Report on public consultations on the NPA's 2022/23 – 2024/25 Tariff Application

As per Section 72(1) of the National Ports Act, 2005, on 01 August 2020, the National Ports Authority (NPA) submitted its application setting out its proposed tariffs for the services and facilities offered 2022/23 financial year for approval by the Regulator.

The tariff application was prepared and submitted based on the new multi-year Tariff Methodology applicable from 2021/22 to 2023/24 tariff periods published in March 2020. Based on this tariff methodology, the Authority's' application translates to a 23.96% overall tariff increase for the 2022/23 financial year, but they are requesting the Regulator to consider a 9,40% tariff increase by using the ETIMC.

Tariff application roadshows were held in three regions on 14 September to 16 September 2021 to allow the port users and the industry to engage with the NPA on the proposed tariff application, seek clarity and be empowered to make their submissions by 15 October 2021. Due to lockdown restrictions, the roadshows were held on virtual platform using MS teams and were attended as follows (including PRSA, Transnet and officials from government departments). The discussions during the Q&A session are captured below and reflect concerns, comments and inputs by port users on different aspect of the NPAs tariff application.

1. Eastern Cape Region

Comment (Shipping line representative): In the presentation there is mention of lowering the cost of doing business which is fantastic and that is exactly what we need to do. And also that the Authority acknowledged that it needs to be globally competitive. From a shipping lines point of view, we note that there is a proposed increase for shipping lines again. And the Ports Regulator have said that the Shipping lines need to pay more as part of overall cost (through tariff strategy). Looking at what the shipping lines are already paying in comparison to other ports around the world, in terms of costs, the shipping lines are really at a disadvantage because of the higher costs paid in South Africa and this has been looked at this before. The meeting should be mindful of where the country is, especially in COVID terms at the moment and the cost of doing business in SA. The shipping lines would have hoped that the Authority have taken the issue of costs paid by shipping lines, and COVID-19 into consideration with the number of companies that are going out of business. The number of shipping lines agents and other businesses who are actually rationalizing and actually not doing well or closing down due to COVID-19.

Response: In order to deal with the COVID environment and the use of the ETIMC last year, the Authority started from a low base; the tariff application of 23.96% has taken those issues (paying higher in comparison to other ports around the world/ companies that are going out of business/ rationalizing of businesses or closing down) into consideration.

Question (PRSA): Asked the Authority if the use of ETIMC in the tariff application represent the worst case scenario from a business point of view and what protection do port users have if the ETIMC is fully utilised in the next years. As has been indicted, the Authority is struggling in terms of implementing CAPEX, will this not expose port users to a further double digit increase in the next five years.

Response: The Authority's investment mandate has long lead times and it's important that the NPA gets that right and respond accordingly, hence the decision to smooth tariff adjustment of 23.96% with the use of ETIMC. The use of ETIMC in this tariff application is to minimise the impact on the current economic situation. The Authority plans to have conversations with the Ports Regulator around the use of ETIMC that is becoming exhausted in terms of this application. In support of the Authority's segment strategy, it will require in excess of inflation increase adjustments and it is important to have those conversations with the Ports Regulator. The Authority is confident that with this tariff application, it will get the Authority through 2 - 3 years based on the Authority's outlook including the ramping up of the Authority's capital program.

Question (Head NPCC/PCC): Request clarity in terms of the signed off of this tariff application by the appointed NPA interim board.

Response: There are legal and compliance processes that needs to be followed in order to ensure that the Authority comply with applicable legislative framework and in this particular instance, the PFMA describes how to go about it. To ensure that the Authority proceed in a legally permissible fashion, there's also an issue of a finalization of Memorandum of Incorporation. Such operational details enable full compliance with the legal prescripts and the Authority is busy with that. The CEO of the Authority had his first meeting with the designate chair of the Interim Board. The interim board in reality has not come into force due to the legal issues that still needs to be completed for the subsidiary to operate within the prescripts of the law. For now, there is no legal vacuum. The existing board is still in place until such time that in legal terms, the new interim board comes into existence and that is a transition that the Authority is trying to manage. But at any point in time, the administrative actions of the Authority would be in accordance and in full compliance with the law, including whatever authority that is required and is duly approved and done in terms of the delegation of that authority. The Authority is hopeful that some of these things are within the purview of government to ensure that the requisite approvals from the National Treasury are secured. So the Authority is working with the shareholder department in this particular instance the Department of Public Enterprise.

Question (Head NPCC/PCC): With regards to the many changes ahead of the permanent board coming in, is the Authority empowering the current team in terms taking big decisions that do not have to go to the Transnet board.

Question (Head NPCC/PCC): There are major changes across the port system in terms of personnel; how does that affect the morale and the execution of delivery of the Authority's mandate.

Response: Firstly, the Authority had a structure which had their head office which was dislocated from the operations. Secondly, the size of the head office in relation to what is actually happening at the ports, especially in the context of financial constraints; that priority in so far as resources, should be given first and foremost at the required capacity at a port level. The Authority has very distinguished and capable people operating these ports in very challenging circumstances. Amongst others, lack of adequate tools of trade, but nevertheless doing their best under the circumstances. One of the things that was done as far back as two months or so ago was significant delegation of authority to the port managers with a request that they should in turn delegate to their reporting officers so that there is cascading of that authority for people to be able to make the necessary decision. Obviously alongside the delegation of authority is a necessity for increased awareness about the responsibilities and consequences to exercise that particular authority. There is a need to also increase the capacity of our colleagues to appreciate the implications of the authority that would be vested in the roles that they occupy. But the delegation of authority is a big part of what the Authority actually doing.

The second part was in instances where authority is vested in people who would ordinarily be occupying the head office, those are the people whose sole function would be to provide support and focus on this specific ports. As indicated before, whereas the Chief Operating Officer would have had to provide support to 8 ports, what now done is to bring in three people instead of that one person with a dedicated support in each particular port, which would increase their capacity to create visibility at decision making forums that would impact these spheres or the regions they operate in. This is to create focus and much more specific line of sight and delineation of duties so that there is no one person running across the system and creating the difficulties the Authority is experiencing. From an execution point of view there will be no need to escalate significant majority of decisions to EXCO. The Authority is moving away from that particular philosophy, and the bulk of the decision should be made at the port level. If there's a need to escalate to a managing executive, he/she would not be removed because geographically he/she would be located in proximity of the ports. The management executive for the Eastern region would be based in Durban or Richards Bay, one for the Central region would be based in Gqeberha in East London, and one for the Western region would be straddling between Saldanha, Cape Town as well as Mossel Bay doing nothing else other than to provide support to the accounting officer, which is the port manager.

Question (Head NPCC/PCC): Coming out of this round of PCC meetings, there are challenges the Authority's had with the marine equipment maintenance replacement, delayed acquisitions, etc. How does the authority justify high marine charge increase with the lack of investment spent; and many challenges that has been there.

Response: The Authority has to acknowledge that there are maintenance backlogs in terms of crafts, shipping and fleet. It is one of those that if you do not fund effectively you just going to make things even worse. What is important is to recognize the fact that this (high marine charge increase) has not happened in the past, and for which the port users paid for initially but has been clawed back. The R355million clawback that Sanjay spoke about earlier would bring that back into the system, or be it, unfortunately, without service being rendered. What is key is how the Authority is turning around the focus there on. The appointment of a dedicated general manager to look after procurement in the Authority, is certainly much needed. There is a procurement reform that the Authority is undertaking within the Transnet stable, the much needed procurement reform. As a state owned enterprise, coming out of the concerns of the state capture, the Authority went into a very onerous and bureaucratic type of system where it became almost impossible for the Authority to be able to move on some of the matters quite quickly and with the agility that is required by the system and by port users. A lot of that reform is starting to come through and believe that the combination of proper and adequate leadership; skinning up of the teams and bringing in the necessary reforms, the Authority should be able to get past that the maintenance backlog challenges. But again it is difficult because effectively it is a case of asking the port users to allow the Authority that opportunity through tariffs to be able to deliver the service.

Insofar as a marine equipment is concerned, during the presentation on the tariff application there was reference to a number of acquisitions of equipment that is required. It is something that the Authority is paying a particular attention to, and will acknowledge the first one been the hydraulic tension mooring systems, which were discussed as early as April of last year and still in the throes of concluding those particular transactions. Part of what the Authority is doing, which has been alluded to, is a very specific and aggressive focus on simplification of procurement systems without weakening the controls that are necessary from a compliance and segregation point of view. Simplification does not mean weakening in this instance. There is significant experience within the public sector that this could be done with a much more efficient system than easily the case.

Question (PRSA): Clarity on the Authority's change management processes for the betterment of delivery in the port system; how to ensure consistency and the ability of the authority to deliver; basically marrying the capacity that existed with the change that is required in the system.

Response: The Authority has change management professionals within the organization who are focused on this particular issue working alongside that change management processes is intensified communication, but not just based on electronic platforms, but also face to face direct communication. Reverting back to a culture of working on teams rather than relying on superheroes as individuals. Ports were visited with the exception of 1 port, spending about 3-4 days which includes a detailed site visit and speaking to virtually all employees, collecting and correlating all the issues that were raised, including currently development of a system that would enable an employee in a berth to log whatever issue that they're concerned about that would be monitored from a correction point of view. It creates the effects that all are equal as employees at NPA and none have the permission to abuse one another. Meaning putting the appropriate system, increasing visibility, increasing accountability.

Question (PRSA): On the question of the ETIMC, over the years there was the benefit of adding into the ETIMC; the current operating environment is not very clear. What are the Authority's projections in terms of things improving in the near future, so as to be able to add onto the ETIMC?

Question (PRSA): To what extent are there other savings and further savings on the other elements of your required revenue methodology as it is not clear/coming clear in the tariff application itself.

Response: This is something that the authority wants to engage with the Ports Regulator on in terms of what NPA plans for or what gets planned for Transnet and what the Authority plan for the country, and even with bringing in private sector participation. The authority will be able to survive or the organization will be able to be financially stable with a tariff increase kept at inflation. The authority is going to definitely need something more, and will need to start having the conversations with the Ports Regulator to see how to deal with that given the fact that the ETIMC is now going to be exhausted. In the next two to three years, whilst getting the capital delivery program sustained, the Authority need to think beyond year three.

Question (PRSA): The Regulator took a decision in the RoD last year after significant deliberations on whether it should continue to approve the applied CAPEX and in the interest of the country decided that the authority still need to able to invest in capacity, which would be required with the recovery. The question should still be asked as to what other considerations could the authority have made in terms of CAPEX in the next two to three years to reflect more of the Authority's ability to spend; related to the change process asked about earlier whether that would guarantee to some extent, the uptake on CAPEX expenditure.

Response: On the capital front (CAPEX), the Authority looked into the program/capital portfolio in order to see how much it delivers on that. There aren't new models. But at the same time the Authority looked at the portfolio and one of the key things that was done last year is a thorough assessment of what is considered projects still working progress and see to what extent those projects have not been delivered unnecessarily going forward because there's been a history of keeping projects on the schedule, but they're not necessarily delivering and they just continue from year on year. That becomes a drain on the system, not just in terms of funding but also in terms of resourcing as well. The Authority has cleared up quite a bit of that. There has been an extensive exercise in the last year around capital working progress. Questions around what projects are really required and needed relative to the customer demand and in terms of generating cash to be able to fund them. And that's important because at the end of the day it's about if the Authority can bring in volumes to move off the dependency on tariff increases.

The Authority is putting the best minds and the best techniques to CAPEX and bringing in competence from within. NPA has the requisite experience and the depth on track record as well as bringing people from outside and the simplification of the processes spoken about earlier on. In the near future, there will be a different trend than what has been the case.

Question (PRSA): The same applies with the operational cost; what savings have been achieved and can still be achieved in the system. When the Authority was presenting on labour cost; for example, being unable to fill the positions that were supposed to be filled.

Response: On the aspect of savings, the Authority is continuously looking around operating costs. In this tariff application in as much as there is an increase in terms of Labour costs in the current financial year, labour costs will be tapered down going forward. The Authority's new operating model, delivered in the presentation earlier, the key driver is not to increase headcount, and that is the mandate given to the Authority by the CEO. Whatever the Authority does should work within the total headcount that is there which is about reorganizing the Authority for fit for purpose and for delivery so that the operating costs are kept low. In terms of the operating costs there is a reduction and it's been a continuous trend over the past few years. The Authority continuously look to refine labour costs. It is something that the Authority does on a regular basis and it becomes more and more important because as mentioned earlier, the COVID-19 virus and the pandemic and the impact it has had on the economy has not necessarily isolated the Authority. As an organization the Authority has really felt the brunt of it as well and we've had to respond accordingly and not necessarily getting support from government in order to deliver. So cost reduction is a continuous focus by the Authority.

Question (PRSA): There were positive sentiments in terms of the response to the cyberattack notwithstanding the delays; there were issues around better communication by the authority and Transnet broadly with stakeholders on that, but from the Regulator’s perspective, how is the Authority’s plans to respond going forward to such attacks.

- Firstly, an analysis of how effective the Authority was in responding to the cyberattack and into the future.
- How ready is the Authority to ensure that since these things do happen, that when they happen the response time is cut down significantly? there are guidelines published by the International Association of Ports and Harbours on Cyber Security, how is the Authority doing in relation to following those guidelines.
- If possible, an estimate of the of losses and revenue from the cyber-attack or the response to the cyberattack itself.

Response: Unfortunately, the Authority was under invested in terms of appropriate systems to deal with the CYBER-attack and effectively vulnerable. The lessons learned out of that is to make sure that the Authority keep up to date with regards to systems architecture and investments. Every five years the Authority needs to make sure infrastructure systems are refreshed so that it is not exposed again. Certainly these cyber attackers are becoming a business. It's a syndicate and it's proven to be quite lucrative. Therefore, the Authority must to be ahead of our game. Much changes have been put in place and it's something the Authority is going to continuously need to monitor. The Authority had underestimated what is out there. The Authority is changing the outlook around infrastructure systems. As part of our CAPEX portfolio, a fair portion is being allocated towards ensuring that our systems are kept up with the changing trends and concerns around cyber-attack and security threats and so forth.

Additional on the cyberattacks, the Authority is unlikely to be able to bring back the IPMS system. The Authority is looking at other off-shelf systems that are used in other ports and believe might even be much more cost effective relative to what the organisation has been paying for the IPMS system. There dedicated effort and focus put on ensuring that NPA is much more robust than it was before. On the recent cyberattack Transnet got away without paying a cent.

Secondly, the attack was concentrated on NPA, then the rest of the system was closed in defence and in anticipation of that attack spreading to the rest of the system. And also when it was being loaded up, it was done in accordance to world class standards. The system was loaded back on a platform by platform basis to ensure that the system is not brought all up at the same time, only for it to actually collapse. The damage has been isolated. The one system that actually took on the worst hit is the IPMS. NPA does not own the IPMS system. It is time for NPA to move on to another system. A new person has been hired to lead this particular effort. There's going to be dedicated attention to it. The Authority has commissioned complete revising of the security system around the port, both physical and as well as digitized security system, and this element will be one of the major revision that was commissioned and started during the social (unrest) upheavals. By the time the cyberattacks commenced the Authority was focused at that time on the physical security around the ports.

Question (Representative of Maritime Business Chamber): The segment strategy implementation does not say much about the port of East London whilst port stakeholders believe the port itself needs serious investments and upgrade, yet the Authority is talking about fixing, optimizing and growing its business.

- What are the plans that the Authority has for the East London port?
- What assurance as port users and industry do we have should this tariff application be approved this time around as some of those issues have always been there from previous years?

Response: With regards to East London port and the decision making at an operational level; currently, East London, Ngqura and Port Elizabeth do not have port engineers, which is a very important critical competence that is required in a port. A decision has been made that these vacancies must be filled urgently because of the critical importance of the role of an engineer. Secondly, is to understand what are the requirements of the ports and what NPA need to do to ensure that these ports become effective and efficient. The nature of the East London port itself and its character is so critical in the port system, but most importantly to service the local economy which is characterized by the automotive sector, the agricultural sector, the liquid bulk sector and to some degree tourism. The focus is to ensure that the authority serve these industries. Part of the challenges is lack of investment, which is legacy problem. From an automotive point of view, currently Transnet together with TPT are busy with the upgrading and expansion of the car terminal in the Port of East London it can accommodate not only MBSA volumes but also provide capacity and infrastructure not to rely only on

Mercedes-Benz South Africa but also other opportunities, whether it is OEMs or transhipment volumes that are in the automotive sector. It is also very important to ensure that the container handling capacity in the port of East London is modernized. The limitations in the port are around the depth, infrastructure, superstructure and the cry from industry in ensuring that the port is brought up to speed with the rest of the port system. Upgrading the deepening or widening of the entrance channel will inform the nature of the investment that is required in the port system.

The authority has been working with stakeholders in the industry, government, shipping, the industry itself, chambers and within Transnet in ensuring that there is a robust and informed business case to deal with identified challenges in the port. There is also a limitation from a funding point of view and this is an opportunity for a public-private sector transaction to fast track the deepening or widening of the entrance channel. Once ready, the Authority will come back to industry including the Regulator to share the project activities and plans. There is a need to reflect on the opportunities in agriculture. The Authority has an asset in the form of a grain elevator, which currently sub-optimally utilized. The main client paramount mills have closed and that is a challenge. The facility can be repurposed to provide support to the agricultural industry around the region and South Africa. The Authority will also undertake some studies which will require some investments. Lastly, the opportunities that are provided by the real estate in the port of East London. Currently there is occupancy rate of 64% to 65% in terms of the Authority's property. NPA can improve this with some of the opportunities around the waterfront and others. There are investments that are currently on the pipeline. In a nutshell East London is a focal point from a regional point of view, and national point of view to compliment the port system. NPA commits to industry that the port is going to be one of its priorities together with the other ports in ensuring that it gets the required focus not only from an investment point of view but also from an efficiency point of view so that the industry benefits from the port itself.

Question (Representative of Maritime Business Chamber): Clarity on port fees application, particularly emerging/SMMEs port users. There seems to be glorification of certain industry associations on the application; as if they are state legislated. SMMEs/port users feel that limits new entrances and other possible port users with regards to those glorified industry associations. Even when SMMEs/other industry players inquire from the Authority, the response is that the Authority does not know who are these associations and that it is not a requirement that new players/entrance must belong to them.

Response: With regards to glorification of certain associations and the SMMEs/emerging companies clarion call for a fair treatment of associations, the Authority take note of that and will look into it. Thank you very much for raising it.

Question (PRSA): Clarity on who approved the tariff application in this instance, it is still Transnet group. South Africa sits in an unprecedented economic crisis at the moment where administrative costs and the cost of doing business overall is not conducive to the recovery that South Africa need. Combined with the inability of most of the SOEs to perform at the levels where they are supposed to perform. We do have a very real significant problem now in your considerations in putting together this application with the input from Transnet group and so on.

Response: The interim board in reality has not come into force and effect due to legal issues that still needs to be completed for the subsidiary to operate within the prescripts of the law. The existing board is still in place until such time that in legal terms, the new interim board comes into existence and that is a transition that the authority is managing.

Question (PRSA): The return on equity is in essence the Authority's profits. According to the ports regulator directives, the regulator can look at it and decide whether it is desirable to approve a return on equity or approve a profit. Has the Authority in any way considered not to apply for the full return on equity in your profits as your expenses debt is very low at the moment.

Response: It is correct that in terms of the methodology the return on equity is considered to be the profits that the shareholder would be taking out of the system. The plan is to plough back the profits into the system in the form of having funds for future capital requirements. Currently under the umbrella of Transnet in terms of a central treasury, the authority is looking at what is most optimal around funding. The authority is trying to renegotiate out of a very high cost of debt where current funding is quite expensive, by doing so it necessitates ploughing back own funding. The same return on investment is needed in order to balance out and fund the capital that is required going forward and also in terms of being able to get the most optimal capital structure, and what levers are there. The authority would love to go in with inflation tariff adjustment or even below inflation tariff adjustments. That is considered very short sighted especially given the backlog that NPA has incurred around its CAPEX spending.

Questions (Port user representative): In layman's terms, the pending corporatisation of the Authority; what impact has that made on the tariff application, in terms of the corporate tax rate, in terms of current and maybe future applications.

Question (PRSA): The debt costs both the principle; the financing costs; operational expenses; taxation; as everything will be catered for elsewhere in the tariff application; Has it at all being considered for the Authority to play a bit more of a SA Inc role and say even though it is allowed according to the methodology, but would settle for less this year or what is the role that Transnet Group plays in this decision and how needed is this for the Transnet Group, i.e. cross-subsidisation.

Response: With regards to the subsidisation of NPA under the umbrella of Transnet. There is a significant impact in this specific tariff application. It's something that the authority did caution previously with the ports regulator through the methodology discussions. One of the key things that the authority cautioned against was using the equitable tax rate, which was considered appropriate at a point in time by virtue of the Authority being a division of Transnet. The equitable tax rate on average worked out to be about 15% which is slightly more than half of the corporate tax rate. Now with this particular tariff application, with the understanding that the authority will be a corporatized entity/a taxpaying entity by one April 2022, the authority had to go in with a 28% tax rate. The point is that when the authority gets to tariff methodologies and so forth, it's important that we put out a methodology and apply it that sends out the correct pricing signals.

Comment (PRSA): For shipping lines; in relation to the cost of doing business; complains that the costs are high and most of these are implicit costs due to delays and inefficiencies within the port system and fully agree with. But there is a very unbalanced tariff system in the port at the moment and given the fact that shipping lines currently are making record profits. Global container freight rates are five times higher than a year ago. What is the position from shipping lines to come to the party and start to absorb some of these costs so that they can offset some of the cargo owner costs. Given that SA does not have any South African shipping lines operating except for a little bit in some of the bulk commodities. Would like to get a view from shipping lines as to how the regulators should look at your industry specifically, your role in the South African context with regards to where the recovery of port infrastructure should come from and how much should be recovered from international companies that are currently making massive profits.

Question (Port user representative): As a representative of port users, the authority did the calculation according to the methodology which resulted in 23.96% and using ETIMC reduced to 9.4% increase. The reality is that many businesses in this export & import field are struggling for survival. There are private companies out there that have their board's ruthlessly taking action to reduce costs, to cut headcount, trying to survive in some way to be able to ride through this wave because they don't have another option. What is important is that the perception from port users is that the Authority act almost a little bit removed from reality in what the port users are experiencing. As a PCC member, one fully understand that there's a tariff methodology that can be followed and will be followed, but has there been any thinking by the Authority to say for the sake of the bigger port system's survival to deviate from the methodology and ask for less. The whole system has to try and survive. The question maybe that comes out of this is has the Authority launched any cost savings programs of significance.

Question (PRSA board member): Between now and commencement of COVID, what cost saving measures have the Authority implemented or introduced? and whether those saving measures have been achieved or exceeded. That will tell if the Authority is operating efficiently or not, and are port users footing the bill for an inefficient entity.

Response: On the matter of cost savings, the entity is continuously looking to see how it can save costs. NPA has focussed since the month of May on cash preservation and there are programs in place to look at cash preservation to see how the authority can actually navigate through these difficult times. And unfortunately the protest action in July followed by the Cyberattack made the whole situation even more dire. Funding the business is something that the authority continuously looks at. It is important to look at the cost structure of the NPA. 80% of NPA is costs are made up of five key cost items; labour, rates & taxes, electricity, maintenance and fuel. Looking at those other than labour; rates & taxes, electricity, maintenance and fuel, a fair portion of it is outside of TNPA's control, because they also fall within the ambit of administered pricing.

To add on cost savings; management teams at both Transnet and NPA have not received salary increases for the past three years and neither did they receive long term bonuses that were eliminated for this financial year. The normal measures of prudency that would be applicable elsewhere have also been applied. In terms of a process for looking at the shape and size, not just of NPA, but of the rest of the group to the extent that there was a point made about the impacts that Transnet might have on the pricing.

Questions (Port user representative): What will this corporatization impact be on the tariff that has to be applied for because of risks changes, borrowing rights and things like that. Can the Authority put on what that impact has been on this specific application?

Response: The authority need to be working together with industry to see how to match what NPA is ploughing back in the port system. How is it that matching increase in volumes at least turns away the discussion from increases in the tariffs.

Questions (Port user representative): With many project at the moment being mentioned for private investment, section 56 type of projects on infrastructure, which historically would have been TNPA financed and funded in investments. How will in future tariff applications, those assets be dealt with? With private investment the money will be recovered in some other way by that operator, but what will happen to the historic investments of those assets base. Is that something that will make any significant difference to the asset base and required revenue going forward.

Response: With regards to the section 56 private investments, those investments would largely be terminal operator type of investments. Those would be on the balance sheet of the prospective terminal operator for them to recover. The Authority is contemplating to what extent it could bring in private sector into the space of what the authority previously used to fund to try and reduce the burden on port users, and that's really what the authority is been looking at. But a lot of that will be guided by when the authority is actually a corporatised entity and starting to look at how funders look at NPA as a separate legal entity still under the umbrella of Transnet.

Question (PRSA board member): Someone from Transnet highlighted the fact that they cannot afford an inflationary increase. The question is with COVID affecting the global economy, and more so South Africa, is Transnet suggesting a 9,4% increase to port users, where ultimately the general public is going to foot/pay for that increase? Does it mean that the Authority is not mindful of the impact of COVID on the general public it is looking after its own interest and not looking after the interests of South Africa Inc.

Comment (PRSA): Just to provide some comfort to port users. In the context of the equitable tax rate, one of the impacts of corporatisation would be higher tax burden on port users and in a way it was R500 or R600 million-rand incentive to get the ports authority corporatized. What it also should result in is a significantly more efficient authority in the implementation of CAPEX. And the Regulator will look at that; the lower lines of delegation means the Authority should be an independent decision maker as far as possible and the Regulator will keep its eye on that. If we are just doing a paper exercise it would not be worth SA to go through this whole exercise. The Regulator will be looking with a keen eye on the implementation of CAPEX and the delegations of authority and the way that the board, the Interim Board and the full Board that will be appointed will operate as a subsidiary of Transnet as opposed to a division.

Secondly, being a corporatized entity and subsidiary, your lending costs being as sustainable as you are with an accounting beta of close on zero; consistent profits over the years, should result in lower borrowing costs than Transnet group. The Regulator will be looking with a keen eye on the data allocation that comes out of the development of the Port Authority out of the Transnet stable but also on the negotiations on the cheaper cost of data. An entity with such a low leverage should be able to offset some returns on equity rather approaching the market in order to fund these kinds of projects to keep administrative costs lower. There are ways and means to do this and being in the position that the ports authority is, should have been able to take that as a more concrete approach or strategy. But it is a discussion that will continue definitely towards the end of the financial year and the end of the tariff and also when corporatization kicks in full on the 1st of April.

2. KwaZulu Natal Region

Question (Port user): Looking at the coal work in Richards Bay, Is the cost for the total port inclusive of RBCT? With RBCT operations being the big revenue generator, how much will be spent at RBCT berths for coal and how much for the other terminals? The additional berths managed by TPT terminals handle other commodities over the same berths utilized for coal exports. Is there a split in cost allocated per berth? Coal should not cross-subsidize other bulk commodities.

Response: We are not really cross-subsidizing terminals; each of the terminals is looked at their merit from the infrastructure point of view. For RBCT, the assessment conducted there is for bollards, and the Authority is also looking at the assessment of the entire berth structure, dredging requirements, and fender upgrades. The presentation by the Authority also shows the Capital investment outlook for fenders at RBCT; thus, there is work being done there. In terms of the cost estimates, the Authority is still finalizing the total cost estimates of the project. However, that information would not be communicated to the public, for the project must go on a tender.

Question (port user): I see a budget is allocated for the rehabilitation of RBCT berth fenders; what about liquid bulk berth 209 fenders or tires, which are now dilapidated? is there a plan to rehabilitate or replace them with a newer or modern version?

Response: The Authority is in the process of upgrading fenders that are being raised here. The Authority is currently arranging transportation to get the fenders in the port. Thus, the Authority is attending to the fender issues on the liquid bulk berth.

Question (port user representative): Would you please clarify the potion with the planned Point Container Terminal? Will there be a public process where involved parties can make submissions, and is it correct that the request for interest or tenders will be issued shortly?

Answer: It will go out on the market shortly (between October and November) to become an open process.

Question: Would it be correct to assume that once the Authority is corporatized, presumably in 2022, it will be possible to utilize actual debt levels and gearing rather than the current 50/50 ratios?

Response: It is a fair expectation that once the Authority is corporatized, it should be able to see a different risk profile associated with the entity compared to the rest of Transnet, and therefore the funding would be different, and are anticipating that it would be at a better funding rate than what they are currently getting under the Transnet umbrella. But once the Authority is corporatized, there is a need to assess if this is factual or not. Regarding gearing, it is more about the optimal capital structure of the entity that has been guided in the Tariff Methodology. Currently, the Authority cannot say whether it would shift from 50/50. The broader conversation around the gearing and other aspects of the Tariff Methodology would be interesting when the next round with the Ports Regulator starts next year. All of this would be reassessed, and the exciting part is that NPA would be a corporatized entity. Therefore, some risk measures would have to be assessed, including the optimal capital structure, which would then inform the gearing ratio.

Question (port user): The relatively recently proposed Durban Port Master Plan refers to wherein the intention is amongst others to enter a Public/Private partnership in a form still to be determined. The CAPEX figures of R100billion are mentioned in this document, with the Private entity(s) likely contributing towards a significant portion of this CAPEX. To what extent (and how) has NPA / Port Regular considered this in the proposed/budgeted CAPEX figures presented today?

Response: The program shown is for the first 5 years, but a lot will happen beyond that, which deals with the entire Durban hub program related to the R100 billion. Thus, the investment is beyond the 5 years, and there is much more around the bulk liquid, Salisbury Island, involved. Therefore, the outlook presented is for the next 5-years.

Question (port user representative): What will be the likely balance in the ETIMC after 2024/25?

Response: It is**,** unfortunately, that the Authority is asking that the ETIMC be exhausted due to COVID-19 impact last year and in terms of the opening remarks of the Ports Regulators acting chairperson that the ETMIC must be exercised in making something more meaningful for the current financial year in terms of the tariff adjustment. Based on this tariff application, at the end of the 2023/24 projection, there would be nothing left in ETIMC. The Authority plans to utilize the R1.2 billion to bring the 23,96% tariff adjustment down to 9.4%. Based on the assumption for the following year, another R500 million will be utilized and exhaust all the ETIMC.

Question (port user representative): I note that there is no CAPEX for the liquid bulk berth in Saldanha reflected.

Response: Please note, the list of projects presented is not exhaustive. There is much work being done in Saldanha Bay to assist the condition of the jetty structure, also intending to rehabilitate a particular portion of the concrete structure in the coming years. It is still at the pre-feasibility stage of work, and once the scope and cost of work have been firmed up, it will form part of the capital program. In addition, under the iron ore segment, there was an indication of the replacement of the fenders, and some of them are likely to be used on the liquid bulk sector of the jetty.

Question (port user): The presented provisional 2020/21 WEGO report for MARINE services shows mostly red / deteriorating performance, which is disappointing (assuming this is for the period ending 31Mar2021). As we are all aware, shipping lines suffer massive consequential costs as a result. Under these circumstances, how can the proposed 17.83% increase in MARINE charges be justified?

Response: It looks like the colleagues are looking at the wrong indicators, the indicators on the WEGO are more on terminal operators, so they have the penalty. The performance on marine services has been good over the past years, and marine delays are within a particular time in all the ports. Then the only indicator that is pushing us out is the terminal performance, and it's all terminals, not just TPT, hence the incentive and penalty model will be introduced next year.

Comment: (port user representative): I Agree with earlier question; shipping lines suffer massive losses waiting at anchorage, then on berthing experience, a longer port stays because of poor productivity and equipment.

Question (port user): I would like to speak from the perspective of port users - cargo owners, shipping agents, and other stakeholders. We all understand the strategic imperative to move our ports forward and cater to growth as port users' demand grows. We do realize that actions are taken now influence how the ports perform in the future. But our reality right now is very different. We are constantly facing shocking Terminal Operator performances - and poor marine servicing of vessels. Port users are picking up the costs with all the delays experienced. Your oversight responsibility is not covered enough in your action plans. Merely stating you are aware of the issues does not resolve them. In the face of burdening port users with massive costs due to inefficiencies and now proposing significant tariff increases is difficult to swallow. As the Authority gears for Corporatisation, your focus needs to be on the current port performances -and it seems you are not addressing this adequately. Management Competency, skill levels, procurement processes, transparency, etc., are all our real issues.

Question (port user): Agreeing with the question raised above. Why do port users have to bear the costs both from freight rates and cargo dues? This is making our exports too expensive to compete with the rest of the international community.

Response: When looking from slides 5-13 of the presentation, elements are talking to exactly the point being raised. Introducing the regional structure brings that capability closer to where the action is; the regional structure is not shared here. In it, a person is reporting to each of the managing executives, and that department will look at the operational performance. On capacity utilization, the Authority want to get closer to that oversight and ensure it is done comprehensively. It will include aspects such as equipment maintenance and have started requesting information from the terminal operators to see their maintainable plans. It also want the operation team to be empowered, spoke about employee empowerments and skill upgrade; all this is included in slides 5 – 13.

The Authority has started hitting the ground running; as the managing executive yesterday, were at Richards Bay, engaging with various players, emphasizing that we want to have our fingers on palms when it comes to this. The situation will be attended to, and everyone will be treated the same with the view to improve the system. This is a fundamental change that has been introduced, and the Authority do not want to experience any delays when it comes to getting any of the services; hence the DOA that has been given to the port has been increased, and the region has been given more powers; thus, there would be less need for head office. Ports are empowered, including the regional office. When it comes to the procurement process, we will shorten the time it takes to get approvals.

Regarding TPT performance issues, Transnet and NPA are looking at how they can improve efficiencies of this terminal in Richards Bay and have taken certain decisions regarding how to include private sector partnerships to enhance efficiencies in that area. NPA has started with the woodchip, and issues are related to COVID testing and delays; as the regulation changes, certain stringent measures frustrate the customers, and are working hard to resolve them. Strategies are not covered in the presentation but the port is addressing such issues. Also, working on ensuring that all the tools of the trade for NPA are in working conditions, which has been one of the areas they have been in shortage of.

Question (port user): Could Dr. Rajen please repeat what he said about my question about the R100billion master plan. Is the berth deepening not included in the master plan, and is this shown in the CAPEX figures presented today?

Response: The berth deepening is part of the five-year plan and the R100 billion investment. The presented portion is just the 5-year plan of that R100 billion investment which is the NPA portion or contribution to that R100 billion. Berth deepening is underway, design has been completed, but experienced issues around governance matters on some of the tenders that come through but will kick-start the project and get that off the ground soon.

Question (port user): As cargo owners, we are being burdened by a continual increase in costs in excess of inflation both by NPA and TPT, the operator of the majority of the terminals in SA ports. This is combined with significant levels of reduction in productivity; the combined effect thereof is threatening our businesses' continuity.

Response: If you look at the NPA situation, the Ports Regulator has also emphasized since started regulating NPA. There was a conscious decision taken to increase NPA below the inflation, and with the coming of the Ports Regulator, that has been the case. The administrative pricing slide showed that though inflation has gone up by 54 points, the tariff increase that would have come through trailed behind that, and in some cases, such as containers and automotive, it has reduced in real terms. Thus, it is not actually the case that we have excess inflation tariff adjustment. The Authority is in a situation where it need to invest in the ports and position the ports for the economic recovery that everyone is anticipating. The nature of the Port Authority is that investments have long lead times of 3 to 5 years' delivery. It has long payback periods between 18 – 20 years. All of that justifies why the Authority believe lower than inflation tariff adjustment will never be sufficient to fund it, given the current volume trajectory that are seen. The Authority will try to manage cost by bringing more volumes to keep it as close to inflation. However, NPA must invest in our port in terms of the outlook, and the above-inflation tariff adjustment will be necessary.

Question (port user representative): Was there any mention of the purchase and commissioning of Line Tensioners at CPT CT and NCT during 22/23?

Response: It is not mentioned in 2022/23 because it is actually part of the current financial year 2021/22, and the identified company for this project should be signed up by the end of this month to be in time for the citrus season.

Question (port user): I agree with the question raised that, the Ports are heavily congested, and there is no plan to increase capacity for dry bulk, especially in Richards Bay. It costs the Industry excessive freight rates to compensate for the waiting time. Clean cargo Commodity volumes are increasing substantially, but the outlet export point growth is not following the same growth pattern. The challenges with the berthing of vessels impact the already limited capacity.

Response: This is one of the reasons there is talk about massive increase in the port of Durban to create that capacity for the clean cargo that is coming; we also have got some plans for the Port of Richards Bay where areas are identified to have a capacity increase. The capital investment outlook shows that NPA is very robust in making the capital investment to grow capacity rather than sustain current capacity. In terms of the Masterplan that we are continuously engaging stakeholders on, there is significant work done in Richards Bay to expand and bring capacity that would relieve some of the pressures. The bigger vessel challenges experienced in the 700 series; the master plan cater to those challenges. The capital investment is very robust in creating the necessary capacity requirements.

Question (port user): The proposed penalty/incentive system is fundamentally flawed for the following reasons:

- Transnet Port Terminals, a sister division of NPA, within the Transnet group, operate most of the terminals in South African ports and are responsible for the majority of cargo exported and imported through the South African ports. There is, therefore, no net effect of a penalty /incentive within the Transnet Group.
- Customers of the terminals suffer direct financial losses due to terminal operators not performing to the required standard. Incentives are not passed on to terminal customers. At the same time, penalties imposed will simply be recouped from customers through tariff increases, as there are no regulatory authority regulating tariffs, and due to the monopoly that TPT has, tariffs are merely imposed on terminal customers.

Response: The penalty and incentive process is still at the early stages. The Authority is busy with the consultation process; a proposed model has been presented at all the PCC meetings. The proposed model will be presented with various terminal operators this week, and the intention is to engage terminal operators individually. Several concerns have been raised about the proposed model and one of them is in terms of tariffs being increased to cover penalties by all terminal operator and not just TPT. The NPA is busy with the corporatization process and this will give us more leeway in terms of how to deal with TPT purely as a terminal operator like others. The key question for the NPA is the review of all terminal operator's licence clauses and agreement and the legal team is busy with the process. The objective is to ensure that NPA run a fair and equitable penalty and incentive model. At this point in time, the Authority is still gathering as much information as well as concerns raised by various stakeholders on the model.

Question (port user): Port users will continue to have doubts over the ability of the "new" NPA to oversee TPT while it is a subsidiary of the same holding company. One would hope that any NPA board member also sitting on the Transnet board would recuse themselves when issues concerning TPT performance are in question.

Response: The Authority gave the meeting the comfort that problems facing the port system are not only arising from one player. Hence, they are all treated equally, including TPT. For example, in the

Port of Durban, many of the terminals are not run by TPT. TPT has become a significant player in automotive and containers but is not a problem in other sectors. The intention is to treat every terminal equally and make sure that NPA is not viewed with suspicion. As alluded to earlier, we have also done something drastic by opening container space to private participants.

Comment (PRSA board member): We do not want to see inefficiencies in the system as this impacts the port users' costs, even though the WEGO mechanism gives the Ports Regulator some leeway regarding penalties on efficiency issues. In 2020/21, about R100 million will be deducted from the NPA profits because of the efficiency issues. And it goes back to the monitoring of the terminal operators, which should be done equally. TPT should be treated the same as all other terminal operators. The corporatization gives us that way forward in terms of how the Authority should manage everyone who operates within the port. That is something that the Regulator will continue to monitor very closely to ensure that they are performing as expected of them and treated equally. The Regulator will also monitor the implementation of the corporatization along with the DPE and DOT to assist the Authority where possible and work with them to make sure that they can realize some of the goals they have put together as far as efficiency gains is a concern.

Comment (port user): I fully agree with the earlier comment; unless all terminals have the same targets, the system will always benefit their own Terminals (TPT).

Comment (port user representative): I fully agree with comments made earlier about the massive cost to shipping lines that somebody must pick those costs at the end and leave to your imagination where any additional support for the shipping line will come from.

Response: The inefficiencies are something that the Authority is working on, so it does not price unfairly to the shipping lines. The Authority welcome the support of the Ports Regulator to achieve efficiencies in the port system. Part of the Tariff strategy is evidence that the shipping line in South Africa is underpaying relative to what they should be paying from the user-pay principle.

Question (PRSA): Has the NPA considered not applying for full return on equity on the profits, and it is assumed that the shipping lines pass all the tariff increase to cargo owners, in light of the profit that the Authority has been recording, does the windfall profit not presenting an opportunity to correct some of the marine tariff balances by increasing them given that the actual cost in the losses is due to efficiency concerns.

Response: We do not see it as a windfall profit; the Methodology deals with ensuring that the Authority is receiving what is fair given the organization's risk profile and what it intends to do in terms of its mandate. Thus, there is no windfall profit, and if there were any, they would have been clawed back. Have thought about the different component of the Methodology and yes there is an equity return built into the current tariff methodology. However, the understanding is that those profits will not be taken out of the entity; those cash flows are required for the Authority to plough back in terms of the investment program that has been put out for next year. So certainly, we need to invest in the port system.

3. Western Cape Region

Question (Port user): The question is around container terminal equipment (i.e. cranes and other equipment), is this part of this budget?

Response: The nature of the NPA is that will be funding infrastructure and related type of investments required in the port system. When it comes to terminal equipment around cranes and other equipment that is more for the terminal operator; in the case of the Cape Town Container Terminal, that will be for the Transnet port terminals. The budget put forward does not include all of that.

Question (Port user): Is the project on ranging issues in Cape Town included or sorted already?

Response: The solution that has been identified is a hydraulic system. The Authority is in an advanced stage in terms of the award of business. If all goes well the Authority should see the contracting thereof by the end of the month. The necessary governance processes have been followed and it's now finding ourselves with the identified bidder for the purposes of installing system. So it is included in the numbers, but all be it that majority of the money will be spent if not all in this current financial year.

Question (Port user): What is the position with cranes in the Robertson Dry Dock as well as the repairs to the caisson?

Response: The authority is currently finalising FEL 3 studies for the design and detailed design of the floating caisson, and immediately when done with that the Authority will move swiftly with FEL 4, which is the execution. In terms of the timelines associated with that, the Authority is hoping to present the business case at Port CAPEX on the 4th of October, gate reviews in November 2021, investment forum and then moving to National CAPEX in April 2022. So that's the timeline for the floating caisson at the Robinson Dry Dock.

Slide 9 of the presentation under major Phakisa projects talks to the replacement of 10 cranes for all ship repair facilities, namely the Robinson Dry Dock, the starro dry dock, and the synchro-lift in Cape Town. Currently the authority took a decision to consolidate all the cranes in our ship repair facilities, cranes from the port of East London and the port of Durban, and finalizing the ORS for the acquisition of those cranes.

Question (Port user): With the projected increase in cruise business to the country and the cruise maximization strategy for the country, what is the position in respect of facilities and upgrades to connecting buildings at the cruise terminal in Cape Town specifically. Traffic congestion in this area is also of concern, and the entrance to the FPT facility. There will be dedicated emphasis in respect of maintenance, and general road network. The surface area of the berth also needs huge efforts in Cape Town.

Response: NPA met with the V &A waterfront and presented the Dunkin dock study which has been undertaken as a feasibility study. Currently the Authority has moved from that concept which was present to the V &A waterfront. NPA is now moving to FEL 2 studies where we are not only looking at relocating the South Arm and Trance Plaza, but we're looking overall at the entire Duncan Dock road. The Authority is planning as well to incorporate the request from the V & A waterfront when it does those detailed studies. The Authority is hoping that once it upgrades the South Arm Rd and Entrance Plaza, to relocate the police station there. NPA will be able to deal with congestion that comes when we have cruise ships that are calling in the port.

In terms of considering more berths, normally around the cruise seasons the harbourmaster who in terms of the Act is legislated to handle the water side operation, NPA has in the past handled more than four cruise liner ships in the port where we normally engage with terminal operators to dock those ships and always have a task team around the cruise season to look at ensuring that there is a smooth flow, the docking of ships and smooth flow of passengers in and out of that terminal.

Question (Port user): Marine services increase request 17% to be carried by various lines already due to Covid-19 and to protect the pilots. Shipping lines are footing the medical test bills for testing prior to docking, which include launch costs and medical service providers, etc. This was a NPA call to protect pilots and enforce by them.

Response: As a Port Authority, all our ports are declared as ports of entry, we are entrusted with the responsibility to keep the ports safe and sound. So the Authority's implementation of a test for COVID for the seafarers is similar with the airports when people enter the country need to be tested and make sure that they are COVID free. The NPA is exercising that particular caution. The Authority not imposing this, it has a legal duty to do that; to protect not only the pilots but the spread of COVID coming through the sea.

With the issue of 17% marines service increase, our tugs that the Authority is operating on are extremely old and the cost of bunkers, to bunker the tug boat has gone up and there is a need to recapitalise them. It is a doing effect; taking also that there are bigger vessels that are coming in. The port system required huge ballot pulls to push the ships alongside. The authority needs to recover those costs and it is a user pay principle.

Question (Port user): Did the consultation with technical teams include external suppliers such as local port and harbour infrastructure consulting engineering companies.

Response: The Authority has met with various players. If there are any bodies or industry bodies that feel that they have not been reached, we reached all those that are directly linked and impacted. But if there's anybody that feels that they can add something, an email address of the Authority's corporate affairs manager in the port to arrange those engagements.

Question (Port user): Has the calculations taken into account decommissioning of coastal facilities by NPA, which will certainly reduce some guaranteed revenue for a period. This question is actually around the calculations of guaranteed revenue, if you look at the years beyond 2022 as an example and it is at the moment, the operations in the Port Elizabeth are expected to cease from the industry as per the discussion port users are currently having with TNPA. There is uncertainty around the operations in East London. So the question is, has those side discussions been taken into account when NPA is looking at the guaranteed revenues that those operations could cease.

Response: Port Authority’s plans and emphasis on the opening remarks and discussion around the Durban hub logistics, the Authority goes through a fair amount of consultation in terms of what's happens in the port system and through the necessary forums that are being created, including the PCCs. With regards to the extent certain facilities would need to be shifted as pointed out with regards to the port of PE, liquid bulk and some aspect of East London going forward it might also be Richards Bay and Durban, all of those have been factored into our port planning and master planning as well. Guaranteed revenues is in the context of volume forecast and to the extent that there is an impact they are taken into account.

Understandably some of those that are mentioned it's not a case of lost volumes to the country necessarily. It would probably mean a shift in volume from one port to another. It could also be moving from 1 terminal to another, so it will be coming across the quay, and therefore those will be reflected into the volume forecast as well. If for whatever reason, it's a case of volumes not coming or it is going to be handled differently that will also be reflected. For an example, the authority is starting to see an increase in importing of refined fuel into the country and for good reason the NPA starting to see that. Those have all been effected into the volume forecasts. The authority welcome that in the tariff application there's a fair amount of commentary and the information being provided around our volume forecast and as the industry and stakeholders if there are different views around that, the NPA welcome that because it helps in terms of planning and what the NPA understand based on the engagements they have with industry. But if there's any differing views they need to be factored through in terms of the commentary for NPA to take into account.

Question (Port user): Volume growth predictions given a 10% and less in years afterwards, believes this informs the RR due to their studies or models use to provide an outlook of all cargo owners in the country. Will terminals be able to unlock export capacity, which appears to be constrained in some key ports?

Response: From an operational efficiency point of view, the Authority work with the principle that the capacity NPA afford to any terminal operator to conduct their business is based on the premise that infrastructure or capacity will be optimized fully. There is a number of KPIs that NPA currently monitor to ensure that happens. One of it is the dwell times, landside operations, etc. What NPA is trying to achieve is to make sure that it minimizes the dwell times of cargo, specifically containers within the port precinct, because that in itself frees up space or capacity to conduct business, in terms of expansion which have been alluded here by the engineering team. There is a number of initiatives in place to obviously look at increasing NPAs infrastructure ability, more fit for purpose infrastructure. NPA spoke about the automotive sector, where we proactively look at how do NPA optimize current infrastructure to assist a new value chain and by expanding that particular business on the very same infrastructure.

The optimization principle is that as a terminal operator or port user need to optimize the infrastructure that NPA gives the terminal operator to conduct its business, because the investment costs comes at a very high price. So we are looking at the return of investment, not just for the authority but also making sure that NPA reduce the cost of doing business within our Port Authority space.

From an operational efficiencies point of view, the concerns of either pushing or moving the costs to the cargo owners or from the cargo owners will be addressed in total. We need to reflect back on the critical role that the port authority is currently playing. When looking at the port oversight functions where the Authority is trying to improve the efficiencies, the oversight role that the authority is doing closely with the terminal operators is the one factor that the port users will be very excited to hear about. The new leadership made it a point that NPA need to go deeper and find out issues that are missing within the oversight role that it ought to play in the port environment and a critical component was the need to look deeper and find out whether NPA is having the right people, the correct skill and the people with the required knowledge of the port operations to perform the role. That assessment and research was done in detail to assess the current situation. The authority got the results that are informing the decisions that are taken now in terms of shaping the oversight function, which is very critical and for the port users it's important for the NPA to get it right. Even the suspicions over how the NPA is handling the current sister company TPT as a terminal operator. The question is the NPA going to be consistently now playing that particular oversight role?

The authority wants to assure members within the virtual meeting that on the other side of the issue that has been raised around the sources and the strategy shift, there are other internal aspects that are done. Port users might not know about them, but are assured that the function is going to exactly perform the required oversight role that is expected and NPA will have the key and critical skills that is required to make sure that NPA is performing the role as the authority and the regulator in terms of terminal operation.

Question (Port User): With regards to tax rate. Is it premature for the NPA to make a tariff application using the 28% tax rate rather than using their equitable tax rate? Probably around 16% as the tax required from port users would have increased by more than R800 million; should the NPA not complete the transition process to be properly established Transnet subsidiary before applying for the 28%.

Response: This is a very interesting question, and also a reflection on the current processes that have to be followed to make sure that NPA is a fully subsidiarised NPA SOC Ltd as a subsidiary of Transnet. The process on its own requires a particular time and effort to be established as well as the timelines afforded for an application to go through with the ports regulator. The NPA is currently busy with the appointment of the board and what has to be done within the organization; and the review of the Transnet Memorandum of Incorporation (MOI). NPA knows that in order to register a company, there must be a memorandum of incorporation to be followed as part of the Section 54 application of the PFM Act.

That review necessitates the establishment or the new Memorandum of incorporation for the new entity, which is National Ports Authority SOC Ltd that on its own is a process and that are specifically indicated in our National Ports Act in terms of certain things or functions to be performed by the board; the question around timing maybe should have waited for the fully fledged subsidiary before we can apply based on the 28% increase. There are other processes that if NPA can wait on them they might delay other processes (i.e. new MOI) to be achieve. Coming into the next tariff application NPA would be in a much stable environment having completed all current processes that is busy with and clarified requirements from a legal point of view that had to be done for the establishment of a fully corporatised NPA SOC Ltd.

What is important in addition to what was shared on the corporatization of NPA, and the impact on the tax rate is correct. It does bring additional cost factor that would be taken into account. As a corporatised NPA, it will be subjected to a 28% tax rate, it is something that was emphasized during the tariff methodology used now. It was important to peg it at that rate or be it that it was finally concluded to be at an equitable tax rate which has been used in the more recent past. The estimate is about R600 million, and that would be about 6 to 7% of the tariff request attributable to the fact that NPA will be a corporatised entity.

The point is that it is important to have methodologies looking at pricing, that send the correct price signals out to the industry and for whatever reason defer this. All that does is avoiding the inevitable and make it worse later. There is enough experience around administered pricing in our country; it is important to note and gradually get used to the fact that NPA will be a corporatised entity and we will be at 28% and this is what the Authority is trying to request even before the introduction of the equitable tax rate.

Question (Port user): SAMBF which is South African Maritime Business Forum request partnership with NPA particularly regarding transformation that is access to market, access to finance and access to capacity development. Then last but not least, will be set aside for local freight companies.

Response: Key to the mandate in the earlier slide is the transformation of the sector and are embarking on some of these exciting plans. There is quite a bit that has already been launched for the Durban Logistics hub. NPA really welcome these type of engagements to see how it can start to open up the maritime industry to a wider range of players and to previously disadvantaged individuals. Funding and financing for smaller entities which has been a barrier for entry even through private sector participation given the amount of investment that is required and how to engage SMMEs & HDIs to get the transformative aspects and give opportunities to those that don't have the financial muscle but certainly have the ability to make a difference. The port user (SAMBF) should get in touch with NPAs Chief Procurement officer and takes the conversation forward as part of the delivery in at NPA.

The issue particularly regarding transformation is not starting on the freight logistics side. The message also covers the authority in terms of what it is doing to transform the maritime environment, transform the economy, transform the Port Authority as well. What are the transformation initiatives that the authority can come up with and make sure that it responds accordingly to questions that are raised in this platform? The authority need to see action on how it is transforming this industry. And definitely it will make it happen to accommodate the issues that have been raised.

Question (Port user): It appears then that this application for the 28% tax as opposed to the equitable tax rate seems to be premature. I understand the NPA to be saying that it's inevitable that ultimately NPA will become a subsidiary and will charge the 28% tax, but until then, there is the potential problem that we faced before with regulation. And that was at the start of regulation, the national Port Authority was receiving the 28% tax from port users. However, being a division as they currently are, rather than a subsidiary, the Transnet Group when they add the divisions together, the profits and losses of each division, the actual tax rate was much lower and this is how they came up with the equitable tax rate which normally sits at about 15 or 16%, much lower than that the Transnet Group has to pay rather than the 28%. So when you portion it out, what ultimately was potentially happening was the 28% tax that port users were paying to the National Port Authority was not being transferred totally to the government's tax.

But actually went to cross subsidizing in a sense, the Transnet Group, it would appear and perhaps contributing even to profits. So this was what appeared to be like at the start of regulation. Hence they put the tax rate, which was for a few years, and now the concern is that if we go back to the 28% tax prematurely, there's the potential for those funds to some degrees cross-subsidize the other units, the divisions and Transnet, because the effect of the Tax rate would be less and hence this would not necessarily be in the best interest of port users.

So perhaps please take that into consideration as the NPA carefully consider this application and until the transition is taking place. Unless there's a very strong reasons, it appears that it may be in the best interest of port users not to have to pay that extra R600 million rand for this next year. That could perhaps come in when the national Port Authority actually becomes the subsidiary that it is planned to become.

Question (PRSA secretariat): I want to go back to the presentation that was done on the SA investment growth and appreciate the overview that was provided, that was very useful. We do need to interrogate though and unpack the extent to which the ports sector contributes to the country's gross fixed capital formation ambitions. The National Development Plan, for example, requires that the gross fixed capital formation must be at 30% of GDP by 2030. If, as a country, we are to grow in an inclusive way and to sustain household services within that target in the NDP, it made it very clear that the public infrastructure investment must equal around 10%, with contribution from transport, energy, water infrastructure, and obviously the NPA CAPEX program on the transport side would be a component of that. Port users/stakeholders will like to see more interrogation of what the CAPEX program is contributing towards that ambition.

The SISA Engineering association, for example, reported their public entities have not been able to breach the 10% mark. In fact, since 2015 they have not come close to that; we've talked about the problems with the regulator approving the authorities' CAPEX and it not being able to spend and raising concerns. Even though this is being clawed back NPA is still losing the opportunity of having that capacity. And when the Chief Executive of the Authority indicated yesterday, that when the economy picks up, they still would not have the capacity that is required and CAPEX becomes or infrastructure becomes a binding constraint. We need to go further and say what does it mean for us as a sector? On the one hand, we have an ambition to meet demand ahead of supply and on the other government is saying that we need to be contributing to this, if we collectively going to address the economic recovery and the requirement for the economic growth and support of job creation in the country.

Secondly, related to the first question but somewhat different. We've all consistently talked about what we do to contribute to reduction of the cost of doing business in the country. The slide that talked to the Transnet mandate that locates the NPA within that, highlighted that a lot. The question that has been raised with the authority is, where is our breakdown of that; from a tariff strategy point of view, we know that we are targeting the base rates that are calculated on a consistent basis, but at the sector level what is this cost of Infrastructure or the cost of doing business that we are working towards so that we are able to measure consistently whether we are reaching the target or not?

Question (PRSA secretariat): I'd like to concur with observation about the NPA and transformation. Actually in other sessions, which were held in August, we'd had the full team that was presenting, comprised of younger people as well as women. We've also commended that when we have engagements we are seeing change of faces and ownership that is taken over processes by the different role players are the old and the new in the ports authority. But what we also need from the regulators perspective is the long awaited transforming strategy. Not only the ports regulator, but also your constituencies like the SAMBF as to what you're striving for and what the timelines are and how to play a role within that. The Ports Regulator had an engagement with the SAMBF that wanted to know from a transformation point of view, is the authority not able to do set aside of cargo for SMMEs and an answer to that question, lies in the Authority's transformation strategy, which we are still awaiting and we would want to, even the record of decision, if not the last one, the previous one required that it provides to the regulator and we were informed that internal processes are still being finalized towards socializing that and making it available. I think you would agree that time wise, we are too far down the B-BBEE Act for example not to have a strategy as a sector that tells our constituency how we want to transform or how we are transforming at the sector.

Response: The points that mentioned, are noted and are being appreciated, and will work on them. Under the re-imagined NPA there's a plan to do a full economic impact assessment to access the impact from an economic perspective of the NPA including the projects that have been presented and not been implemented; the massive one from the KZN and the other ports. There is a plan to unpack the real impact of the NPA in terms of its contribution to the entire economy of the country, and also obviously address the points are equal mentioned in terms of assessing the CAPEX contribution to the national investment programs that are taking place. And that will actually help a lot. The points that are raised are well noted and thank you for the comments.

Question (NERSA): In terms of the tariff methodology and differentiated tariffing to what extent have the authority considered the propensity of the industry to be able to withstand those type of tariff increases. A practice adopted by NERSA in terms of its processes.

Response: Together with what was raised earlier in terms of looking at the industry going forward and the contribution, the Authority and the Regulator must consider them, and look at the propensity of the industries and customers to be able to deal with the tariff strategy when it comes through. NPA need to have the scientific way of ensuring that the correcting of tariff imbalances is fair and measurable in terms of the output. Together with the economic outlook as expected from the NPA as part of wider contribution from the transport industry, the Authority will also look into that.

End.