



12th September 2019

The Chairperson,
Ports Regulator,
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4000

By email: comments@portsregulator.org

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Dear Sir

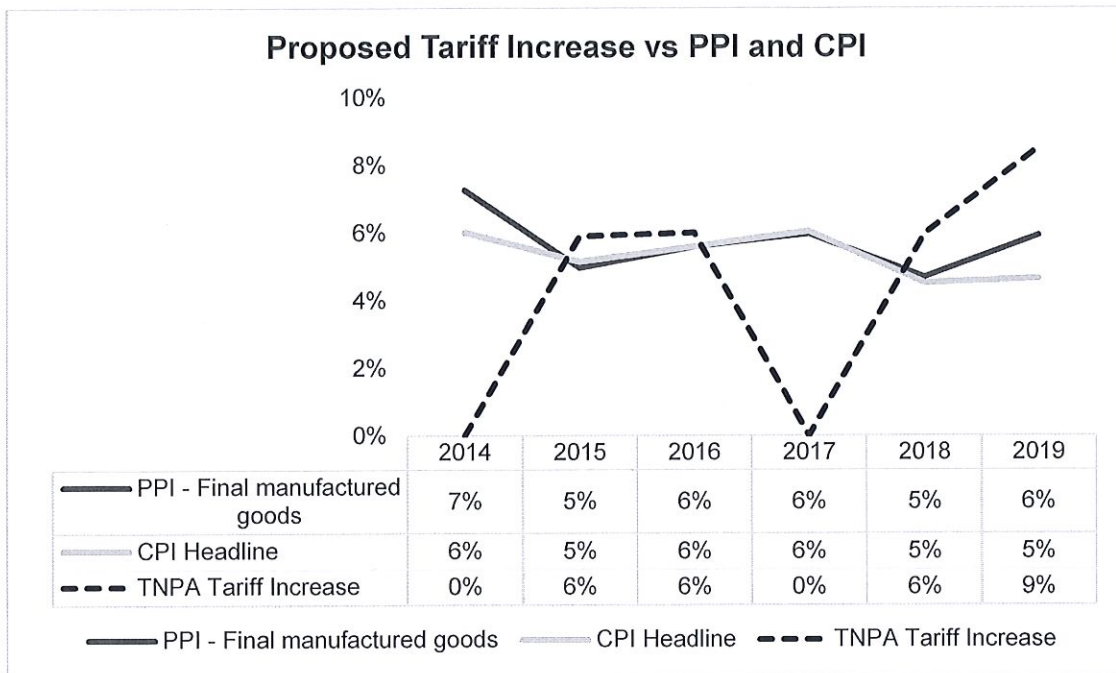
SOUTH32: COMMENTS ON THE NATIONAL PORTS AUTHORITY TARIFF APPLICATION 2020/21

South32 appreciates the opportunity to provide comment on the Transnet National Port Authority (TNPA) 2020/2021 tariff application as published on its website and presented at the hearing held in Johannesburg on Monday, 5th August 2019 at Southern Sun Hotel OR Tambo Airport.

The purpose of this letter is to provide the Regulator with further information in making a recommendation in terms of the proposed increase on cargo dues for coal exported out of Richards Bay Coal Terminal ("RBCT"). South32 respectfully request that the list of comments below is considered in terms of the cargo dues tariff escalation for coal exported ex RBCT:

1. A differentiated rate of 7.4% for Coal is not acceptable. Bearing in mind that this proposed tariff is higher than PPI (Final Manufactured Goods) and Headline CPI year-on-year increases at 6% and 5% respectively. Please see Figure 1 below. The proposed tariff hike is not comparable and will impact negatively on inflation parameters within the industry.

Figure 1: Producer Price Index (CPI) and Consumer Price Index (CPI) – Year on Year change



Source: <http://www.statssa.gov.za/>

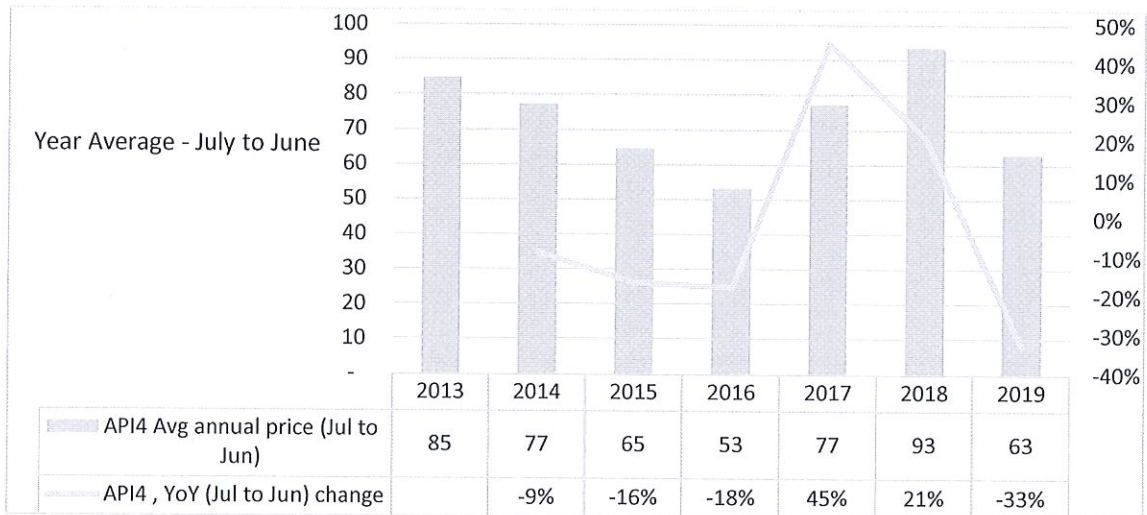
The TNPA Tariff increase is higher than PPI and CPI as denoted in Figure 1. Even if the Industry takes into account 2014 and 2017 where the increase was 0%, the proposed 7.4% remains irrational.

2. In 2018/19, a differentiated coal ports tariff increase of 8.5% was awarded by the Ports Regulator. The industry understood that a large part of the increase would be substantiated by capital expenditure during the year. Such capital expenditure was expected to be the marine helicopter, planned for delivery and execution in the 2018 financial year. South32 notes that the planned marine helicopter was only delivered and commissioned in August/ September of 2019. The company is firmly of the view that demurrage and port closures as a result of weather conditions, could have been decreased by at least 50%, if the marine helicopter was available.

In 2019, the average demurrage costs equal to \$20K per day. South32 has incurred approximately \$4M demurrage penalties in 2018 and \$3M demurrage costs and penalties August Year to Date. The reported hours lost from the related helicopter incidents (helicopter out of service, pilots not available) amounted to 552:30 hours YTD in 2019 alone. Since the unavailability or lack of marine services contributed significantly to demurrage costs, South32 does not agree with the proposed tariff increase. The received level of service does not correspond with the amount of penalties and costs incurred already by South32.

3. The cyclical effect of the International Coal Market is currently evident in the recent decline of 33% year on year in the indexed API#4 price. Revenues in the sector are declining at an alarming pace, leaving the industry with margin losses, misaligned logistics costs and overall decline in the competitiveness of the South African Coal market. Figure 2 below depicts the annual API#4 prices, and associated decline

Figure 2: Annual API#4 prices, and associated decline.



Source: <https://connect.ihs.com/>

In conclusion, the request from TNPA for an increase of 7.4% coal differentiated tariff is considered inappropriate given the current coal market condition (as indicated by the current AP#4 price). Inflation data and poor service levels achieved for Marine services compels South32 to see no reason for the justification for the proposed tariff increase for FY2020/2021. In our view, a proposed tariff increase should not be greater than 3% for FY2020/2021.

Yours sincerely,

MASHUDU NETSHIPALE
Vice President Commercial

Cc : Melanie Steyn – Manager Supply Chain