

Problem Statements and Possible Solutions:

Security of Critical Supplies: How do we obtain alignment in cargo movement between different role players, mode, modalities and commercial realities?

Documented: 30 March 2020,

Last Updated: 2020/04/03 16:47

About this update:

This paper contains a summary of the most pertinent problems as collectively identified by Industry around the *Security of Critical Supplies* (item no. 4 on the BUSA COVID-19 Economy Work Stream document). The outbreak and subsequent impact of the COVID-19 pandemic is affecting all aspects of life and trade. For this reason, it is vital that Business, Government and indeed all citizens play their collective part in ensuring that our people and businesses survive, and at the same time ensure that South Africa's fragile economy also survives.

It is therefore important that the major role players in the economy — especially with regards to the movement of cargo in and out of the ports — come together to alleviate some of the critical situations that the pandemic (and subsequent lockdown) has caused for the country. There have already been some very positive steps taken by all role players in ensuring business continuity and the uninterrupted flow of goods in the supply chain, however many caveats still exist. This updated paper, therefore attempts to identify the challenges that still exist, and to propose workable solutions to combat the challenges identified. Many remedies do exist, namely **(1)** regulatory amendments, **(2)** rules and/or policy amendments, **(3)** changes in workflows, and **(4)** obtaining additional data.

In global terms, the possible impact of the COVID-19 pandemic, especially pertaining to the supply chain, is primarily three-fold, in that (1) direct supply disruptions will occur; (2) supply-chain contagion will amplify the direct supply shocks; and (3) demand disruption will occur due to a drop in aggregate demand and a precautionary delay by consumers and investment firms alike (Baldwin & Tomiura, 2020). Since the world is truly connected and intertwined, the effects will spill-over into South Africa's supply chain. Lasting effects on the supply chain will also involve a certain degree of "supply-chain narrowing", according to some researchers ([Gordon, 2020](#)).

To combat these effects, the following problems have been identified:

1. Questions that arose over the previous week:

1. Can there be rules created across the entire sphere of government (DOT, ITAC, SARS, BMA and SAPS) to ensure that all of the rules in terms of shipping cargo (essential, non-essential, critical medical supply) are aligned?
2. Will there be relevant provisions made for tax relief and will payment extensions for deferred Import Duty and VAT be granted to ensure business continuity?
3. Can there be processes put in place to ensure that SAPS, BMA and SARS are working in synergy to not unnecessarily inhibit the flow of cargo, especially un-cleared cargo (non-essential cargo, and what the shipping lines, TPT and TNPA refer to as "unassigned" cargo)? Cargo may also be landed un-cleared, deliberately, because importers and their agents will be trying to protect their

BUSA Covid-19 Workstream 4 - Optimal practical solutions 30 March

already fragile cash flow by not outlaying funds on cargo which they cannot even receive, let alone sell.

4. Can the process for mandatory transport permits be streamlined?
5. Can there be concession made in terms of storage and demurrage costs charged from the shipping lines, as containers will not be allowed to be unpacked for “non-essential cargo”? In this regard, and in terms of the President’s announcements, importers need to be protected from opportunistic predatory pricing.
6. How will the export containers be managed if containers that hold non-essentials are not to be unpacked — are we not simply deferring the pain point to a different area downstream in the supply chain?
7. Can a workable solution be created for the flow of road freight to the borders, especially essential goods moving through Beitbridge into Zimbabwe? What levels of co-ordination are there with neighbouring countries, who have now also imposed varying degrees of restrictions?
8. Can a workable solution be created for the disembarking of crew? Without crew, no movement of essential goods and/or critical medical supplies can take place. Crew fatigue is now more of a critical pain point as no streamlined process is created for the disembarking of crew since they cannot get to the ports/airports and are subsequently stuck.
 - a. Foreign airlines are refusing to send freighters to South Africa as the crew can go in quarantine for a certain period, waiting for the return freighter. Inbound flights will not be economically viable if there is no return cargo, and it appears that our regulations may preclude such cargo from being delivered to airports.
9. Growing SAPS involvement in the movement of cargo out of Durban Harbour is problematic, especially in the light of the Gazette issued by the Minister of Transport making it clear that all cargo will be permitted to be transported out of the ports. Questions around this have been sent to Transnet directly (March 29, 2020, 18h70). Refer to figure 1 in this document. Can the abovementioned booking system with SAPS be streamlined?
10. The global trading community makes no distinction (as far as transport is concerned) between:
 - a. Essential cargo
 - b. Critical medical supplies
 - c. Non-essential cargo
11. The possibility is now rising that we will not have Freighters coming to South Africa for essential and critical medical supply. The problem is further compounded by the fact that the cargo belly can’t be filled with essential and critical medical supplies. Freight is combined and does not move in the sea, air truck modalities by the current categories as defined under number 9.
12. Cargo is generally categorized in terms of
 - a. General cargo
 - b. Hazardous cargo
 - c. Perishables
 - d. Etc.
13. Essential sectors (as classified by Minister Patel), are working with both essential and non-essential goods and as a result they often offer both general - and essential services. No clear guideline is given on how service providers should deal these new distinctions in cargo classification.
14. Supply chains are fragmented and operate with up to 12 role players in the extended supply chain, which are all interdependent with various services and activities. If these interdependencies are not addressed in a more holistic manner, more pain points and bottlenecks are created, and our trading community are not equipped to handle these obstacles.

2. Possible solutions:

a. Suggested remedies to the questions that arose in the previous week:

1. Can there be rules created across the entire sphere of government (DOT, ITAC, SARS and SAPS) to ensure that all of the rules in terms of shipping cargo (both essential and non-essential) are aligned?

Has this question been remedied?	Date:
Amendment to the Disaster Management Act No. 57 of 2002, Government Gazette Vol. 658 No. 43199; Removal of the classification for movement from Terminals (Air/Sea) to intended destination.	2 April 2020

Allow the goods (essential and non-essential; sea freight and air freight) to move out of the port terminals and air controlled areas, with no categorization of cargo type. It is nearly impossible to categorize containers in any event, especially consolidated loads containing both essentials and non-essential goods. The Customs Act does allow for a mechanism where provisions can be activated — under bonded cargo — but the facilities (storage capacity) required will be more than the existing “Licensed bond operated space”, so ultimately cargo will have to be held in other facilities where space is available.

If we can’t allow Customs Cleared and released non-essential goods to be moved to other areas, no capacity will be left for non-essentials (i.e. un-cleared) in the licensed depots, and this in turn will impact on the ability of SARS to conduct proper cargo interception and examination.

Nowhere in the world is there any distinction being made between essential and non-essential goods, which is subsequently creating havoc around the ports for the following reasons:

- South Africa cannot sort out the flow of goods; which creates a situation where there is an imbalance between the inflow and outflow of goods; since trade is currently not moving in and around the ports. Under those conditions our container terminals can very easily become gridlocked, and movement will have to cease altogether while that is cleared (at great cost).
- Important freighters are diverging away from South African ports and moving towards other parts in the world, notably China. (*The cost of a 747-Freighter from Shanghai to Johannesburg was ± USD 450 000 two weeks ago and is now above the USD 1 000 000 mark.*)

Importantly, we need other Law enforcement agencies to follow a unified protocol to create alignment in handling of non-essential and essential goods out of the terminals. Communication needs to take place via the ITAC office; and the Minister of Trade, Industry and Competition, Mr. Ebrahim Patel.

2. Will there be relevant provisions made for tax relief and will payment extensions for deferred Import Duty and VAT be granted to ensure business continuity?

Has this question been remedied?	Date:
Raised with Legal Team; under Workstream	2 April 2020

Industry has requested an extension of deferment of duty and taxes, seeing that virtually no trade will happen during the 21-day lockdown of non-essential goods, compounded by the fact that not enough bonded license areas are available for un-cleared cargo of non-essentials.

In an attempt to mitigate the factors outlined above, the sensible and practical solution would be for SARS Customs to at least provide an additional 30 days or 60 days on the current (April/May) or (May/June) deferments. This is clearly coupled with the movement of non-essential cargo to warehouse

BUSA Covid-19 Workstream 4 - Optimal practical solutions 30 March

facilities and other storage areas where such cargo can be held in “suspense” for the 21-day lockdown period.

In essence, SARS have already collected upfront for the 2019/2020 year through their “13th cheque system”.

To ensure effective controls, SARS can track any transaction once a “declaration is made”, which will help with the security measures (SARS currently has excellent capacity to handle all electronic submissions).

3. Can there be processes put in place to ensure that SAPS, BMA, SARS are working in synergy to not unnecessarily inhibit the flow of cargo, especially un-cleared cargo (non-essential cargo, and, as the Shipping Lines, TPT and Portnet refer to as “unassigned” cargo)?

Has this question been remedied?	Date:
Draft SOP – SAASOA (South African Association of Ship Operators and Agents – shipping lines). Draft concept with SARS – Customs to allow “virtual bonded warehouses” to relax the rules during COVID-10. Deferment account — Tax Relief during Lockdown period.	3 April 2020

As matters currently stand, containers will have to go to licensed depots (as per DOT; which in turn places the burden on the Shipping Lines to use their licensed depots, storage facilities – which is not sufficient to store all of the cargo categorized as ‘non-essential’) in the normal way. But even that seems to be ignored by SAPS, who in some areas, are refusing to allow containers to leave the ports.

This could lead to severe congestion for a couple of reasons:

- Firstly, importers may be reluctant to clear goods and outlay cash when they know they could wait until after the lockdown, knowing that they’re going to end up paying demurrage/detention/storage anyway.
- Secondly if SARS (and possibly SAPS) act as they say they will, and stop containers at the normal rate, the licensed depots could lack capacity to handle these, as they are already working with skeleton staff.
- Industry suggests that only high risk non-essential cargo will be examined.

4. Can the process for mandatory transport permits be streamlined?

Has this question been remedied?	Date:
Report and escalate the cases from Different Associations	Daily; and will continue during the COVID-19 lockdown period

All movements of containers, in or out, must be undertaken by transporters carrying the necessary essential services’ permit. After the Minister of Transport’s statement— in which he said the movement of goods would be allowed — there was some confusion; with law enforcement authorities saying that they will only act according to the Regulations which are Gazetted. But subsequent to that, the gazette confirming the Minister’s statement has been published. Unfortunately, it seems that other government agencies, notably SAPS, are not complying.

5. Can there be concession made in terms of storage and demurrage costs charged from the shipping lines, as containers will not be allowed to be unpacked for “non-essential cargo”? In this

BUSA Covid-19 Workstream 4 - Optimal practical solutions 30 March

regard, and in terms of the President's announcements, importers need to be protected from opportunistic predatory pricing.

Has this question been remedied?	Date:
Consolidate the approach to stream the relief for Non-Essential cargo in sealed, FCL containers	WIP

This needs to be regulated, since the storage and demurrage of containers (ownership of the Shipping Lines) which hold non-essential cargo can be millions and cannot be absorbed by the freight forwarder, the customs brokers, nor by trade itself and then passed on to the end consumer, as the cost will not be recovered, seeing that supply chains are mostly suspended. In terms of the President's strongly worded statement that profiteering out of this crisis would be punished, authorities are urged to pay particular attention to this aspect.

6. How will the export containers be managed if containers that hold non-essentials are not to be unpacked — are we not simply deferring the pain point to a different area downstream in the supply chain?

Has this question been remedied?	Date:
Amendment to the Disaster Management Act No. 57 of 2002, Government Gazette Vol. 658 No. 43199; Removal of the classification for movement from Terminals (Air/Sea) to intended destination.	2 April 2020

This matter ties in with the first question, and really revolves around the request from industry to Government to provide some clarity in terms of the rules of the game to ensure that the build-up of congestions around the ports do not get out of hand.

7. Can a workable solution be created for the flow of road freight to the borders, especially goods moving through Beitbridge into Zimbabwe? What levels of co-ordination is there with neighbouring countries, who have now also imposed varying degrees of restrictions?

Has this question been remedied?	Date:
Regional alignment	On going

The trucks are standing at border posts and drivers are walking around, which is less than ideal in these circumstances. Therefore, the following suggestions are made from Industry:

- Allow trucks to move through
- Turnaround option to be considered
- Create a pro-active plan to ensure we don't congest Border Crossings
- Border posts that have been closed to passengers are not allowing goods vehicles through

A report received on 30 March 2020 indicated that the border post on the North-South Corridor is cleared and will be monitored as many of the Import containers (non-essential goods and essential goods are packed at origin in one container) is going through Durban as a transshipment hub for Africa.

8. Can a workable solution be created for the disembarking of crew? Since, without crew, no border operations can take place.

Has this question been remedied?	Date:
Air crew → resolved Shipping crew → not yet resolved	1 April 2020

BUSA Covid-19 Workstream 4 - Optimal practical solutions 30 March

Industry has proposed a simple process to follow in order to (1) ensure the health precautions are being adhered to with regards to the disembarking of crew, but also (2) to ensure cross-border operations can continue uninhibited.

Develop a plan in the event a crewmember becomes symptomatic during the flight.

Encourage crewmembers to take their temperatures twice daily.

1. Freighter lands
2. Go to parking bay
3. Before opening doors – Reporting of any crew falling ill whilst in the air
4. If none reported – Crew opens doors
5. Screening by Port Health, SAPS, immigration (DHA)
6. Crew is escorted to the International Continental Hotel – With private transport that has been sanitized in advance. Crew to wear protective gear from Airport to Hotel. Crew to avoid public transport. Driver to wear protective gear – keep distance from Crew members.
7. Crew remain in quarantine (meals to be served in hotel rooms). Issue crew members with thermometers for regular checks. Provide information so that they know how and where to report symptoms.
8. Next flight crew fly out. (Once again with private transport that has been sanitized in advance. Crew to wear protective gear from Airport to Hotel)

A request for the alignment in the different notices has been submitted, March 29, 2020 (18h00) for consideration.

9. Growing SAPS involvement in the movement of cargo out of Durban Harbour is problematic, especially in the light of the Gazette issued by the Minister of Transport making it clear that all cargo will be permitted to be transported out of the ports. Questions around this have been sent to Transnet directly (March 29, 2020, 18h00). Refer to figure 1 in this document. Can the abovementioned booking system with SAPS be streamlined?

Has this question been remedied?	Date:
Amendment to the Disaster Management Act No. 57 of 2002, Government Gazette Vol. 658 No. 43199; Removal of the classification for movement from Terminals (Air/Sea) to intended destination.	2 April 2020 (Cargo moved from 09h00)

At present, the transporters are unable to get into the port to collect containers, since SAPS is stationed outside and requires a booking slip from SAPS itself. This booking slip must be presented in a paper format, as well as being physically present, booking slips must be forwarded to SAPS via email between 6am – 8am daily to the following email address: MasingaTT@saps.gov.za.

b. Updated workflow: (example for Sea – FCL cargo)

Many of the problems identified can be alleviated by an update in the workflow of goods entering South Africa via sea freight and airfreight. The following figure depicts what has been experienced up and until 31 March 2020, showing all the bottlenecks and massive pain points:

Figure 1 - Updated workflow: Cargo is not flowing (as we want to distinguish between essential and non-essential cargo) and effectively stopping the supply chain



Pain points and stoppage due to classification of cargo and obstructions

- ❖ Shipping lines offload full vessel and load full vessels for departure, no classification of cargo
- ❖ TPT, Transnet, Terminal work with Container numbers, no classification of cargo
- ❖ Un-cleared (bonded) cargo moves to the licensed depot, still no classification of cargo
- ❖ Import and Export Customs Clearance of all cargo takes place as it will move to storage points or Direct Trade sites
 - Trade is effectively stopped for 21 days, no guaranteed payment, cash cycle or liquidity
- ❖ Road hauliers work in containers and no classification of cargo
 - Gauteng storage facilities usually support Durban as a hub for cargo “at rest”
 - This is being stopped, due to classification of cargo

Conclusion

This paper contains a summary of the most pertinent problems as collectively identified by Industry around the *Security of Critical Supplies* (item no. 4 on the BUSA COVID-19 Economy Work Stream document). The outbreak and subsequent impact of the COVID-19 pandemic is affecting all aspects of life and trade. For this reason, it is vital that Business, Government and indeed all citizens play their collective part in ensuring that our people and businesses survive, and at the same time ensure that South Africa’s fragile economy also survives.

This paper attempts to outline the most pertinent challenges that still exist, and subsequently proposes alternative workable solutions to combat the challenges identified. Many remedies do exist, namely (1) regulatory amendments, (2) rules and/or policy amendments, (3) changes in workflows, and (4) obtaining additional data.

Last Updated: 2020/04/03 16:47