Economic Association of Namibia

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REVIEW

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Namport within the context of a logistics hub

Introduction

Part of the Namibian development agenda is to position itself as a logistics hub, often termed the SADC gateway. Namport plays a crucial role in this development objective as this ambition can only materialize if world-class infrastructure is in place. This means a good road and rail network, cheap electricity, and modern harbours and airports that are up to international standards.

The Walvis Bay port was recently deepened, and the new container terminal will be functional around June 2019, all at a cost of N$4.0 billion. The new fuel storage facility, which cost N$5.6 billion (under good governance this project would have cost around N$1.0 billion), at the "SADC Gateway" will also be operational in 2019. The railway from Walvis Bay to Kranzberg will be upgraded in the next three years at a cost of N$5.5 billion. The asphalt road from Walvis Bay to Swakopmund will be upgraded, costing more than N$1.0 billion, and the road to Henties Bay for an estimated N$2.0 billion. The dual highway between Windhoek and Okahandja is work in progress, and soon the new highway to the Hosea Kutako International Airport will commence at a cost of at least N$1.0 billion. In all, these ambitious and costly capital programs come with a price tag of more than N$20.0 billion.

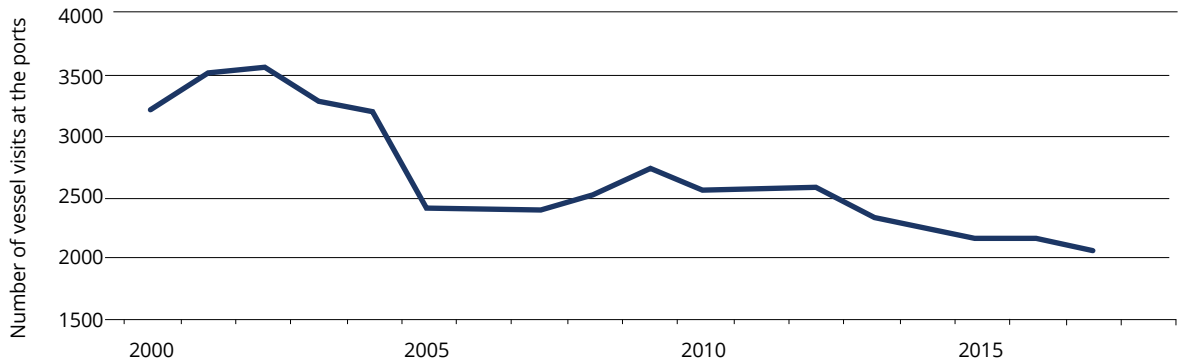
It is assumed that these huge investments will transform the country into a logistics hub, making Namibia's ports more competitive compared to alternative transport routes in Southern Africa.

To assess whether the above-mentioned investments will indeed yield the desired results, one must take a closer look at the operations and financial position of Namport.

Namport under the spotlight

Port tariffs play an important role in the growth and competitiveness of seaports. As a starting point therefore, we will analyse long-term trends of vessel visits to Namibia's two ports in comparison to Namport tariffs.

Figure 1: Vessel visits at Walvis Bay and Lüderitz ports



Source: Namport Annual Reports

Figure 1 shows a declining trend in vessel visits to Namibia's two commercial ports. Port visits peaked in 2002, recording an annual total of 3,559 vessels while in 2017, just 2,079 vessels visited both harbours - a decline of 1480 vessels per year or 4 vessels per day.

Table 1: Craft Assistance/Attendance Tariffs

Tariff year	Up to 2,000 gross metric tons	15,000 to 20,000 gross metric tons
2000	N$ 2,496.00	N$ 8,286.00
2002	N$ 2,911.00	N$ 9,665.00
2005	N$ 3,458.00	N$ 12,058.00
2010	N$ 5,117.00	N$ 17,833.00
2015	N$ 7,103.00	N$ 27,397.00

Source: Namport Tariff Tables

There has been a reasonable increase in fees of attending to a vessel since 2000. Handling fees for vessels up to 2000 gross metric tons increased from N$2,486 in 2000 to N$7,103 fifteen years later. Container fees have been increasing at a more rapid pace over the years. To ship or land a 6-meter container cost N$300 in 2000 but has escalated to N$5,454 in the 17 years to 2017. As can be seen in Table 2, the increase was substantial in 2002 - after which vessel visits declined dramatically.

Table 2: Containers Landed/Shipped Tariffs

Tariff year	6m container	12m container	13.7m container
			-
2000	N$ 300.00	N$ 390.00	-
2002	N$ 1,846.00	N$ 2,469.00	-
2005	N$ 2,094.00	N$ 2,801.00	-
2010	N$ 2,945.00	N$ 4,460.00	N$ 6,253.00
2015	N$ 4,854.00	N$ 6,470.00	N$ 9,614.00
2017	N$ 5,454.00	N$ 7,269.00	N$ 10,802.00

Source: Namport

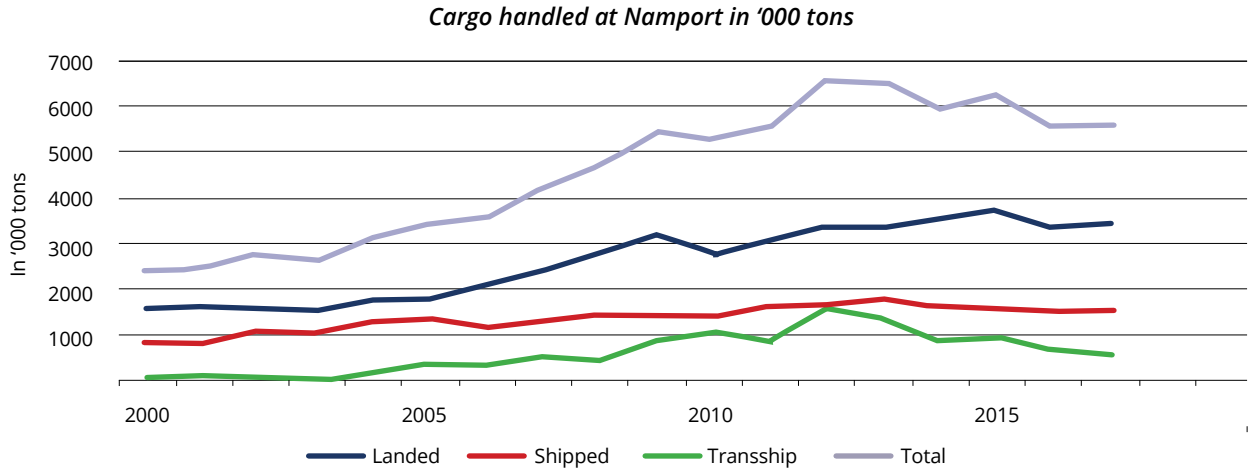
The total cargo handled by Namport is an indicator for the role of Namport as a crucial part of Namibia becoming a logistics hub within the SADC region. Is Walvis Bay significant within the broader context of a logistics hub, and is the total cargo traffic increasing or decreasing? What are the reasons behind such an increase or decrease?

The total cargo handled by Namport (Walvis Bay and Lüderitz harbours) is categorized according to landed cargo, shipped cargo (export), and transhipped cargo (mainly to southern Angola). Figure 2 illustrates that total cargo handled peaked in 2012 at 6.5 million tons, and landed cargo made up 3.4 million tons or 51.0% of this. Shipped cargo accounted for 1.6 million tons (25.0%) and transhipped cargo 1.5 million tons (24.0%).

In 2017, total cargo handled dropped to 5.6 million tons - a decrease of 17.5% compared to 2012. Landed cargo in 2017 totalled 3.4 million tons (62.0% of total cargo handled), shipped cargo 1.6 million tons (28.0%) and transhipped cargo declined significantly to just 0.6 million tons (10.0%). If Namibia has ambitions to become a competitive logistics hub within the region, it must be asked why transhipment cargo volumes decreased so dramatically from 2013 - long before the drop in the oil price adversely affected the Angolan economy in 2015. Has the Lobito corridor, in which Angola invested heavily, already had such a significant impact on transhipment cargo?[1]

[1] Michelsen Institute: Angola's Lobito corridor: From reconstruction to development, 2014.

Figure 2: Namport Cargo Traffic



Source: Namport Annual Reports

Since the end of the civil war, Angola has invested about US$1.2 billion, mostly funded through loans from China, in the Lobito corridor. China's economic interest is to gain access to the copper belt in Zambia and the mineral rich Katanga province in the DRC, via Angola. The Lobito harbour was modernized with a new container terminal, increasing the current capacity of the harbour to 4.0 million tons of cargo, only slightly smaller than Walvis Bay. The Benguela railway line was completed in 2013, stretching up to the border with the DRC.

The distance between Lobito, the DRC (Katanga), and Zambia (Lusaka) is about 1,400 km, much closer than Walvis Bay. In 2010, the destinations for transit cargo through the port of Walvis Bay were Angola (37.0%), Zambia (29.0%), Zimbabwe (19.0%), DRC (8.0%), Botswana (4.0%) and others (3.0%). Angola and Zambia were thus the main markets at that time with a total of 66.0% market share. Since then, major infrastructure developments took place in the Lobito and Dar es Salaam harbours. These developments are likely to negatively affect the Walvis Bay harbour, and the significance of Angola as a transhipping destination could decline further over the next 3-5 years.

With these developments in mind, the logistics hub must thus look to the potential of the DRC, Zambia and western Zimbabwe. Gaborone (Botswana) is too close to Durban and will not play a significant role, which leaves mainly the DRC (bulk) and the Copper Belt in the Kitwe region of Zambia as potential markets to be serviced through Walvis Bay.

Table 3: Distance Table - Kitwe, Zambia

Origin	Destination	Distance (km)	Transit time
Kitwe	Beira	1,293	5-8 days
Kitwe	Dar es Salaam	1,968	12-14 days
Kitwe	Lobito	2,075	N/A
Kitwe	Walvis Bay	2,480	4-5 days
Kitwe	Durban	2,579	7-10 days

Source: SADC Transport study, 2014

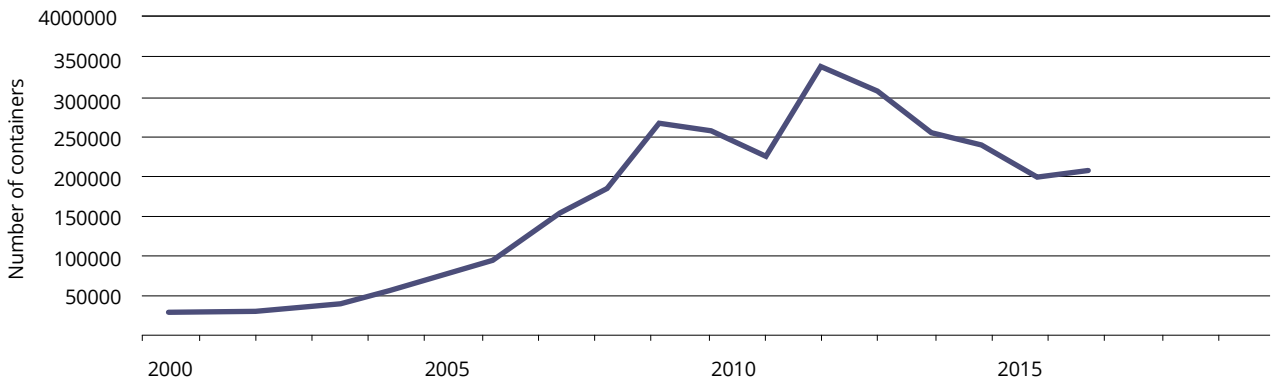
Table 3 uses Kitwe in the Zambian Copper Belt as a focal point and compares the distances to the various ports. As can be seen, Walvis Bay is not competitive from a geographic point of view but the transit time brings efficiencies from a time perspective.

In the Namport 2013/14 Annual Report, the Chairman, Mr. J Muadinohamba stated: *"The NDP4 Public Infrastructure desired outcome is for Namport to ensure it has well-functioning and high-quality infrastructure whilst the logistics desired outcome prescribes a doubling of our 2012 cargo volumes, which were 6.5 million tonnes, by 2017."* A desired

outcome and linear thinking can sometimes become very expensive. The forecast was that by 2017 the cargo volumes would double to 13 million tonnes. The reality of these predictions - or wishful thinking – have very different outcomes: total cargo for 2017 came to just 5.6 million tonnes, 7.5 million tonnes less than anticipated.

Furthermore, the Chairman stated: *"The logistics desired outcome requires the Port of Walvis Bay to become the preferred African West Coast port and logistics corridor for Southern and Central Africa logistics operations by 2017. We embarked on our journey to achieve this logistics hub goal when we celebrated the ground-breaking of the New Container Terminal at the Port of Walvis Bay in May 2014."*

Figure 3: Containers handled by Namport



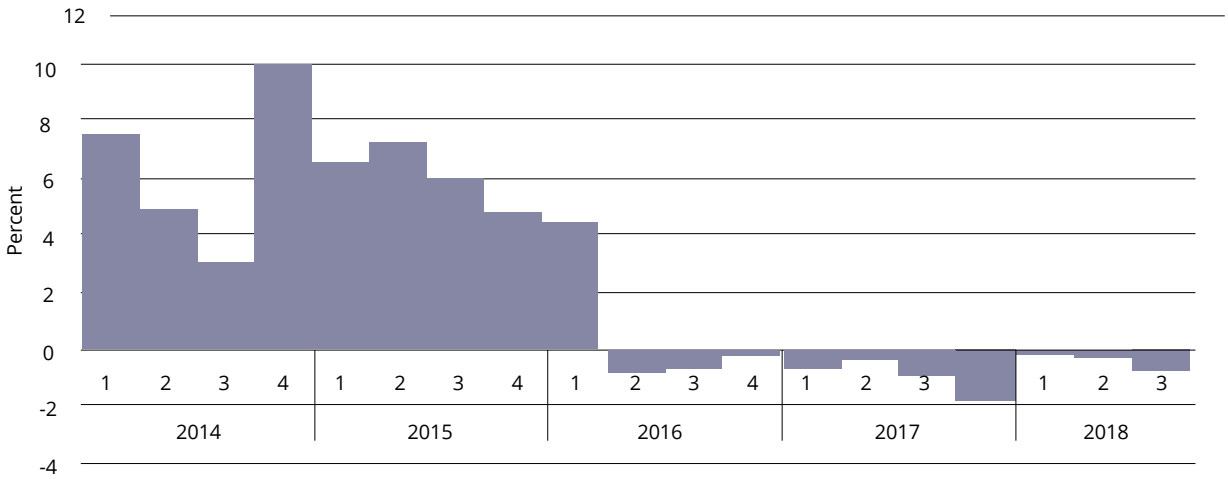
Source: Namport Annual Reports

It was also projected that the container units (TEUs) handled will increase from 350,000 units per year to 1.0 million TEUs by 2017. In reality, this optimistic projection was also not achieved, as only 206,000 containers were handled in 2017, 794,000 less than projected.

The financial implications of 'desired outcomes' and economic stagnation

The economic stagnation since the second quarter of 2016 has also had adverse effects on the revenue and profitability of Namport. Imports started to recede, resulting in less harbour activity as shown in Figure 2. The extent of the economic stagnation and recession is depicted in Figure 4.

Figure 4: Quarterly GDP growth (real)

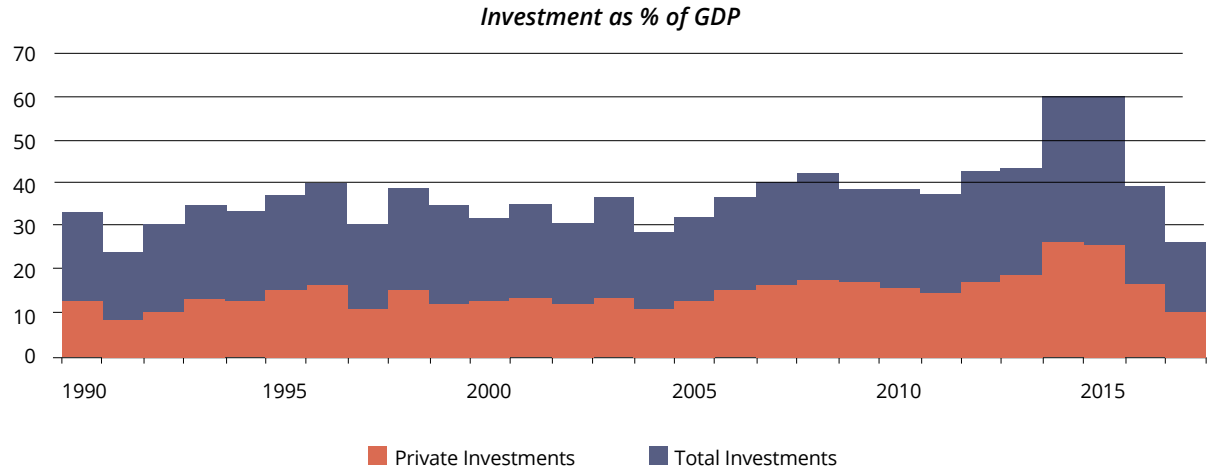


Source: BoN

The seriousness of the economic downturn is often underestimated, but the decline in Namport activity demonstrates that it already started much earlier, in 2014. Responsibility for the current predicament is due in large part to the reckless government spending from 2010 to 2015. Drought, Zuma economics, and falling commodity prices should not be presented as convenient scapegoats, but rather seen as external shocks to be navigated as best possible.

The introduction of NEEEF in 2016 had an additional negative impact on investor confidence, and investment by the private sector also dropped significantly. Investment as a percentage of GDP gives a good indication of investor confidence, especially over the long term.

Figure 5: Investment as a share of GDP

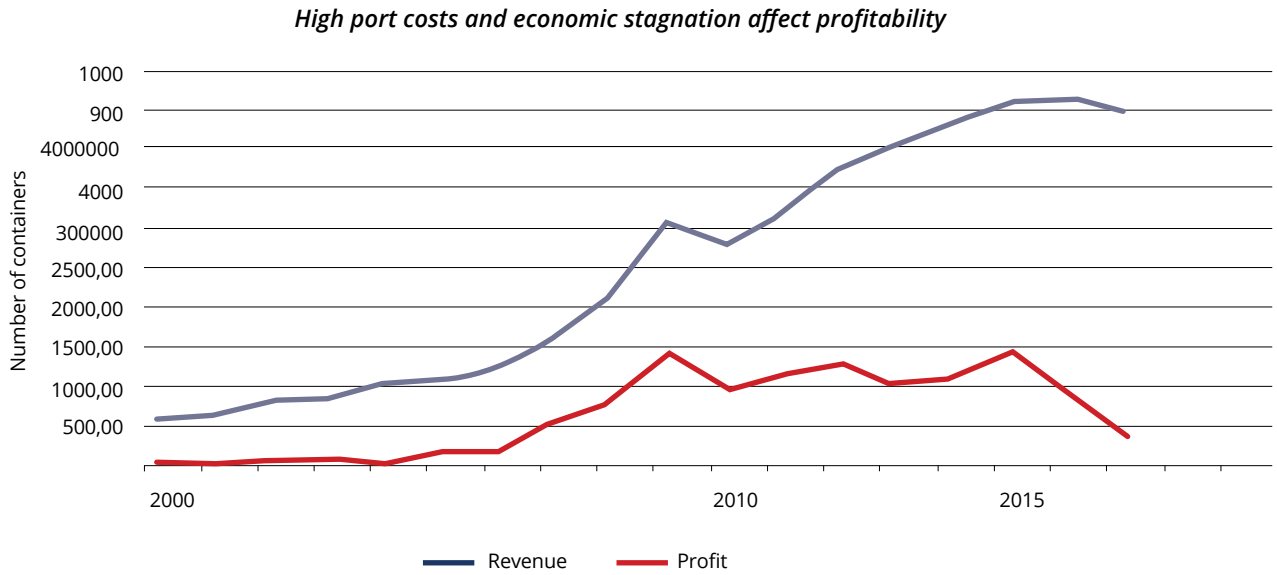


Source: BoN

Investor confidence is currently at a level last experienced prior to Independence. If populism is to be the norm, economic stagnation and unemployment will become the order of the day. Policymakers should be aware that their main focus ought to be higher economic growth, employment creation, and improving investor confidence.

The turnover of the Port Authority peaked in 2016 at N$933.0 million, while profit before taxation peaked in 2009 at N$290.0 million. In 2017, turnover fell to N$891.0 million and profit before tax to just N$73.0 million.

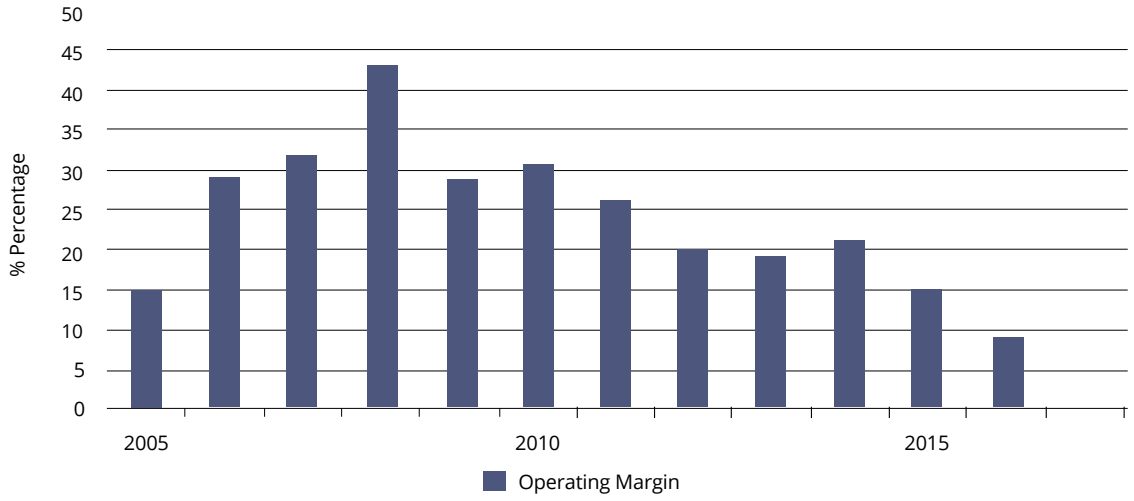
Figure 6: Namport Turnover and Profit



Source: Namport Annual Reports

Rising tariff costs had a negative impact on port costs and this led market participants to opt for alternative transport routes. Coupled with the rising operational costs of Namport this affected the operating margin.

Figure 7: Namport Declining Operating Margin



Source: Namport Annual Reports

Operating profit margins peaked in 2008 and the Port Authority made super profits as it enjoyed its quasi monopoly power in the logistics market. In 2008, Namport had 576 employees. By 2017 the number of employees increased to 981. This is generally a challenge with most SOEs in a monopoly position. Recruitment is not always matched with efficiency and effectiveness.

Let us compare the consolidated statement of financial position (balance sheet) of the Namport Group before the new container terminal project was started (2013) with the most recent financial statement of 2017.

Comparing the two balance sheets (see table 4), we see on the asset side a movement from current assets to non-current assets. To fund the expansion of the new container terminal loans increased and total liabilities rose from 41.0% in 2013 to 56.0% in 2017. The full impact of the new investments will only be seen at the end of 2019 when loan repayments on the N$3.2 billion African Development Bank loan start.

Analysing the statement of cash flows we see that the net cash flow from operating activities decreased from N$262.0 million in 2013 to N$90.0 million in 2017. As indicated, the repayment of the loan from the African Development Bank will only commence at the end of 2019 and as such is yet to impact cash flows. Therefore, at present the grace period shields current cash flow. In the absence of any significant cash inflows the cash flow situation of the enterprise is expected to take a turn for the worse when loan repayments commence.

Table 4: Balance sheet comparison of the Namport Group

	Group 2017 N$ '000	%	Group 2013 N$ '000	%
ASSETS				
Non-current assets				
Property, plant and equipment	5,333,834	78	1,623,950	50
Investments	538,382		799,480	
Operating lease asset	249,782		137,424	
Other	122,741		41,699	
Total non-current assets	**6,244,739**	**91**	**2,602,553**	**79**
Current assets				
Trade and other receivables	248,748		191,009	
Other financial assets	131,810		119,996	
Cash and cash equivalents	27,320		307,474	
Other	210,650		52,673	
Total current assets	618,528	9	671,152	21
TOTAL ASSETS	**6,863,268**	**100**	**3,273,705**	**100**
Equity and liabilities				
Shareholders' interest	2,972,672		1,882,023	
Non-controlling interest	77,077		45,562	
Total capital and reserves	**3,049,749**	**44**	**1,927,585**	**59**
Non-current liabilities				
Long-term borrowings	251,439		359,255	
African Development Bank	1,816,274		-	
Deferred Income	299,186		1,440	
Deferred tax liabilities	1,025,215		497,607	
Other	18,647		34,094	
Total non-current liabilities	**3,410,761**	**50**	**892,396**	**27**
Current liabilities				
Trade and other payables	275,707		170,104	
Short-term borrowings	61,594		229,365	
Provisions	57,721		48,098	
Other	7,739		6,157	
Total current liabilities	402,760	6	453,724	14
Total liabilities	3,813,522	56	1,346,120	41
TOTAL EQUITY AND LIABILITIES	**6,863,268**	**100**	**3,273,705**	**100**

Source: Namport Annual Reports

Regional Comparison

Research done by the Ports Regulator in South Africa shows that Durban and Cape Town are the second and third most expensive harbours in the world respectively (comparing major harbours but excluding Walvis Bay). The Global Port Pricing Report stated: *"Although improvements to the tariff structure in the years preceding the implementation of the Tariff Strategy have been noted (since the first version of this report was completed), cargo owners still face a **182.0% premium** in 2016/17, although down from a premium of 267.0% to the global sample average in 2015/16. Whilst vessel owners face costs notably below the global average (-38.0% in 2016/17), users in container ports are still faced with a premium of 117.0% above the global sample average."* If the SADC region wants to improve the "the costs of doing business" the tariff structure of ports should be further researched and compared globally.

China for example has a different funding model for container ports., Capital investments are not paid by the Ports Authority, but by the Government.

If Durban harbour costs for cargo/container owners are 182.0% above the global average, one can easily gauge the competitiveness of Walvis Bay in comparison to Durban. Table 2 illustrates the substantial increase in container handling tariffs since 1995.

Table 5: Comparison of container handling costs

Size of the container	Walvis Bay 2017	Durban 2017
6 m container import	5,454.00	2,046.50
6 m container export	5,454.00	606.32
12 m container import	7,269.00	4,092.96
12 m container export	7,269.00	1,212.65
13.7 m container import	10,802.00	4,092.96
13.7 m container export	10,802.00	1,212.65

Source: Namport Annual Reports

Walvis Bay container/cargo costs are much higher than Durban which renders the harbour uncompetitive to become a logistics hub. To improve competitiveness, the port authority should drop tariffs on container handling, and to stimulate exports it should consider a different and lower tariff for exports.

Conclusion

The very costly and ambitious objective of Namibia to become a logistics hub on the West Coast should be based on proper research, realistic assumptions and facts. The above analysis suggests that no rigorous research was done prior to embarking on these huge investments. It should be obvious that merely investing in major infrastructure development will not by itself attract business if other ports are more competitive in terms of tariff rates and proximity to markets.

As shown, Namport is experiencing an overall decline in vessel visits, a decline in profit margins while the enterprise is expected to start repaying the N$3.2 billion AfDB loan from the end of 2019 onwards.

Given the above, it is doubtful whether the costly investments will pay off and whether Namport will be in a position to repay the AfDB loan without running into serious financial problems. The financial situation is of such a nature that a decline in tariffs could worsen the situation should volumes not increase significantly. This shows that the decision by Namport to invest in the new container terminal was the wrong decision. Namport maneuvered itself into a risky catch 22 financial situation that should have been avoided through prudent financial planning.

Recommendations

- The aim of Namibia to become a logistics hub should be reassessed.
- Namport governance should be improved by appointing experts in the areas of logistics and transport economics to the company's board and management.
- Big capital projects already budgeted for should be halted, especially the N$5.5 billion railway line upgrade from Walvis to Kranzberg. Professional cost benefit analysis must be done and the most economically beneficial projects should be prioritized.
- The quality of Cabinet submissions has to be improved.
- The port costs of Walvis Bay should be compared internationally and regionally and such a study must be professionally done.
- The tariff structure of Namibian ports should favour industrialization and exports.

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About Author

Rainer Ritter is an independent researcher and consultant. He holds a B.Econ (Hons.) from the University of Stellenbosch and an MBA from the Wits Business School/St.Gallen (HSG). He was Vice Chair of the Agronomic Board, Chair of the Aquaculture Council, member of the Presidential Economic Advisory Council of the two former Presidents. Former Vice President of the NCCI and former director of the Bank of Namibia.

About the EAN

The EAN is a Namibian not-for-profit NGO, that has a number of objectives, from policy input and development, to public awareness and education, to academic research and mentoring. The EAN has played an important role in bringing together public, quasi-public and private sector players to discuss issues of critical importance for the Namibian economy and the Namibian people, as well as playing a key role in policy development in Namibia over the past half-decade.

About the EAN SOE Series

The EAN SOE series focuses on the performance of State-Owned Enterprises and Entities scrutinising how such entities utilise public funds and explores reforms required to eliminate wastage and harness self-sufficiency.

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