal customers. The correction of the long history of cargo owners bearing excessive port costs and the Regulators efforts at addressing the distortions which have entered the port tariff structure with the resulting impact on the competitiveness of South Africa as a trading nation is welcomed.

2.1 Cost Orientation

The principal outlined in this section, that cost and pricing should be a composite of efficiency, cost recovery, fairness and user-pays cannot be disputed. However the requirement for “user-pays” in the provision of major infrastructure developments presents real issues for port users when they are not properly involved in the decision making process from the earliest stages and where the ultimate cost impact on port pricing is unknown. There is a need for greater involvement of the Port Consultative Committees, for the Committees to be informed of future plans at the initial stages and to be sufficiently qualified to understand the consequences both as far as pricing and long term capacity requirements are concerned. While it is true to say that PCC's have been involved in tariff determinations for a number of years, it should be appreciated that the re-design of the basic tariff methodology, from which future determinations will flow, necessitates a much more participative approach.

2.2 Average Cost Pricing & 2.3 System-wide pricing

The Regulator's position in requiring the Authority to implement Average Cost Pricing and to apply this system-wide is understood and generally supported if for no other reason than that it reduces the complexity of calculating marginal cost which might lead to unacceptable anomalies.

The Association does have some difficulties where major capital developments specific to a particular product are planned or implemented. An example would be the manganese export facility at Ngqura where quite clearly marginal cost calculation would be relatively simple and the beneficiaries of such a project are few and easily identified. It is in circumstances like these that the Association would expect the Regulator to apply its mind to the application of direct user charges.

The oversight of operator performance standards, TOPS and MOPS, by the Authority does bring into question the important matter of independence. The Association continues to have difficulty with a situation where the overseer is also the actual operator as in the case of marine operator performance standards (MOPS) or where there is a close business relationship as is the case with other divisions of Transnet (SOC). Though the Authority may claim an element of independent oversight in the case of Transnet Port Terminals it can hardly do so where marine operations are concerned. The Regulator should require that, at the least, MOPS oversight be conducted by an independent body such as the Regulator itself or its appointee. And it is felt that only by ring-fencing TNPA through a process of corporatisation, will the necessary independence be achieved as far as TOPS is concerned.

3. Asset allocation between users

The Association supports the reallocation of asset groups to reflect as far as possible the actual or probable usage by the different port users. The allocations in Table 2 do appear to be somewhat arbitrary but in general the distribution appears reasonable.
A question does arise in the calculation for “Vessel repair infrastructure” In the paragraph referring to this it is stated that the “provision of infrastructure of this nature is rarely viable” That may be so in Transnet’s experience, but in our view the viability of such facilities would appear to depend on the management and marketing of local ship repair activity with the Authority taking an active interest in the development and consistent profitable use of the various facilities at all ports.
Our understanding is that dry docks, floating docks and synchrolifts are rented out by the Authority on a user pays basis, (see section 6 of the Tariff) and there would not be “lessees” or terminal operators other than the Authority itself. The Association also has difficulty with the allocation of any of these assets to cargo owners who would seem to have a very marginal interest, if any, directly or otherwise in ship repair facilities.

The distribution of operational overheads and expenses is indicated as being “shared equally between user groups”. Clarity is required as to whether “equally” relates to the percentages indicated in the pie charts in Figure 5 or “equally” as in one third for each of the three user groups.

The Association understands that in general the reallocation of costs and therefore pricing is, in effect, a “zero sum game” and that ultimately costs fall to cargo owners through increased freight rates and terminal charges etc. There is, regardless, a clear need for the excessive price allocation to cargo owners via cargo dues to be corrected and reflect the real cost of the services and facilities provided to them by the Authority. The danger exists that if over-recoveries through cargo dues are simply charged out to other users, then nothing will have been achieved, since surely the real objective must be to narrow the demonstrable gap that exists between prices charged by South African ports and those levied by their competitors.

Apart from the caveat regarding ship repair facilities the Association has no issues with this section.

4. Tariff rationalisation & 4.1 Review of tariff lines for Cargo Dues

The Association has in the past pointed out the manifold anomalies in the Authority's bulk, break bulk, liquid bulk and Ro-Ro cargo dues tariffs and therefore supports the rationalisation and simplification process. Apart from the 127 separate line items there are a number of areas where the same product imported attracts a totally different rate when exported including some cases where export rates are double those of imports, examples are break bulk chemicals and bulk ores and minerals EOHP. Many of the tariff items are obsolete as the products are now containerised or there is no logic whatsoever in the cost / pricing ratio.

If vessel calls are used as the yardstick for arriving at commodity contribution, there is one obvious danger: Container vessels are increasing in size and capacity resulting in a decline in calls.

In 2009 Durban handled 1763 container vessels but by 2014 this had reduced to only 1120 calls, a drop of 36% over the 6 years whilst actual container volumes remained stable. The annual review will no doubt take this global shift in container trade patterns into account.

The base rate and per cargo handling unit charge will both simplify and correct the previously mentioned anomalies. One area which should be addressed is the per ton calculation for vehicles on own wheels (one metre = two tons), whereas Transnet Port Terminals (TPT) at its vehicle handling facilities raise a more logical per vehicle charge resulting, for example, in the vast majority of light passenger vehicles attracting the same terminal handling charge. This would require the Ro-Ro base rates to be applied on an average unit size dependent on mass and dimensions similar to that applied by TPT.

The Association notes with interest paragraph 3 on page 21 regarding the need for TPT's terminal handling charges to mirror the 50% incentive discount applicable to cargo dues on export containers. The Association understands and supports the State's desire to encourage exports by reducing port costs and recognises that the Authority has priced export wharfage and subsequently cargo dues at a discount to imports over many years. Should TPT offer such discounts the Association fears that the consequent loss in revenue will be recovered from cargo owners via increases in import terminal handling charges. The Association believes that any increase in such cross subsidization and consequent rise in port costs for importers will have an inflationary impact on logistics costs and negate some of the benefits enjoyed by those exporters who import raw materials and other components of manufactured products. Prior to the implementation of such discounts by TPT there should be careful consideration of the impact on overall logistics costs. Here again, we emphasise that granting concessions to cargo owners in one area, only to recoup the concessions in other areas, will do little to address the problem.

Submission Conclusion:

A pricing strategy that rolls back the long history of price distortion and overcharging in South Africa's ports is welcomed by this Association and by all port users.

The Regulator's research has consistently highlighted the price differentials that exist between South African ports and equivalent global competitors. The successful efforts of the Regulator over recent years to address this situation is recognised and applauded. It is sincerely to be hoped that the ultimate goal is the development of a tariff methodology and pricing strategy that will place less emphasis on the concept of return on capital employed, since the quantum of such capital in the case of the Authority, must be open to question.

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