

**2020 Port Tariff Roadshow message: CEO of the Ports Regulator (31/08/2020 – 01/09/2020)**

Greetings, Chairperson and Members of the Ports Regulator, PRSA team, Kgomotso Phihlela CEO and other officials from the Ports Authority and Transnet Head Offices, Port Managers, Port Captains, officials of the Department of Transport and other departments, provincial and local government, Members of the PCCs and NPCC, chairpersons and officials of maritime industry, and industry associations, members of the press, and ladies and gentlemen.

I wish you all a warm welcome to this annual Ports Regulator event which we are for the first time holding as a virtual event in this period of the global covid pandemic.

Allow me to take this opportunity to congratulate and welcome the new Chairperson Mr Kgosie Matthews and the newly appointed Members, and wish them all the very best in the execution of their responsibilities over their three-year term of office. Allow me further to publicly thank, on behalf of the ports community as a whole, our outgoing Chairperson, Mr. Thaba Mufamadi, and the Members of the Interim Regulator for their leadership and commitment to the work of the Ports Regulator and their magnanimous contribution in serving as an Interim Regulator in our time of need as an institution.

We find ourselves together once again in a public forum in which we consult the public on the proposed NPA port tariff increases for the coming year and beyond. Each year we have given port stakeholders this public consultation opportunity to air your views, directly to the Members of the Regulator, on the NPAs tariff application which we have made available to all stakeholders on our website. As is usual, the Regulator will take into account what is said at these hearings here today, as well as the written submissions that many of you will make by Wednesday 30 September, apply our minds in deliberating on these as well as the application made by the Ports authority in terms of the current Tariff Methodology published in March 2020, and issue a tariff record of decision towards the end of November 2020.

Let me at the outset thank you for all your previous efforts in compiling and providing us with comments in previous years and we appreciate that they have assisted us and have made a difference in the decision-making of the Regulator. This is the first tariff that will be approved in terms of our third multi-year tariff methodology which the Regulator approved after an extensive public consultation process since September last year, culminating in presentations from industry on 5 February in Durban this year.

**Allow me to say a few words on the work of the Ports Regulator over the past few years to recap on how we have served our stakeholders and our country as a whole:**

The Ports Regulator once again lived up to its aim of reducing the cost of living to South Africans as well as the cost of doing business by approving a below inflation average increase on Port Authority tariffs of 0% for 2020/21 with a Record of Decision published on 29 November 2019.

Significantly, cargo dues on export containers was reduced by -20% and many break bulk cargo dues were capped in support of President Ramaphosa's economic stimulus imperatives. The Ports Regulator also took due cognisance of the expected subdued economic activity over the tariff period coupled with a strong capital expenditure program included in the application, and committed to using the Excessive Tariff Increase Margin Credit (ETIMC) to ensure that overall average tariffs in the outer two years of the period under review remained within or below the inflation target band.

Over the years, the Ports Regulator continued to hold the Ports Authority to account within its regulatory mandate, implemented the Tariff Strategy in moving progressively towards cost reflective tariffs, developed initiatives to improve the efficiency and performance of SA ports, made continuous strides in determining and implementing a fair value of port assets, helped improve transformation and BBBEE participation in the sector, and allowed some discretion to implement port tariff subsidies in the public interest that will support economic imperatives, whilst ensuring that in the main, that our port tariffs and efficiencies become globally competitive.

In this regard it is recognized that the Ports Regulator incentives currently being implemented have respectively centered around the improvement of port efficiencies (WEGO) as well as port tariff incentives in the interest of beneficiation, industrialization and localization (PTIP), both of which are vital for the re-invigoration of our cooling economic growth. The Ports Regulator is arguably the only economic regulator to respond positively to President Ramaphosa's recent calls to reduce administered prices as part of his economic stimulus initiative, when it announced a -6,27% average reduction in port tariffs for 2019/20 and 0% for 2020/21.

We all remember that in July 2015 the Ports Regulator published South Africa's long-term Port Tariff Strategy, which seeks to reform port infrastructure pricing over a 10 year period, bringing greater fairness, cost reflectiveness and predictability in South Africa's port system. Notable too were the developments of our three multi-year tariff methodologies. It has been over 5 years since the Ports Regulator published its historic first multi-year tariff methodology for 2015/16 to 2017/18, and now (in March 2020) we have published the third revised tariff methodology for the years 2021/22 to 2023/24, having continued our open and public approach to our work. In the development of the latest tariff methodology applicable to tariffs from 2021/22, a call for submissions was made, a Ports Regulator paper guiding submissions on the Methodology was published, and a draft methodology was published for public comment. All comments and submissions were published on the Regulator's website. The consultation process culminated in a face-to-face public consultation meeting on 5 February 2020. Participants from various sectors presented their view on the tariff

methodology. These included the Competition Commission (CC) whose presentation was made by the Deputy Commissioner; the Eastern Cape Maritime Business Chamber (ECMBC); the National Energy Regulator of South Africa (NERSA); the National Ports Authority (NPA); the National Ports Consultative Committee (NPCC) representing port users; the Aerospace Maritime and Defense Association (AMDA); the National Association of Automobile Manufacturers of South Africa (NAAMSA); and the UKZN Graduate School of Business led by Professor Chasomeris. After the consultation process, the approved third Multi-year tariff Methodology was published in March 2020.

Whilst bringing about greater fairness, cost reflectiveness and predictability in South Africa's port system, we have responded to South Africa's economic growth and job creation imperatives by maintaining much lower prices for highly beneficiated South African manufactured cargo in export containers as well as SA manufactured export vehicles, in support of local manufacture and industrialization. Also, in support of economic development, the Regulator introduced an incentive for the registration of cargo carrying commercial vessels on the SA flag registry. The growing number of vessel owners taking up this opportunity will improve SA involvement in the maritime sector, increasing jobs, skills and supply chain opportunities to South Africans beyond our boundaries.

The Regulator has also in the past ensured that all automotive industry cargo dues were equalized at the full 60% discounted level previously enjoyed by only the largest automotive manufacturers. This reduced the cost of doing business to smaller SA auto manufacturers. Beyond economic stimulus in the automotive sector, the Ports Regulator has developed an overarching framework for port tariff incentives (the PTIP) in support of beneficiation, localisation and industrialization, which allows application by individuals and companies for port tariff book reductions, with approval processes modelled on the basis of public interest, public scrutiny and public response. We hope to see more take-up of this incentive as awareness of this opportunity improves.

The work of the Ports Regulator over the years has resulted in significantly lower approved port tariffs resulting in a saving of more than R10bn to port users over the few years of its existence whilst maintaining the continued revenue sustainability of the National Ports Authority. These figures are based on what the Authority proposed in its applications versus the Regulator decisions on tariffs.

The Regulator continues to be proactive and risk mitigating and maintains an Excessive Tariff Increase Margin Credit (ETIMC) of about R3bn available to offset future increases. In fact, many of the tariff adjustments to a below inflation increase would not have been as low if it were not for the use of the ETIMC. This savings facility and other tariff mechanisms may prove their value at a times like these when Covid has unleashed upon our economy, risks we have never previously imagined.

Besides the new Tariff Methodology and updated Tariff Strategy, recently published documents include the eighth iteration of the global ports pricing study, as well as a Record of Decision (ROD) on WEGO KPI's and weights to be measured in 2020/21.

Country-wide consultations were held in conjunction with the Ports Consultative Committees (PCC's) and other stakeholders on WEGO and other port industry development imperatives, including discussions dealing with the corporatisation of the National Ports Authority in terms of the National Ports Act.

The performance incentive system, called Weighted Efficiency Gains on Operations (WEGO), continues to be based on five key indicators that were consulted with the NPA and Port Consultative Committees in the major commercial ports, but the 2020 ROD commences the measurement of land-side measures with the inclusion of baseline measurement of Truck Turnaround Time as a future KPI. The new WEGO system which forms part of the new Tariff Methodology rewards year on year improvements in performance and penalises deteriorating performance, allows the Ports Authority, to gain or lose up to 7,5% profit for up to 15% increase or decline in performance on a proportional basis, with the Regulator annually revising weightings for lower performing KPI's upwards. We have also provided for a down-time adjustment in favour of port users.

Five years ago, the organisation produced the first five-yearly Port Sector Review, and Regulatory Review done by stakeholder consultation and surveys, which is again scheduled to be done this year. As the Regulatory Review includes your views on how the Regulator has done its work, we will be conducting interviews, surveys and other forms of public consultations to complete this work which we hope to do in conjunction with the Presidency's DPME team, as was done before. We look forward to your cooperation and participation in this regard, and my colleague Jowie Mulaudzi will shed more light on this as the day progresses.

Other important work done over the last few years, included the Capacity and Utilisation study for SA ports, and the Ports Efficiency Benchmarking Study, the Regulator's compliance monitoring work, our audits of BBBEE compliance in our ports, our analysis on the equity of access in SA ports, and many more. All these are important in addressing the many problems that people and businesses face in our country, reducing the cost of doing business of South Africans, and are vital to the success of the National Development Plan and our economic success as a country.

Another significant achievement was the development and publishing of South Africa's first formal Methodology for the Valuation of the Regulatory Asset Base of the National Ports Authority. The Regulator concluded that the Trended Original Cost TOC approach which ensures Financial Capital Maintenance will be the preferred valuation methodology. However, some concerns related to the older assets capitalised before 1990 remain, so assets with capitalisation dates before 1990 will

therefore be treated on the basis of the historical cost method, while treating any assets created from 1990 onwards on the basis of the TOC approach. This RAB Valuation methodology now forms an important component of the latest Tariff Methodology.

Our Tribunal function provides port users a platform for complaints and appeals within the commercial ports system and over the years a number of complaints and appeals have been adjudicated on, beginning the development of a body of jurisprudence for South Africa's ports. Our new Regulator Members have already in the short period since they have been appointed, begun to resume tribunal hearings and we are confident that the case backlog will soon be behind us.

The Ports Regulator received an "Unqualified Audit" from the AG in its last audit, in August 2019 (for 2018/19), and four clean audits in the years before. We once again achieved 100% of annual performance plan (APP) targets performed as audited, affirming our commitment to good governance and attention to the call of duty.

I thank the Minister of Transport Hon. Fikile Mbalula, Deputy Minister Hon. Dikeledi Magadzi, Director General Mr. Alec Moemi, and the Senior Managers and staff of the Department of Transport, and look forward to working together to enhance and capacitate the Ports Regulator and work towards improving the maritime sector as a whole. I would like to thank my staff and management for their dedicated service and their consistent achievement of the deliverables set out in the APP and their commitment to service excellence.

In the year ahead the Regulator will focus on implementing the new multi-year tariff methodology and deal with the devastating economic, financial, and organisational impacts of the COVID-19 pandemic. We will also continue the work on monitoring the implementation of B-BBEE targets as envisaged in Ports Act Regulations and in the interests of transformation. In line with the NDP and Ministerial priorities, we hope to enhance the capacity of the Regulator, assist with the establishment of STER, and continue to focus on reducing administered prices in the ports system.

I wish you all well in the deliberations ahead, in this important task of the determination of tariffs for the ports of South Africa for the medium term. Our country is at a critical juncture in our economy, amidst the covid pandemic and rising global contestations. We hope that we can all collectively apply our minds together to find long lasting solutions that bolster our economy, expand employment, improve the lives of South Africans, sustain and develop our infrastructure, and take South Africa forward. We can sink together or swim together. This is your opportunity to choose wisely and to speak your wisdom.

It thus gives me great pleasure to hand over to Ms Jowie Mulaudzi, our Programme Director. I thank you.