BUSINESS UNITY SOUTH AFRICA (BUSA) SUBMISSION ON TRANSNET NATIONAL PORTS AUTHORITY (TNPA) PROPOSED TARIFF INCREASE OF 5.4%, 2013-2014

10 December 2012

I. BACKGROUND TO BUSA
BUSA is a confederation of business organisations including chambers of commerce and industry, professional associations, corporate associations and unisectoral organisations. It represents South African business on macro-economic and high-level issues that affect it at the national and international levels. BUSA's function is to ensure that business plays a constructive role in the country's economic growth, development and transformation and to create an environment in which businesses of all sizes and in all sectors can thrive, expand and be competitive. As the principal representative of business in South Africa, BUSA represents the views of its members in a number of national structures and bodies, both statutory and non-statutory. BUSA also represents businesses' interests in the National Economic Development and Labour Council (NEDLAC).

II. INTRODUCTION

The South African economy's gross domestic product (GDP) is about 60% dependent on international trade. This contribution of international trade to the national output is likely to increase and remain the key engine of economic growth for many years to come. In its acknowledgement of this important contribution, and as part of this government's drive to ensure that ports play an even greater role in contributing to accelerating economic growth and development, the National Commercial Ports Policy and the National Ports Act were put in place. These were intended to make the country globally competitive through the provision of adequate modern infrastructure at global cost competitive levels against demands and mandate of system-wide low costs (low cost of doing business), world class efficiency standards and an integrated inter-modal system of seamless freight flows firmly integrated in the global transport & logistics system.

Without anything to show in terms of world class efficiency standards, system-wide low costs and integration into the global maritime supply chains, the NPA has, year upon year, requested well above inflation tariff increases that have now left the economy as one of the least competitive globally and has become a national developmental liability, very much against its created mandate.

As a result of these year upon year tariff increases, the productive sector of the economy that contributes immensely to economic growth, has shed thousands of domestic jobs, has lost international business due to competitive pressures, and is now on the verge of closing down due to the weak global economic recovery. For any country to survive these challenging times, its products and services must be competitively priced on international markets. South African transport costs are some of the highest in the world- contributed by the year to year uninformed tariff increases.

It is against this background that we oppose the proposed tariff increase by the National Ports Authority. A detailed schedule of our views is presented below.

Content	Comment	Recommendation/ Requests
1) Responsibilities/Role of the Regulator		
a) National Ports Act, 2005, page 11, Port Regulator of SA. <u>www.portsregulator.org</u> states that the Object of the Act are: *"to promote the development of an effective and productive South African ports industry that is capable of contributing to the economic growth and development of our country."*	The proposed profit margins will have devastating and counterproductive effects amongst other: • Negatively contributing to inflation • Negatively influence efforts to economic growth and job creation • Erode an already weak domestic and regional competitiveness in global markets for instance: Primary and secondary sectors in South Africa are dependent on efficient and effective port facilities to facilitate trade.	The proposed increase will hamper economic growth and development. Therefore, we oppose it.

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	The role of the ports in reversing the deindustrialisation trend and increasing trade deficit as reflected in figures 1 and 2 needs to be clearly recognised **(see annexure1).** This will add to the unacceptable current levels of unemployment which, again will not contribute to economic growth.	
b) *National Ports Act, 2005, page 12, Port Regulator of SA. www.portsregulator.org states that the Object of the Act are:* *"to promote and improve efficiency and performance in the management and operations of ports."*	**Port of Durban jammed up** **(***FTW, 11 Dec 2012, Alan Peat)* The port is congested with containers waiting to move up to Gauteng by rail , dwell times of up to 14 days are reported as common **Worst Delays in the History of Containerisation** **(***FTW, 4 May 2011, Alan Peat)* Delays have been going into days, not hours and the bad situation had been made worse by the public holidays, where – although the terminal are	Given this, it is encouraging to note that an investigation into this has been commissioned by the NPA and Ports Regulator to test the veracity of these claims being made in the press. If it is found to be true, it is hoped that measures will be taken to ensure that the NPA's port costs are at the very least brought into line with the global average. The investigation should also look into further media reports that the practice of charging cargo owners "cargo dues" (i.e. taxes) is one which is not practiced

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According to TNPA, the basic role of a port is to facilitate foreign trade and contribute towards national economic growth.	suppose to works 24/7 – industry and container depots closed down. **Shippers Avoid Durban at all Costs** **(***FTW, 20 May 2011, Joy Orlek)* South Africa's potential as the springboard into the rest of the continent is fast being eroded as importers and exporters in neighbouring states make every effort to avoid the Port of Durban thanks to its poor efficiency and exorbitant costs. The larger mining houses and the manufacturers within Zambia are making a concerted effort not to use Durban at all. Dar es Salaam is far cheaper than Durban, while Walvis Bay is super-efficient – and most of the vehicles and trucks that are imported to Zambia and Congo are sent via this route. Durban has clearly become the port of last resort.	virtually nowhere else in the world. Similarly, if this is indeed found to be true, corrective action needs to be taken.

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	World's Highest Port Costs Drive Trade from SA **(***FTW, 23 August 2011, Staff Reporter)* Hellenic Shipping News noted that SA's ports are already some of the most expensive in the world, Durban being the most expensive forcing up costs and undermining government attempts to boost exports and create jobs. State-owned Transnet charges an average container vessel US$182 151 to dock, according to the Ports Regulator of South Africa. That's more than double a global average of US$86 251 and the highest of 100 top harbours.	
2. The 2013/2014 Tariff Application - TNPA		
a) *2013/2014 Tariff application to the Ports, page 7,* *www.portsregulator.org* states a multi-year tariff application	As stated, current regulations do not accommodate for a multi-year tariff application approach. This will need to be considered as part of the tariff methodology agreement process	The TNPA should change the methodology and then demonstrate the need for such an above inflation increase over the next 4 years

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approach could assist with introducing a smoother tariff trajectory over the same period which equates to 9.68% per annum for each of the FY's 2014/15 – FY2018/19, based on the current revenue requirement model.	between the NPA and the Ports Regulator.	
b) Methodology	The "revenue requirement" model does not seem to provide incentive for TNPA to be efficient due to "guaranteed revenue". (see 1 C for detailed discussion of TNPA inefficiencies) The expected revenue is calculated including a profit. How is this possible in any business terms? The calculation model is reversed as revenue is calculated initially. Can alternative calculation methods/models using PPI and CPI figures based on cost components be used? If revenue for the	We recommended that the Ports Regulator explore other business oriented models that promote efficiency Any increase above inflation is unacceptable and irresponsible

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	following year is forecasted and additional monies is earned will that surplus filter down to the cargo owners or will it be additional bonuses? These increases, whether it be for electricity, water, property rates or for a whole host of other charges levied by Government or its proxies (e.g. tolls), are having a negative impact on the "cost of doing business" and consequently on business' competitiveness. Quite frankly, these above inflation increases cannot simply go on year after year – it is unsustainable because the fact that exports are generally globally priced and that SA exporters are price takers that cannot absorb increase especially costs that cannot be recovered from customers.	
2013/2014 Tariff application to the Ports, page 8,	According to the calculation as stated in table 2 & 3, if there is no rebate for the year 13/14, then the	Clarity is sought on the revenue requirement as the model as indicated does not make sense. It

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www.portsregulator.org, table 2 & 3:	estimated revenue or base level for 2012/2013 should be Rm 8490 and not as stated Rm 7490. That means the calculations according to the TNPA is incorrect and based on the tariff adjustment of year 12/13 (2.76 %), there will be no need for a tariff adjustment as the cost for marine business (Rm8419) is covered already.	is our understanding that the Rm 1000 budgeted for rebates cannot be justified as it paid in the next financial year
d. Procedure/Consultation	*National Ports Act 2005 page 70, 82 (2) (C), Port Regulator of SA. www.portsregulator.org states that: The functions of a National Ports Consultative Committee (NPCC) are:" To consider any proposed substantial alterations to the authorities' tariffs."* The Authority went on to alter the tariff without consulting with NPCC. This Committee is not functional. How can decisions be made with no Committee overseeing the decisions?	The Authority MUST consult with the NPCC before any substantial alterations of tariffs are affected.

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e. International competitiveness / efficiency	A lot of SA companies are export driven, therefore an increase of 5.4% will keep them from delivering and competing efficiently and with a competitive advantage in the global market?	SA exports has been performing poorly and therefore the increase will aggravate the problem, e.g manufacturing export contribution to GDP has been declining **(see annexure 1)**
g. International best practice		TNPA should explore international best practices
h. Incomplete TNPA projects from the previous financial year	When the projects for the previous financial year are continuously being carried over, this will inflate the increases because these projects are provided for in the financial year in which they are envisaged to be carried out	If this is true this leads to the question of whether they have inflated next year's revenue requirement for the same reason. This should not be allowed and if it happens should be clawed back from last year's revenue to decrease next year's requirement
j. What was TNPA's profit compared		BUSA requests further detail.

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to its budget?		
k. *2013/2014 Tariff application to the Ports, page 58, www.portsregulator.org,* Introduction of a bunker fuel levy.	We are concerned about the statement in the application that "this initiative is supported by industry and a R15.00 tariff per ton has been agreed in principle with them". Industry is not aware of any such agreement in principle and objects to the proposed new bunker fuel levy. This proposed R15.00 per ton also differs from the amount in the draft booklet which is stated as R15.81 on page 35. Although infrastructural facilities at Durban port is supported we are of the view that the introduction of a new bunker fuel levy can increase the perception that South Africa is a high cost provider of bunker fuel which could have a detrimental effect on bunker volumes. A further concern is that bunker suppliers will	Such a proposed levy requires at least a workshop between TNPA and industry players so that it is clear what the basis for the levy is and what it comprise of and what the potential impact will be.

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	pay for infrastructure that will then be included in the regulatory asset base for future port charge determinations or will the bunker suppliers be the owners of this infrastructure?	
I. *2013/2014 Tariff application to the Ports, page 50, www.portsregulator.org*, Forecasted volume growth.	It is interesting to note that TNPA (on page 50 of the application) expects a petroleum volume growth of 19.8% (38.9 billion litres) from 2012 (32.5 billion litres) while volume growth from 2011 to 2012 was 1.2%.	1. We note TNPA's comment that they have consulted with various industry players in arriving at forecasts but would like to suggest that an optimistic growth number will be in the order of 4% as opposed to 19.8%. 2. The overall forecasts as reflected in table 33 does not allow assessment of actual versus forecast to determine over or under budget performance
Conclusion	It would appear that the NPA has once again not taken cognisance of the (continuing) depressed nature of the local and global economy when applying for such an immense increase. The NPA	

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	(and Government in general) should be striving to create an environment in which businesses can prosper, thereby creating job opportunities and yet at the same time, not harming their competiveness. The proposed increase does not assist in achieving this. Exporting under current circumstances is difficult enough without additional and substantial costs being levied on Industry – costs that cannot simply be passed onto its customers. In conclusion, BUSA regards the proposed tariff and cargo due increases for the 2013/14 year, as applied for by the NPA, as being excessive, especially given the negative impact that such an increase would have on exporters' ability to remain internationally competitive. It is thus hoped that the Ports Regulator will carefully consider the NPA's application not just in the light of what is good for Transnet but, more	

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	importantly, what is good for the country.	

Annexure 1

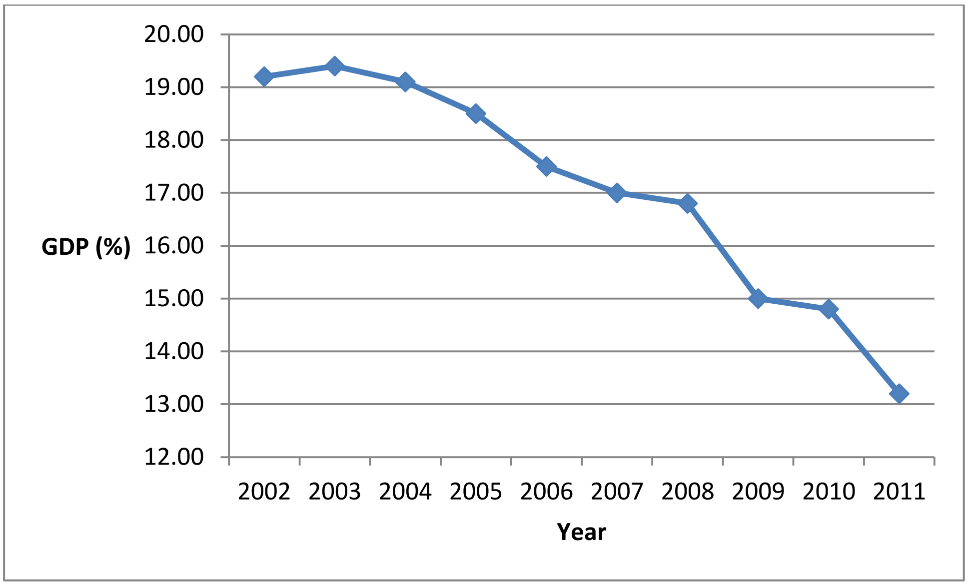

Figure 1: Manufacturing value added as percentage of GDP (the dti from Quantec database)

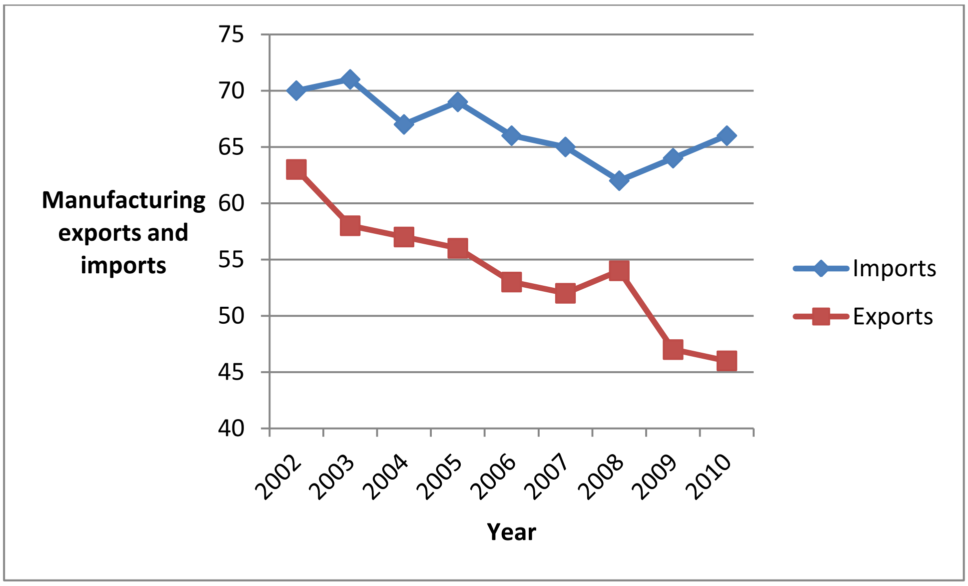

Figure 2: Manufacturing exports and imports as percentage of annual growth (the dti from Quantec database)