How Wharfage charging system affects Port users in Tanzania

Experiences from the study on Tanzania Port Authority wharfage charging system, implications and effects to Port Users

A comprehensive Advocacy Report

POLICY BRIEF
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BEST-Dialogue
Business Environment Strengthening for Tanzania

1.0 Background

Following the economic transformation in early 1992s the economic activities increased which lead to influx of trade and traffic through the Dar es Salaam Port. As a result the Port's existing facilities could not support the increased trade and the performance of port started to deteriorate gradually. The deterioration of the Tanzania's ports especially the port of Dar es Salaam at the mid 2000's resulted into long delays at anchorage, operations necessary to consignment (dwell time), corruption and high cost of wharfage as compared to other competitor ports. Moreover, its wharfage charges was found to be comparatively higher than its competing ports because wharfage charges are based on CIF (ad valorem system) thus affecting the importation and production costs for Tanzania Producers.

CTI conducted a study on TPA wharfage charging procedures in 2014 and started engagement with various fora and dialogues with the responsible Ministry and TPA to change the wharfage charging procedures of cargo from CIF (ad valorem system) to the weight/volume basis which is the best practices in the world. This charging system of calculating wharfage charges in terms CIF revealed to contribute to the high cost of production to manufacturers.

It is well known that worldwide the wharfage charges (port charges) are calculated based on the weight or volume of cargo. However, the port of Dar es salaam is basing its calculation on the value of cargo which is contrary to the best practices in the world. This charging procedure increases the cost of importation especially the raw materials used by industries. CTI study of 2014 among others revealed that wharfage charging basing on weight or volumes of cargo will reduce cost of doing business and thus enhances competitiveness of Tanzania's industries.

Basing on this background, the Confederation of Tanzania Industries in collaboration with BEST-Dialogue conducted an advocacy study in 2016/17 and therefore has prepared this advocacy report on wharfage charging procedures of TPA to influence the changes/reforms by the government.

2.0 The Effects of TPA wharfage charging system to port users

The findings from the advocacy study indicate that despite the ongoing reforms at the Dar es salaam Port to improve its efficiency industrial owners still face wharfage fees burden in terms of production cost at differing rates; i.e. new, medium, and small industrial owners as shown in Fig. 1;

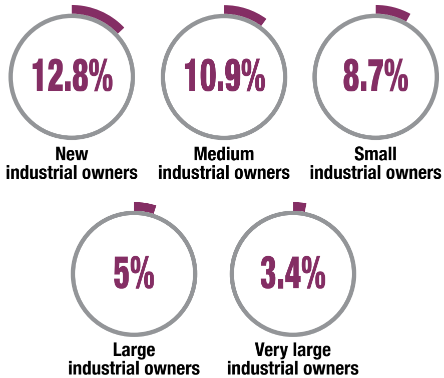


Fig.1: Wharfage fees burden in terms of production cost at differing rates.

Further analysis implies that the presence of economies of scale for bulky imports tends to favor large and very large industrial owners and negatively affect new, small, and medium industries.

The study also reveal that the share of the wharfage fee in transport/freight charges for most (70%) of manufacturing firms' recorded higher fees as compared to the total transport cost reaching 23.1% - 40%), while few 6% recorded as high as 52% of their freight charges. For newly established industries the share of the fee in their freight charges is 40% for new industries, 35% for small, 29.7% for medium, 25% for large and 23.1% for very large industries.

When the Dar es salaam and Mombasa Port charging systems were compared for containers the Dar es salaam port wharfage charges were found to be comparatively higher for both 20 and 40 feet import and export domestic transit containers.

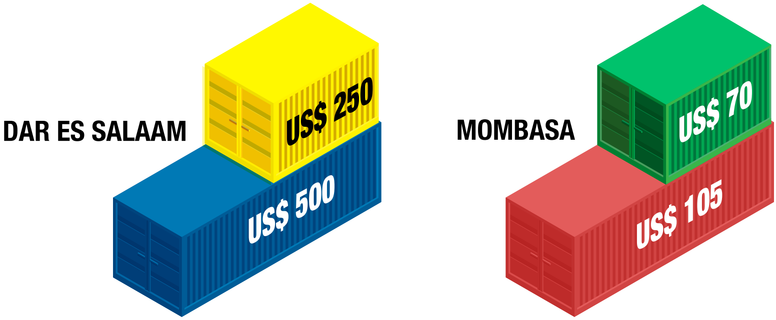
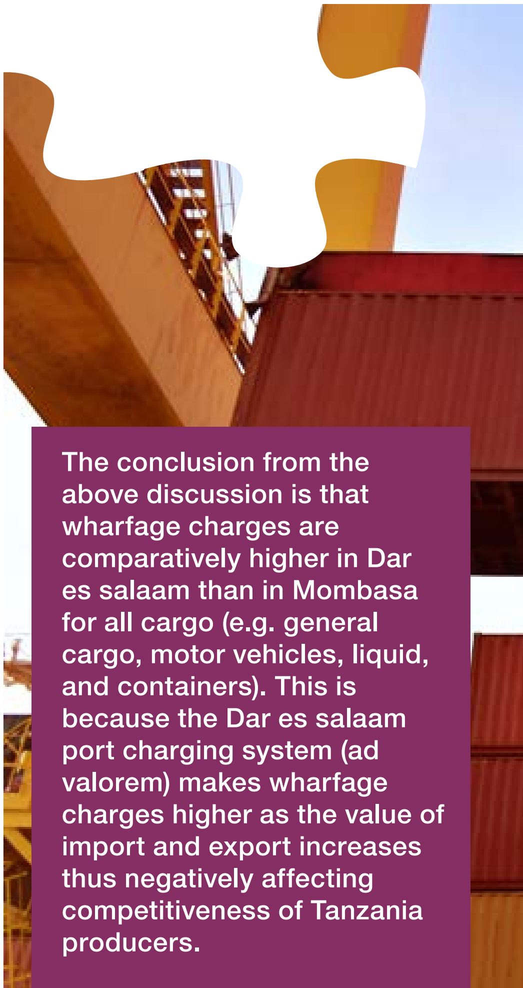


Fig.2: Wharfage charges for import and export domestic transit containers.

As shown in Fig.2 domestic containers, for a 20 and 40 feet USD 250 and $ 500 respectively is being charged as wharfage fees in Dar es salaam but for the same size of containers USD $70 and $105 charged at Mombasa. This means that for both types of containers the Dar es salaam port charges are higher by an average of $162 or 72% higher i.e. For a 20 feet container and more than 3 times for a 40 feet container. The story is the same for FLC transit import and export containers. However, a discussion with some of CTI members and importers who frequently use Dar es salaam Port indicate that in practice the above container size system for estimating wharfage fee is not being applied instead the port only applies an ad valorem system where by a CIF value of 1.6% and 1.25% for domestic and transit goods value respectively is being applied; this makes the charges even higher than what is indicated. If this true then this means that the port may not be applying some of its tariffs rates.



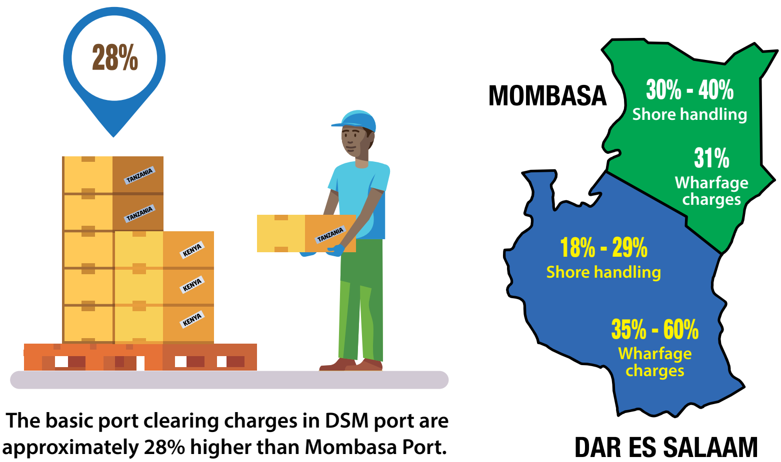
The conclusion from the above discussion is that wharfage charges are comparatively higher in Dar es salaam than in Mombasa for all cargo (e.g. general cargo, motor vehicles, liquid, and containers). This is because the Dar es salaam port charging system (ad valorem) makes wharfage charges higher as the value of import and export increases thus negatively affecting competitiveness of Tanzania producers.

The advocacy study also finds that the best practices in the world indicate that almost all Ports wharfage fees estimation is based on Unit mass of cargo, Length overall (LOA) and time, NRT, or GRT of cargo unlike in Dar es salaam port that applies an outdated system of ad valorem system that ends up in comparatively higher charges that negatively affect the business environment. The Dar es salaam wharfage charging system has been a source of many complains and queries from Dar es salaam port users while the major question has been 'if wharfage fee is the payment for port space and equipment (infrastructure) use why estimate using the commodity value and not volume, size or weight that is directly related to infrastructure use? So far justification for the charging system is not clearly stated by TPA.

3.0 Main findings of the Advocacy Study

The advocacy Study has revealed the following major findings:

1. **Charges and Procedures:** Dar es salaam Port charges comparatively high wharfage fee that adversely affect local manufactures/industrial owners. The share ranges between 3.4% and 12.8% of production cost for large and new industries respectively. The charges take a share of 23.1% to 40% of freight charges for the captioned industries. The other burden is additional dwell time due to cumbersome port operations, cargo clearance by outdated procedures and administrative inefficiencies related to, among others, physical verifications, proof of payments, system failures attributed to network failure and power interruptions, etc. In addition, exchange rate depreciation of Tanzania Shilling lead to additional increase in port charges including wharfage fees.
2. **Competitiveness and port charges:** The basic port clearing charges in Dar es salaam port is approximately 28% higher than Mombasa Port. Wharfage charges contribute by 35 – 60% to the overall port call dues while shore handling accounts to 18%-29% only at Dar es salaam Port. Mombasa terminal handling fees count to 30%-40% followed by wharfage fees at around 31% of all charges.



Competitiveness and port charges

3. **Economics of Scale:** Ports with high throughput like. Mombasa and Durban charge lower port wharfage and handling fees than those with lower volume (e.g. Dar es salaam Port). Economies of scale associated with high import/export cargo volume are the main reason, and Dar es salaam; therefore, need to improve throughput, cargo volume, and turnover.
4. **Financing of Tanzania Port Authority (TPA):** TPA justifies the present wharfage fees charging procedures by being obliged to maximizing its revenue and cover its cost for operation, port infrastructure, and equipment and other investments. In competing ports, government invests in port infrastructure which allows for improvements not adequately done in Dar es salaam port.
5. **Wharfage fee tariff system:** Commonly at most ports in the world wharfage fee is charged as per gross weight, Gross registered Tonnage (GRT), Long ton (LOT) or size of cargo. Dar es salaam port applies mainly ad valorem system, based on CIF value as base for calculation. Other ports indeed faced the same challenges in the past and have reformed the tariff already to weight, size, or volume system after substantial port user complaints.
6. **Competitiveness of products from Tanzania:** Wharfage charges burdens CTI members and other importers, particularly new firms, small and medium industries at most, resulting in increased production cost and transport/freight charges and thus hampered competitiveness.
7. **Revenue maximizations by TPA:** CIF valuation system application tends to overestimate the charges compared to size/volume and is maximizing revenues for the port. TPA prefers using this system unlike the port of Mombasa and others such as Durban. The overcharged fees increase production and transport cost of Tanzanian producers.
8. **Port Regulation:** The marine sub-sector regulator SUMATRA has established a procedure for review of marine/port charges in case port users (e.g. Industrial owners/importers) complain about regulated services such as wharfage fees. Advocacy for Dar es salaam Port wharfage charging system review is required and possible.

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4.0 Policy Recommendations

Based on the above findings the following three (3) policy actions are recommended:

1. *The **Tanzania Port Authority (TPA)*** is requested to ***reform*** the outdated Dar es salaam ***port wharfage charging system towards commonly used weight/size/volume system.***

2. The ***Government of Tanzania*** is requested to finance investments in port infrastructure development of Dar es salaam port as per best practice in Mombasa and Durban; this will avoid TPA overcharging its customers.

3. For Dar es salaam port to be efficient, cost effective and operation in economies of scale is insisted. Additionally, TPA needs to conduct aggressive marketing campaigns to attract more cargo to ***reduced vessel turn-around and cargo handling cost per unit.***