SUBMISSION TO THE PORTS REGULATOR OF SOUTH AFRICA
TNPA 2019-20 TARIFF APPLICATION

To : CEO of the Ports Regulator of South Africa
Date : 12 October 2018

PREAMBLE
Sasol is a South African registered company with significant international business activities, but with the majority of its revenue generated from the South African operations. These operations are diverse, and comprise both significant import as well as export-dependent businesses.

Sasol annually exports approximately 3.3 million tons (Mt) of coal, 1.2 million Mt of bulk liquid chemicals, and approximately 550 000 Mt of containerized chemicals, and imports about 3.5 million Mt of crude oil, clean petroleum products and other dry bulk cargoes. We are a lessee of the Transnet National Ports Authority (hereafter “the Authority”) property through the leases of the “Natcos” facilities in Durban for the storage of crude oil, petrol and diesel. Sasol holds a 63.64% interest in Natcos.
As a company with significant international business activities, Sasol is extremely dependant on the ports of South Africa, especially Richards Bay and Durban. The efficient functioning of our ports, as well as their cost effectiveness is and will always remain crucial elements of the long term success of Sasol and the South African economy as a whole.

Sasol has a number of contracts with several TNPA lessees who perform services in our import and export supply chains including Richards Bay Coal Terminals, Bidvest Tank Terminals, Transnet Port Terminals, Vopak, Intertek and others to whom we pay significant fees. Through these contracts, Sasol is a major contributor to the revenue stream of the Authority. As the primary charterer of about 75 ships/year for bulk liquid imports and exports, the port dues and other revenues the TNPA earns from these ships carrying Sasol cargoes are indirectly paid by Sasol, as recovered in freight costs or delivered product prices.

Sasol’s direct plus indirect expenditure flowing through to the Authority is therefore estimated to be about R315 million per year. This qualifies Sasol as a significant single contributor of revenue to the Authority.

To succeed as an international competitor, as well as in growing the South African economy, Sasol has to be additionally vigilant in containing total logistics costs to international markets in order to remain competitive and successful in the face of increasingly fierce international competition. The direct cost impacts of port

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inefficiencies related to bulk liquid exports for the last 4 to 5 years has on average significantly exceeded the average cargo dues paid for these exports. These additional cost was mainly in the form of demurrage.

The profitability of a number of individual chemicals has been under severe pressure in the recent years, and all additional costs add to the likelihood of certain plants not being viable in the long term, which could result in a reduction of exports. This would be a result of such molecules NOT being extracted and refined, but rather remaining as part of fuel production, which is sold locally. Such outcomes would have a negative impact on both job creation as well as the balance of payments in South Africa.

THE TNPA 2019-20 TARIFF APPICATION PROCESS
Sasol has taken note of the directives of the Regulator, and hence the flow of published communications between the TNPA and the PRSA that has preceded the PRSA Roadshows this year. We have studied the proposed changes in the valuation methodology of the RAB as input to determining the allowed revenue of the Authority. Sasol fully supports the principles motivated by the PRSA, as shared during the public road shows and agrees with especially the treatment of assets prior to 1990.

It is Sasol's position that the historic approach has proven that the Authority, based on the published reports of their revenue, has been making excessive profits for several years, which is obviously funded by port users. The current methodology, where TNPA profits are flowing through to Transnet, requires a careful assessment for future years, as port users effectively ends up cross subsidizing other Transnet activities. Ideally tariffs should be set such that, over time, the cumulative net profit before tax of the TNPA should approach zero. The request to ensure full transparency of TNPA's financial statements, asset registers, capital plans etc., as per the request letter of the Regulator to the CEO of the TNPA, is fully supported by Sasol.

It is the opinion of Sasol that the methodology of the Regulator is well balanced in ensuring the long term sustainability of the TNPA. The methodology already allows for claw backs, which allows the recovery of any under-funding in any year should the TNPA business result in a loss. The PRSA controlled reserve fund offers an additional buffer to any shortfalls, which can always be corrected in subsequent tariff years. Sasol, also has experienced significant negative consequences as a result of the poor performance in the effective capital project management of the TNPA, as has been shared in various public Q & A sessions (of the PRSA, as well as the Durban PCC), where the massive cost of inefficiency to operationalise berth IV5 over the last 5-7 years were discussed.

It is our opinion that there needs to be practical consequences for the TNPA, which aims to drive the correct behaviour and outcomes in this crucial area of their management oversight role. As was suggested during the PRSA presentations, we do not support an incentive for efficient capital project implementation (as this should be the default position), but rather a “detractor” under the WEGO principles.

This needs to be given a significant weight, given the poor performance demonstrated in effective capital spend vs planned, as was included in their tariff applications for the last several years, which has burdened port users with avoidable inefficiencies. Specific details for implementation of such a principle would need to be more carefully evaluated as part of the PRSA project of implementation of WEGO during 2018/19. Sasol plans to be actively participating in the practical roll out of the WEGO project, and hereby confirms support for the concept of operations efficiency of the Authority being used to determine tariff incentives or penalties. We are however currently concerned with the level of detail that is publicised re the key efficiency measures being publicised by the Authority, and to effectively implement WEGO, more operational detail, at a higher level of granularity for the Chemical products we export in containers and bulk would be required, especially on “MOPS”-related data.

GENERAL COMMENTS

We request the Regulator to keep a close look at the developments regarding the implementation of this published Island View Strategy and industry feedback.

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I approve this document

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Date