

12 September 2019

The Chairperson
Ports Regulator
Private Bag X54322
DURBAN
4000

By Email: comments@portsregulator.org

Dear Sir

TARIFF CONSULTATION
RICHARDS BAY COAL TERMINAL PROPRIETARY LIMITED ("RBCT")
DRY BULK TARIFF APPLICATION – COAL EXPORTS (CARGO DUES)

In line with the request from the Ports Regulator for submissions from interested and effected parties in relation to the Application of Tariff increases for the 2020 year within the South African Ports system, RBCT herewith submits the following:

BRIEF HISTORY OF RBCT

The construction of RBCT commenced in conjunction with the building of the Richards Bay Harbour in 1973. The area in which RBCT is situated today was predominantly swamp land and was below the high water mark. Unlike other Port Facilities, the investors in RBCT carried out the reclamation as well as the establishment of the site at their own cost, with the initial berths also constructed and owned by RBCT. Due to regulations regarding ownership of key infrastructure within a South African Port, these berths were later required to be sold back to the Port Authority. In addition to this, RBCT has paid for the reclamation costs for all subsequent upgrades and expansions over the life of the Terminal, the most recent being the Phase V expansion that was commissioned in 2010.

COMMERCIAL CONSIDERATIONS

In 2004 RBCT renegotiated the Lease Agreement, which will expire in 2023, with three renewal periods that will take the full lease term to 2038. The agreement between RBCT and the Port Authority contains a commercial clause 5. This clause captures the manner in which cargo dues are to be calculated, which was mutually agreed upon at the time. Over time, with the establishment of the Ports Regulator and the Tariff Methodology, this clause has not been applied. The methodology and the annual tariff process has determined the cargo dues rate.

It has, however, become evident with the previous two or three tariff determinations, as was confirmed at the 2019 session in Durban, that there is a belief that the coal cargo dues is below

the market value. This has manifested itself in higher annual escalations than other commodities that, in effect, would appear to be cross subsidisation.

I have had the opportunity to engage with Mr Sanjay Govan (Transnet National Ports Authority) outside of the session, as I wanted to understand the principle of a flat coal rate across all coal export Terminals. From our discussion it was clear that there is no consideration being given in the tariff determination methodology to take into account the benefits of a bulk handling facility of RBCT's nature. We are referring to the magnitude of benefits that are derived from the handling of high volumes through one facility.

KEY CONSIDERATIONS

1. RBCT's operation is unique in the sense that it is self-sustaining as it controls as well as operates the entire infrastructure, from the rail siding where the coal arrives to the Shiploaders used to load the vessels.
2. The berths themselves are the only infrastructure not being owned by RBCT.
3. It is most probably the only terminal facility where the owners/operators have been required to reclaim the land on which they operate at their own considerable cost.
4. The nature and magnitude of RBCT, being a bulk handling facility, brings major efficiencies to the rest of the Port operations in terms of reduced operating costs as the infrastructure is able to be efficiently used. This statement is made on the basis that there are in excess of 800 vessels per annum being loaded at RBCT.
5. One would anticipate that the Port's rate of return would be commensurate of that required for a state owned infrastructural asset. The key purpose being that of creating growth opportunities within the country, thereby facilitating for the country to be able to compete on a competitive basis in the international area of commodity trading, i.e. steam coal.
6. RBCT's capacity is at 91Mt. Granted to TNPA's credit that in 2005, when the Phase V expansion was announced, they delivered on their commitment and constructed Berth 306 to facilitate the expansion. Unfortunately, although they committed at the time to expand the rail infrastructure, Transnet Freight Rail to this day are still restricted to an 81Mt rate, which is yet to be achieved. RBCT and thereby the Port are unable to realise the full economic benefit of this additional 10Mt per annum, to no fault of the Coal Exporters.
7. All other services, as per the standard tariffs published by the Port, are paid for.
8. Clause 5 of the current Lease Agreement (as referred to above) takes into consideration the magnitude of the volumes that the facility was intending to handle, together with providing for inflationary escalations. These principles have been superseded by the Tariff methodology currently applied. Once again, reference has to be made to the potential cross subsidisation of:
 - a. other coal facilities, and
 - b. other commodities.

9. The critical opportunity for both RBCT and the Port lies in the ability to move additional volumes, thereby generating additional revenue and allowing the Port to fully utilize its assets. The RBCT owners as well as the Port have installed this capacity, RBCT being a 91Mt/pa facility, however, the associated infrastructure in rail has lagged this capacity expansion. In saying this, rail performance is improving on a continuous basis with the targeted capacity for 2020 being 81Mt/pa. RBCT has certainly invested according to its commitments in the 2004 Lease Agreement. Unfortunately based on the most recent capital expenditure outlook by Transnet, the coal line expansion would only come on line at the earliest in 2024.

In conclusion, it would be greatly appreciated should the above be considered in terms of assessing the determination and reasonability of the cargo dues tariff escalation with regards to exporting coal through RBCT specifically. Should it be of any assistance, RBCT Management would welcome a further engagement with yourselves and TNPA.

Should you require any additional information, please do not hesitate to contact me.

Yours faithfully

For and on behalf of

RICHARDS BAY COAL TERMINAL COMPANY LIMITED

A handwritten signature in black ink, appearing to read 'AJ Waller', with a long horizontal stroke extending to the right.

AJ WALLER

CHIEF EXECUTIVE OFFICER