

Friday, October 15, 2021

The Chairman
Ports Regulator South Africa
Private Bag X54322
DURBAN
4000
By Email: comments@portsregulator.org

RE: TNPA TARIFF APPLICATION 2022/23 - 2024/25: naamsa SUBMISSION

Dear Sir/Madam,

naamsa | The Automotive Business Council represents the non-competitive interests of 46 new vehicle brands in South Africa comprising of 41 companies involved in the production and selling of cars and commercial vehicles. **naamsa** welcomes the opportunity to comment on and provide input for consideration with regards to the TNPA Tariff Application 2022/2023 - 2024/25.

The automotive industry makes a huge social and economic contribution to our country's economy and has grown to become the leading manufacturing sector in the country's economy. COVID-19 severely affected the automotive industry in 2020. The automotive industry's contribution to the country's GDP is normally around 7% and it accounts for around one third of manufacturing output but in 2020 those figures came down to 4,9% GDP contribution [2,8% manufacturing and 2,1% retail] and 18,7% of manufacturing output. Total auto exports of R175,7 billion accounted for 13,9% of SA's total exports. Despite the decline in vehicle exports under COVID-19, automotive component exports achieved a new record of R54,5 billion in 2020 driven by record catalytic converter exports to the EU in line with stricter emissions legislation implemented in the region at the beginning of 2020.

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NATIONAL OFFICE BEARERS: President | Andrew KIRBY | Chief Executive Officer | Toyota South Africa Motors
Vice-President: Manufacturing OEMs | Neale HILL | Managing Director | Ford Motor Company
Vice-President: Retailing OEMs | Gary SCOTT | Chief Executive Officer | Kia Motors
Vice-President: Heavy Commercial OEMs | Fabio SOUZA | Managing Director | Scania South Africa

EXECUTIVE DIRECTOR: Chief Executive Officer: Mikel MABASA

REGISTRATION DETAILS: PBO No.: 930/023/609 | VAT No.: 4070109972 | **naamsa** NPC: 2021/358607/08

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The industry's annual revenue is normally around R500billion, employment in the automotive supply chain consisting of vehicle and component manufacturing and the retail side of the industry comprises 460,000 persons in 2020 in the formal automotive sector, while the industry supports over 1 million formal jobs in view of its linkages with other sectors of the economy. These are all mainly high skilled jobs. The automotive sector remained one of the most visible sectors receiving foreign direct investment, with the seven OEMs investing a record R9,2billion in 2020, while the automotive component sector invested R2,4 billion in 2020.

naamsa believes that the regulatory environment has resulted in notable increases in the level of transparency around port costs and revenues which in turn has achieved closer alignment of port service tariffing to the underlying cost thereof. The automotive industry is highly dependent on international trade and more specifically a competitively priced ports network which will allow the South African automotive sector to effectively compete with other global automotive manufacturing sources for export contracts. **naamsa** members remain considerably reliant on the cost and efficiency of South African port operations.

The contents of the **naamsa** submission is structured as follows:

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Thank you for the opportunity to provide our views on the port charges. Please do not hesitate to contact **naamsa** should you have any queries.

Yours sincerely



Marthinus BREWIS

Chairperson: Supply Chain Committee

naamsa | The Automotive Business Council

1. INTRODUCTION

The automotive industry in South Africa is a success story owing to the partnership between government and the sector to develop the industry. Long-term government support for the automotive industry is the major reason for the continuing health of this vital sector in the South African economy. The stability in support since 1995 has been a significant enhancement for investor confidence. The automotive industry is a crucial job creator in the country's economy and makes a significant contribution to the South African economy as a whole in terms of GDP, employment, compensation, government revenue, exports and capital investment.

The South African Automotive Masterplan [SAAM] is the newly developed strategy plan for the long-term development of the South African automotive industry, and the APDP Phase 2 will now operate within the framework of the Masterplan. The SAAM2035 vision is the achievement of "a globally competitive and transformed industry that actively contributes to the sustainable development of South Africa's productive economy, creating prosperity for industry stakeholders and broader society". The Masterplan will create a framework to secure even higher levels of investments and production and will enable the industry to plan and invest with confidence. A key summary of the SAAM 2021-2035 objectives is as follows:

1. Grow South African vehicle production to 1% of global production by 2035 [1,4 million vehicles per annum];
2. Increase local content in South African manufactured vehicles to 60%;
3. Double automotive employment in the supply chain;
4. Improve automotive industry competitiveness levels to that of leading international competitors;
5. Transformation of the South African automotive value chain; and
6. Deepen value-addition within South African automotive value chains.

Government's announcement of its commitment and continued support is an attractive proposition to global OEMs and their suppliers to realise the aspirations of a significant expansion in vehicle production volumes, much higher levels of localisation, substantial employment growth, as well as transformation in the domestic automotive industry. In order to achieve the industry's strategic objectives as outlined in the South African Automotive Masterplan stakeholders must be globally competitive across the value chain. It is furthermore crucial that a reasonable degree of certainty exists to accurately forecast supply chain related costs on both inbound and outbound volume throughput.

2. INDUSTRY UPDATE: COVID-19 IMPACT

What promised to be a high point for the domestic automotive industry in 2020, with the Automotive Production Development Programme [APDP] reaching the peak of its eight-year path, was annihilated by the global pandemic. COVID-19 has also resulted in the postponement of the South African automotive industry's journey to 2035 under the South African Automotive Masterplan [SAAM] 2021 - 2035, by six months, from 1 January 2021 to 1 July 2021.

The sharp drop in global and domestic market demand through the early part of 2020, caused by the abrupt and widespread stoppage of trade and economic activity has had a severe impact on the globally integrated South African automotive value chain. The crippling effects of the pandemic resulted in a massive decline of 156,406 units, or 29,2%, in new vehicle sales, from the 536,612 units sold in 2019 to 380,206 units being sold in 2020. Imports of light vehicles declined by a substantial 87,084 units, or 30,0%, from the 290,654 units in 2019 to 203,570 units in 2020, in line with the COVID-19 affected decline of 29,2% in aggregate new vehicle sales in the domestic market.

South African vehicle production declined by 29,2%, from the record 631,921 units produced in 2019 to 447,218 units produced in 2020. Although the country's global vehicle production ranking remained at 22nd in 2020, its market share declined to 0,58% in 2020 from the 0,69% in 2019. Vehicle exports declined by a massive 115,804 units to 271,288 units in 2020, from the record 387,092 vehicles exported in 2019, and the export value declined by a significant R26,8billion from the R148,0billion in 2019 to R121,2billion in 2020. The export value of vehicles and automotive components declined by a substantial R26billion, or 12,9%, from the R201,7billion in 2019 to R175,7billion in 2020.

For the first half of 2021 the domestic economy reflected a robust recovery from the COVID-19 affected -6,4% in 2020 and the domestic new vehicle sales reflected an increase of 40,1% compared to the corresponding period 2020 but, however, was still 11,7% below the first half of 2019, highlighting that a full recovery would be protracted until around 2023. The strong rebound in global economic activity in 2021 also supported vehicle export volumes which, for the first half of 2021, were 65,8% ahead of the corresponding period 2020 while only 0,9% below the level of the first half 2019. Vehicle production will continue to benefit from higher export volumes while employment is also linked to production.

Therefore, it is imperative that we remain cost competitive to ensure sustainability.

3. METHODOLOGY

naamsa supports the current Tariff Methodology but has previously raised concern regarding the following elements:

3.1. CAPEX OVERSIGHT

- a) Much emphasis has been placed on improvement/ procurement of assets to improved efficiency & service delivery with working capital and CWIP [Capital Work In Progress] being included into the RAB [Regulatory Asset Base]; and
- b) We support the expected outcomes of identified Key Projects, Operation Phakisa Projects, and Strategic Capital Investment Projects. Our remaining criticism is the limited immediate direct benefit through these projects. As an industry, we understand that the benefit of these will only be realised in the future. It therefore becomes necessary that the project timelines are maintained and realised as such.

3.2. WEIGHTED EFFICIENCY GAINS

- a) The ROD [Record of Decision] is acknowledged, however the benefit is still not realised. The repeated request for a baseline comparator is made to benchmark our port network at a global standard.
- b) Our current struggles remain:
 - I. Berthing Delays;
 - II. Vessel Turnaround Time; and
 - III. Truck Turnaround Time
- c) The industry completed a ports comparison study in March 2021 to identify and initiate projects that will improve efficiency and measurement of the KPI's [Key Performance Indicator's] that are used. Our primary objective is to improve our competitiveness through unlocking of port capacity and to optimise the automotive logistics supply chain.

4. TARIFF REVIEW REFLECTION

| PROPOSAL | IMPORT | EXPORT | PREVIOUS |
|-----------------------|--------|--------|----------|
| Cargo Dues Containers | 3,1% | 3,1% | 2,23% |
| Automotive | 0,0% | 0,0% | 2,23% |
| Marine charges | 17,83% | | 7,12% |

We acknowledge past remedial initiatives to remedy the exorbitant uncompetitive cargo dues faced by the automotive industry.

- a) Imbalances in the systems remain despite large decreases in container cargo dues and export automotive prices as well as relative changes in marine services; and
- b) Automotive cargo owners still face a 123% premium in 2019/20

The automotive industry nationally and internationally continued to be affected by COVID-19 related disruptions highlighting that a full recovery to pre-COVID-19 new vehicle sales levels in South Africa would be protracted until around 2023. In terms of a timeframe for a full recovery to pre-COVID-19 vehicle record export levels, much will depend on the ongoing path and management of the global pandemic.

5. CONCLUSION

- 5.1. As a very price sensitive commodity, costs must be kept as low as possible;
- 5.2. The industry welcomes the 0% increase for the tariff application period. Our primary concern remains the operational efficiency of port services;
- 5.3. The level of ongoing investment in the automotive industry is directly linked to the automotive industry objectives as outlined in the South African Automotive Master Plan 2035;
- 5.4. We have a serious concern relating to the 17,83% increase on marine charges. In a very price sensitive environment, the increase incurred by Shipping Lines will eventually in some form or another be transferred to cargo owners resulting in a substantial increase of overall logistics costs in the Automotive supply chain. Our request therefore is also for a reasonable, inflation-based increase on marine charges, a double-digit increase is totally unreasonable in the current economic environment; and
- 5.5. The difference between vehicle Imports and Exports remains at a factor of 2,53 - R168,94 per metre [ton] on imports compared to R66,65 per metre on exports. Our understanding is that the parity between imports and exports was supposed to be 2:1 and we would like to see this differential addressed by the Ports Regulator. The position is even worse on containers with a parity differential of 4.55 imports to exports.