Global Port Pricing Comparator Study – 01/04/2012 Research Summary

Introduction

The publication of the Global Port Pricing Comparator Study (GPPCS) comes at the commencement of the engagement and consultation on the National Ports Authority proposed Pricing Strategy. This process, which is announced elsewhere on this website, concerns the NPA proposal that deals mainly with the relative internal coherence of South African port pricing from the perspective of the infrastructure owner. This GPPCS is not purely from that view, and instead compares South African pricing and pricing structures to those around the world, as well as measuring elements that allow an assessment of internal and internal-external coherence.

Terminology and methodology

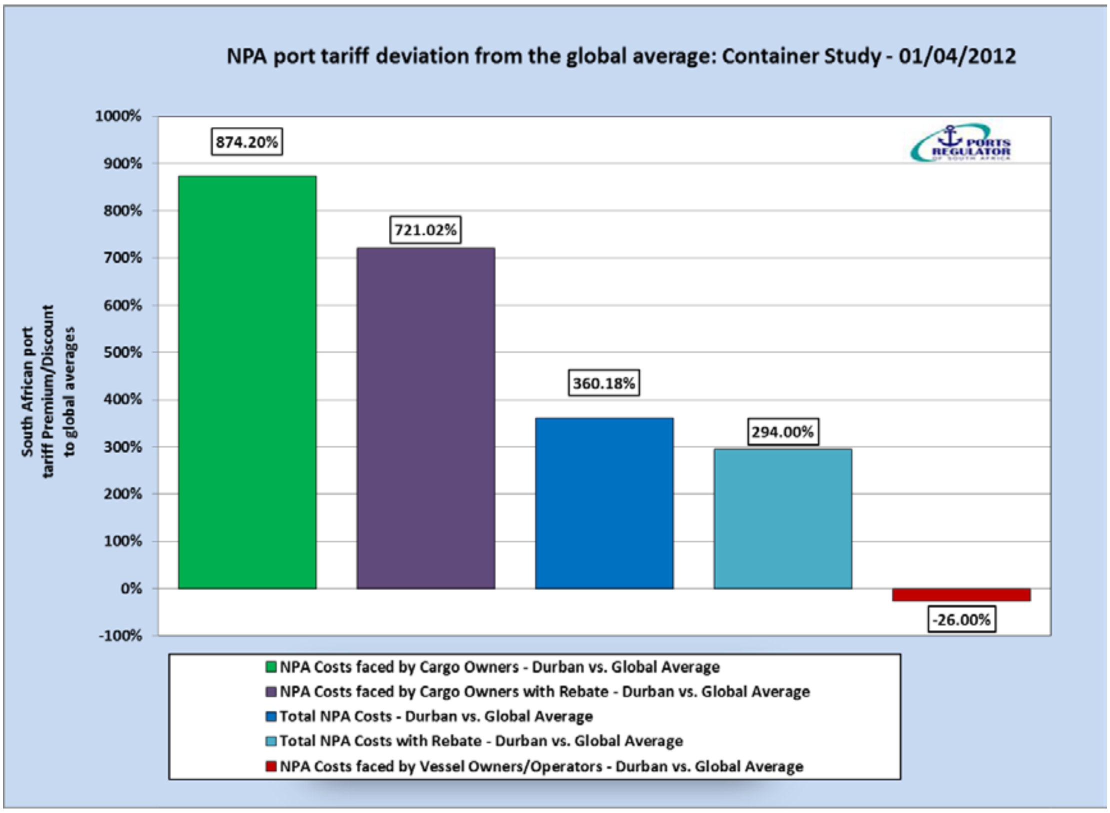
No single port charge can be accurately compared across the world purely by its name. Port pricing structures differ in the various jurisdictions and even sometimes within the same port or port system. Within each jurisdiction, a particular tariff structure is used, largely based on the history of that port system, the country's development, its transport and economic policy. The only meaningful comparisons in such an environment is one that looks at the total costs that are faced by a particular activity which is unitary enough, comprehensive enough and consistent enough across all the jurisdictions.

The most appropriate comparator base for port pricing comparisons, in our opinion, is a standardised vessel call. This vessel call has a standard vessel, standard port stay duration and a standard cargo profile. That in itself is fraught with danger such as the differences in efficiency that would ordinarily either lengthen or shorten a port stay depending on the port, which in turn has ramifications for the time related port charges. To prevent too convoluted an approach that requires too many assumptions and adjustments, that are in themselves tainted by arbitrariness, the vessel calls have been standardised in the study. This would make some foreign ports slightly more expensive than they otherwise would be. It is however important to note that some aspects of what contributes to the total makeup of the port cost structure was not included. All the studies, other than containers, do not include handling costs. The charges between cargo owners and their service providers (document fees etc.) and taxes on activity other than the specific port related activity, amongst others, have also not been included.

The Ports Regulator GPPCS for 1 April 2012 represents an assessment of the global pricing context for ports with respect to a defined list of commodities, and contextualises South African port pricing in this global context. The study is based only on publicly available information and only focuses on the level of charges that are faced by third party service users without “special” pricing arrangements.

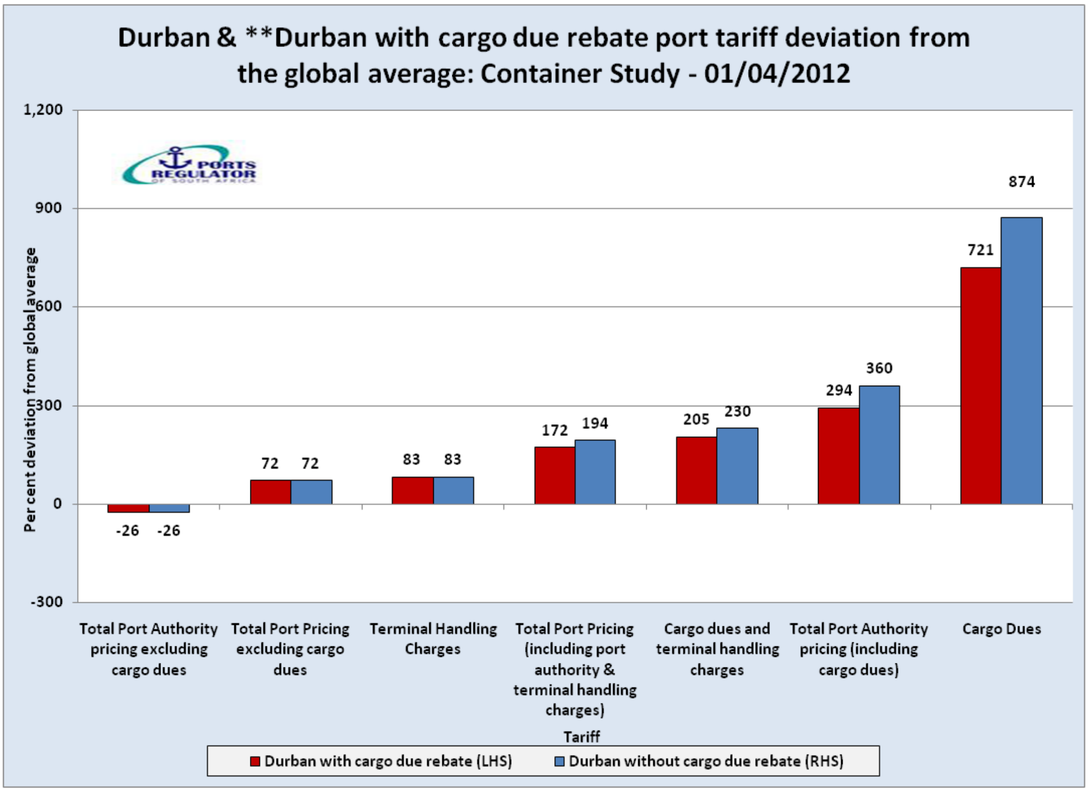
Brief highlight of some high level outcomes:

1. Containers are significantly more expensive than the global average, unless you are a foreign cargo owner transhipping through a South African port.

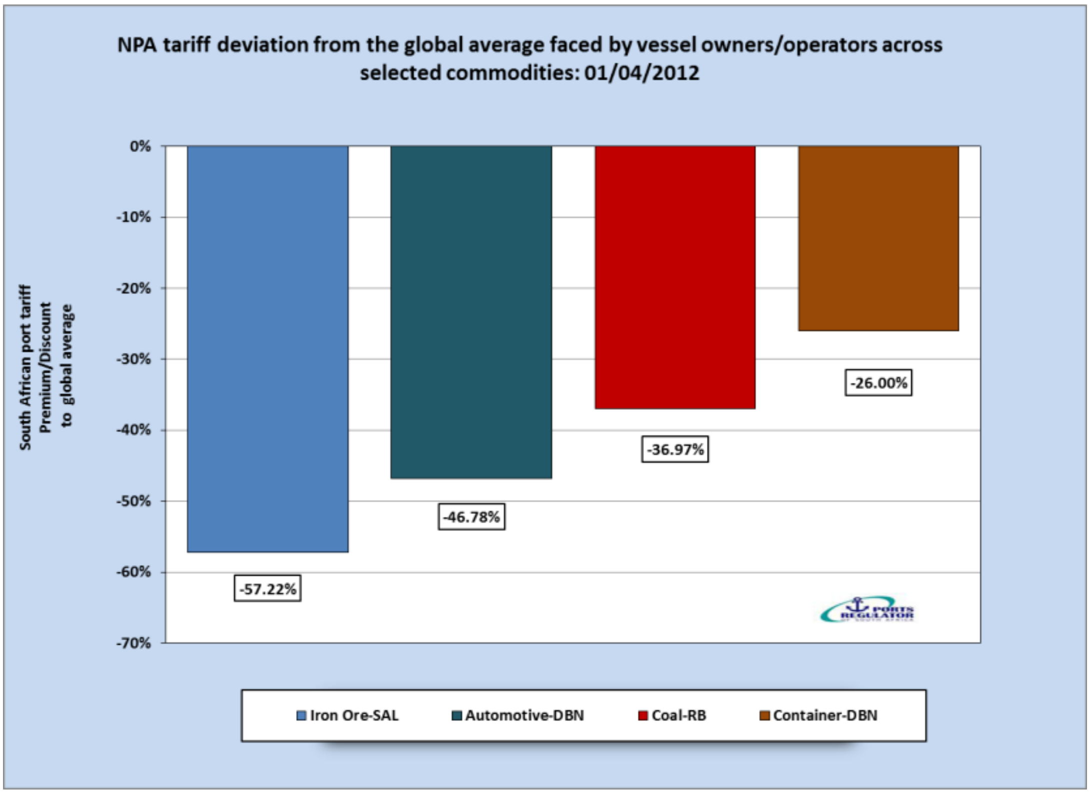


The figure above reflects that cargo owners are faced by an 874% premium to the global average. Taking the 2012/2013 rebate into account the number remains significantly above the global average (a premium of 721%). While vessel owners face costs below the global average (-26%), the total NPA costs in container ports comes at a premium of 360% above the global average (in effect 4.6 times the global average).

2. Due to the South African "Free on Board" (FOB) export and "Cost, Insurance and Freight" (CIF) import predominance in concluding international trade contracts ensuring that the bulk of the port charges liability lies with the South African party, South African container cargo owners carry the greatest burden of infrastructure costs, while also paying greater premiums over global averages than foreign cargo owners transhipping through South African ports (see below).

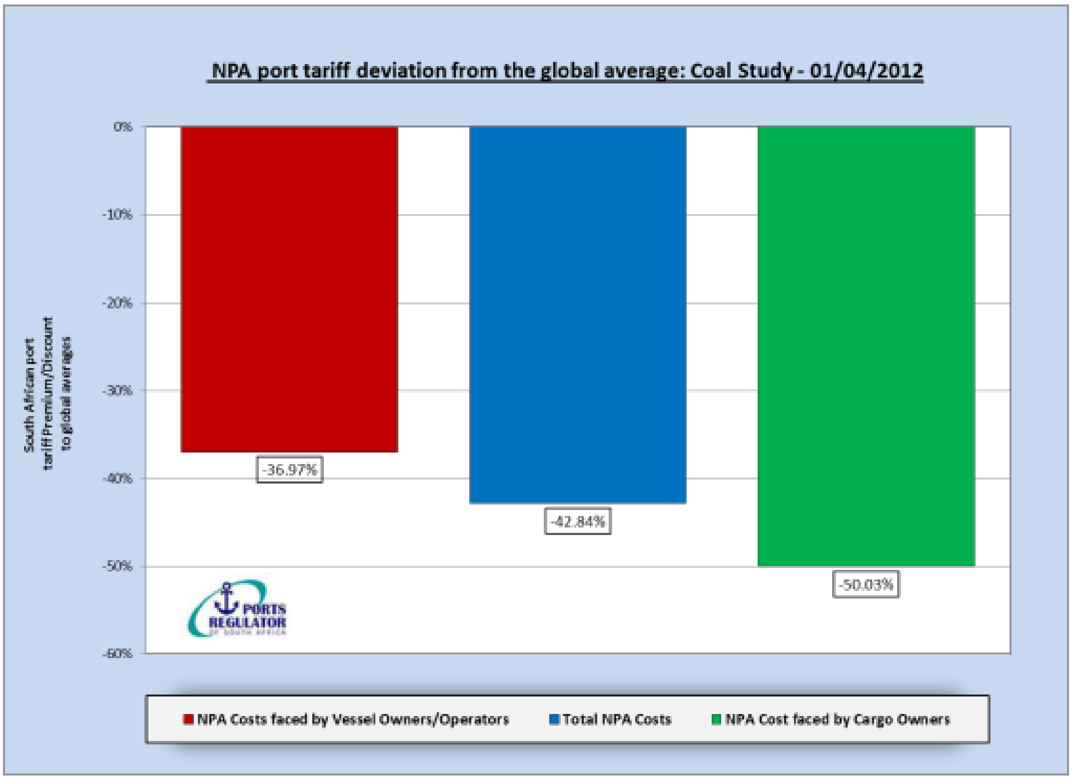


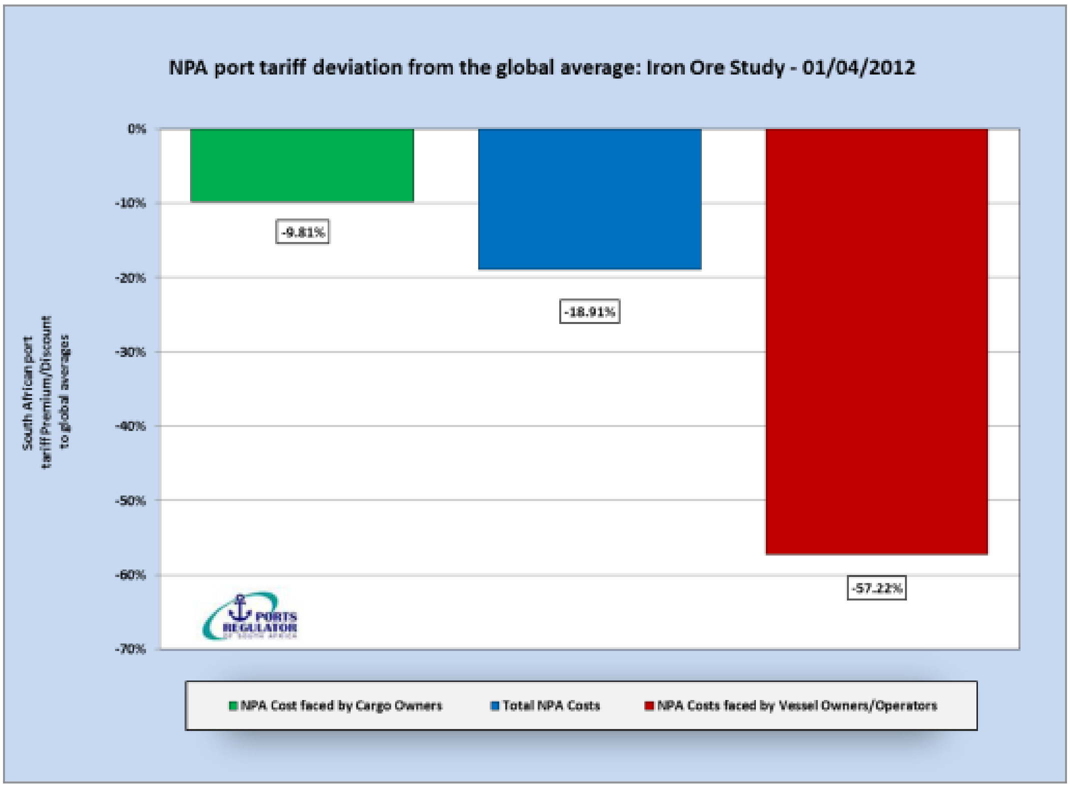
3. All vessels face much lower overall costs in RSA ports than the averages in the study, ranging from 26% below the global norm in the case of containers and 57% for iron ore vessels. This must be seen in a context where all vessels are foreign owned and operated. The incidence of the tariff clearly indicates that foreign users of the ports are not contributing to the overall infrastructure costs in a similar manner than they do in the global average.



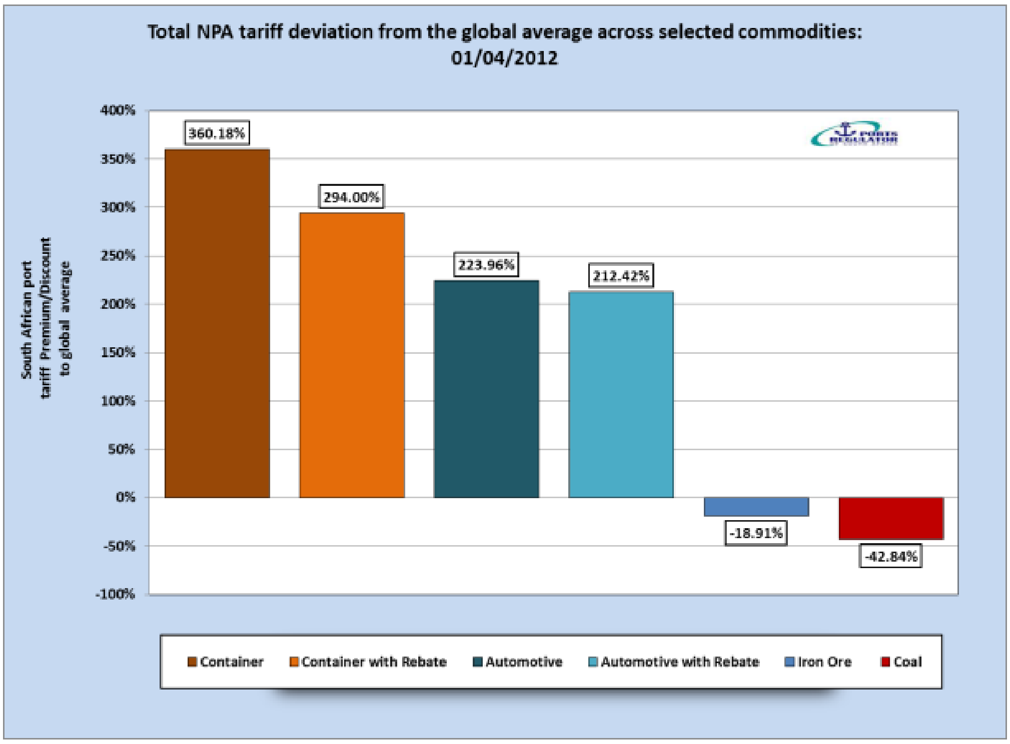
What was not considered in this research and is part of current research, is the confluence of various costs. These include vessel delays (faced by vessel owners and operators), cost of ocean legs of transport (faced by cargo owners or logistics integrators), costs of delays into and out of port(inventory, temporary local cargo storage and truck standing time costs etc.) faced by cargo owners and logistics providers and other such costs that are occasioned by specific issues such as the market structure of marine transport providers and the port system, as well as operational and infrastructure issues in certain ports.

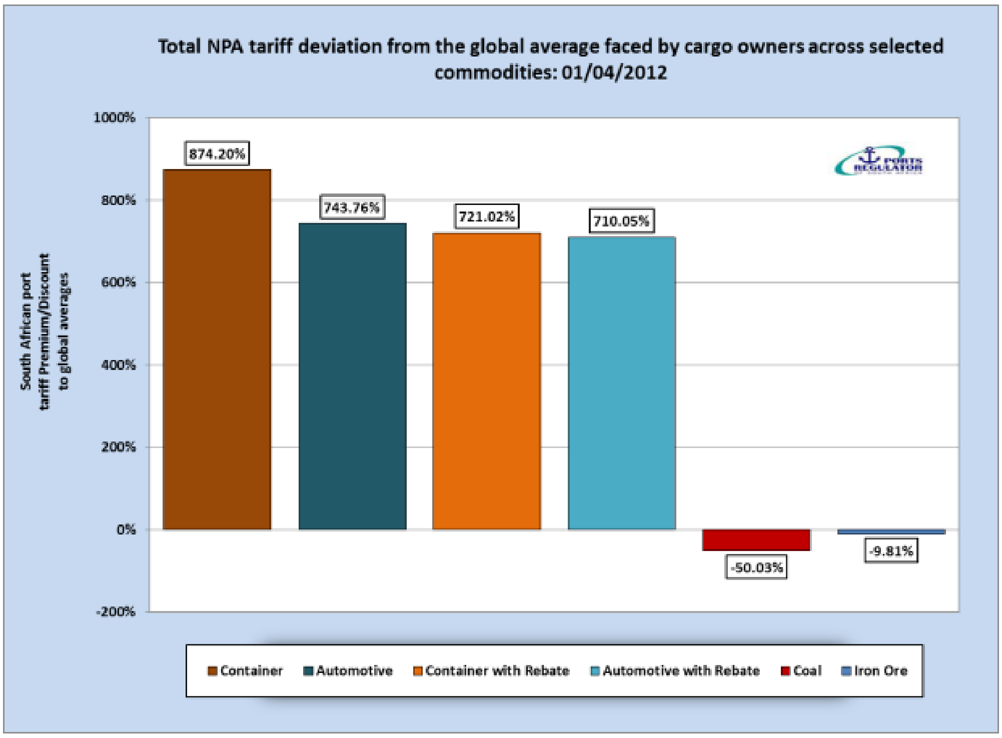
4. Bulk commodities are charged much lower total port costs than the global averages. Coal (Richards Bay) and iron ore (Saldana Bay) were found to face costs 43% and 19% below the global average respectively. The cargo dues faced by cargo owners are 50% and 10% below the global norm for coal and iron ore respectively.





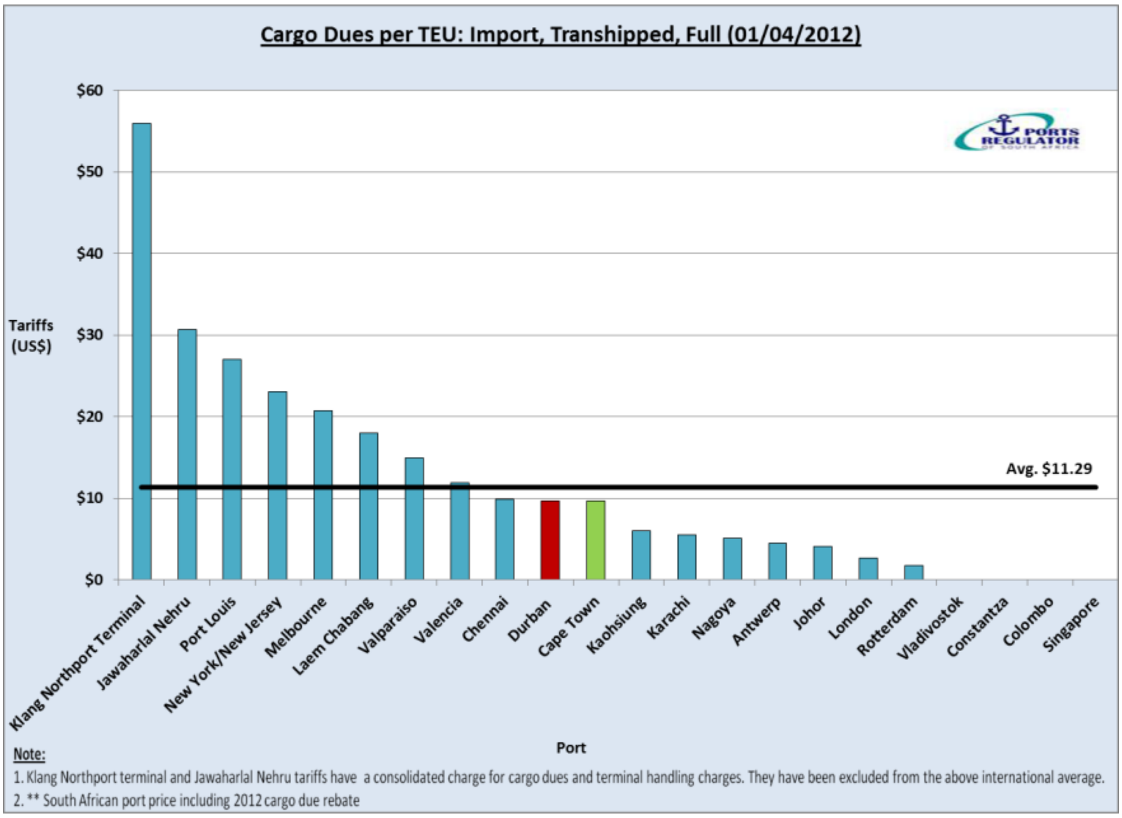
5. As bulk commodities are charged much lower rates than the norm and containers are charged much higher than the norm, containers (export and import) are subsidising bulk exports, even more so if you only take cargo dues into account with container and automotive cargo owners facing costs at premiums of between 710% and 874% of the global norm, depending on whether the annual rebate that only applies for 2012/2013 is taken into account or not.





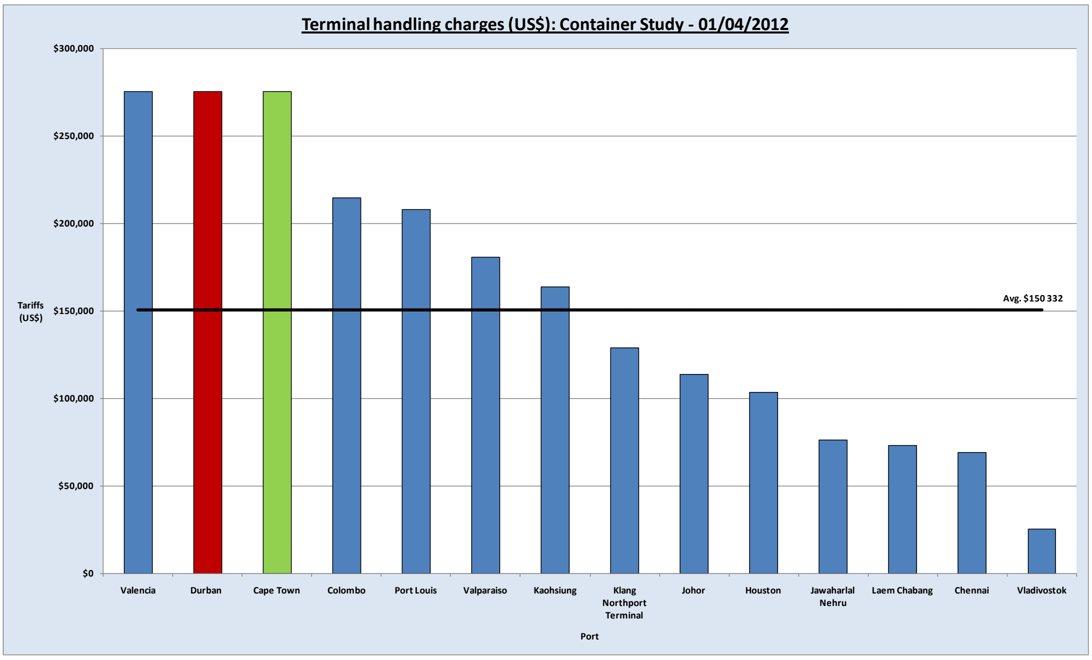
6. South African cargo owners are subsidising foreign cargo owners and liners transhipping through our ports with cargo dues faced by a full transhipped container below the global average. There is not as yet sufficient research on the network benefits of these transhipments to South African logistics costs to indicate the incidence of the value that is extracted in this process and how this value is appropriated to the different parties.

   Current research is targeted at a better understanding of this area. It aims to assess whether the network benefits that are gained from transhipment are translated into lower system costs for South Africa, where and to whom that value accrues and what would be an appropriate articulation of pricing to better manage system behaviour and tariff incidence.

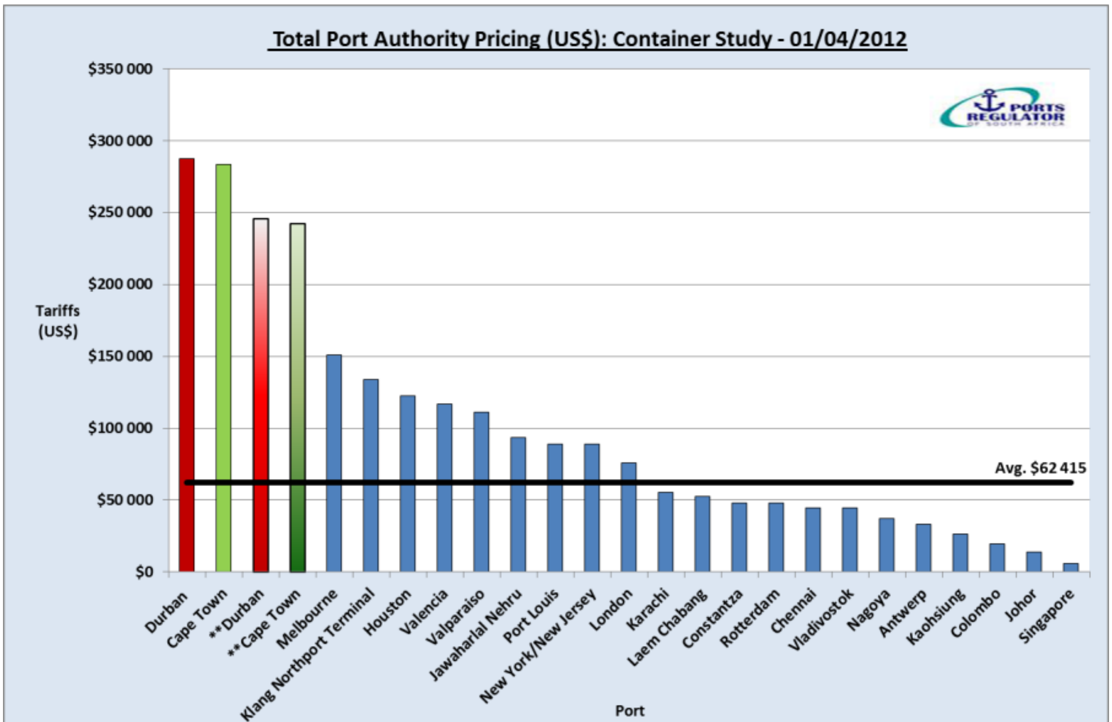


The Regulator is currently considering a proposed adjustment to transhipment cargo dues by the NPA that is an attempt to shift transhipment traffic towards Ngqura in order to free up space in Durban specifically during the construction activity at the container terminal. The submission made in this regard is available elsewhere on this website.

7. At a cost of $275 000.00, container handling charges in South Africa is more expensive than the global average of $150 000.00 for the unitary vessel used in the study. A conclusion that was also reached by the National Ports Authority in its Pricing Strategy. The NPA Pricing Strategy additionally raised the low levels of efficiency in container handling as a concern. The definition of handling charges in this study includes all costs from vessel to stack, from stack to vessel, from stack to truck or railcar as the case may be. No provision was made for overstay or other penalties related to the duration that the container remained in the terminal.

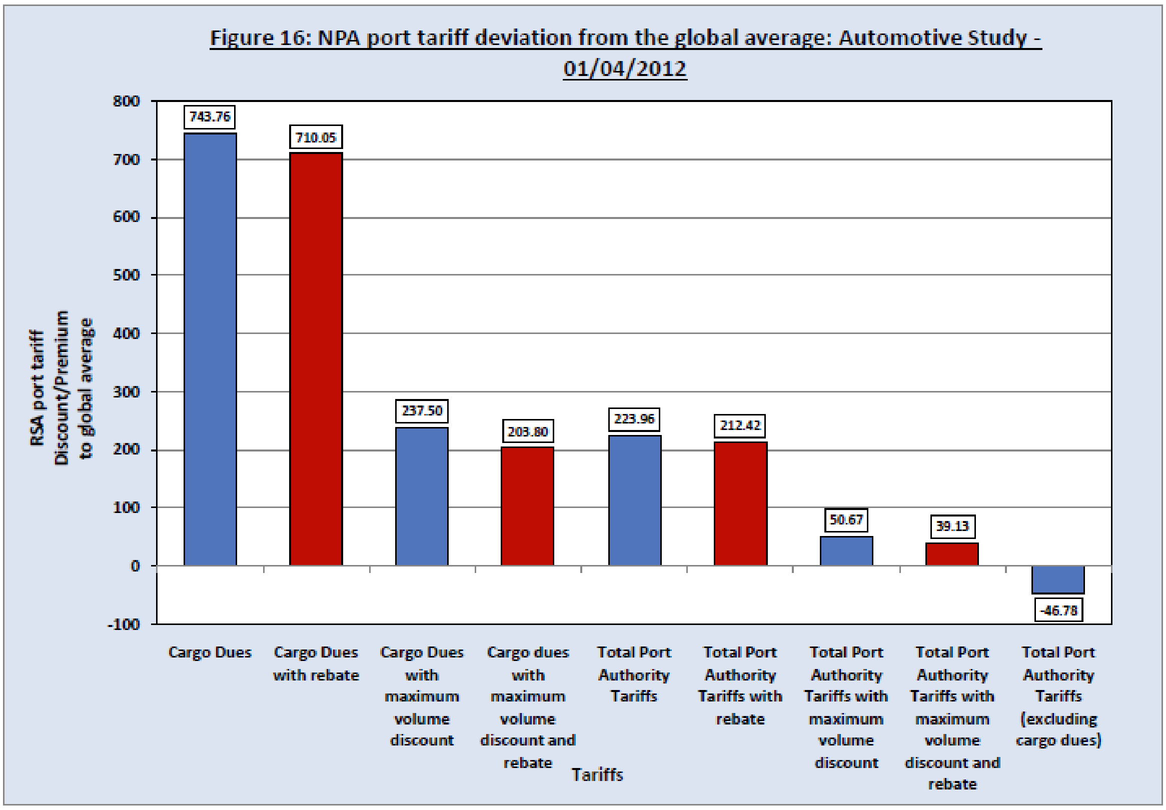


8. It is clear from the data that South African cargo owners and logistics operators face significantly higher infrastructure costs than the rest of the sample when using containers to move cargo. With the bulk of South Africa's manufactured goods arguably exported through containers this is clearly contradictory to current industrial policy aiming to incentivise value addition, broadening of the manufacturing base and increasing manufactured exports. Even if a well supported argument can be made that there is justification for South African ports being more expensive in general(which we have not as yet been able to find), the fact that containerised cargo costs are much higher than the global norm while bulk cargo costs are lower than the global norm agitates against the existence of a rational tariff incidence from an internal coherence perspective. This pattern of internal dissonance is continued in the discounts that vessels receive in South African ports.



Note:
1. Klang Northport terminal and Jawaharlal Nehru tariffs have a consolidated charge for cargo dues and terminal handling charges. They have been excluded from the above international average.
2. ** South African port price including 2012 cargo due rebate

9. As in the discussion on the tariffs in the container sector, automotives also face significant premiums to the global average. Cargo dues are significantly higher than the global average with total cargo dues on vehicles at a 744% premium to the global average. Vessels face a 47% discount to the global average.



The automotive industry volume discount has a significant impact on the total costs faced by the different industry players and as a result, significant variation is experienced across the analysis. The cargo dues variation from the global averages range from a 744% premium to the global average faced by the smaller automotive companies that receive no volume discount, if the 2012/13 rebate is not taken into account, to a 204% premium to the global average for the larger manufacturers when taking the rebate into account for 2012/13. Large automotive companies therefore face cargo dues at 3 times the global average with the smaller automotive companies facing cargo dues at 8.43 times the global average. On the total Port Authority tariff comparison, large automotive companies pay 1.4 times the global average while small automotive companies face tariffs at 3 times the global average.

Interpreting the results

The process and outcomes of benchmarking port pricing is not an exact science. The global averages that we have defined in our studies do not represent what we should be charging in RSA ports. Rather, it gives us some indication of the direction that our pricing should be moving in, not the exact absolute level of pricing. It also provides us with a reasonable indication that would allow assessment of the alignment between port policy, port pricing and economic policy. The identification of pricing differentials that exist does not automatically suggest that certain industries should be charged at a globally comparable rate. It does not suggest that certain cargoes may not be charged lower or higher rates than the global averages. It does identify the size of the divergence between what is the stated overarching economic and development policy of the country and what port pricing reflects. It provides a reason to assess and shift port pricing in a direction that better reflects the global reality and actually aligns with South African economic structure, economic policy, industrial policy and economic development policy. When the policy and regulatory framework is applied to the data, it requires that any internal and external differentials that we allow to exist in the future must result from an open engagement that includes all affected parties and is justifiable in the public interest.

While a change in indices such as either the weighted dollar price over the year(rather than fixing it at the date of the study) or some other selection of ports as a population would no doubt influence the findings to a greater or lesser extent, this influence is not so significant that it nullifies the outcome. A 20% differential in the dollar price will not remove a 700% price premium over a global average, it would merely make it less of a premium. Amending an index or changing a population will not remove the internal difference between the significant premiums on cargo owners of manufactured goods and the significant discounts to un-beneficiated bulk commodities. The amendment of parameters of the research will not change the fact that South African cargo owners carry the majority of the burden of infrastructure costs while foreign cargo owners and vessels receive globally competitive rates or discounts. In addition, carefully selecting ports that support a particular argument in response to these numbers does not remove the reality, as an equally careful selection, can move the numbers in a the opposite direction. In some cases, our pricing is too low, and in other cases too high. What they also show is that different stakeholders in the logistics system inappropriately bear the incidence of tariffs, in comparison to global practice.

As example: The trend in port pricing in South Africa, from an internal coherence(using global averages) perspective, appears to subsidise the industries that have lower levels of job creation and value addition in RSA. The higher job creation industries tend to be penalised. An example is the differential of cargo dues that existed between stainless steel and mild steel prior to the Regulator's decision (although this element was one of the issues considered in that matter, it was not the basis of the decision). An industry that stopped at one level in the value addition process and then exported its product to have further value added in another country, paid roughly one quarter of the price paid by the producer that took that product and added further value inside of the country, for the same use of infrastructure. This is clearly not in line with South Africa's economic development policies, and the need for stronger alignment between different policies and regulatory regimes is critical in advancing a coherent and sustainable industrial policy. As such the current tariff structure where bulk trades also tended to be less than or close to the global averages, while the value added trades were significantly above the global averages, unless you were a foreign cargo owner merely transhipping your cargo through South African ports, is clearly not aligned with the country's industrial objectives.

This research is not intended to automatically define the levels of pricing that are appropriate and the targets that need to be set for pricing incidence, it is designed to add to the debate in reviewing and setting appropriate pricing and price incidence in the port system.

Comment

The research is therefore published and any correction, criticism and comment is welcomed. We do however ask that where parties wish to submit such, they please provide the following:

- An explanation as to why the information in the study is incorrect or inappropriately used.
- The correct information, if the information in the study is claimed to be incorrect, or a more appropriate use or exposition of information if the appropriateness or exposition of the information is questioned.
- The original public documents and or information that the "corrected" information is based on.
- The reason why an alternate view, if it is opinion-based such as the selection of different populations or indices, is more appropriate.