



Memo: Western Cape Government submission on the 7th Annual Port of Cape Town Performance Roadshow

1. Introduction

This submission serves as formal input from the Western Cape Government on the 7th annual Port of Cape Town Port Performance Roadshow, which provides for an opportunity to review port plans, CAPEX plans, port performance and how this links back to the tariff process.

Over the last year, port inefficiencies, coupled with COVID-19 challenges have exacerbated frustrations amongst port users, and have been detrimental to the Western Cape economy, most evident by the fact that there has been an increase in shipping lines omitting the Port of Cape Town, and vessels bypassing the Port of Cape Town.

Congestion and long truck turnaround times at the Port of Cape Town is still a major constraint which comes at a significant cost to the container transporter industry. At times inefficiencies have also forced exporters to use other ports at a higher transport cost to export their goods.

The Port of Cape Town is an important channel for exports and imports and is a major economic gateway for the province. As such effective and efficient cargo flows are essential for economic growth and job creation.

However, the current inefficiencies and costs at the Port of Cape Town is an impediment to the cost and ease of doing business in the Western Cape. Which ultimately impedes economic growth, attracting investment and creating jobs.

General observations from the roadshow engagement on 3 June 2021 points to a need for planning to be more reflective of market requirements as opposed to what Transnet requires. There was also a strong sentiment that it is critical to maximise efficiency before contemplating expansion of Transnet's footprint. More generally there also seems to be a major frustration in terms of timelines and a lack of urgency given the poor performance of the Port of Cape Town.

Not only is the South African port network deemed to be performing poorly, but South African ports are also considered to be very expensive ports when compared globally. These two factors have a significant impact on our global competitiveness, and as such, need to be urgently addressed.

To this end, the Western Cape Government strongly supports Transnet Port Terminals (TPT)'s public commitment to seek a global operator to turn around the poor performance at container terminals. Although it is acknowledged that the Ports Regulator only regulates Transnet National Ports Authority (TNPA). The positive development of seeking a global operator should be reflected in the overarching planning of South Africa's port network. This is particularly applicable to TNPA,

given that the national ports authority is responsible for the safe, effective, and efficient economic functioning of the national port system.

The Port of Cape Town and its container terminals are a top priority for the Western Cape Government. The Western Cape Government remains committed to strengthening the strategic cooperation and collaboration with Transnet at the Port of Cape Town in order to improve efficiencies and ease of doing business at the port.

2. Port Efficiencies VS Cost and the Impact on the Economy

The Port of Cape Town ranked 347 out of 351 in the recent World Bank global container port performance report. Yet based on the most recent Global Pricing Comparator Study (2020/21) the total TNPA cost to users in container ports in South Africa are considerably high at 146% above the global sample average. A reconfiguration is urgently required.

Although it is acknowledged and appreciated that this is the very basis of the Regulator's strategy concerning the assessment of tariff increase applications. And that the Regulator has denied tariff increase applications in the past on the basis of performance, using the agreed upon Weighted Efficiency Gains from Operation (WEGO) indicators. Reconfiguration between performance and cost still has a long way to go.

From the roadshow engagement, the sentiment was shared that there was more concern from port users about operational inefficiencies in the container terminals in Cape Town, than about inefficiencies in TNPA.

This concern is confirmed in the port performance presentation that reflects ship working hours being consistently below target. Truck turnaround times were also consistently higher than targets for the Cape Town Container Terminal (CTCT). The Multi-Purpose Terminal (MPT) also performance poorly against targets, with the notable exception of manganese.

Additional confirmation is found in the Record of Decision of the Ports Regulator on the Weighted Efficiency Gains from Operations ("the WEGO") dated 31 March 2021, which reflects changes in port performance up to Q3 2020/21. Vessel service delays is the only indicator reflecting an improvement, which was 0.4% for the period. The negative variation of 17.4% in ship turnaround time is also a matter that requires particular attention. Indicators for ship and berth productivity, as well as for ship working hours, also had negative variations.

As a proposal, container dwell time in terminal could be a useful indicator of landside productivity. It is also noted that an appropriate combination of waterside and landside indicators of efficiency is becoming increasingly important for cargo owners.

Although it is acknowledged that the Ports Regulator only regulates TNPA, it has become evident that TPT has a crucial contribution to make regarding port efficiencies. Therefore, TPT should ideally be included in the presentations for future roadshows.

The negative variation of 18% in projected container movements for 2021, cannot be ascribed to a reduction in cargo volumes only. These movements are also affected by port and terminal service levels. In this regard, the daily operational availability of rubber tyred gantries appears to be the most critical constraint. The current number of rubber tyred gantries is 18, whereas a minimum number of 22 is required to effectively service seven ship to shore cranes and their gangs.

It is of strategic importance for the Western Cape Government that cargo that is natural and viable to flow through the Port of Cape Town should be accommodated by way of adequate and efficient service levels. This should be as close as possible to the time that the cargo will need to be handled and conveyed. There should also be adequate service level capacity to recover rapidly from delays caused by weather or ranging. The capacity to increase service levels over the short to medium term to meet the growing demand, should serve as an incentive for investment, accelerated economic growth and job creation.

Port and terminal service levels that are below industry needs for maritime cargo handling, result in higher costs of doing business, which restrict investment, economic growth and job creation and reduces competitiveness.

The last year was a particularly difficult period for the Port of Cape Town, with COVID-19 being a major contributing factor. The result of Inefficiencies at the Port of Cape Town included:

- Some exporters were forced to use other ports at a higher transport cost to export their goods;
- Increased congestion which resulted in increased costs to the container transport industry. It is estimated that congestion at the Port of Cape Town alone, is costing the container transporter industry an estimated R10 million in direct cost per month (indirect cost would even be higher).
- Increased incidents of shipping lines omitting the Port of Cape Town, and vessels bypassing the Port of Cape Town.

- With a performance ranking of 347 out of 351 yet charging port users excessive costs at 146% higher than the global average- an urgent reconfiguration is required.
- Inefficiencies at the Port of Cape Town is eroding the competitiveness of the Western Cape economy.
- A minimum number of 22 rubber tyred gantries is required to effectively service seven ship to shore cranes and their gangs. The current capacity is only 18.

3. Port Development Framework Plan (PDFP) for Cape Town and Collaboration in the Port Logistics Chain

It was evident from the proceedings during the roadshow that port users appreciated the presentation on the Port Development Framework Plan (PDFP). However, it was also evident that they need more opportunity to engage with it in a constructive manner. Whereas the roadshow did provide a platform for TNPA to present the PDFP, the opportunity for port users to engage with and respond to strategic implications, was insufficient.

A general sense from the question and answer session was that businesses requires more urgency on critical service level shortcomings in the short-term section of the PDFP. More clarity on the changes that are implied in the medium- and longer-term section was also wanting. In addition, more transparency is needed on the fundamental economic assumptions that underly the medium- and long-term section of the PDFP. There is also a great demand for clarity in terms of

what implications development framework plans for other South African ports might have for the Port of Cape Town. The Western Cape Government is willing to support such further engagement between TNPA and business on the PDFP for Cape Town as part of its commitment to promote greater collaboration among major agencies in this logistics chain. There are details in the Port Strategy Cascade Model/Diversification Strategy, for which a slide was included in the roadshow presentation pack by TNPA, that also require elaboration. A suitable stakeholder engagement event could be arranged in consultation with the Port Manager for this purpose.

The under-utilisation of MPT that was mentioned by TNPA during the presentation is also a considerable concern for the Western Cape Government. This terminal has less operational continuity risk from adverse weather than the main container terminal and greater utilisation should take place as a matter of urgency. The most critical constraint for greater utilisation of this terminal seems to be the inadequate capacity of mobile harbour cranes. There have been conversations between the Western Cape Government and TPT to explore avenues for assistance with urgent equipment augmentation, but procurement frameworks are not currently available for this. However, perhaps an alternative could be to invite private terminal operators to invest in MPT. TNPA's position on such an alternative would be very insightful and valued. WCG sees this as an area where there are very little barriers for entry since the model utilised for the FPT is indicative of a concessionary system that works.

- The roadshow provided a platform for TNPA to present the PDFP, the opportunity for port users to engage with and respond was insufficient.
- Urgency is required in terms of critical service level shortcomings in the PDFP.
- The under-utilisation of Multi-Purpose Terminal (MPT) is of considerable concern.

4. Capital Expenditure by TNPA

The significant increase in the capital budget for TNPA from R323 million to almost R1.563 million in 2022/23 is encouraging. However, capital under expenditure at TNPA remains a major concern, evident in the fact that only R59 million was spent in the past financial year. The fact that maintenance expenditure was also considerably below the budget is also a great concern.

The hydraulic tensioning equipment that could mitigate operational delays from ranging is not listed on the capital expenditure plan, but it is believed that this project is likely to proceed. This is a positive development, albeit somewhat delayed development.

An update of the capital expenditure plan and the utilization of unspent capital from the previous financial year would be appreciated. It would also be of great value and reassuring to get an

indication of the capacity to manage the larger capital budgets for the current and the next financial years, as capital under expenditure should be avoided.

- Major capital underspent by the Port of Cape Town in the last financial year is very concerning.
- Improving Port of Cape Town's ability to spend large capital budgets is critical, especially in light of the larger capital budget for the new financial year.

5. Oversight Role of TNPA in terms of the Ports Act

As indicated in the record of decision of the Ports Regulator dated 31 March 2021, the WEGO system aims to incentivise the Authority to play its role of landlord to terminal operators effectively by driving efficient operations. Overall changes in selected and agreed to KPIs in the base year or previous best performance, determines whether the Authority receives a performance incentive or a disincentive.

Efficiency indicators per terminal are provided in the port performance section of the TNPA presentation to the roadshow for Port of Cape Town, but these indicators are not referred to in the section on the oversight role of TNPA. An explanation of the freedom of TNPA to exercise its oversight role over TPT in terms of the Ports Act, while it is governed by the same Transnet group organization structure as TPT, is a matter requiring urgent clarification. At least from a conceptual point of view the structure would seem to create conflict of interest and impair objective oversight.

It will also be of great value if TNPA could collate information on the number and the dates of vessels omitting Port of Cape Town after they were scheduled to discharge or collect cargo from the Port. This information should ideally be made publicly available and for an appropriate strategy working group to facilitate an effective and collaborative response.

Furthermore, the Western Cape Government would appreciate oversight information from TNPA on the economic utilization of Transnet property in the Port of Cape Town and its precinct. Land in this part of the City has premium value and could contribute significantly to attracting investment, economic growth and job creation.

- The current structure of TNPA having an oversight role over TPT in terms of the Ports Act, while it is governed by the same Transnet group organization structure as TPT would, on a conceptual level, seem to be a conflict of interest and impair objective oversight.

6. Global Partner

The public commitment by TPT to seek a global operator to turn around the poor performance at container terminals is strongly supported by WCG. This shift would be the most significant shift in

the South Africa port network in the last two decades, and a move in the right direction in liberalising and modernising the South African port system.

As mentioned earlier, it is acknowledged that the Ports Regulator only regulates Transnet National Ports Authority (TNPA), however the positive development of seeking a global operator should be reflected in the overarching planning of South Africa's ports network. It is also particularly applicable to TNPA, given that it is responsible for the safe, effective, and efficient economic functioning of the national port system.

The commitment should be reflected in the overarching planning of the national port system, with an indication of timelines.

- The public commitment by TPT to seek a global operator to turn around the poor performance at container terminals is strongly supported by the Western Cape Government.
- The overarching planning for the South African port network system should reflect and incorporate the plans of getting a global operating partner/partners

7. Closing

Thank you for the opportunity that was created to engage with the Port Consultative Committee and TNPA on the performance at the Port of Cape Town for the past year. The Western Cape Government values the strategic cooperation relationship that it has with TNPA and TPT in the Port of Cape Town, and looks forward to strengthening this collaboration even further.

It will also be appreciated if an invitation to attend the Port Consultative Committee for Cape Town can be extended to the Department of Economic Development and Tourism. Participation in that forum will promote the collaboration that already exists.