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Submission to the National Port Regulator

SUBJECT: TARIFF STRATEGY FOR THE SOUTH AFRICAN PORT SYSTEM

Preamble – SASTaLC

SASTaLC is a non-profit organisation that actively engage on behalf of its members with national service providers and government on matters pertaining the logistics supply chain and the economy attributed by the logistics movement of product. We advocate collaboration and understanding in the logistics supply chain to improve the effectiveness and the efficiency of the total logistics supply value for South Africa. The SASTaLC membership base covers the length and breadth of the industry and therefore we understand the nature of the logistics requirements of the cargo owner, the service supplier, regulators and the government and believe we can gather these stakeholders around the table of the council to create value for South Africa and the logistics supply chains.

SASTaLC previously known as the SASC had frequent engagements with NPA in order to pro-actively further the interest of the National Port Authority and the Industry.

Structure and the comments

The comments will be structured and addressed in the following list of topics:

- Multi-year approach on the tariff strategy
- Redistribution of cost towards the stakeholders in the port user system
- Transnet Master Demand Strategy

- Operating cost
- Port Efficiency
- Current and future economy forecast

Multi-year approach on the tariff strategy

The council support a multi-year approach with the view that the tariff increases as a result of project purposes are softened and remain in line with the CPI and PPI of the economy. Further to this it is recognised that the cost of operation is increasing, however an efficiency and or service improvement factor to combat the inflationary increases should be introduced. The fact that the net result in the tariff increase and cost is based on a cost recovery basis, requires a efficiency improvement factor. If this is efficiency improvement factor is not implemented the inflationary increase when compounded over a period, can become an upwards spiral that can become out of control.

Redistribution of cost towards the stakeholders in the port user system

The redistribution of cost based on the port cost research is fully supported by SATaLC. We agree that the cost should be attributed to the correct stakeholder to ensure the rigor for future benchmarking and operational evaluation. However we would like to draw the attention of the Ports Regulator to the fact that the shipping line cost is a pass n cost towards the shipper / Cargo owner and although the cost is passed to the correct stakeholder this do not imply that the benefit will be towards the South African importer/exporter. The total port cost is captured in the value chain cost and depending on the shipping lines appetite to strive towards efficiency and lower cost this cost can become a non-focus toward the shipping line and as a pass through cost the South African shipper inherent a high cost with no method of control or management pertaining to that cost. The underlying principle is not correcting the allocated cost according to research to the South African shipper, but to drive down the total cost.

Transnet Master Demand Strategy

The council acknowledge and agree with the principle of creating capacity ahead of demand pertaining the following factors. Demand is industry driven and the gap between demand

requirement and actual capacity do not differ extremely in terms of capacity creation (Volume capacity) and time for utilisation. With reference to the Transnet master demand schedule and the current economic outlook for the short term future, the regulator should take note that there is an alignment with references to the port capacity expansion and the feed interfaces (rail and road). However due to the economy and industry signals of delayed growth opportunities these project dates and volumes should be reviewed and adjusted to align again with industry requirement and timing. Untimely project execution combined with unutilised capacity is very expensive. Due to the capacity creation activation during the down cycle of the commodity or product to be available during the up cycle, the affordability during the down cycle of unutilised capacity place undue upward pressures on the cost containment of the logistics supply chain. Alignment and review of the current state of projects is recommended.

Operating cost

Operating cost should be managed in line with the inflation target. All increases over and beyond the inflation target is an inflation driver and cause an upwards inflationary spiral. From the NPA tariff application it was noted that the operational cost planned for 2015/16 is in relation to 2014/15 has increased with 13.63%. From annexure C the regulator should review the labour component, Pre-feasibility studies and Sundry operating cost. These items and increase is not in-line with the inflation target and the increase in labour prior to expansion is counter acting and benchmarking with other ports with reference to people resource power versus the activity should be initiated. Industry and global best practise drive towards efficiency. Annual salary adjustment should be managed in terms of economic sustainability and inflation. Hence less that inflationary increases are welcome. Should insourcing of services under labour prove to be more expensive that the current outsourced contracted service this applicable line items should be reviewed and strategized for a better solution? Sundry and feasibility cost should be managed better and the increase level is far above the inflation increase.

TNPA service delivery

In line with the legislation the port authority is mandated toward delivery of certain services i.e. pilotage and on the website of the regulator there are various complaints registered towards the service. The regulator should review the required service offering in line with the service tariff and in

the current tariff application the relevance of a service increase based on the non-conformance ration of services.

Current and future economy forecast

The current and short term forecast form economist indicate the growth in the South African economy has ceased and the inflationary pressures is increasing upwards. The commodity price cycle is in a valley and expected only to show and upward trend towards the end of 2016 mid 2017. In lieu of this to remain competitive and sustainable for the long and medium term all parties in the value chain inclusive of NPA should review the expenditure state and budget and reduce the budget and hence increase to equal the current economic outlook and hence we appeal to the regulator to review the tariff increase proposal in the light of the medium term economic outlook.

Conclusion

The Council trust in the judgement of the regulator with the view that the judgement will ensure that the best interest of the South African economy is at hart and that the logistics supply chains lowest cost is the key driver to maximise the economic growth.



A Botha

Chairman

Southern Africa Shippers Transport and Logistics Council