Dr. Udo Witulski
GTZ Port Economist

Date:
30 April 1991

Report on

Potential Rebates and Discounts in the SEAPA Unified Tariff 1985

SEAPA Saudi Seaports Authority
Central Innovation Department

Table of Contents:

1. EXECUTIVE SUMMARY:

1. The most important effect of tariff rebates should be the creation of additional throughput, so care should be taken as not to divert traffic from other SEAPA ports, where higher revenues are achieved. Moreover, whereas the basic tariff must cover direct costs and make a major contribution to indirect costs, the reduced tariffs should at least cover direct costs.

2. Each cost centre such as a berth should be sufficiently profitable to enable it to fund new technology and thereby attain continuing improved efficiency standards. Such efficiency would improve the competitiveness of the individual port to the benefit of its users and the hinterland of the Kingdom that it serves.

3. Many port authorities in the Middle-East have started marketing their services and negotiated rates based on business volume and commitment to the port, thus maximizing cash flow, attaining good utilization of dock resources, countering competition in the same markets, stimulating market growth and improving profitability.

4. Immediately after the SEAPA tariff increases of 1985 took effect and reached the shipping lines, container throughput dropped by one-third from a stable average of 95,000 TEU per month to 65,000 TEU where it stabilized. Vehicle imports went on their decline from 120,000 metric tonnes per month in 1403H down to 30,000 metric tonnes in 1406H, but decreased by more than one-third immediately after the tariff increase. Imports of vehicles, equipment and building materials into Jeddah Islamic Port even halved.

5. As a result, the most versatile commodities such as vehicles (170% tariff increase against 25% import decrease) and container (100% tariff increase against 30% import decrease) were worst affected in all SEAPA ports. These commodities might have been rerouted through neighbouring ports offering lower hand ling tariffs.

6. The Arabian Gulf ports generally charge higher basic port dues, but lower additional dues on a daily basis. Even more important, their additional dues increase steeply after a free period of usually between five and ten days, serving thus as incentive for the vessel agent to speed up cargo operations.

7. Operation of any kind of container, vehicles, general and ro-ro cargo, solid bulk, small livestock, is overprized to such an extent that shipping agents must be induced to look for alternative ports to discharge cargo if this can be further transported via land transit, or be transhipped via smaller vessels to the Saudi destinations.

8. All major ports of the United Arab Emirates and Djibouti offer discount rates based on a minimum volume of boxes per year or per call of vessel. In general, all Middle-East ports offering transhipment service for container also offer volume discount rates to attract customers to improve their economies-of-scale.

9. At a minimum annual volume of 22,000 containers, discounts reach 50% at Port Rashid and 40% at Fujairah, putting the rate per container at one-sixth of that charged in the SEAPA tariff. The Emirates' ports of Rashid and Fujairah also offer

a 25& discount on the handling charge of more than 10,000 tonnes of bulk raw materials per vessel call.

10. Discount rates to shipping lines on annual minimum container and bulk cargo volumes should be introduced and published at all SEAPA ports. These discounts should parallel the ones given at competing ports so as to catch present and future operational business.

11. Tariff rebates during low seasons could be considered for the ports in order to balance commodity imports throughout the year. The advantage of such balanced throughput would be savings in the number of stevedore employees and operational equipment, since fewer reserves have to be held for peak months.

12. Revenues lost from tariff deductions on handling charges of national export products with a value-added of at least 40 percent amounted to a 8.5 percent share in total revenues during the year 1988, 9.1 percent during 1989, and 9.5 percent during 1990.

13. Between the years 1982 and 1989, the importance of the Saudi ports as import nodes declined constantly, disregarding the overall drop in imports by 63% according to quantity. During that period, the share of commodities imported through the Saudi ports in total imports decreased from 91.4% to 84.4% according to quantity, and from 80.3% to even 67.3% according to value.

14. Almost all neighbouring ports offer special handling rates for direct delivery between vessel and consignee's truck for most commodities. These rates are generally between 25% and 50% below the normal handling rate.

15. Rebates on specific cargo types could be granted at certain SEAPA ports, where berthing and handling facilities are underutilized, as long as their operation covers actual costs, and revenues contribute to indirect costs. The port of Qaboos for instance offers a rebate of 33% on palletized cargo and 25% on pre-slung cargo.

16. Except for the port of Aqaba with a 50% reduction on quay dues for transit cargo to Iraq, no Middle-East port offers special rebates on handling tariffs for commodities on further land transit into a neighbouring country. Commodities that are predestined for long road transport are vehicles, container, palletized and bagged cargo, and other cargo with sufficient density and durability.

17. Rebates on transit commodities could therefore be granted ad hoc on a case to case basis, where need arises from national over-demand or undersupply, such as at the present case with the Kuwaiti reconstruction, and where the political decision makers agree an the procedures and legal framework.

18. SEAPA's storage fees for container are generally ten times higher, and for general cargo even as much as fifty times higher than those of its competing ports. For instance, storage fees for general cargo at the Kingdom's ports are at present double those in Kuwait, 25 times those in Aqaba, and 50 times those of the Emirates' and Bahrain's ports. Storage fees for container in the Saudi ports are 4 times those in Kuwait and 10 times those of the Emirates' and Bahraini ports.

19. Although SEAPA at the end of 1990 extended the free storage period for refrigerated foods to 30 days and for other food items to 60 days at Yanbu Commercial Port and Gizan Port, it still compares quite unfavourably with its competing ports. For instance, Bahrain and the Emirates ports offer free storage periods between 30 and 60 days.

20. An exemption from port dues for national carriers on coastal and short-sea journeys would attract these local carriers into ports on such occasions, where small amounts of cargo to be discharged or loaded would not warrant the expenses of even SR 4,000 for port dues, not to mention of increased port dues adjusted to pay sufficiently for marine services offered at the SEAPA ports.

2. BACKGROUND:

Several factors influence the level of port tariffs:

Port costs are the major factor. SEAPA must determine the cost of the services provided and formulate a tariff accordingly based on both direct and indirect costs plus an element for profit. SEAPA's ports operate on a cross-subsidization basis, whereby the profitable revenue from one berth subsidizes the deficit income on another berth. Optimally, however, each cost centre such as a berth should be sufficiently profitable to enable it to fund new technology and thereby attain continuing improved efficiency standards. Such efficiency would improve the competitiveness of the individual port to the benefit of its users and the hinterland of the Kingdom that it serves. Also lower tariffs in less busy periods could spread the traffic flow throughout the year and thus enhance overall productivity.

The nature of the commodity, its quantity, overall cubic measurements, dimensions, value and period of shipments might all necessitate a certain surcharge. Cargo, which is dangerous or exceptionally dirty or of high value requiring extra security and handling precautions, usually attracts a higher rate. Likewise awkwardly shaped or heavy indivisible consignments requiring additional handling facilities might attract a special scale of rate. Heavy-lift cargoes, usually involving an indivisible load such as a transformer or locomotive, require a heavy-lift crane of up to 200 tonnes.

Trade in which the cargo originates might be coastal, short sea or deep sea. Generally, deep-sea cargoes tend to at-tract a higher tariff than the coastal or short-sea trades. The total sea freight for the coastal or short-sea voyage tend to be overall lower than the deep-sea consignment, while the longer voyage is better able commercially to accept the higher port tariff. Flag discrimination is often added and involves the national flag operator having a more favourable tariff than foreign tonnage. Its aim is to encourage shippers to support the national flag and thereby maintain a national fleet.

Many port authorities in the Middle East have started marketing their services and negotiated rates based on business volume and commitment to the port. They thereby encourage more shipping lines to use their port and stimulate existing users to expand their business, thus maximizing cash flow, attaining good utilization of dock resources, countering competition in the same markets, stimulating market growth and improving profit-ability. Examples of market pricing include discounted tariffs according to volume commitment from a ship owner or to the frequency of calls by a given shipping line.

Lower rates might also be coupled with investment in port facilities by a ship owner under a leased berth arrangement. The task of cargo handling and processing of cargo through customs and related distribution arrangements is usually undertaken by the ship owner.

In the Middle East there is a range of ports situated in different countries, but offering the same services in the same markets and hence competing for the same traffic. Here exchange rate variations can have an effect on the competitiveness of the SEAPA ports. Exchange rates, which are weak, can attract traffic against those, which are strong like the Saudi Riyal, which is pegged to the US Dollar. Since freight rates are also calculated in US Dollar, SEAPA may wish to reflect on such a factor in the formulation of the tariff to remain competitive.

A number of SEAPA's minor ports receive state subsidies for their administration in the form of cross-subsidization from more productive ports. However, this renders these smaller ports less productive with consequent losses in generation of employment and local income through market growth. Subsidies should rather be given in the form of lower tariffs, like on the national level where tariff reductions are given to exporters of nationally produced products.

Finally, political considerations such as an additional provision of capacities for utilization during crisis or war times, such as recently in the case of Jubail and Yanbu Commercial ports, or their use as an instrument for foreign trade policies with neighbouring Islamic countries would require additional state subsidies to further lower tariffs.

Care must be taken to ensure that the full-rate traffic is not diverted to the lower rate in trying to generate higher volume of business. Moreover, whereas the basic tariff must cover direct costs and make a major contribution to indirect cost, the reduced tariff should at least cover direct cost.

Choices to determine tariff levels:

1. <u>What the traffic will bear</u>:
   (profit maximisation for future investments)

1.1. Cross subsidisation:
   among different berth/cargo types
   among various ports

1.2. Surcharges:
   By type of cargo
   dangerous goods
   valuable goods
   heavy lifts/modules

2. <u>Total coverage of fixed costs (indirect costs)</u>:
   (depreciation, loan interest, administration)

2.1. Port competition:

Discounts according to trade route of cargo

coastal trade
short-sea trade
port hinterland
transit cargo

Reimbursement of invisible and other costs

customs clearance
ship waiting times

2.2. Lease Contractors:

Individual price determination
Fixed port charges to SEAPA

3. Coverage of marginal costs (direct costs):
(dock labour, utilities, daily maintenance)

3.1 marketing:

Date of shipment

low season
ad hoc

Volume discounts

frequency of call
cargo volume

Exchange rate
Transhipment
Usage of vessel gear
Palletised cargo

4. Socio-political objectives:
(applicable to SEAPA as state authority)

4.1. Employment generation:

in individual ports
through forward and backward processing industries

4.2. Generation of local income:

flag discrimination
national exports

4.3. Provision of capacities:

reserves for crisis or war times
as naval ports

4.4. Foreign trade policies:

Functional connections

relations with shippers' councils

Political connections

trade associations with neighbouring countries

2.1. Consequences of Tariff Increases 1985:

To estimate cost sensitiveness of commodities on handling charges it is useful to regard the influence that the tariff increase of Rajab 1405H had on the amount of commodity throughput in the SEAPA ports. The drop in commodity throughput firstly depended on the level of tariff increase. Tariffs were generally doubled with the exception of light general cargo, vehicles, livestock, bagged cargo, iron and timber, whose tariffs were increased even higher.

Comparison of Unified Tariffs 1980 and 1985:

1. General doubling of 1980 tariffs (x2). Exceptions are:

1.1. B First (from agent of vessel):

1.3. Light (measurement > 2.5) general cargo (x3)	
1.4. Vehicles < 3 tonnes	(x2.67)
1.8. Livestock	(x4)
b. Re-stowing of cargo	
- *container, ro-ro*	*(depend on volume)*
- *general*	*(x4)*

1.2. B Second (from owner of cargo):

1.1. Bagged cargo, iron, timber	(x3.33)
1.5. Bulk cargo	(x1.5)
4. Any other services	(x1)
5. Water supplies	(x2.67)
8. Tug hire < 1200 hp	(x1)

2. Included into Unified Tariff 1985:

2.1. B First (from agent of vessel):

1.10. Bulk cargo without port equipment	(SR4)
1.11. Liquid bulk	(SR2)
1.12. Container > 40'	(SR1080)
1.14. Storage of empty container	(SR4 per ')
1.14. Container freight station	
1.15. Transhipment	

2.2. B Second (from owner of cargo):

1.6. Bagging of bulk cargo	(SR80)
1.7. Container > 40'	(SR 1200)

Immediately after the increases took effect and reached the shipping lines, container throughput dropped by one-third from a stable average of 95,000 TEU per month to 65,000 TEU where it stabilised (see Annex I). Vehicle imports went on their decline from 120,000 metric tonnes per month in 1403H down to 30,000 metric tonnes in 1406H, but decreased by more than one-third immediately after the tariff increase.

Total imports into Jeddah Islamic Port dropped from 1.4 million tonnes to 0.9 million tonnes. Imports of vehicles, equipment and building materials even halved, whereas imports of general cargo, foodstuffs and cement decreased only slightly.

Imports into KAAP Dammam were already on the decline before the tariff increase of mid-1985, and slowly stabilized in 1406H at a rate of almost one-third of its import levels in 1403/04H. Foodstuff imports, and throughput of container and vehicles, indicated an immediate drop by more than 50% after the tariff increase.

Imports into Jubail Commercial Port also were on a steep decline before the tariff increase, but showed further decreases in vehicles, and general cargo such as equipment and cement after a retardation of one to three months.

Imports of general cargo, foodstuff, vehicles and building materials into Yanbu Commercial Port came to a still stand immediately after the tariff increase and recovered to former levels only after a zero period of four months and more.

Vehicle imports through Gizan Port dropped from 30,000 in 1985 to 7,500 in 1986, and solid bulk cargoes handled pneumatically was replaced by small amounts of grab-operated one.

On contrast, exports from both industrial ports were not negatively affected. KFIP Jubail exported on an increasing rate, while exports from KFIP Yanbu dropped only slightly as part of an annual cycle.

As a result, the tariff increases of 1985 badly affected the most versatile commodities such as vehicles (170% tariff increase against 25% import decrease) and container (100% tariff increase against 30% import decrease) in all SEAPA ports. These commodities might have been rerouted through neighbouring ports offering lower handling tariffs.

Declining imports of equipment, building materials, such as iron and timber, and of cement were mostly due to the levelling out of the construction boom, which already started in mid-1404 one year before the tariff increases.

After a short-term decline, imports of general cargo, foodstuffs and livestock even increased on the long run due to increasing needs of the growing national population.

The smaller ports of the Kingdom were worse affected than the major ports at Jeddah and Dammam, indicating the trend to concentrate a contracting business on the major ports with their better communication links and shipping agents.

Following tables compare commodity throughputs tariff before and after the mid-1985 increase, and also indicate most important declines during the second half of 1985:

2.2. Tariff Comparison with Middle-East Ports:

Following comparison of the SEAPA tariff with those of the Kingdom's neighbouring ports indicates the lack of competitiveness of the SEAPA ports in missing to attract more versatile shipping commodities such as container and vehicles.

Basic port dues of the SEAPA tariff are quite in line with those of the competing ports, in fact, the Arabian Gulf ports generally charge higher basic port dues, but lower addition-al dues on a daily basis. Even more important, additional dues increase steeply after a free period of usually between five and ten days, serving thus as an incentive for the vessel agent to speed up cargo operations.

TARIFF COMPARISON OF MIDDLE EAST PORTS

(IN SAUDI RIYALS FROM OWNERS OF VESSEL AND CARGO AS AT 15 JANUARY 1991 EXCHANGE RATES)

CARGO TYPE	SEAPA	AQABA	KUWAIT	BAHRAIN	QATAR	ZHAYED	RASHID	FUJAIRAH	QABOOS	DJIBOUTI
BASIC PORT DUES	4,000.0	3,390.0	3,380.0	8,457.5	6,313.5	2,835.6	4,539.0	6,385.2	7,469.0	3,728.6
ADDIT. PER DAY	200.0	19.6	650.0	99.5	36.2	20.4	71.4	76.5	999.1	270.1
FOODSTUFF	60.0	39.6	63.3	24.9	25.9	22.4	25.5	27.5	20.9	46.4
BAGGED CARGO	70.0	16.4	28.9	39.8	20.7	25.5	11.2	28.6	41.2	46.4
IRON,STEEL,TIMBER	70.0	21.2	48.4	39.8	20.7	24.5	18.9	27.5	44.6	46.4
HEAVY LIFT (20 TONS)	3,500.0	456.2	3,541.2	1,990.0		597.1	816.0	1,570.0	1,604.4	
OTHER GENERAL	100.0	23.7	63.3	39.8	20.7	24.5	15.3	27.5	41.2	46.4
STORAGE	20.0	0.8	10.4	0.3		0.1	0.5	0.3	0.6	
SHEEP OR GOAT	3.0	2.3	2.5	1.2	1.0	1.0	0.6	1.1	5.8	9.4
CATTLE OR CAMEL	3.0	4.4	17.1	8.1	5.2	2.0	4.1	7.4	5.8	13.9
BULK W/ PORT GEAR	28.0	10.2	28.0	39.8	20.7	11.2	8.1	7.1	20.9	16.1
BULK W/ OWN GEAR	16.0	7.6	13.7	14.9	10.4	5.1	4.1	4.0	11.2	16.1
LIQUID PETROL.BULK	2.0	6.8	0.7		0.2	1.0	4.1	3.0		
VEHICLE (2 TONS)	340.0	79.1	283.9	179.1	100.0	86.7	147.9	78.5	198.9	17.9
VEHICLE (20 TONS)	2,200.0	274.0	3,309.2	597.0	800.0	204.0	295.8	408.0	1,018.5	179.2
CELLULAR CONT. 20'	1,160.0	305.1	520.0	298.5	802.1	204.0	336.6	316.2	320.1	1,095.3
20' <= 40'	1,740.0	457.7	910.0	467.7	1,221.3	255.0	510.0	357.0	417.1	1,976.2
RO-RO CONT. 20'	1,140.0	293.8	546.0	248.8	802.1	81.2	285.6	316.2	320.1	471.6
20' <= 40'	1,700.0	322.1	936.0	398.0	1,221.3	122.4	459.0	459.0	417.1	771.6
NON-CELLULAR 20'	1,400.0	282.5	546.0	298.5	802.1	204.0	336.6	459.0	320.1	1,095.3
20' <= 40'	2,100.0	423.8	936.0	467.7	1,221.3	255.0	510.0	510.0	417.1	1,976.2
TRANSTAINER 20'	560.0	183.1	286.0	298.5		153.0	469.2	428.4	97.0	889.3
20' <= 40'	840.0	274.6	494.0	497.5		153.0	663.0	510.0	194.0	1,176.8
EMPTY FCL 20'	560.0	165.0	520.0	169.2	362.3	102.0	183.6	183.6	164.9	760.9
20' <= 40'	840.0	258.2	910.0	238.8	569.3	153.0	255.0	204.0	213.4	1,328.9
STORAGE FCL 20'	200.0	2.8	39.0	14.9	18.6	10.2	15.3	20.4	9.7	21.4
20' <= 40'	300.0	5.7	65.0	29.9	33.1	20.4	30.6	40.8	19.4	42.9
STORAGE EMPTY 20'	80.0	22.6	19.5	10.0	18.6	5.1	10.2	15.3	9.7	16.1
20' <= 40'	160.0	28.3	26.0	19.9	33.1	10.2	20.4	30.6	30.6	32.3
REEFER CONNECTION	200.0	67.8	78.0			81.6	102.0	102.0	77.6	154.3
20' <= 40'	200.0	101.7	117.0			163.2	102.0	102.0	77.6	154.3
SUPPLEM. SPREADER	600.0		130.0	99.5	103.5	51.0	306.0	306.0		
ADDIT. MOVE 20'	120.0		39.0	248.8		153.0	102.0	102.0	164.9	385.2
20' <= 40'	120.0		65.0	348.3		153.0	102.0	102.0	213.4	385.2
STRIP/RESTUFF 20'	240.0		390.0	149.3		153.0	204.0	255.0	194.0	
20' <= 40'	240.0		650.0	179.1		204.0	408.0	408.0	388.0	

NOTES:

SEAPA: PORT DUES INCLUDE PILOTAGE, TOWAGE, BERTHING, LASHING, HATCHING, STEVEDORING AND TALLYING. HANDLING OF EMPTIES INCLUDED IN FCL/LCL. SECOND B HANDLING CHARGE (ACCORDING TO UNIFIED TARIFF). STORAGE OF CONTAINER ASSUMES 10 TONS CONTENTS OF 20', 15 TONS OF 40', AFTER FREE PERIOD OF 10 DAYS. FREE STORAGE PERIOD OF EMPTIES AND FOODSTUFF 30 DAYS, OF REEFERS 20 DAYS.

AQABA: PORT DUES FOR VESSEL 4001-15000 NRT TO ANCHORAGE BY OWN ENGINE, THEN TO BERTH BY USE OF TWO TUG BOATS. CONTAINER TRANSHIPMENT SHIP-SHIP 20' SR 84.5 (40' 124.3), SHIP-BARGE-SHIP 20' 141.3 (40' 197.8). STORAGE OF EMPTIES <15 DAYS AFTER FREE PERIOD, STORAGE OF OTHER CARGO FOR MOST VALUABLE COMMODITY.

KUWAIT: PORT DUES FOR VESSEL 6001-12000 NRT, ADDITIONAL CHARGES SR 14.3 PER METRIC TON. SEPARATE HANDLING CHARGES INSIDE VESSEL HOLD, NO SEPARATE CHARGES FOR EMPTIES, LIVESTOCK, FOODSTUFF. REEFER CONNECTION FEE INCL. STORAGE FEE. STORAGE CHARGES < 5 DAYS AFTER FREE PERIOD OF 10 DAYS. FREE CAR STORAGE PERIOD 4 DAYS.

BAHRAIN: PORT DUES FOR VESSEL 10000 GRT, USE OF TWO TUG BOATS AND PILOT IN AND OUT. NO SEPARATE HANDLING CHARGES BY COMMODITY TYPES. TRANSHIPMENT ALSO OFFERED FOR VEHICLES AND OTHER GENERAL CARGO. EXPORT CONTAINER ON TRANSIT SR 10 PER TON ADDITIONALLY. FREE IMPORT STORAGE 30 DAYS, FREE CONTAINER STORAGE 20 DAYS. STORAGE OF MOBILE EQUIPMENT SR 5 PER TON AND DAY AFTER 10 DAYS.

QATAR: PORT DUES FOR VESSEL FROM 1000 TO 15000 GRT THROUGH TEN HATCHES. ADDITIONAL SR 0.2 PER DAY AFTER TEN DAYS OF FREE PERIOD. FREE STORAGE PERIOD FOR CONTAINER 14 DAYS, NEXT 15 DAYS QR 10 PER TEU AND DAY. OPERATIONAL CHARGES FOR PETROLEUM AND OTHER LIQUID BULK AS CHANNEL LIGHT DUES OF QR 1,500 PER CALL.

ZHAYED: PORT DUES FOR VESSEL OF 10000 NRT, ADDITIONAL DUES SR 20.4 PER DAY AFTER TEN DAYS FREE PERIOD, USE OF TWO TUG BOATS. TARIFFS EXIST FOR TRANSHIPMENT OF ALL CARGO TYPES. SPECIAL TARIFFS FOR CAR CARRIERS AND FOR DIRECT DELIVERY OF CARGO. STORAGE OF CONTAINER AND OTHER CARGO DURING FIRST 30 DAYS AFTER FREE PERIOD OF 30 DAYS. STORAGE OF EMPTIES OVER FREE NUMBER OF 100.

RASHID: PORT DUES FOR VESSEL OF 20000 GRT. ADDITIONAL DUES OF SR 40.8 ONLY AFTER 5 DAYS. SPECIAL RATES FOR DIRECT CARGO DELIVERY. STORAGE CHARGE FOR MINIMUM OF 5 DAYS DURING FIRST 20 DAYS. FREE STORAGE PERIOD FOR IMPORTS AND CONTAINER 20 DAYS, FOR EXPORTS AND TRANSTAINER 30 DAYS IN COVERED, 60 DAYS IN OPEN AREA. VOLUME DISCOUNTS FOR CONTAINER. EMPTY 20' TRANSTAINER SR 316.2, 40' SR 459.

FUJAIRAH: PORT DUES FOR VESSEL OF 10000 NRT. ADDITIONAL PORT DUES OF SR 40.8 ONLY AFTER 7 DAYS. USE OF TWO 1000 HP TUG BOATS. DISCOUNT ON HANDLING OF LARGE VOLUMES, DIRECT DELIVERY AND TRANSHIPMENT CARGO. NO SEPARATE TARIFFS FOR BAGGED CARGO AND LIQUID BULK. FREE STORAGE PERIOD FOR GENERAL CARGO 20 DAYS, FOR TRANSHIPMENT 30 DAYS. STORAGE CHARGES MINIMUM 10 DAYS AFTER 30 DAYS STORAGE PERIOD.

QABOOS: PORT DUES FOR VESSEL OF 20000 GRT. ADDITIONAL DUES SR 975 PER DAY ONLY AFTER 5 DAYS. USE OF TWO TUG BOATS. TRANSHIPMENT TARIFFS FOR VEHICLES AND GENERAL CARGO. DISCOUNT TARIFFS ON EXPORTS. NO SEPARATE TARIFFS FOR LIQUID BULK OR BULK HANDLED WITH OWN GEAR. STORAGE FEES FOR GENERAL CARGO MINIMUM 7 DAYS AFTER 7-DAY FREE PERIOD, FOR CONTAINER DURING FIRST 7 DAYS AFTER 3-DAY FREE PERIOD.

DJIBOUTI: PORT DUES NOT GIVEN IN TARIFFS. DISCOUNTS ON EXPORT OF GENERAL CARGO AND CONTAINER 20%-30%, ON TRANSHIPMENT OF GENERAL CARGO (FINAL RATE SR 30.6 PER TONNE), ON DIRECT DELIVERY BY TRUCK (FINAL RATE SR 16.1-17.4 PER TONNE), AND ON STORAGE OF EMPTY TRANSTAINER (50%). 100% SURCHARGE ON NORMAL TARIFF RATES FOR HANDLING OF DANGEROUS GOODS. BASIC PORT DUES DURING FIRST 3 DAYS FOR VESSEL 10000 GRT.

Handling charges for the various cargo types are less than 50 percent of the present SEAPA tariff at almost all neighbouring ports for almost all commodities. Only Djibouti in the Red Sea and Kuwait in the Arabian Gulf put handling charges on some cargo types that exceed the SEAPA tariff. Compared to all competing ports, the SEAPA tariff is competitive only for handling liquid bulk cargo, large livestock such as cattle, and at some services such as additional moving, stripping and stuffing of container.

TARIFF COMPARISON OF MIDDLE EAST PORTS

(IN PERCENT PROPORTION OF MIDDLE EAST PORT TARIFFS TO SEAPA TARIFF)

CARGO TYPE	AQABA	KUWAIT	BAHRAIN	QATAR	ZHAYED	RASHID	FUJAIRAH	QABOOS	DJIBOUTI	SEAPA (SR)
BASIC PORT DUES	84.8	84.5	211.4	157.8	70.9	113.5	159.6	186.7	93.2	4,000.0
ADDIT. PER DAY	9.9	325.0	49.8	18.1	10.2	35.7	38.3	499.6	136.1	200.0
FOODSTUFF	66.0	105.5	41.5	43.2	37.3	42.5	45.8	34.8	77.3	60.0
BAGGED CARGO	23.4	41.3	56.9	29.6	36.4	18.0	40.9	58.9	66.3	70.0
IRON,STEEL,TIMBER	30.3	69.1	56.9	29.6	35.0	27.0	39.3	63.7	66.3	70.0
HEAVY LIFT (20 TONS)	13.0	101.2	56.9		17.1	23.3	44.9	45.8		3,500.0
OTHER GENERAL	23.7	63.3	39.8	20.7	24.5	15.3	27.5	41.2	46.4	100.0
STORAGE	4.0	52.0	1.5		0.5	2.5	1.5	3.0		20.0
SHEEP OR GOAT	76.7	83.3	40.0	33.3	33.3	20.0	36.7	193.3	373.3	3.0
CATTLE OR CAMEL	146.7	370.0	270.0	173.3	66.7	136.7	246.7	193.3	493.3	3.0
BULK W/ PORT GEAR	36.4	100.0	142.1	73.9	40.0	21.6	25.4	74.6	57.5	28.0
BULK W/ OWN GEAR	47.5	85.6	93.1	65.0	31.9	25.6	25.0	70.0	100.6	16.0
LIQUID PETROL.BULK	349.0	35.0		10.0	50.0	205.0	150.0			2.0
VEHICLE (2 TONS)	23.3	83.5	52.7	29.4	25.5	43.5	22.6	58.5	5.3	340.0
VEHICLE (20 TONS)	12.5	150.4	27.1	36.4	9.3	13.4	18.5	46.3	8.1	2,200.0
CELLULAR CONT. 20'	26.3	44.8	25.7	69.1	17.6	29.0	27.3	27.6	94.4	1,160.0
20' <= 40'	26.3	52.3	26.9	70.2	14.7	29.3	20.5	24.0	113.6	1,740.0
RO-RO CONT. 20'	25.9	47.9	21.8	70.4	5.4	25.1	27.7	28.1	41.4	1,140.0
20' <= 40'	18.9	55.1	23.4	71.8	7.2	27.0	27.0	24.5	45.4	1,700.0
NON-CELLULAR 20'	20.2	39.0	21.3	57.3	14.8	24.0	32.8	22.9	78.2	1,400.0
20' <= 40'	20.2	44.6	22.3	58.2	12.1	24.3	24.3	19.8	94.1	2,100.0
TRANSTAINER 20'	32.7	51.1	53.3		27.3	83.8	76.5	17.3	158.9	560.0
20' <= 40'	32.7	58.8	59.2		18.2	78.9	60.7	23.1	140.1	840.0
EMPTY FCL 20'	29.5	92.9	30.2	64.7	18.2	32.8	32.8	29.4	186.9	560.0
20' <= 40'	30.7	108.3	28.4	67.8	18.2	30.4	24.3	25.4	158.2	840.0
STORAGE FCL 20'	1.4	19.5	7.5	9.3	5.1	7.7	10.2	4.9	10.7	200.0
20' <= 40'	1.9	21.7	10.0	11.0	6.8	10.2	13.6	6.5	14.3	300.0
STORAGE EMPTY 20'	28.3	24.4	12.5	23.3	6.4	12.7	19.1	12.1	20.1	80.0
20' <= 40'	17.7	16.3	12.4	20.7	6.4	12.7	19.1	19.1	20.2	160.0
REEFER CONNECTION	33.9	39.0			40.8	51.0	51.0	38.8	77.2	200.0
20' <= 40'	50.9	58.5			81.6	51.0	51.0	38.8	77.2	200.0
SUPPLEM. SPREADER		21.7	18.6	17.3	8.5	51.0	51.0			600.0
ADDIT. MOVE 20'		32.5	302.3		127.5	85.0	85.0	137.4	321.0	120.0
20' <= 40'		54.2	290.3		127.5	85.0	85.0	177.8	321.0	120.0
STRIP/RESTUFF 20'		162.5	62.2		63.8	85.0	106.3	80.8		240.0
20' <= 40'		270.8	74.6		85.0	170.0	170.0	181.7		240.0
TOTAL	30.1	79.3	63.8	58.1	26.0	45.3	55.3	61.9	68.4	100.0

EXCHANGE RATES (SAUDI RIYALS AS AT 15.01.1991): CURRENCY:

JORDAN	5.65	DINAR = 1,000 FILS
YEMEN	0.30	RIYAL
DJIBOUTI	0.0235	FRANC
EGYPT	1.35	POUND
KUWAIT	13.00 (2.08.1990)	DINAR
BAHRAIN	9.95	DINAR = 1,000 FILS
QATAR	1.035	RIYAL
EMIRATE	1.02	DIRHAM = 1,000 FILS
OMAN	9.70	RIYAL = 1,000 FILS

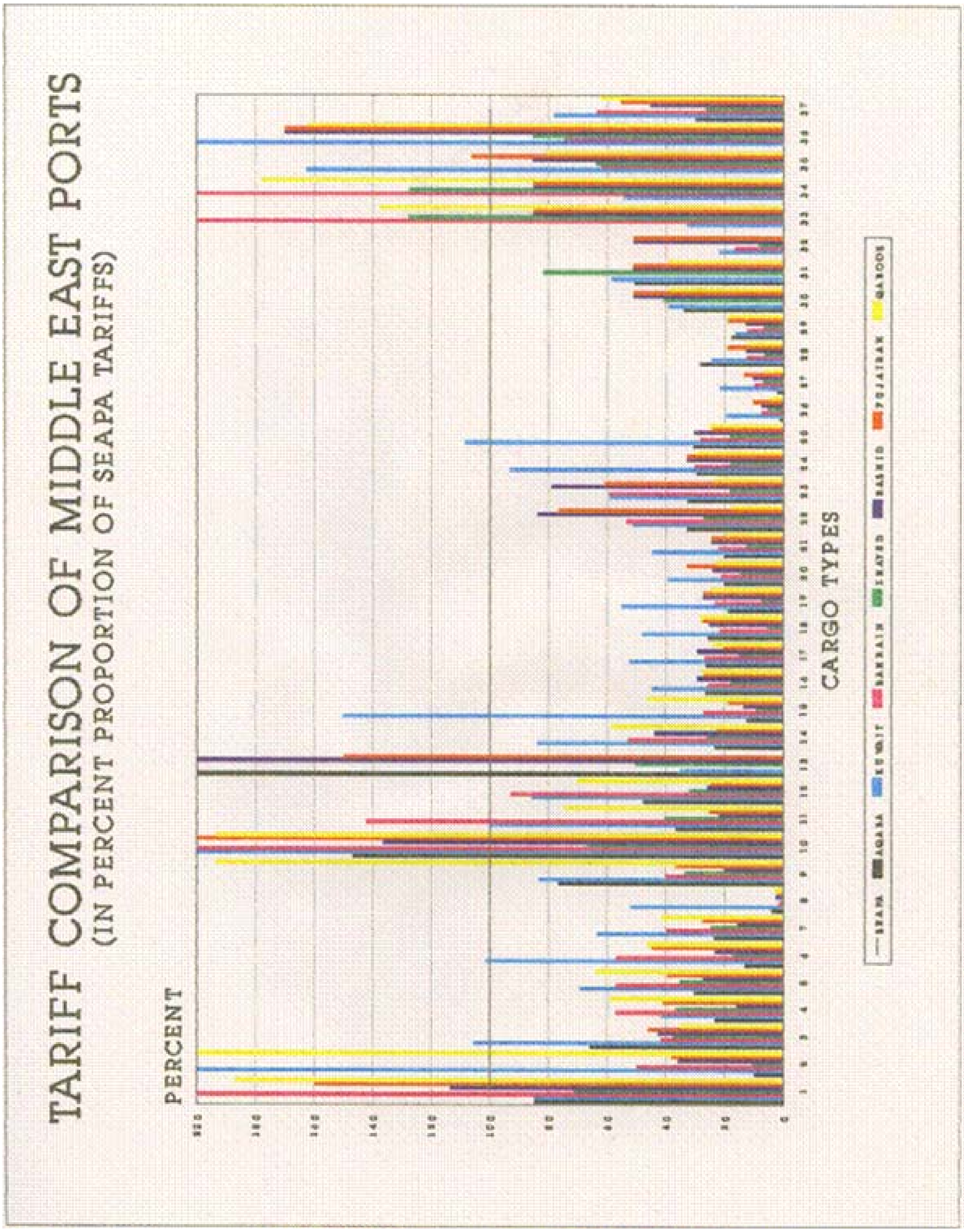
RELATION TO SEAPA TARIFF:

MORE THAN 100% ABOVE

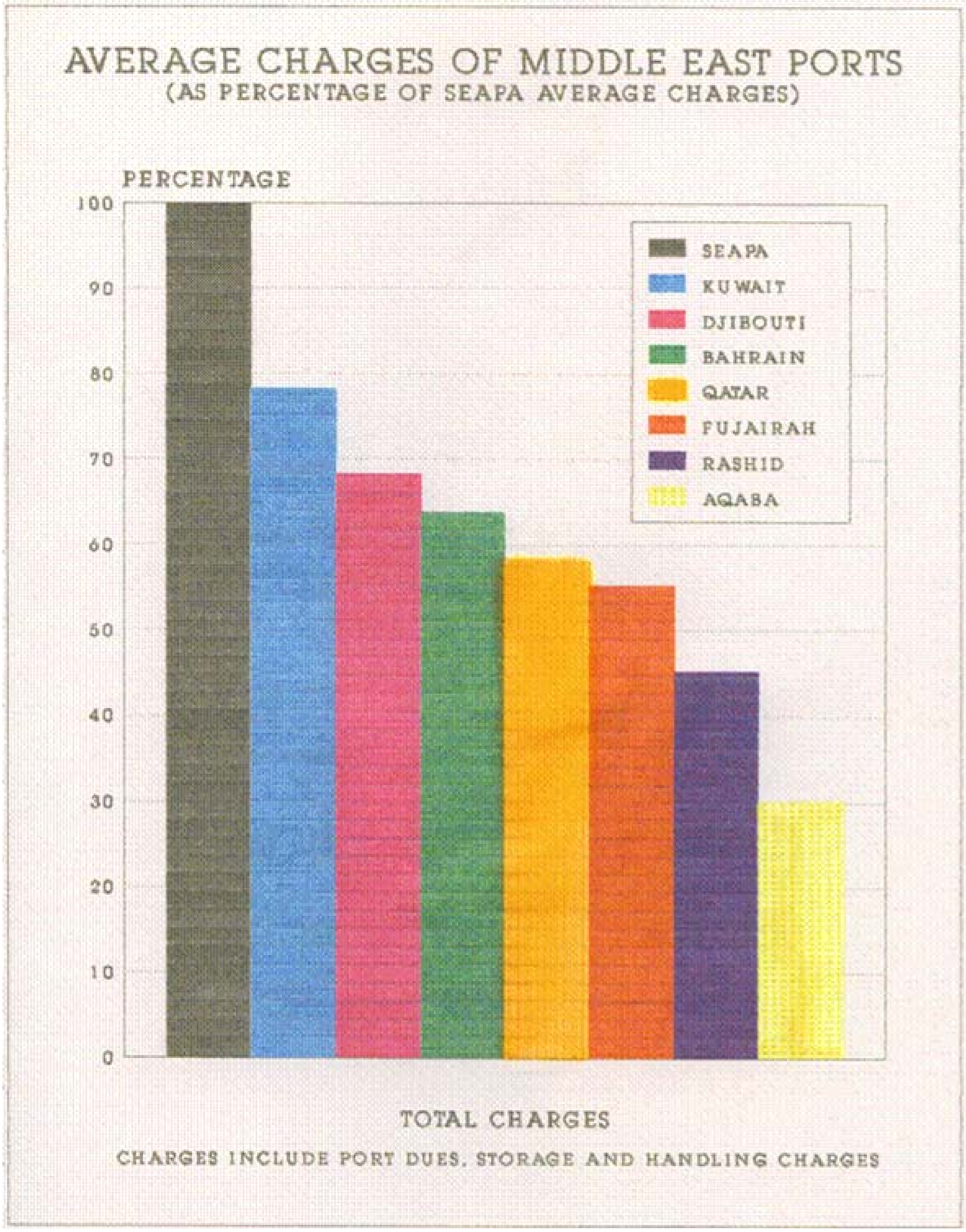
LESS THAN 100% ABOVE

LESS THAN 50% BELOW

MORE THAN 50% BELOW



Operation of any kind of container, vehicles, general and ro-ro cargo, solid bulk, small livestock, is so grossly overprized that shipping agents must be induced to look for alternative ports to discharge their cargo if this can be further transported via land transit, or be transhipped via smaller vessels. Discount rates on minimum annual volumes of transhipment and import container in Djibouti and the United Arab Emirates' ports further induce transit shipments.



The United Arab Emirates' ports and the Jordanian port of Aqaba offer operational rates for all cargo types at generally one-third of the SEAPA charges. But even the Arabian Gulf ports of Bahrain and Qatar and of Kuwait for most cargo types offer rates around 50 percent of the SEAPA tariff.

SEAPA 's storage fees for container are generally ten times higher, for general cargo even as much as fifty times higher than those of its competing ports. Bahrain and the United Arab Emirates' ports offer extended free storage periods between 30 and 60 days. In the SEAPA ports, daily storage fees of general cargo amount to one-third of actual handling charge, without any operational costs involved for the port.

Even before the year 1985, the SEAPA ports were competitive only for import commodities with final destination Kingdom and high transport-cost sensitivity such as bulk cargo and livestock. Since the SEAPA tariff increase, port charges add a considerable cost to the shipper’s total expenditures.

3. VOLUME DISCOUNTS:

Tariffs for operational charges as compared in the former chapter were calculated at a ground flat rate. However, actual handling charges in many neighbouring ports competing with SEAPA are even lower, since some ports offer discount rates for container handled per individual shipping line.

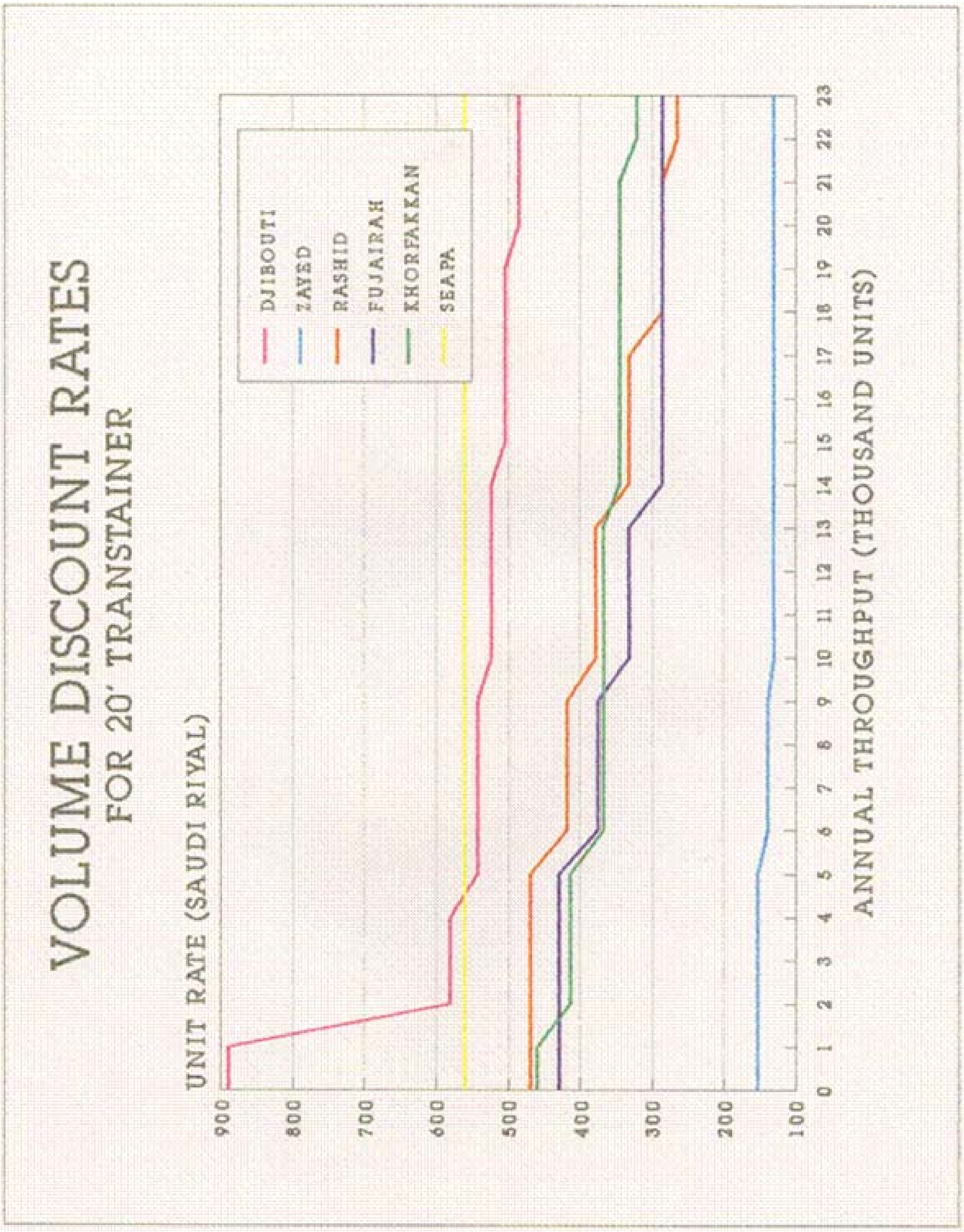
All major ports of the United Arab Emirates offer discount rates based either on a minimum volume of boxes per year or per call of vessel. The ground rates usually apply for a minimum number up to 6,000 container per year, and are discounted every further 4,000 boxes.

Handling charges of import/export container are very close for all Emirates' ports, indicating a severe competition for customers between the individual ports. At a minimum annual volume of 22,000 containers, discounts reach 50 percent at Port Rashid and 40 percent at Fujairah, putting the rate per container at one-sixth of that charged in the SEAPA tariff. Mina Zayed offers price-breaking rates, which certainly are placed below their actual handling costs. These rates are geared towards attracting more customers due to its outlying location, considering its low container throughput volumes.

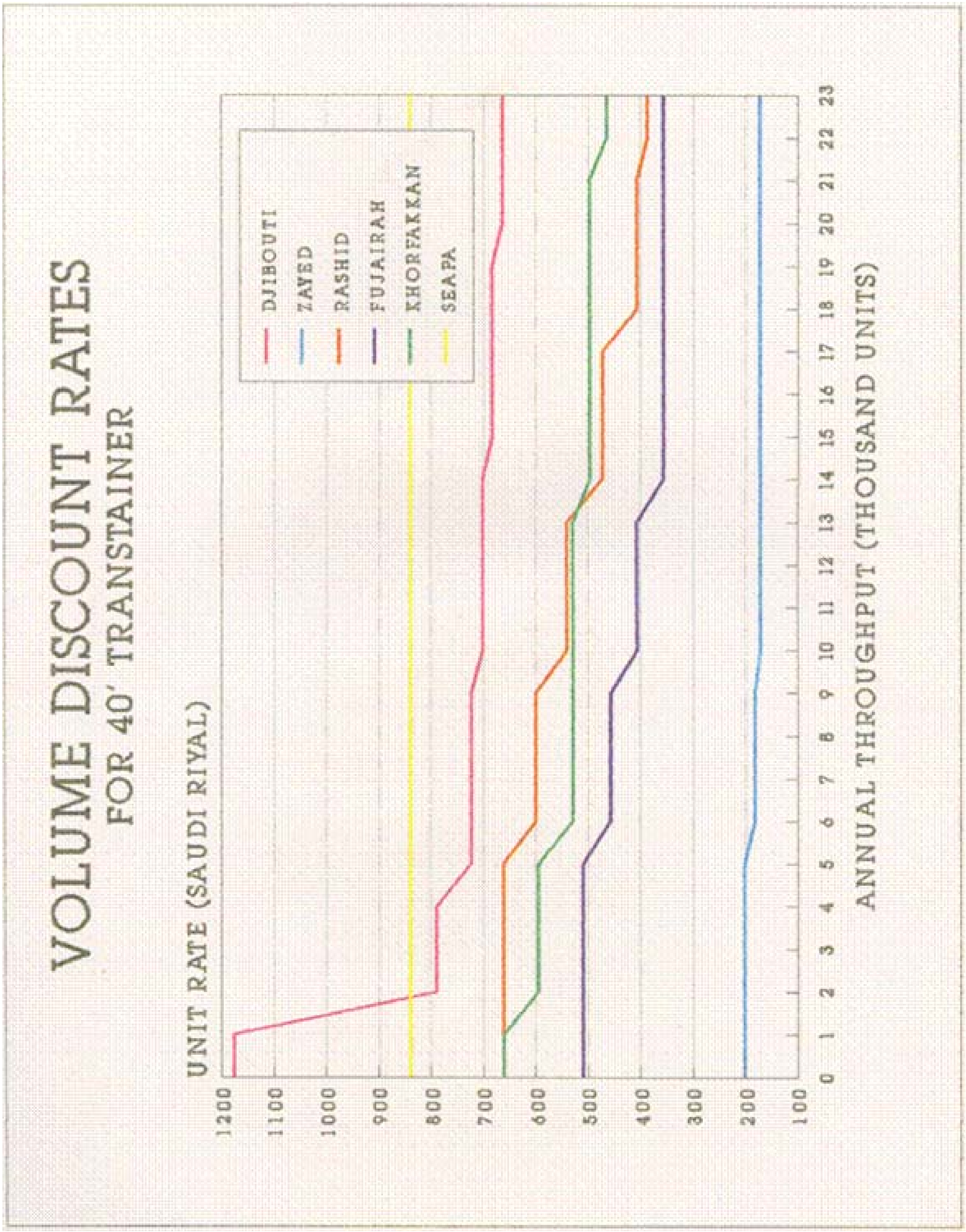
On contrast, SEAPA's handling charges are more competitive at the ground rate of full transhipment container. However, at a minimum annual volume of 22,000 containers the Emirates' handling charges are down to half that of the SEAPA tariff. Even the port of Djibouti offers discounts above a minimum volume of 1,500 boxes per year, thus making it more commercial for shipping lines to tranship their container through Djibouti instead of Jeddah Islamic Port, especially if they have to call at this port anyway.

SEAPA does not offer cheaper rates for the handling of empty containers, although shipping agents argue that the handling charges for full import containers in SEAPA 's unified tariff 'Second B' include the consignee's expenditures for empty export container. However, empty transhipment containers are being charged at the same rate as full transtainers without any discounts, thus making these more than double expensive compared to the competing ports. Port Zayed even offers free storage for a maximum of 100 empty boxes.

The Emirates' ports of Rashid and Fujairah also offer a 25% discount on the handling charge of more than 10,000 tonnes of bulk raw materials per vessel call. Port Rashid also offers a discount on port dues in the form of one single charge combined with calling at Jebel Ali.



In general, all Middle-East ports offering transhipment service for container also offer volume discount rates to attract customers to improve their economies-of-scale.



4. REBATES DURING LOW SEASONS:

Following graph reveals cyclical variations of import developments in the Kingdom's ports between the beginning of 1404H and the end of 1410H. The first cycle of the Gregorian Calendar indicates three-month import lows - with the middle month slightly higher - on a seasonal cycle corresponding to the July to September northern pre-harvest season. The second cycle of the Hegiran Calendar clearly shows import lows during the month of Ramadan with import peaks usually during the month of Shaaban and a second peak during Shawal.

CYCLICAL VARIATIONS OF IMPORT DEVELOPMENT 1404H TO 1410H:

Annex I identifies the commodities with low July import rates as container and some general cargo and vehicles, probably due to the vacation season on the northern hemi-sphere. The low September imports are foodstuffs consisting mainly of barley and other grains, which take some time to be harvested and dried before shipment to the Kingdom.

During the month of Ramadan, all commodities are imported on a lower rate, most obvious of which are some general cargoes and some foodstuffs, plus vehicles before the year 1405H.

Although a deeper investigation is necessary to determine the exact tariff commodities and amounts, tariff rebates during these low seasons could be considered for the ports in order to balance commodity imports throughout the year. The advantage of such a balanced throughput would be savings in the number of stevedore employees and operational equipment, since fewer reserves have to be held for peak months.

Tariff rebates on the operation of the commodities in quest-ion could induce additional imports to improve the overall productivity of the Kingdom's ports, or divert imports away from peak months thus saving equipment and manpower costs. On the opposite, tariff surcharges could be imposed on the operation of import cargo during the months before and after the holy month of Ramadan to equalize the trade pattern.

The level of such rebates should be defined carefully as not to undercut the direct and indirect costs for handling operations, which are different for each individual SEAPA port.

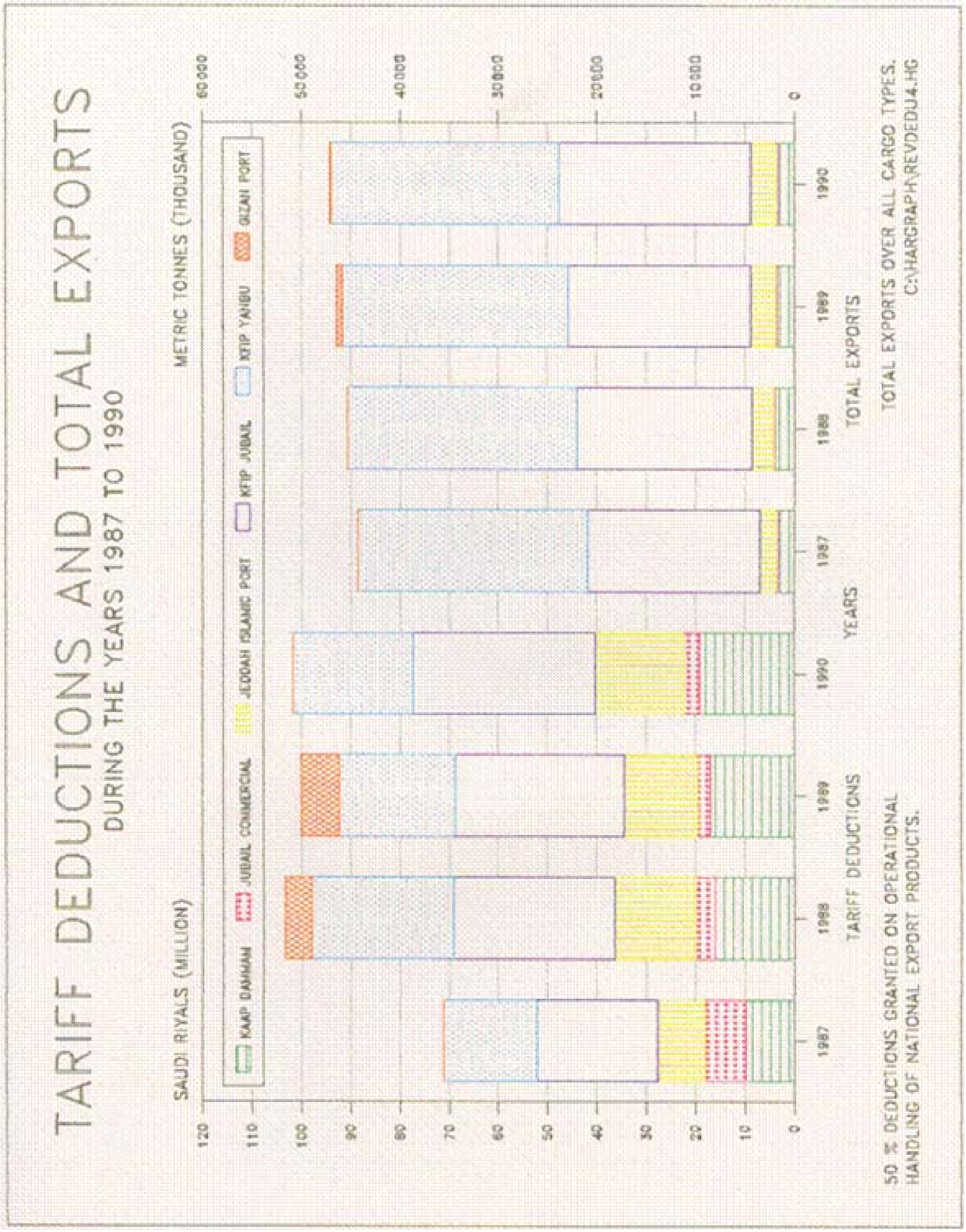
5. REBATES ON NATIONAL EXPORT PRODUCTS:

Since the year 1407H, a 50 percent tariff deduction on handling charges of national export products had been gradually introduced for all kinds of commodities, which are being produced or processed nationally with a value-added of at least 40 percent. Revenues lost from these deductions amounted to a 8.5 percent share in total revenues during the year 1988, 9.1 percent during 1989, and 9.5 percent during 1990.

During the year 1990, revenue deductions had a share of 4.8 percent in revenues achieved in Jeddah Islamic Port, 9.6 percent in KAAP Dammam, 23.8 percent in Gizan Port, 26.6 percent in Jubail Commercial Port, 22.4 percent in KFIP Yanbu, and 28.8 percent in KFIP Jubail. The four larger ports each lost about SR 30 million per year.

The reasons for these different losses of revenue are the different amounts and tariff levels of national export products being exported through the individual SEAPA ports. In the commercial ports, national products exported consist mainly of general cargo in the form of iron, steel, building materials and industrial products, and of solid bulk mainly as wheat grains and some petrochemicals. In the industrial ports, liquid refined products and both solid and liquid petrochemicals account for most of the exports in the form of bulk or, in the case of KFIP Yanbu, packed in container.

This 50 percent tariff deduction was introduced to promote export of national products through Saudi ports. Other ports also offer deductions although on a lower scale, such as Djibouti with 20%. Tariff deductions certainly played an important role in initializing the economic shift of the Saudi economy from orientation on imports of consumer goods towards exports of industrial products. Over time, however, revenues lost for the SEAPA ports due to these deductions will increase even further. Therefore it will be important to assess the degree to which these tariff deductions still work as incentives for the production of export products, and whether these tariff deductions should be replaced by a tariff rate more inducive for overall cargo throughput.



Between the years 1982 and 1989, total imports decreased by 63% according to quantity. During the same period, the share of commodities imported through the Saudi ports in total imports decreased from 91.4% to 84.4% according to quantity, and from 80.3% to even 67.3% according to value.

On contrast, the share of imports by air increased from 13.3% to 26.5% according to value and by land from 7.3% to 12.7% according to quantity (see Annex II). Consequently, disregarding the overall drop in imports, the importance of the Saudi ports as import nodes declined constantly.

6. REGIONAL REBATES BY MINOR PORTS:

Between the years 1984 and 1989, the SEAPA ports lost cargo imports at various rates. While Jeddah Islamic Port (55% down to 45% of total imports by value) and KAAP Dammam (20.5% down to 16.5%) processed roughly 10 percent less imports, the smaller ports constantly lost 50 percent and more of their business over the same period (see Annex III).

6.1. Rebates on Specific Commodities:

Naturally, rebates on certain commodities are already included in the normal tariff rates, and can be singled out only where mentioned as special tariffs. Since most Middle-East countries possess only one major port, or their ports are competing against each other with different tariffs, no regional rebates could be detected. Only the Kuwait tariff mentions a special 40% rebate on white timber imports, and the Djibouti tariff offers a special rate for livestock imports, for timber and hides exports.

Almost all neighbouring ports offer special handling rates for direct delivery between vessel and consignee's truck for most commodities. These rates are generally between 25% and 50% below the normal handling rate. Kuwait applies special rates only on direct delivery of vehicles and mobile machinery. The ports of Bahrain, Zayed, Qaboos and Djibouti also offer services and special rates for the transhipment of general cargo. The port of Qaboos additionally offers a rebate of 33% on palletized cargo and 25% on pre-slung cargo.

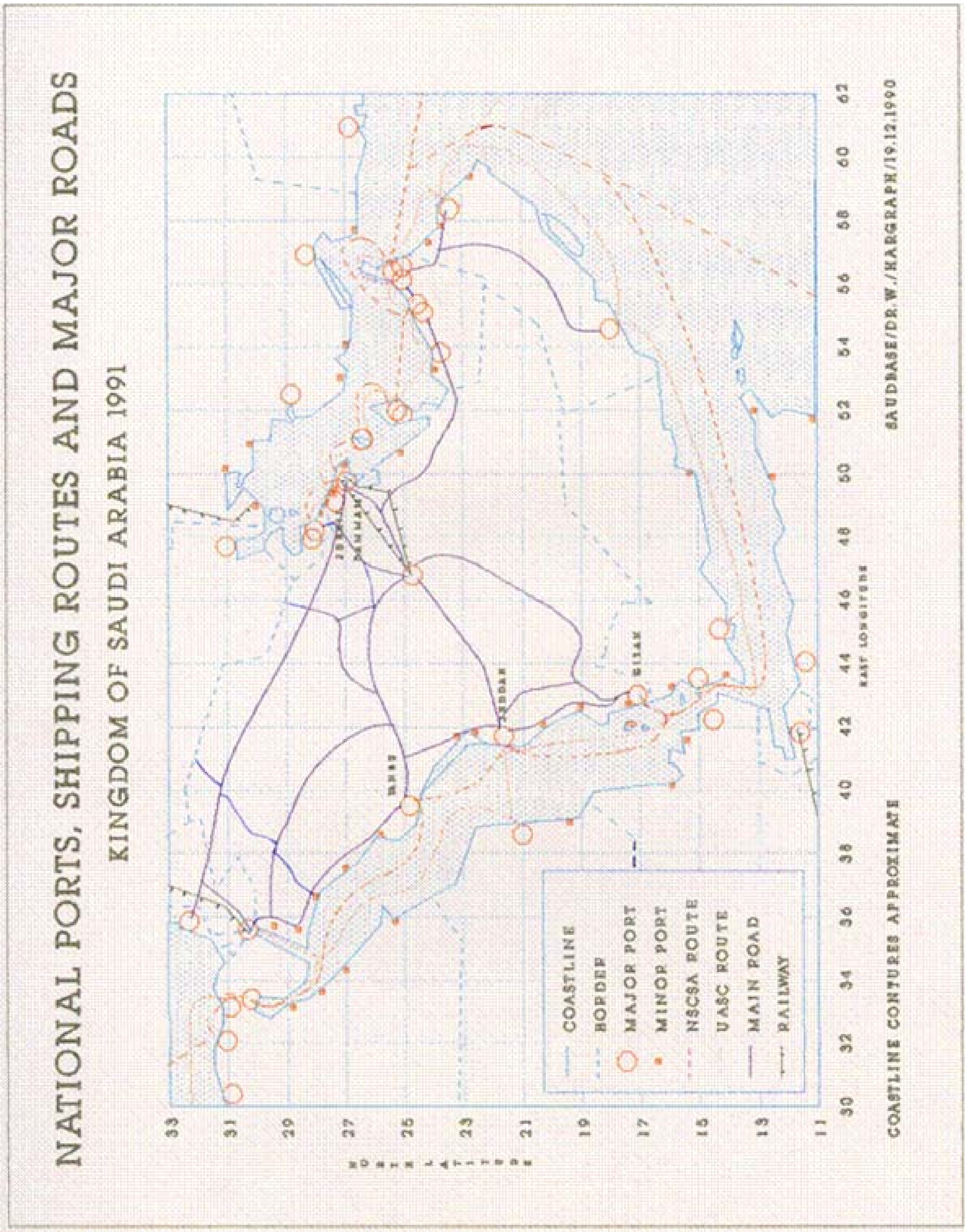
In contrast, special rates for dangerous, obnoxious, heavy and valuable goods are applied at most Middle-East ports. The Kuwaiti port of Shuweikh and the Jordanian port of Aqaba put surcharges of 50% to 100% on heavy lifts and dangerous goods, Djibouti charges percentages of valuable commodities, the ports of Qatar add a 100% surcharge on dangerous goods and 50% on obnoxious cargo such as natural fertilizer.

Such rebates on specific commodities could be granted at certain SEAPA ports, where berthing and handling facilities are underutilized, as long as their operation covers actual costs, and revenues contribute to indirect costs. The most important effect is a creation of additional throughput, so care must be taken as not to divert traffic from other SEAPA ports, where higher revenues are achieved. Prerequisite is hence a sufficient transport connection with the local hinterland, the national centres or the neighbouring countries.

Appropriate commodities to be rebated at smaller ports are solid bulk cargoes such as fertilizer, soy bean and iron ore imports at Yanbu Commercial Port for further transport to Medina, Ha'il and Buraidah, or fertilizer, grain and soy bean imports at Gizan Port for its agricultural hinterland.

6.2. Rebates on Commodities in Transit:

Except for the port of Aqaba with a 50% reduction on quay dues for transit cargo to Iraq, no Middle-East port offers special rebates on handling tariffs for commodities on further land transit into a neighbouring country. Transit traffic is rather induced by differences between various countries in total shipping costs, of which the port charges are an important part. Imports through the customs point of Qariat (see Annex III) increased from 1% to 2% of total import values from 1986 to 1989, much of which could consist of transit cargo from the port of Aqaba. In contrast, imports from Kuwait decreased from 0.9% to 0.4%, while imports from Qatar and the Emirates remained constant around 1.8%.



The three smaller SEAPA ports are all in an advantageous location to handle commodities that could be transited through the Kingdom. Jubail Commercial Port could operate badly needed commodities for transit into Kuwait, Gizan Port could cater for the northern coastal parts of Yemen, and Yanbu Commercial Port could serve as a transit port for the south-western parts of the Iraq.

Preconditions for land transit are a low transport-cost sensitivity of the commodities in question, bad transport connections of the receiving country, and a legal framework that allows for trade connections:

Commodities that are predestined for long road transport are vehicles, container, palletized and bagged cargo, and other general cargo with sufficient density and durability. They are generally high-valued as not to be severely affected by additional road transport costs, easy to load and discharge, and not prone to get spoilt or broken on long road journeys.

The present damages at the Iraqi and Kuwaiti ports, plus the sanctions that still affect the port of Aqaba, give at least a short-term advantage to the Saudi ports. Insufficient road connections from the Iraqi Euphrates valley to its south-western desert areas, and from Hodeidah to its northern coastal areas present a long-term advantage for road transit of import and export commodities from or to Saudi ports.

The GCC-unified economic agreement from June 1981 sets the legal background for trade exchange of products of national origin. To qualify as national products, the value added ensuing from their production in the Kingdom has to exceed 40% of their final value, which requires a certificate of origin. However, member states shall establish a uniform minimum customs tariff applicable to the products of outside countries, thus enabling transit of import products. However, no customs tariff agreements and procedures exist as yet with neighbouring countries like the Yemen and Iraq.

6.3. Rebates on Storage Charges:

Under the present SEAPA unified tariff, storage fees amount to a significant portion of the consignee's transport costs, without actually involving direct operational costs on the port's side. Storage fees for general cargo at the Kingdom's ports are at present double those in Kuwait, 25 times those in Aqaba, and 50 times those of the Emirates' and Bahrain's ports. Storage fees for container in the Saudi ports are 4 times those in Kuwait and 10 times those of the Emirates' and Bahraini ports.

SEAPA at the end of 1990 recognized this problem and extended the free storage period for refrigerated foods to 30 days and for other food items to 60 days . However, this extension was granted only on food items at Yanbu Commercial Port and Gizan Port, which will improve utilization of their storage capacities to only a limited extent. Free storage period for reefer container is limited to 20 days and of other non-refrigerated foodstuffs to 30 days in the larger ports. Free storage for other general cargo, import and transhipment container amounts to 13 days, and for empty export container and ro-ro to 2 days in all SEAPA ports.

SEAPA compares quite unfavourably with its competing ports: Djibouti offers free periods of 10 days for import containers and 30 days for empties and transtainers. Bahrain offers a 30 days free period for transhipped ro-ro and transtainers, 20 days for general cargo, and 10 days for vehicles, ro-ro, containers and empties. Qatar allows a 14 days for container storage, Qaboos 7 days for general cargo and 3 days for containers. The Emirates' port of Zayed offers 30 days for containers and general cargo, Fujairah and Rashid 20 days for general cargo and 30 days for transhipment cargo, Port Rashid even 60 days for transtainers in the open stacking area.

Regional storage rebates could be introduced in the form of an extension of free periods according to the availability of storage area in SEAPA 's various ports. The present high storage rates could even serve as a deterrent to exceed this prolonged storage free period and would thus guarantee a constant flow of import and export commodities through the ports' storage sheds and areas.

The duration of free storage periods in SEAPA's smaller ports should therefore compare adequately with those at their ports in the Kingdom's neighbouring countries.

Additionally, the level of storage charges for general cargo and container should be reviewed in the SEAPA Unified Tariff to bring it more into line with those of competing ports.

6.4. Rebates for National Carriers:

Flag discrimination is widely practised worldwide and involves the national flag operator having a more favourable tariff than foreign tonnage. Also, the national carrier takes preference over the foreign flag in berth access.

The objective of such flag discrimination is the generation of employment and additional income both on a local and a national level. Coastal trade that is usually conducted entirely by small national private shipping lines presently is non-existent in the Kingdom, but could be fostered given the existence of other important economic preconditions.

Tramp vessels usually serve the short-sea shipping routes and provide employment and income rather locally, while the national shipping company of Saudi Arabia (NSCSA) and the United Arab Shipping Company (UASC) - of which the Kingdom is a very important shareholder - connect the Kingdom via long-sea shipping routes and provide income to the national government.

The best form of a tariff rebate would be an exemption from port dues for such national carriers on coastal and short-sea journeys. Such exemption from port dues would also attract these carriers into ports and on occasions, where small amounts of cargo to be discharged or loaded would not warrant the expenses of even SR 4,000 for port dues, not to mention of increased port dues adjusted to pay sufficiently for marine services offered at the SEAPA ports.

The effects of decreased income from port dues to the marine centres of the individual ports should be scrutinized as to how the losses could be balanced by general port dues increases without turning these cost centres into net losers.

7. RECOMMENDATIONS:

1. The most important effect of tariff rebates should be the creation of additional throughput, so care should be taken as not to divert traffic from other SEAPA ports, where higher revenues are achieved.

2. Discount rates to shipping lines on annual minimum container and bulk cargo volumes should be introduced and published at all SEAPA ports. These discounts should parallel the ones given at competing ports so as to catch present and future operational business.

3. Cross-subsidization from more productive ports renders smaller ports less productive with consequent losses in generation of employment and local income through market growth. Subsidies should therefore rather be given in the form of lower tariffs to attract shipping lines.

4. Tariff rebates during low seasons should be considered to balance commodity imports throughout the year. The advantage of such a balanced throughput would be savings in the number of stevedore employees and operational equipment since fewer reserves have to be held for peak months.

5. The level of such rebates should be defined carefully as not to undercut the direct and indirect costs for handling operations, which are different for each individual SEAPA port and have to be individually calculated.

6. The degree should be assessed to which tariff deductions on national products exports still work as incentives for the production of export products, and whether these tariff deductions should not be replaced by a tariff rate more inducive for both cargo imports and exports.

7. Rebates on specific commodity imports could be granted at certain SEAPA ports, where berthing and handling facilities are underutilized, as long as their operation covers actual costs, and revenues contribute to indirect costs.

8. Appropriate commodities to be rebated at smaller ports are solid bulk cargoes such as fertilizer, soy-bean and iron-ore imports at Yanbu Commercial Port for further transport to Medina, Ha'il and Buraidah, or fertilizer, grain and soy bean imports at Gizan Port destined for its agricultural hinterland.

9. Rebates on transit commodities could be granted ad hoc on a case to case basis, where need arises from national over-demand or undersupply, such as at the present case with the Kuwaiti reconstruction, and where the political decision-makers agree on procedures and legal framework.

10. Regional storage rebates should be introduced in the form of an extension of free periods according to the availability of storage area in SEAPA’s various ports.

11. All the above-mentioned rebates at smaller SEAPA ports should be combined into one regional rebate within a revised SEAPA Unified Tariff.

12. The level of storage charges for general cargo and container should be reviewed in the SEAPA Unified Tariff to bring it more into line with those of competing ports.

13. Since exchange rate rebates can have a positive effect on the competitiveness of the SEAPA ports, SEAPA should reflect on such a factor in the formulation of the tariff to remain competitive.

14. The effects of decreased income from port dues to the marine cost centres of the individual ports due to an exemption from port dues for national carriers should be scrutinized as to how the losses could be balanced by general port dues increases without turning these cost centres into net losers.