

TRANSNET



*national ports
authority*



**TRANSNET NATIONAL PORTS AUTHORITY
TARIFF APPLICATION FOR FINANCIAL YEAR 2021/22**

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ABBREVIATIONS AND ACRONYMS

AFS	Annual Financial Statements
BER	Bureau of Economic Research
CAPEX	Capital Expenditure
CAPM	Capital Asset Pricing Model
CPI	Consumer Price Index
CPT	Cape Town
CSI	Corporate Social Investment
CWIP	Capital Work In Progress
DBN	Durban
DBT	Dry Bulk Terminal
DCT	Durban Container Terminal
DMS	Dimson, Marsh and Staunton
DoT	Department of Transport
DRS	Dredging Services
EL	East London
ETIMC	Excessive Tariff Increase Margin Credit
FEL	Front End Loading
FY	Financial Year
GDP	Gross Domestic Product
GRT	Gross Registered Tonnage
HC	Historic Cost
HOPS	Haulier-Road Operations Performance Standards
IMF	International Monetary Fund
JSE	Johannesburg Stock Exchange
KAM	Key Account Manager
KPI	Key Performance Indicators
LE	Latest Estimate
LNG	Liquefied Natural Gas
MOPS	Marine Operations Performance Standards
MPT	Multi-Purpose Terminal
MRP	Market Risk Premium
NGQ	Ngqura
NPA	National Ports Authority
NPCC	National Port Consultative Committee
NPP	National Ports Plan
OD	Operating Divisions
OEMs	Original Equipment Manufacturers
Opex	Operating Expenses
PCC	Port Consultative Committee
PRSA / The Regulator	Port Regulator of South Africa
PETROSA	Petroleum South Africa
PE	Port Elizabeth
RAB	Regulatory Asset Base
RR	Revenue Requirement
RFR	Risk Free Rate
RCB	Richards Bay
ROD	Record of Decision
ROPS	Rail Operations Performance Standards

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RORO	Roll on Roll off
SA	South Africa
SAMSA	South African Maritime Safety Association
SARB	South African Reserve Bank
SLD	Saldanha Bay
SOC	State Owned Company
TOC	Trended Original Cost
TONS	Tonnages
TOPS	Terminal Operator Performance Standards
VoA	Methodology for the valuation of the Authority's RAB
WACC	Weighted Average Cost of Capital
WEGO	Weighted Efficiency Gains from Operations
WTO	World Trade Organisation

1. Executive Summary

In terms of Section 72 (1) (a) of the National Ports Act, 2005 (Act No. 12 of 2005) (“the Act”), the Transnet National Ports Authority, a division of Transnet SOC Limited (“the Authority”) is required, with the approval of the Ports Regulator of South Africa (“the Regulator”), to determine tariffs for services and facilities offered by the Authority and to annually publish a Tariff Book containing those tariffs. The Port Directives were approved on 13 July 2009 (gazetted on 06 August 2009) and amended on 29 January 2010 (“the Directives”). In terms of the Directives, when considering the proposed tariffs for the Authority, the Regulator must ensure that such tariffs allow the Authority to:

- a) recover its investment in owning, managing, controlling and administering ports and its investment in port services and facilities;
- b) recover its costs in maintaining, operating, managing, controlling and administering ports and its costs in providing port services and facilities; and
- c) earn a return commensurate with the risk of owning, managing, controlling and administering ports and of providing port services and facilities.

The Authority shall on an annual basis on or before 1 August or at such longer intervals as the Authority and Regulator may agree, submit its application setting out its proposed tariffs for all services and facilities offered by the Authority for the following financial year for approval by the Regulator. The Directives also allows the Authority to submit to the Regulator a proposal for the amendment of any tariff for any services and/or facilities offered by the Authority at any port from time to time. The Directives prescribe a period of 4 months from the date of receipt of the submission upon which the Regulator shall make a decision.

On 06 March 2020, the Regulator issued the Tariff Methodology (“the Tariff Methodology”) applicable for the Financial Years 2021/22 to FY 2023/24. The Tariff Methodology forms an integral part of the regulatory framework and sets out the requirements of the tariff application process. The Tariff Methodology considers a multi-year approach and is applicable from 2021/22 to 2023/24 tariff years. It further allows for an annual review and an annual adjustment of tariffs within the three year period as opposed to fixing the tariffs for the full period.

The Tariff Methodology prescribes the use of the Revenue Requirement (“RR”) formula as follows:

Revenue Requirement

$$\begin{aligned}
 &= \text{Regulatory Asset Base (RAB)} \times \text{Weighted Average Cost of Capital (WACC)} \\
 &+ \text{Operating Costs} + \text{Depreciation} + \text{Taxation Expense} \pm \text{Claw-back} \\
 &\pm \text{Excessive Tariff Increase Margin Credit (ETIMC)} \\
 &\pm \text{Weighted Efficiency Gains from Operations (WEGO)}
 \end{aligned}$$

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This marks the third iteration of the Tariff Methodology; with significant changes made to the asset valuation methodology; asset beta; and the Weighted Efficiency Gains from operations (“WEGO”) mechanism.

The Tariff Application FY 2021/22 is based on the aforementioned RR formula and requirements of the Tariff Methodology, with a deviation in the determination of the Regulatory Asset Base (“RAB”). Whilst the Tariff Methodology, prescribes the use of the Hybrid/ Valuation of Assets (“VoA”)¹ Approach, the Authority has utilised the Trended Original Cost (“TOC”) approach to determine the RAB; mainly due to the financial risks associated with the implementation of the VoA.

Table 1 below demonstrates the RR as determined by the Authority, based on the aforementioned approach, and using the latest economic data available:

Table 1: Revenue Requirement FY 2021/22 to FY 2023/24

DETAILS	2020/21	2021/22	2022/23	2023/24
	ROD	Fixed Tariff Year	Indicative Tariff Years	
	R'm	R'm		
RAB	73 241	73 022	76 938	81 632
Vanilla WACC	7.17%	7.53%	6.52%	6.82%
Return on Capital	5 248	5 500	5 018	5 570
Plus: Depreciation	2 321	2 280	2 362	2 362
Plus: Operating Costs	6 149	5 503	5 961	6 399
Plus: Taxation Expense	556	493	457	505
Plus/Less: WEGO	130	-62	-	-
Plus/Less: Clawback	-1 201	-146	764	-
Plus/Less: ETIMC	-567	-	-	-
Revenue Allowed	12 635	13 569	14 562	14 837
Less: Real Estate	-3 548	-3 861	-4 152	-4 522
Marine Revenue	9 088	9 708	10 410	10 315

Application of the RR formula, results in a Required Revenue of R13 569m for FY 2021/22 comprising of Marine Business revenue of R9 708m and Real Estate Business revenue of R3 861m.

Table 2 below illustrates the required tariff adjustment taking into account a projected volume growth of 7.54% for each of the years.

Table 2: Marine Revenue for FY 2021/22 to FY 2023/24

MARINE REVENUE	2021/22	2022/23	2023/24
	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
Prior Year Revenue	7 540	9 708	10 410
Estimated Volume Growth	7.54%	7.54%	7.54%
Revenue after volume growth	8 108	10 440	11 195
Required Revenue	9 708	10 410	10 315
Tariff Increase	19.74%	-0.29%	-7.86%

Per the Tariff Methodology, the resultant tariff adjustment for FY 2021/22 is 19.74%. Accordingly the indicative tariff adjustments for FY 2022/23 and FY 2023/24 are -0.29% and -7.86% respectively.

¹ Value of Pre-1990 assets determined on historical cost; and post-1990 assets determined on TOC.

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The tariff adjustment outcome for FY 2021/22 and overall erratic tariff trajectory over the three years, in the context of the current economic climate, emphasises inherent limitations of the Tariff Methodology. The fundamentals of the Tariff Methodology are more attune to ensure returns are generated over longer periods thereby accommodating significant tariff outcomes in the short term which would normalise in time. Unfortunately significant tariff outcomes in the short term may at best be considered illogical and unsupportive of the Authority's needs and/or prevailing economic environment. Furthermore the Authority's interpretation of the Tariff Methodology constrains it from determining a tariff adjustment which would generate sufficient revenue to fund its operating requirements whilst at the same time be affordable and progressive for port users.

For some time now the South African economy has been challenged with slow economic growth, underinvestment and increasing levels of unemployment. The recent downgrades of South Africa's sovereign credit rating to sub-investment grade by Rating Agencies has added to the woes of government burdened with rising debt levels, collapsing state owned enterprises and weak business confidence levels.

The advent of the COVID-19 pandemic and response thereto locally and by countries around the world has exacerbated an already fragile local economy. Therefore whilst commercial activities are showing signs of improvement, it is projected to take 2-3 years before trade flows return to pre- Covid-19 levels. The Authority is viewed as a catalyst for economic growth and therefore more than ever delivering on its mandate whilst lowering the cost of doing business is of paramount importance.

Whilst acknowledging the outcome of the applied Tariff Methodology, the Authority requests the Regulator to consider an inflationary tariff adjustment for FY 2021/22 forecasted currently at 3.80%. Such an adjustment equates to approximately the smoothed average per annum tariff adjustment calculated using the Tariff Methodology. The Authority may be constrained in determining such an adjustment through the use of the Tariff Methodology; there are however mechanisms available to the Regulator such as, Excessive Tariff Increase Margin Credit ("ETIMC") to give effect to this request.

Should the Regulator consider an inflationary adjustment forecasted at 3.80% for FY 2021/22, the following is the proposed tariff differentiation, based on the principles of the Tariff Strategy:

- An average of 2.56% increase in Cargo Dues differentiated as follows:
 - 2.23% on Containers Imports & Other;
 - 0.00% on Container Exports;
 - 3.80% on Break Bulk, Dry Bulk & Liquid Bulk cargoes;
 - 2.23% on Automotive Imports and Other;
 - 0.00% on Automotive Export;
- Tariff increase of 7.12% on Marine charges (shipping lines).

2. Introduction

The Authority is responsible for the safe, efficient and effective economic functioning of the national ports system which it manages, controls and administers. The key business activities of the Authority are to provide and manage port infrastructure, maritime services and real estate. In a broader context, the Authority also undertakes to facilitate the development of trade and commerce through market collaboration for the economic benefit of the national economy of SA.

In line with the functions of the Authority, the Tariff Application allows for the effective recovery of the Authority's investment; recovery of costs; and a return commensurate with the risk, and further allows for efficient port pricing signals to be sent to the market.

3. Legal Basis and Regulatory Requirements

The regulatory framework for the Authority's tariffs is informed by the Act, and the Directives promulgated by the Regulator.

4. Tariff Methodology

The Tariff Methodology was issued on 06 March 2020 and is applicable for a period of three (3) years, from FY 2021/22 to FY 2023/24.

The Tariff Methodology is multi-year in nature and requires an annual adjustment of tariffs within the three year period as opposed to fixing the prices for the full period. This means that a tariff determination is requested for year one of the three year tariff period, and indicative tariff adjustments are provided for the subsequent two years.

The Tariff Methodology is premised on the RR approach with the formula set out below:

Revenue Requirement

$$\begin{aligned}
 &= \text{Regulatory Asset Base (RAB)} \times \text{Weighted Average Cost of Capital (WACC)} \\
 &+ \text{Operating Costs} + \text{Depreciation} + \text{Taxation Expense} \pm \text{Claw-back} \\
 &\pm \text{Excessive Tariff Increase Margin Credit (ETIMC)} \\
 &\pm \text{Weighted Efficiency Gains from Operations (WEGO)}
 \end{aligned}$$

This marks the third iteration of the Tariff Methodology. The changes to the Tariff Methodology relate to the asset beta and determination of WEGO; with the most significant amendment made to the asset valuation methodology.

In this regard, the Tariff Methodology prescribes the use of VoA for the determination of the RAB; however, in the event of corporatisation of the Authority (as contemplated by the Act), the Regulator will consider implementation of the TOC asset valuation methodology. Whilst the matter of corporatisation is receiving focused attention at a Ministerial level, the decision and timing of corporatisation does not fall within the control of the Authority. Furthermore, the implementation of VoA significantly threatens the financial sustainability of the Authority. As such, the Tariff Application considers the implementation of the TOC methodology to ensure the preservation of the Authority's financial health.

5. The Business of the Authority

5.1 Introduction

The Authority operates within the port industry, providing services to its target market comprising of port users, which includes (but is not limited to) terminal operators, shipping lines, ship agents, cargo owners and the clearing and forwarding industry. The Authority owns and manages nine commercial ports within South Africa namely, Port Nolloth, Saldanha Bay, Cape Town, Mossel Bay, Port Elizabeth, Ngqura, East London, Durban and Richards Bay.

Port Nolloth is currently not a fully operational commercial port and renders maritime services of a basic nature supporting fishing and supply vessels.

Port infrastructure and maritime services are provided in five market segments namely, containers, dry bulk, liquid bulk, break-bulk and automotive. The major commodities handled at the ports are coal, iron ore, manganese, containers, automotive, steel, fruit, ferrochrome and petroleum products. Growth of these commodities is a function of global demand, logistics infrastructure capacity and supply chain efficiencies which include port efficiencies.

Port users fall into three main categories, namely, terminal operators, shipping lines and cargo owners. While numerous other parties utilise the port, they do so to a lesser extent than these principal port users.

The Authority's business focus is framed within the context of the National Commercial Ports Policy and the National Ports Act, taking into account the changing dynamics in the global economy and trends in the port environment. The Authority's key focus seeks to enhance the ports role in the economy by galvanizing the entity and the nation towards realizing the goals of the policy and shareholder, thus making South Africa and the region a competitive location for doing business.

5.2 Functions of the Authority

The National Commercial Ports Policy requires that the Authority be responsible for the management of the national commercial port system as a landlord port authority. Being the Authority means that the Authority:

- Owns, develops and maintains port infrastructure;
- Does not engage in landside port operations (except as operator of last resort);
- Does not employ cargo handling labour;
- Fulfils a port regulatory function including oversight and port landowner function; and
- Owns all port land.

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The Authority’s core functions (as set out in Section 11 of the Act) can be summarised in the table as follows:

Table 3: The Authority’s Core Functions

Function	Detail
Landlord	Promote the use, improvement and development of ports, and control land use within the ports, having the power to lease port land under conditions it determines.
Master planner	Plan, improve, develop and maintain port infrastructure.
Controller of ports navigation	Make and apply rules to control navigation within port limits and approaches, ensure protection of the environment and ensure safety and security within port limits.
Controller of ports services and facilities	Ensure that port services and facilities are provided, and may enter into agreements or license other parties to provide these.
Marketer and administrator	Ensure that adequate, affordable, equitable and efficient port services and facilities are provided for port users.
Change agent	Ensure non-discriminatory, fair, transparent access to port services and facilities; advancement of previously disadvantaged people; promotion of representation and participation of Historically Disadvantaged Individuals (“HDIs”) in terminal operations; enhanced transparency in port management.
Coordinator with other State Agencies	Advise on all matters relating to the port sector, and liaise with all stakeholders.

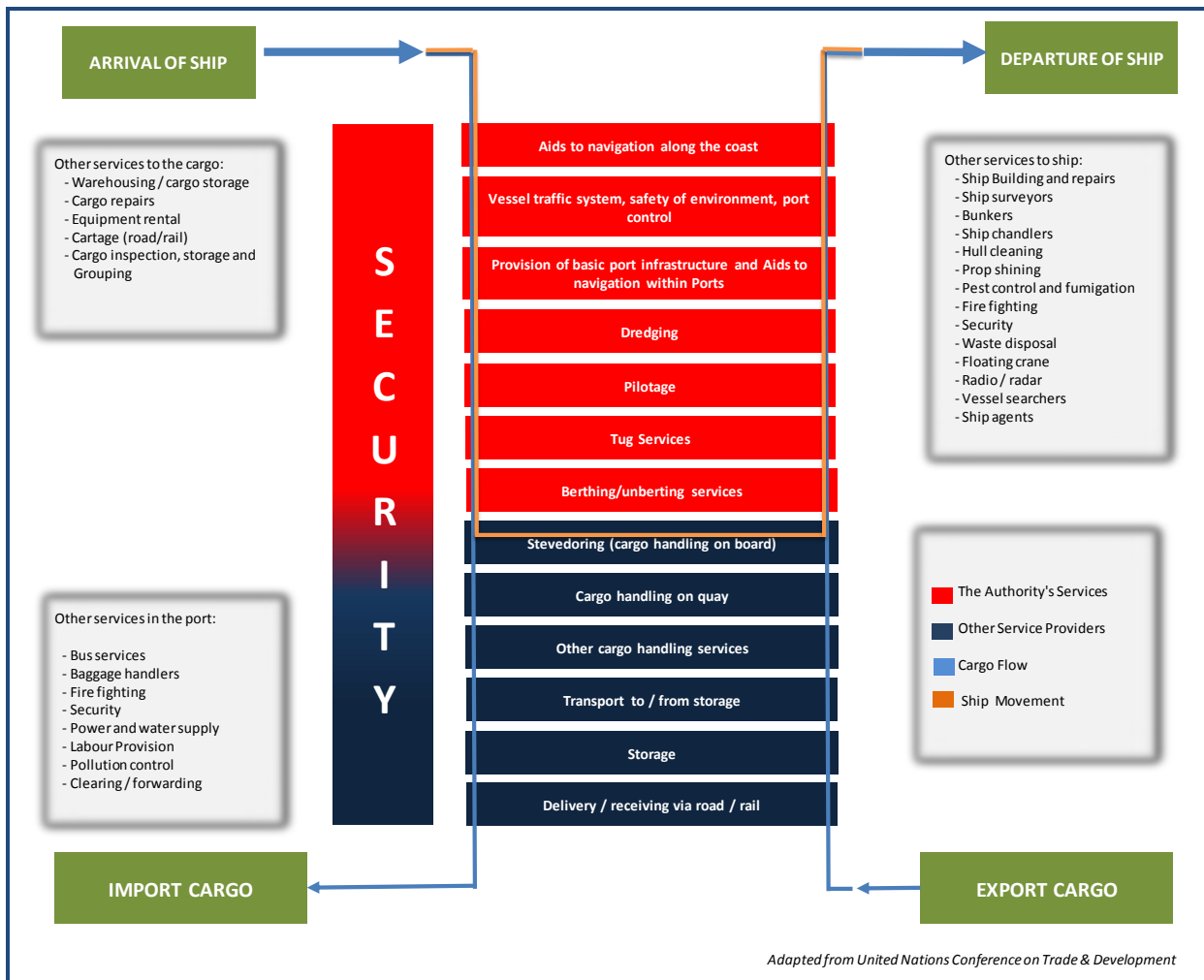
5.3 Tariffs in Perspective

Like any other entity providing commercial port operations, the Authority needs to generate revenue by charging tariffs for the services provided. The Authority generates revenue by charging fees, in accordance with tariffs approved by the Regulator in order to fulfil the functions it must perform in terms of the Act.

The Authority’s core services, as specified in the Act, result in a number of revenue streams, which are utilised by the Authority to fulfil its responsibility for the safe, efficient and effective economic functioning of the national ports system.

Figure 2 presents various services provided within a port (adapted from the United Nations Conference on Trade and Development) and it illustrates the flow of cargo and ships through the port system:

Figure 1: Port Services



The Authority's services at the ports can be divided into two basic groups:

- Basic port infrastructure; and
- Operational services to port users.

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The Authority's services and their respective revenue streams are set out in Table 4 below.

Table 4: The Authority's Services and Corresponding Revenue Streams

Port Infrastructure		Revenue Stream
Port land and terminals	Lease port land to terminal operators and other port service and port facility providers in the port(s).	Lease income (rentals)
Wet infrastructure	Lighthouse services infrastructure (lighthouses, buoys, beacons and electronic / radio navigation equipment) , port control and safety, entrance channels, breakwaters, turning basins, aids to navigation within port limits, vessel traffic services, maintenance dredging within ports.	Light dues, port dues, vessel traffic services fees
Dry infrastructure	Quay walls, roads, rail lines, buildings, fencing, port security, lighting (outside terminals), bulk services and in certain cases terminal infrastructure.	Cargo dues, berth dues
Ship repair services	Provide and maintain ship repair facilities.	Preparation fee, docking and undocking fees (vessels at repair facilities), berth dues (vessels at repair quays)
Marine services	Pilotage, tug assistance, berthing, running of lines, floating cranes.	Pilotage dues, tug assistance fees, berthing fees, running of line fees, floating crane hire fees

In the context of the South African ports system and the Act, the revenue generated from the Authority's services is utilised inter alia to:

- Maintain basic port infrastructure;
- Provide future port infrastructure;
- Maintain and provide the current and future marine fleet; and
- Maintain and provide current and future ship repair facilities.

This makes the South African port system distinct from most ports internationally, where typically, some port capital costs are funded through State or Municipal budgets. The Authority's Tariff Book sets out the various tariffs that are charged by the Authority to maintain and develop the South African port system (Refer to **Annexure A**).

6. Port Infrastructure Development Plan and Capital Expenditure

Section 11(1) of the Act sets out the main functions of the Authority, amongst others, the responsibilities with respect to the provision of port infrastructure.

6.1 Port Investment planning

“Functions of the Authority”

Section 11(1) the main function of the Authority is to own, manage, control and administer ports to ensure their efficient and economic functioning, and in doing so the Authority must:

- (a) plan, provide, maintain and improve port infrastructure;*
- (b) prepare and periodically update a port development framework plan for each port, which must reflect the Authority’s policy for port development and land use within such port;*
- (c) control land use within ports, and has the power to lease land under such conditions as the Authority may determine;*
- (d) provide or arrange for road and rail access within ports;*
- (e) arrange for such services such as water, light, power and sewerage and telecommunications within ports; and*
- (f) Maintain the sustainability of the ports and their surroundings.*

6.2 The Authority’s Capital Investment Programme

The Authority’s investment spending is primarily influenced by its detailed capital planning and strategic planning initiatives which are aimed at providing adequate port infrastructure ahead of demand, improve vessel and cargo turnaround; and improve the productive use of assets to sustain the existing business.

In developing the Capex Plans, the following activities are considered by the Authority:

- **Long-term Port Development Framework Plans:** The Authority in accordance with the Act has to develop and periodically update port framework plans. The Authority publishes its National Ports Plan (“NPP”) which contains individual port development plans for each of the Authority’s 9 commercial ports. The NPP is updated every two (2) years and rebased every five (5) years. The last rebased NPP was completed in FY 2014/15. The next rebased NPP will be published as the NPP 2020. The NPP 2019 “update” is currently available on the Authority’s website for stakeholder review and comment.
- **Capacity studies:** The Authority uses simulation tools to assess the capacity of current infrastructure and to simulate future infrastructure capacity. The capacity studies are updated every two (2) years and revised every five years or as required.
- **Volume Studies:** The forecasted volumes used in the Authority’s development plans are based on the latest available information for the short-term investment guidelines. The long-term investment guidelines utilises the forecasted volumes from Transnet’s Freight Demand Model.

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- **Prioritization:** Projects are aligned to strategy and prioritized by compliance, sustainability and to meet forecasted demand.
- **Maintenance Plans:** Projects are aligned to maintenance programs to sustain existing port capacity and the safety of port infrastructure.
- **Fleet Plans:** The Authority has robust Fleet Plans that inform maintenance, replacement and investment in marine and air fleet (tugs, pilot boats, survey boats, dredging vessels and helicopters).
- **Port Consultative Committees:** The Authority adopts a consultative approach to the drafting of the Capital Expenditure program and the execution of the resultant Capital Investment Plan. Port Development Framework Plans projected for the short, medium and long term as well as 7-year Capital Investment have been consulted with port users. This consultation was conducted on a port-by-port basis during a process facilitated by the DoT, with SAMSA as secretariat, during July 2020. These plans are informed, inter alia, by the aforementioned Transnet Freight Demand Model.

6.3 Key Focus Areas of Capital Investment Program in FY 2021/22 to FY 2023/24

The Capital Investment Program for FY 2021/22, FY 2022/23 and FY 2023/24 amounts to R3 147m, R2 780m and R4 337m respectively. These amounts are included in the Authority's RAB as capital expenditure in the years in which they are incurred. The key projects are listed below; some of which have already commenced in prior year/(s) and are continuing into this tariff focus period. On aggregate the following projects contribute 75% of the planned capital expenditure over the next 3 years:

- **Key projects commenced in prior year/s:**
 - Provide additional rail facility for Duine area – Port of Richards Bay
 - Port Fire Fighting Installation Expansion & Upgrade – Port of Richards Bay
 - New Tug Jetty - FEL 4 – Port of Durban
 - Execution: DCT berth deepening 203 to 205 – Port of Durban
 - Execution: Fire-fighting infrastructure at berth 9 Island View – Port of Durban
 - Additional Administrative Facilities & Office Consolidation – Port of East London
 - Reconstruction of Quay 3 – Port of East London
 - Tank farm Equipment Berth B100, roads, port entrance and services – Port of Ngqura
 - Manganese project – Port of Ngqura
 - Boundary wall Manganese terminal – Port of Port Elizabeth
 - Replace two work boats – Port of Cape Town
 - Acquisition of 3 replacement Tugs – Port of Saldanha
 - Expansion of Container Terminal : CPT Phase 2B - FEL3 – Port of Cape Town
 - Phakisa projects – All

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- **Key Projects commencing in the current financial year:**
 - Replacement of helicopter ZS-RRB – Port of Richards Bay
 - Replace 1 tug – Port of Richards Bay
 - Two Replacement Tugs – Port of Cape Town
 - 2nd Grab hopper dredger – Dredging
 - Replacement of helicopter ZS-HDP – Port of Durban
 - Two replacement tugs – Port of East London
 - Acquisition of new Helicopter – Port of Cape Town

In addition, the Table below highlights the major Operation Phakisa projects to be undertaken at the various Ports.

Table 5: Operation Phakisa Major Projects

Project Name	Port
Modifications of 1200 ton slipway cradle	PE
Replacement of Robinson Drydock floating caisson	CPT
Replacement of 10 cranes for Shiprepair	CPT
Execution : Dry dock Pump House upgrade, Civil works- Trenching and Resurfacing & Ancillary Plinths	DBN
Execution : Dry dock Fire System upgrade	DBN
Execution : Dry Dock Capstans Upgrade - FEL3&4	DBN
Refurbishment of Graving Dock - Jib Cranes	EL
Sturrock Dry Dock Infrastructure Upgrade	CPT
Sturrock Dry Dock Pump System Upgrade - FEL3&4	CPT
Sturrock Dry Dock Electrical Infrastructure Upgrade (Detail Design)	CPT
Replacement of Sturrock Drydock Inner Caisson	CPT
Replacement of Capstans on all docks - FEL3&4	CPT
Robinson Dry Dock Pump Sytem Upgrade - FEL3&4	CPT

The Authority's capital investment goals are to increase productivity and efficiency, ensuring a safe, secure and compliant port system whilst meeting customer needs.

Table 6: Strategic Capital Investment Objectives

Strategic objective	Details	LE	Projections					Total 6yr
		2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	
R'm								
Re-engineering, Integration, Productivity and Efficiency	To maximise return on investments by obtaining additional volumes	416	1 051	1 376	1 955	2 551	4 458	11 807
	To maximise return on investments by improving operating efficiencies	44	226	177	207	253	344	1 251
	To preserve current revenue streams without obtaining additional volumes (ie. revenue protection)	604	1 527	922	1 390	2 657	4 951	12 051
Safety, Risk and Effective Governance	Ensure Safety Optimisation	77	196	129	383	518	705	2 009
	Optimise Business Enterprise Offerings	-	104	6	126	39	57	331
	Optimally Satisfy Social Investments (non economic value creating projects)	2	-	96	162	9	57	326
	Environmental	3	13	25	60	105	238	443
Human Capital	Optimise Human Resources	24	30	50	54	260	646	1 064
Total (excl. borrowing cost)		1 171	3 147	2 780	4 337	6 391	11 456	29 282

The detailed capital expenditure schedule is highlighted in **Annexure B**.

7. The Authority's Total Revenue

7.1 Real Estate Revenue

The vision of the Authority's Real Estate business is to ensure that the property portfolio is managed adequately, efficiently, effectively and in accordance with the Act and policies of the Authority.

The Real Estate Strategy drives the management of the property portfolio. There are five key pillars of the Real Estate Strategy:

- (a) Revenue Growth;
- (b) Portfolio Optimisation;
- (c) Land use and strategic developments;
- (d) Total Facilities Management; and
- (e) Human Resources Capacity Building.

Third party tenants enter into leases to enable them to invest and develop facilities for their operations. Rentals are negotiated on a case by case basis and are therefore not reflected in the Authority's Tariff Book.

The Authority's current national Gross Lettable Area ("GLA") extent is estimated at 24.0 million square meters.

The Authority manages four categories of leases:

- (a) Commercial lease including wayleave agreements
- (b) Incorporated leases²
- (c) Complementary leases³
- (d) Leases with other Government entities

Table 7: Different Types of Leases Split across Ports

Port Name	Commercial Leases	Complementary Leases	Incorporated Leases	Leases with other Authorities & Gov dept.	Wayleave Agreements	Grand Total
Cape Town	90		11		21	122
Durban	209	2	79	29	1	320
East London	10	2	8	6	5	32
Mossel Bay	20					20
Ngqura	4		5	1		10
Port Elizabeth	56		16		7	79
Richards Bay	29	10	8		3	50
Saldanha Bay	31		5	1		37
Grand Total	449	14	132	37	37	669

² refers to Section 56 agreements and includes agreements with entities responsible for port terminal operations, vessel repairs and offshore cargo handling

³ Refers to leases with port service providers regulated in terms of Section 57 Licences

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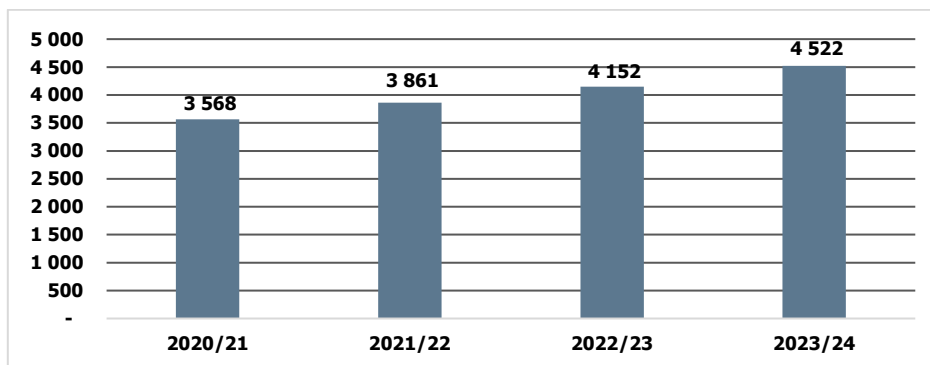
The aforementioned leases range from short to long term leases which are inclusive of terminal operators, licensed service providers and Government entities executing legislative functions.

The management of leases is guided through the Lease Management Manual (“LMM”) and considers an open, transparent, competitive and fair process. All vacant sites are advertised to the public to ensure broader participation. Once the lease reaches its expiry date, it continues to run on a month to month basis, subject to the completion of the lease renewal process and the placement of the preferred bidder.

Whilst the Authority continues to maintain and manage its leases, it must be noted that market conditions are currently unfavourable, with most tenants facing economic hardship and requiring business rescue. As such, tenants are requesting rental reprieve; re-negotiation of leases; and in some instances the cancellation of leases to exit port operations. The average 8.22% p.a. projected growth rate over the four year period may therefore be considered ambitious, given current unstable markets, and the slowing down of the economy in general.

The projected real estate performance and revenue is highlighted in Figure 2.

Figure 2: Real Estate Growth Projection



The salient details of the Authority’s Real Estate portfolio are summarized in Table 8 below.

Table 8: Real Estate Salient Features

Salient Features of Real Estate Business	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24
	Preceding Tariff Year	Current Tariff Year	Projected Tariff		
Number of Ports	8	8	8	8	8
Gross Lettable Area	Approx 24 million sqm	Approx 24 million sqm	Approx 24 million sqm	Approx 24 million sqm	Approx 24 million sqm
Number of Tenants	669	669	669	669	669
Total No. of Terminal Operators	90	94	94	94	94
Vacancy factor including Un-service/Virgin land	20%	20%	20%	20%	20%
Vacancy factor excluding Un-service/Virgin land	5.0%	5.0%	5.0%	5.0%	5.0%
Average term of Leases	5 - 25 Years	5 - 25 Years	5 - 25 Years	5 - 25 Years	5 - 25 Years
Estimated Revenue (Current Financial Year)	R3 313 m	R3 568 m	R3 861 m	R4 152 m	R 4 522 m
Estimated Revenue (Subsequent Financial Year)	R3 568 m	R3 861 m	R4 152 m	R4 522 m	R4 859 m
Forecast Revenue Growth	R255 m	R293 m	R291 m	R370 m	R337 m

Further to the above, in terms of Section 11(1)(r) of the Act, the Authority must promote greater representation, in particular to increase participation in terminal operations of historically disadvantaged persons. In order to achieve compliance with the Act, the Authority as part of its ports’ transformation program has considered measures to achieve 75% of Level 4 B-BBEE status in lease contracts and strives for a greater occupation of its lettable properties.

7.2 Private Sector Participation in the Port Sector (Concession Programmes)

The Authority is mandated by the Act to ensure that activities within ports encourage the development of trade and commerce for the economic benefit and interest of the South African economy. The Authority thus plays a critical role in balancing public interests and commercial interests while executing its mandate.

In many instances, the Authority is required to enter into concession agreements (i.e. a contract in which government or a state owned enterprise transfers operating and/or business rights to an entity for a defined period of time) with the private sector in order to facilitate economic development in the port environment. Private sector participation for the funding, execution and operation of these infrastructure projects is critical to expediting and ensuring holistic delivery of the Authority's corporate objectives, as well as the broader development of national infrastructure.

The concession agreements (Section 56 projects) entered into by the Authority aims to amongst others, introduce new activities into the port system; enable renewal of old port facilities; facilitate supply development programmes aligned to national economic objectives; and encourage participation in port activities by businesses owned by Historically Disadvantaged Persons.

To entrench broad participation and liberalization of port capacity, the Authority requires bidders to comply with a set criteria for black ownership in accordance with legislative requirements.

To date seven Terminal Operator agreements have been concluded where black ownership was a mandatory requirement, and are as follows:

- a) Sunrise Energy LPG – Port of Saldanha Bay, signed on 03 June 2013
- b) Burgan Cape Liquid Bulk – Port of Cape Town, signed on 03 July 2013
- c) Cape Town Cruise Terminal – Port of Cape Town, signed on 14 December 2015
- d) Oil Tanking Grinrod Calulo (OTGC) – Port of Ngqura, signed on 16 December 2016
- e) Durban Cruise Terminal – Port of Durban, signed on 17 September 2018
- f) Saldehco OffShore Supply Base – Port of Saldanha Bay, signed on 23 April 2018.
- g) Bidfreight Port Operations – Port of Port Elizabeth, signed on 30 September 2018

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Details of the Authority's efforts around planned concessioning are presented in the table below:

Table 9: FY 2021/22 New Concession Programme

A. WESTERN CAPE REGION	
CAPE TOWN	SALDANHA
1. Liquid Bulk Terminals x 3 • Brownfield Projects	1. Ship Repair Facility / Floating Dock • Greenfield Project • Operation Phakisa Project
2. A-Berth (Use to be define) • Greenfield / Brownfield Project	2. Rig Repair facility • Greenfield Project
B. EASTERN CAPE REGION	
NGQURA	EAST LONDON
1. Energy Precinct • Greenfield	1. Heavy Fuels Oils (HFO) Site • Greenfield Project
C. KWAZULU NATAL REGION	
DURBAN	RICHARDS BAY
1. Maydon Wharf Agri-Bulk Terminal • Greenfield Project • Maydon Wharf Precinct	1. Liquid Bulk Terminal at South Dunes (Incl. Bunkering, if viable) • Greenfield Project
2. Maydon Wharf Ensimbini Terminal • Greenfield Project	
3. Liquid Bulk (Petroleum & Chemicals) Terminal • Brownfield Project • Island View Precinct.	

7.3 Marine Business Revenue

The Authority generates revenue by providing services to port users, which include terminal operators, shipping lines, ship agents, cargo owners and the clearing and forwarding industry. Port Infrastructure and maritime services are made available for use in the five commodity market sectors namely; containers, dry bulk, liquid bulk, break-bulk and automotives. Revenue is generated through tariffs, which is determined and administered by the Regulator, and charged by the Authority for providing the aforementioned services. In determining the tariffs, various economic factors, including the volume growth of the Authority is considered. The anticipated volume growth serves as an indicator of economic activity and trade.

7.3.1 The Authority's Volumes

The volumes as presented in this part of the application, showcases the commodity cargoes that flow through the commercial ports as well as the movements of marine vessel traffic.

Projections for the Authority's volume budget process, on an annual basis, usually commence in October and continues to be refined until the Transnet Board approves the budgets in February of the following year. These forecasts present the annual probable demand, on commodities which are handled through the Authority's infrastructure within the port system. This process normally depicts the current year's latest estimates, taking into account the previous year's performance. Forecasts extend to the following year's volumes (budget period) with projected volumes for the next five years. This volume demand is one of the critical elements as it guides the organisational planning to ensure the availing of capacity ahead of demand whilst at the same time facilitating efficient and optimal utilisation of current capacity.

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The cargo volumes budget compilation follows a bottom-up approach from the port level to the Authority's validated budget. The process starts with the Authority's Key Account Managers ("KAM's") communicating and liaising with customers on their operational and strategic plans (i.e. how this translates into volume forecasts for the tariff period under review). The KAM's also liaise across the port system with Port Terminals and other operators, to achieve alignment within all cargo categories. Consolidation of this volumes projection feedback is subject to a budget evaluation process which includes assessment against historic, prevailing and anticipated market conditions, operational efficiencies, and infrastructure capacity levels and anticipated improvements. In conjunction with Transnet, a formal interaction platform with key customers to validate customer volume forecasts is undertaken. All divisions of Transnet participate to ensure synchronisation across the entire commodity value chain which further aids for integrated planning within the Transnet Group thereby affording customers an efficient end-to-end logistic offering.

7.4 Cargo

The South African economy had been struggling to match the pre-crisis (2009) economic growth. In 2019, the South African economy narrowly escaped recession by growing at 0.2% after three quarters of contraction. In 2020, the global coronavirus ("COVID-19") pandemic has dramatically changed trade flows and led to a severe global economic crisis, with the South African economy, expected to record its highest decline in 2020. Furthermore, the South African growth strategy will be negatively affected by the recent downgrade of the sovereign credit rating to junk status by all agencies. The negative ratings will further raise the cost of government borrowing, which is likely to significantly slow down capital investment and long-term growth recoveries. Like other economies, the South African economy is forecast to rebound with a strong recovery in 2021, with maintenance of positive recovery, but limited to an average growth of 3% p.a. over the next decade.

Prior to the COVID pandemic, a number of key South African commodities struggled to record consistent, positive and sustainable growth. Over the recent years, various economic challenges have also impacted the sustainable growth of commodity volumes passing through South African ports. This has led to some decline on the traded commodity volumes especially imported goods, whilst global demand from major trading partners continued to boost exports.

The COVID-19 pandemic has led to widespread declines in global commodity demand with shocks to major economies. Despite significant declines in commodity prices, which normally aides in boosting demand, most traded commodities are expected to be affected as the pandemic prompts consumers and business to focus on essential spending. However, commodity demand is expected to improve as the global economy recovers in 2021.

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The expected economic recovery from the effects of COVID-19 for both the domestic and global markets will have a positive impact on various categories of cargo that traverse the Authority's port infrastructure. The Authority's volumes are estimated as follows:

Table 10: Authority's Volume Projection

Details	Actual	LE	% Deviation	Forecast	% Deviation	Forecast	% Deviation	Forecast	% Deviation
	2019/20	2020/21		2021/22		2022/23		2023/24	
Container (TEUs)									
Deepsea Full: Imports	1 568 540	1 382 447	-12%	1 458 333	5%	1 517 358	4%	1 571 007	4%
Deepsea Full: Exports	1 170 683	1 038 436	-11%	1 098 678	6%	1 130 193	3%	1 179 449	4%
Transhipments	846 837	719 598	-15%	783 333	9%	792 875	1%	839 113	6%
Other	952 064	870 015	-9%	952 016	9%	1 003 622	5%	1 036 168	3%
Total	4 538 124	4 010 497	-12%	4 292 359	7%	4 444 049	4%	4 625 736	4%
Vehicles (Units)									
Vehicles: Imports	331 992	275 606	-17%	292 765	6%	300 025	2%	308 806	3%
Vehicles: Exports	386 826	271 908	-30%	375 838	38%	403 152	7%	451 614	12%
Other	57 944	40 818	-30%	41 200	1%	41 970	2%	42 952	2%
Total	776 762	588 332	-24%	709 803	21%	745 147	5%	803 372	8%
Break Bulk (Metric Tons)									
Break Bulk: Imports	2 327 282	1 758 526	-24%	1 839 406	5%	1 879 168	2%	1 920 000	2%
Break Bulk: Exports	2 236 314	1 364 864	-39%	1 487 967	9%	1 535 466	3%	1 586 292	3%
Other	159 229	108 302	-32%	126 147	16%	129 755	3%	133 510	3%
Total	4 722 824	3 231 692	-32%	3 453 520	7%	3 544 388	3%	3 639 801	3%
Dry Bulk (Metric Tons)									
Coal Exports	75 132 898	73 761 856	-2%	79 119 416	7%	80 817 115	2%	80 857 564	0%
Iron Ore Exports	56 694 935	50 887 831	-10%	59 000 000	16%	59 000 000	0%	59 000 000	0%
Manganese Ore Exports	18 534 172	13 823 134	-25%	17 779 080	29%	18 608 363	5%	18 694 483	0%
Other Dry Bulk	32 239 460	27 024 748	-16%	36 188 326	34%	37 503 612	4%	38 616 108	3%
Total	182 601 465	165 497 570	-9%	192 086 822	16%	195 929 091	2%	197 168 156	1%
Liquid Bulk (kl)									
Petroleum	32 219 949	29 543 165	-8%	31 954 899	8%	32 619 473	2%	33 382 267	2%
Chemicals	2 434 793	2 259 303	-7%	2 279 645	1%	2 324 871	2%	2 360 521	2%
Other Liquid bulk	7 210 623	5 005 335	-31%	5 744 059	15%	6 035 349	5%	6 261 605	4%
Total	41 865 365	36 807 803	-12%	39 978 603	9%	40 979 693	3%	42 004 393	3%

7.4.1 Containers

"World merchandise trade is set to plummet by between 13% and 32% in 2020 due to the COVID-19 pandemic. Nearly all regions will suffer double-digit declines in trade volumes in 2020. A 2021 recovery in trade is expected, but dependent on the duration of the outbreak and the effectiveness of the policy responses" (World Trade Organisation (WTO): April 2020).

In recognition of the high degree of uncertainty associated with trade forecasts under the COVID-19 global pandemic, WTO anticipates merchandise trade volume to plummet between 13% and 32% in 2020. The predicted decline is explained by the unprecedented nature of this health crisis and the uncertainty around its precise economic impact.

A recovery in merchandise trade is predicted for the year 2021 and 2022. The outlook is however not yet certain as the predictions depend on the duration of the lockdowns globally and the effectiveness of countries in responding to the effects of the COVID-19 pandemic. In addition, it is not yet clear how global trade will play its full role (in 2021 and 2022) in driving growth due to the high levels of uncertainty around the pandemic.

In determining the global merchandise trade outlook for 2021 and 2022, the estimated global economic results for 2020 is crucial. The economic shock of the COVID-19 pandemic inevitably invites comparisons to the global financial crisis of 2008-09. These crises are similar in certain respects but very different in others. Table 11 provides the differences between the 2008-09 financial crisis and the expected economic shocks caused by the COVID-19 pandemic.

Table 11: Comparison between 2008/9 recession and 2020 COVID-19 economic shock

Situation	2008-9 Global recession	2020 COVID-19 situation (forecasts)
Global GDP Growth	-1.7%	-3.0%
SA GDP Growth	-1.5%	-7.0%
Global merchandise trade	-12%	Between -13% and -32%
Global shut-downs	No global shut-downs	Global shut-downs in major economies
Stimulus packages	Certain countries offered stimulus packages	Certain countries offer stimulus packages
Production and trade	Production and trade continued	Production and trade halted or stopped
Impact on the Authority’s container volumes	-10.1%	Unknown

Although global recoveries are anticipated for the years 2021 and 2022, the WTO warns that products with complex supply chains will take longer to recover. These include, amongst others, automotive components and electronics. The precautionary health and safety measures (social distancing and ban on certain products) implemented by countries may also negatively impact trade of certain products that are not deemed necessities and thus further delay trade recovery.

As the Authority’s container volumes are affected by the global economic outlook, the global merchandise trade projections discussed above is expected to have an adverse impact on the Authority’s volumes. The full picture on the Authority’s container business is informed and impacted on by growth prospects of the trading partners and countries that do business with the Republic of South Africa (“RSA”). The continued trade improvements also depend on the trading partners governments pursuing appropriate monetary, fiscal and trade policies. The South African Reserve Bank (SARB) projects that the economies of RSAs major trading partners will decline by 3.4% in 2020 and then recover to 4.3% and 3.7% in 2021 and 2022 respectively.

The current forecasts by the WTO and SARB are mainly based on the current global and domestic economic conditions; and anticipated improvements in the management of the pandemic, and hopeful global economic recovery. Considering the current economic shocks, coupled with the uncertainties brought by the COVID-19 pandemic, and balanced with the expected 2021 recovery, the Authority expects container volumes to grow by 7% in the FY 2021/22.

7.4.2 Automotives

World economic growth is currently faced with extreme uncertainty due to the spread of the COVID-19 pandemic. Automotives is expected to be among the most affected sectors as the virus prompts consumers and business to focus on essential spending. The global automotive market is facing strong headwinds from COVID-19, adding further disruptions to what was expected to be a challenging period. Global vehicle sales are expected to experience further decline in 2020 with a severe adverse impact seen in major auto markets such as China, Japan, South Korea, Germany, Italy, France, the United Kingdom and the United States. Vehicle sales are forecasted to decline by double digits of not less than

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20% in 2020. However, if COVID-19 is brought under control, there is a potential for some growth in 2021. It is worth noting that the likelihood of long-term adverse effects from the pandemic could further delay the sector's recovery as demand is mainly driven by employment.

Contrary to the global auto markets' weak demand over the recent years, South Africa's automotive sector has remained relatively strong. Over the past three years, the country's market sales recorded consecutive growth as driven by significant export demand in 2018 and 2019. However, the current crisis is posing serious threats to the growth of the sector for both domestic and global demand. South Africa's vehicle output is expected to decline significantly in 2020 due to weakening domestic and export demands. This is expected to result in a significant decline in volumes of vehicles passing through South African ports and could lead to weaker demand beyond 2020. With the automotive sector known to be very sensitive to changes in economic conditions, the possible long-term effects from COVID-19, such as an increase in the unemployment rate, could delay the sector's demand recovery. However, the expected global economic recovery and other domestic reforms, such as cuts in interest rate are expected to boost South Africa's vehicle exports from 2021.

Due to the impact of COVID-19, the Authority expects a significant decline in vehicle volumes passing through its ports during FY 2020/21. The vehicle volumes passing the port system are expected to see a contraction of 24% in FY 2020/21, a significant decline from 7.5% growth recorded in FY 2019/20. However, a significant recovery of about 21% is expected in FY2021/22, with a boost due to global economic recovery for exports. The Authority anticipates to further maintain a positive growth at 5% and 8% in FY 2022/23 and FY 2023/24, respectively. Vehicle exports are expected to remain a key driver for automotive volumes passing through South African ports over the period under review.

7.4.3 Break Bulk

Volume projections for the breakbulk sector are highly dependent on global economic performance. The halt in economic activity due to the COVID-19 pandemic has taken a toll on industrial commodities such as copper and zinc.

Industrial metals prices waned more than oil prices. Metal price drops were mostly affected by slowdown in global activity, particularly China which accounts for more than 50% of global metal demand. Gold prices, on the other hand, have risen as buyers have sought safety amid financial market turbulence. Iron ore prices are expected to remain rather resilient compared to other metals, despite the COVID-19 pandemic, due to anticipated stronger Chinese steel production in the second half of 2020, boosting demand and prices of iron ore further in 2021. Thereafter (2022 onwards), modest price declines are expected.

Agricultural output in RSA displayed rather sharp contractions at the end of the 2019 year thus subtracting approximately 0.2 percentage points from overall GDP growth. The contraction is mainly attributed to a decline in the production of field crops and horticultural products, as weather-related dynamics adversely impacted wheat harvests, soil moisture levels and the quality of some horticultural products. Electricity load shedding further weighed on the irrigation-reliant and energy-intensive agricultural subsectors. Globally, agriculture markets have been less affected by the COVID-19 pandemic so far as food markets remain amply supplied following recent bumper harvests, especially in maize and wheat.

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The Authority anticipates Breakbulk volumes passing the port system to see a sharp contraction of 32% in FY 2020/21. However, a significant recovery of about 7% is expected in FY 2021/22 with the boost from global economic recovery for exports. The Authority anticipates to further maintain a positive outlook, however with a slow growth rate of approximately 3% in FY2022/23 and FY2023/24.

7.4.4 Coal

Coal consumption faces long-term structural changes in several consuming regions for both economic and policy reasons. The Authority anticipates a decline of 2% in coal exports for FY 2020/21. This is mainly due to the impact of the COVID-19 pandemic. Operations were briefly halted as the government imposed a lockdown to contain the spread of COVID-19; with operations resuming at a reduced rate. Despite supply-side restrictions in South Africa, the supply for export does not appear to be severely affected. However, the demand for coal exports has been affected as some of the major importers of SA coal also imposed lockdowns.

Despite the expected decline in the coal exports for FY 2020/21, the Authority expects a growth of 7% in coal exports for FY 2021/22. Policy changes; coupled with global moves towards renewable energy sources; and lower natural gas prices, are predicted to dent the coal exports outlook in the long-run. However, South Africa's coal exports are expected to improve slightly in FY 2021/22, mainly due to the anticipated increased coal demand in India and Pakistan, as well as other coal importers.

7.4.5 Iron Ore

Upward trends in global iron ore trade unfolded in the previous years, but in the past couple of years signs of faltering have emerged, and prospects for 2020 and beyond appears likely to be subdued. Whilst Australia and Brazil continue to dominate the iron ore industry, South Africa remains amongst the top 5 largest iron ore exporters in the world (2019), accounting for about 4.7% of global iron ore export value.

South Africa's iron ore sector stands to face significant headwinds from a negative price outlook for iron ore in the coming years. While prices have recovered since 2017, it is expected to head back down from 2020 onwards, which may once again force divestments among domestic iron ore miners, as margins narrow. While iron ore prices are anticipated to rise this year, the outlook is rather negative in the longer term as the global market loosens.

Since the COVID 19 pandemic, iron-ore mining in SA has faced disruptions, leading to anticipated declines in South Africa's iron ore production in the long-term.

Although iron ore production is expected to decline in the sector, there are a couple of developments that may support the sector. On the supply side, SA iron ore export growth is expected to be supported by Kumba's Kolomela mine and Kumba's Sishen expansion project. South Africa is expected to remain Africa's largest producer of iron ore to at least 2029, as large iron ore projects due to come online in West Africa during this period have either been delayed or cancelled altogether, as a result of global iron ore price volatility and ongoing operational challenges (Fitch Solutions). Furthermore, global iron ore sea-borne trade is expected to improve as some of the iron ore consumers globally, including China, are likely to rely more on iron ore imports.

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There are strong indications of a potential flattening of growth in global seaborne iron ore trade over the next few years. Distortions caused by the COVID-19 epidemic will be prominent in 2020. Even if trade volumes rebound in 2021, there seems to be a possibility that the longer term trend may be flat (Hellenic shipping).

Given this context, the Authority expects iron ore seaborne trade to contract in 2020 and recover in 2021. As such, the Authority expects the iron ore export volumes to decline by 10% in FY 2020/21, with anticipated volume growth of 16% in FY 2021/22.

7.4.6 Manganese Ore

Iron ore and manganese trends closely follow steel trends. South Africa, accounting for 32% of manganese ore production, is the world's largest producer of manganese. China has been the world's leading importer of manganese (International Manganese Institution 2019).

Global manganese ore output increased over the past three years, much of it as a result of significant growth in South African production. According to research by Roskill, one significant factor over the past years has been the growth in demand for manganese per tonne of steel in China, as a result of the stricter rebar standards which were imposed by the Chinese government. Whilst steel will continue to dominate manganese demand, consumption of manganese in batteries is expected to grow over the next decade. However, uncertainties remain regarding the pace of growth of manganese consumption in batteries; the desired manganese products and production processes required to fulfil the demand from lithium-ion batteries (Roskill research).

The Authority forecasts a 29% growth in manganese ore volumes for FY 2021/22. This is off the back of the 25% contraction anticipated for FY 2020/21, due to COVID-19 disruptions.

7.4.7 Liquid Bulk

The outlook for the oil sector is expected to deteriorate sharply during 2020 due to significant declines across economic activities, especially in the transport sector, as a direct result of the COVID-19 pandemic. This has already resulted in a record low demand for fuel consumption across the world with oil price forecasted to significantly decline by 43% from US\$61.70/bbl in 2019 to US\$35.40/bbl in 2020. However, the demand for fuel consumption is expected to gradually improve in the second half of 2020 as many countries start to ease restrictions on traveling and opening of economic activities. This, together with possible oil production cuts, may boost demand, and is likely to improve oil price for the remainder of 2020.

The local demand for fuel consumption is no exception to the rest of the world as the country started to open to a higher level of economic activity after extreme lockdown restrictions, as a measure to contain the spreading of COVID-19. However, the decline in fuel demand faced this year may contribute to South Africa's prolonged flattened demand which has seen an average growth of only 0.8% over the past decade. This prolonged low demand is due to a number of domestic challenges such as low economic growth; limited and lack of adequate investment in refinery infrastructure; prolonged high unemployment rates, weak exchange rate and high increase in fuel prices. South Africa's fuel consumption is likely to remain below its potential, underpinned by high fuel prices and a weak economic growth outlook. According to Fitch Solutions, South African fuel consumption growth outlook

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is forecast to average 1.5% per annum over the coming decade. The cost of fuel in the country is expected to remain prohibitively high and further constrain stronger consumption growth in the next decade. Total fuel consumption is expected to slightly improve from 728,190b/d in 2020 to 834,200b/d in 2029.

Limited economic activities and restricted traveling under lockdown will continue to have severe adverse effects on South Africa's demand for fuel. This is expected to result into low volumes of liquid bulk passing through our ports during FY 2020/21.

South Africa's chemical market is expected to experience a double-digit decline in 2020 as the manufacturing sector goes into recession. Whilst the likely depreciation of the domestic currency may raise the cost of imported petrochemical products, recent developments will negatively impact on the volumes passing through South African ports during FY 2020/21. The Authority expects volumes for chemicals to decline by 7% in FY 2020/21, with moderate growth forecasted over the next three financial years.

Other liquid bulk volumes are projected to rebound from a significant decline (31%) in FY 2020/21 to 15% in FY 2021/22, and thereafter maintain a positive growth of 5% and 4% in FY 2022/23 and FY 2023/24, respectively. Due to the impact of COVID-19, the Authority is expecting total liquid bulk volumes passing through ports to decline by 12% in FY 2020/21. This will be mainly driven by declines in petroleum (-8%) and chemicals (-7%). However, liquid bulk volumes are expected to rebound with 9% growth in FY 2021/22 and further maintain a growth of 3% in FY 2022/23 and FY 2023/24. The volumes for petroleum are expected to reflect a similar trajectory with total liquid bulk passing through our ports over the period under review.

7.5 Marine Services

Marine volumes comprise of the number of vessels arriving at SA ports and their associated Gross Registered Tonnage ("GRT"). Marine Services revenue is influenced by the average vessel size and ship turnaround time. Over recent years, the trend observed at SA ports, is the decrease in the average number of vessel calls as larger vessels call into the Authority's ports with bigger parcel sizes. Revenue generated from these services remain relatively static despite growing cargo volumes. Lesser vessel calls due to larger vessels and longer port stays due to bigger parcel sizes attract additional charges, however, this is not a substitute for revenue earned from more frequent vessel calls with shorter stays.

The figure below illustrates the average tonnage per vessel call at South African ports.

Figure 3: Average Tonnage Per Vessel Call

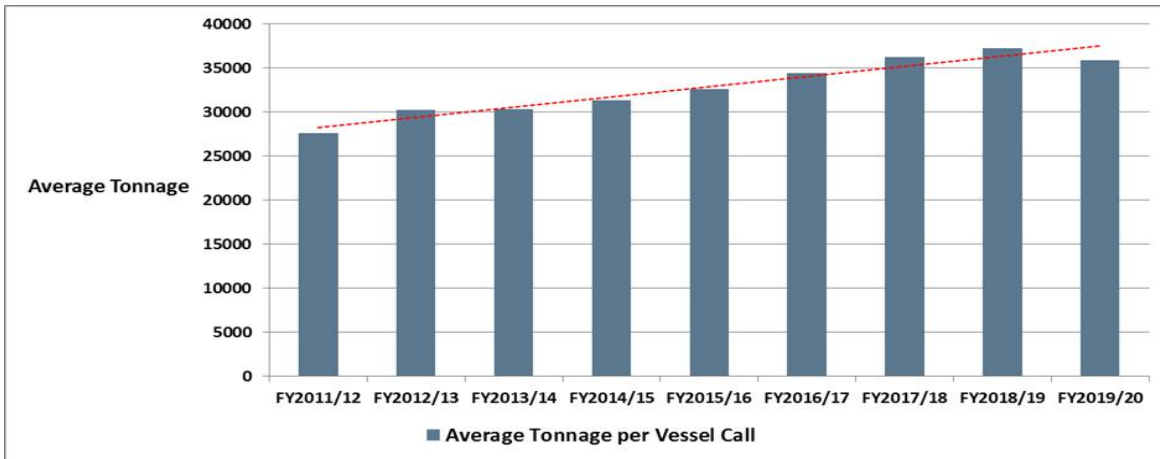
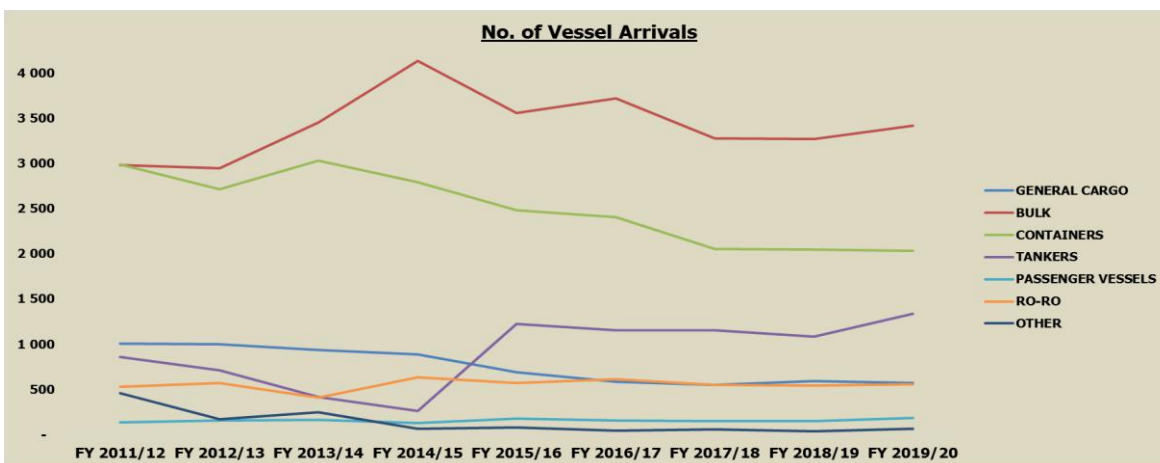


Figure 4 below presents TNPA historic number of vessel arrivals until FY2019/20.

Figure 4: Port Vessel Calls



A closer look at the vessel movements over the past three years indicates the following:

- The Authority has been experiencing a downward trend in the number of vessel calls. This is due to larger vessels consolidating cargoes across many ports and major hubs. Specifically, liner shipping carriers take advantage of mergers and acquisitions, alliances and the use of larger ships to achieve both scale of economies and greater market power so as to increase income and profits.
- The larger the carrier or alliance, the larger the influence it can have on a port. The threat that a carrier could divert its vessel means a shipping line can effectively eliminate a port’s position in global trade. As a result, to benefit from the process of concentration in liner shipping, SA ports must ensure that port infrastructure and water depth is adequate for bigger vessels. Furthermore, port efficiency levels need to be established that can service vessels on demand. This will result in SA ports becoming major hubs, creating transshipment opportunities and remaining competitive within the global supply chain network.

- Whilst global and domestic economic recoveries are expected in FY 2021/22, the possibility of a lower than anticipated global and domestic economic outlook for FY 2021/22 cannot be ruled out. This has the potential to translate into relatively lower vessel calls and somehow affect marine revenue negatively

Vessel traffic is demand-driven as it depends on growth in volumes per cargo commodity. The current outlook for economic activity is rather uncertain with recoveries anticipated in the year 2021. However, with the expected volume recoveries in containers, RoRo's, dry bulk and liquid bulk cargo categories for FY 2021/22, marine services activity is forecasted to increase by 4.51%.

8. Tariff Application Approach

8.1 Revenue Requirement Formula

The Port Tariff Methodology for Tariff Years 2021/22 - 2023/24, dated 06 March 2020, prescribes the RR formula which forms the basis upon which the Regulator will determine the appropriate revenues for the Authority. The prescribed formula is as follows:

Revenue Requirement

$$\begin{aligned}
 &= \text{Regulatory Asset Base (RAB)} \times \text{Weighted Average Cost of Capital (WACC)} \\
 &+ \text{Operating Costs} + \text{Depreciation} + \text{Taxation Expense} \pm \text{Claw-back} \\
 &\pm \text{Excessive Tariff Increase Margin Credit (ETIMC)} \\
 &\pm \text{Weighted Efficiency Gains from Operations (WEGO)}
 \end{aligned}$$

The application of this formula is demonstrated in the sections that follow.

8.1.1 Regulatory Asset Base

Methodology for the valuation of the Authority's RAB

The Tariff Methodology prescribes the use of VoA for the determination of the RAB. The Tariff Methodology further states that in the event of corporatisation of the Authority (as contemplated by the Act), the Regulator will consider implementation of the TOC asset valuation methodology. Whilst the matter of corporatisation is receiving focused attention at a Ministerial level, the decision and timing of corporatisation does not fall within the control of the Authority. Furthermore, and as previously demonstrated to the Regulator, the implementation of VoA significantly threatens the financial sustainability of the Authority. As such, the Tariff Application has been prepared on the basis of the TOC asset valuation methodology.

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8.1.1.1 RAB

The RAB represents the value of assets that the Authority is allowed to earn a return on. As indicated above, the Authority has determined the RAB on the TOC asset valuation methodology.

The formula for the determination of the value to be allowed in the RAB for the tariff period as per the approved tariff methodology is as follows:

$$RAB_y = \frac{1}{2} [RAB_{c,y} + RAB_{o,y}] + w_y$$

$$RAB_{c,y} = RAB_{o,y}(1 + CPI_y) + CWIP_y \cdot (1 + CPI_y)/2 - D_y$$

Where:

RAB_y	=	<i>value of the RAB used to determine the returns for period y</i>
$RAB_{o,y}$	=	<i>opening value of RAB for the period y</i>
$RAB_{c,y}$	=	<i>closing value of RAB for the period y</i>
w_y	=	<i>forecast average net working capital over period y</i>
$CWIP_y$	=	<i>value of expected capital investment over period y</i>
D_y	=	<i>depreciation allowance for assets over review period y</i>
CPI_y	=	<i>annual rate of Headline CPI expected over period y</i>

The Authority maintains a Fixed Asset Register (“FAR”), based on the rules stipulated in the Tariff Methodology, for the inclusion of assets in the RAB and accounts for all acquisitions, disposals and transfers. The FAR considers assets, on a line by line basis, that have been capitalised since 1990. In line with the principles of TOC, all assets are trended and depreciated, annually.

8.1.1.2 Depreciation

Depreciation for existing assets has been determined based on the useful life of each asset. In line with the approved tariff methodology, depreciation for Capital Works in Progress (“CWIP”)/Capital Expenditure will only be determined upon commissioning of the assets. This results in a depreciation expense of R2 280m for FY 2021/22, R2 362m for FY 2022/23 and R2 362 m for FY 2023/24.

8.1.1.3 Inflation Trending

The Tariff Methodology prescribes the use of the Consumer Price Index (“CPI”) for the tariff period based on the latest forecast published by the National Treasury or alternatively the Bureau of Economic Research (“BER”) for the purposes of trending the RAB and calculation of the Weighted Average Cost of Capital. The Authority has utilised the latest forecasts published annually by the BER (Source: BER July 2020). The Authority is of the understanding that the Regulator will use the most recent inflation forecast at the time of their decision making. This could result in a different tariff determination than the Authority’s application.

8.1.1.4 Capital Works in Progress/ Capital Expenditure

The formula for determination of the RAB includes CWIP/Capex. CWIP refers to capital works in progress for assets that are under construction. Capex is informed by the Capex program which is projected at R3 147m for FY 2021/22, and forecasted at R2 780m for FY 2022/23 and R4 337m for FY 2023/24. Detailed information relating to capital expenditure is demonstrated in **Annexure B: Capital Expenditure**.

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8.1.1.5 Working Capital

In line with the Tariff Methodology, net working capital is to be included in the RAB and is determined as follows:

Table 12: Working Capital

Working Capital	2019/20	2020/21	2021/22		
Indexation					
Volume Growth		1.76%	7.54%		
Inflation		4.80%	3.80%	2022/23	2023/24
AFS 2019/20 - rolled forward to FY 2020/21				7.54%	7.54%
	R'm	R'm		4.80%	4.50%
Current Assets					
Trade receivables	1 087	1 106			
Inventories	36	38			
Current Liabilities					
Trade Payables (including VAT liability)	2 300	2 410			
Working Capital Calculation for FY 2021/22 - FY 2023/24					
		R'm	R'm	R'm	
		2021/22	2022/23	2023/24	
Current Assets		1 229	1 320	1 418	
Trade receivables		1 190	1 279	1 376	
Inventories		39	41	43	
Current Liabilities		2 764	2 854	3 101	
Trade Payables (including VAT liability)		2 502	2 622	2 740	
CWIP Payables (1/12)		262	232	361	
Working Capital		-1 536	-1 534	-1 683	

8.1.2 Weighted Average Cost of Capital ("WACC")

The WACC represents an estimate of a return commensurate with the risk of owning, managing, controlling and administering ports and providing port services and facilities. The rate of return is determined on a real basis with a weighted average cost of debt and cost of equity.

The key components used to determine the Vanilla WACC are highlighted in the table below.

Table 13: Weighted Average Cost of Capital ("WACC")

REAL RATE OF RETURN	2021/22	2022/23	2023/24
Inflation forecast	3.80%	4.80%	4.50%
Nominal Risk-free rate	8.95%	8.95%	8.95%
Real risk free rate	4.97%	3.96%	4.26%
MRP	5.09%	5.09%	5.09%
Asset beta	0.35	0.35	0.35
Equity beta (using Hamada)	0.65	0.65	0.65
Gearing	50.00%	50.00%	50.00%
Debt/equity ratio	100.00%	100.00%	100.00%
Nominal Weighted Average Cost of Debt (WACD)	10.85%	10.85%	10.85%
Equitable Tax rate	14.03%	14.03%	14.03%
Real Cost of equity (post-tax)	8.28%	7.28%	7.57%
Real WACD (pre-tax)	6.79%	5.77%	6.07%
Real Vanilla WACC	7.53%	6.52%	6.82%
Explanatory notes:			
Risk Free Rate: KBP2003M, calculated over a five yearly average from March 2015 to February 2020 for FY 2021/22			
MRP: Geometric mean with the use of the DMS studies over the full period available dataset (118 years)			
Inflation: BER Forecasts			
Cost of Debt: NPA's actual, embedded (adjusted for an effective weighting) debt costs			
FY 2021/22 MRP & RFR figures are used as proxies for MRP & RFR figures for indicative years FY 2022/23 & FY 2023/24			

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8.1.3 Valuation of the RAB

The opening RAB for FY 2020/21 is highlighted in Table 14 as follows:

Table 14: Opening Regulatory Asset Base

Opening Regulatory Asset Base	2020/21	2021/22	2022/23
	R'm		
Opening NBV 01 April	71 948	72 715	76 400
Indexation	1 893	2 817	3 725
Depreciation	-2 297	-2 280	-2 362
Capex	1 171	3 147	2 780
Closing NBV 31 March	72 715	76 400	80 542

The valuation of the RAB is highlighted in Table 15 as follows:

Table 15: Regulatory Asset Base

REGULATORY ASSET BASE	2021/22	2022/23	2023/24
	R'm		
Opening Book Value	72 715	76 400	80 542
Inflation Index	2 713	3 451	3 154
Indexed Opening Asset Base	75 428	79 851	83 696
Indexation of CAPEX	104	274	417
Indexed Asset Base	75 532	80 125	84 113
Add: CAPEX	3 147	2 780	4 337
Depreciation	-2 280	-2 362	-2 362
Closing Book Value	76 400	80 542	86 087
Average Asset Base	74 557	78 471	83 315
Less: Working Capital	-1 536	-1 534	-1 683
Regulatory Asset Base	73 022	76 938	81 632

8.1.4 Taxation

The RR formula considers the equitable tax rate in determining the tax expense for the Authority. A segmental financial report which considers the profit before tax contribution for the Operating Divisions of Transnet is utilized to determine the equitable tax rate. The effective rate is calculated as a ratio of the Transnet taxation liability due under the current corporate structure and is determined as the average equitable tax rate over the previous five (5) years. The calculation of the equitable tax is as follows:

Table 16: Equitable Tax calculation

Details	5 Years Total
Total Profit Before Tax	28 023
Total Profit Making Divisions	55 913
Equitable Tax = (Total Profit before tax / Total profit making divisions) * 28%	14.03%

Application of the Tariff Methodology, results in the Authority determining a tax allowance on the equity portion of the return, only. Depreciation, operating expenditure and interest expense are considered as tax deductible expenses. Any under or over recoveries between the five (5) year average estimated equitable tax rate and the actual equitable tax rate determined from the recent Transnet Annual Financial Statements (Transnet AFS) will be clawed back.

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The calculation for tax is illustrated as follows:

Table 17: Tax Calculation

Taxation	2021/22	2022/23	2023/24
Equity Return	3 022	2 799	3 092
Depreciation	2 280	2 362	2 362
Opex	5 503	5 961	6 399
Gross income	10 805	11 122	11 853
Depreciation	2 280	2 362	2 362
Opex	5 503	5 961	6 399
Total Deductions	7 782	8 323	8 762
Taxable Income	3 022	2 799	3 092
Grossup factor	0.86	0.86	0.86
Grossed up taxable income	3 516	3 256	3 596
Tax @ 14.03%	493	457	505

8.1.5 Operating Costs

The Authority's Operating Costs ("Opex") is a reflection of the organisation's expenditure, required, amongst others, to sustain its day to day operations; as well as support its strategic initiatives aimed at improving productivity, efficiency and enhancing port safety. Consequently, most of the Authority's operating costs are largely of a fixed nature.

The cost elements contributing significantly to total operating expenditure include, amongst others, Labour Costs, Maintenance, Professional Fees, Material and Sundry Operating costs.

The table below highlights the Authority's Operating Expenditure Opex. The Authority's total Opex for FY 2021/22 is made up of R 4 985m and an allocation of R 517m from Group overhead costs.

Table 18: Operating Costs Including Group Costs

Cost Category	Actual 2019/20 R Million	Forecast 2020/21 R Million	Forecast 2021/22 R Million	Dev '20/21 vs 21/22 R Million	Dev '20/21 vs 21/22 Percentage	% of Opex 21/22	Forecast 2022/23 R Million	Forecast 2023/24 R Million	CAGR 2021/22 - 2023/24
Labour Costs	2 518	2 635	2 845	210	8%	57%	3 057	3 350	9%
Rates & taxes	400	421	456	36	8%	9%	499	541	9%
Maintenance	335	397	451	54	14%	9%	539	554	11%
Contract Payments	12	15	15	-0	-3%	0%	16	17	8%
Energy	593	586	627	41	7%	13%	678	740	9%
Professional services	58	45	47	2	5%	1%	57	59	12%
Material	87	91	100	10	10%	2%	112	122	10%
Computer & Info systems	115	117	125	8	7%	3%	127	136	4%
Rental	56	63	60	-3	-4%	1%	62	67	5%
Security costs	112	123	129	6	5%	3%	139	151	8%
Pre -Feasibility Studies	34	58	71	12	21%	1%	96	95	16%
Sundry operating costs	-13	19	59	39	204%	1%	60	61	2%
Total operating cost (excluding depreciation)	4 306	4 570	4 985	416	9%	100%	5 443	5 891	9%
Group Costs	422	514	517	3	1%		518	508	-1%
Total operating cost (Including Group Costs)	4 728	5 084	5 503	419	8%		5 961	6 399	8%

Annexure D provides detailed Opex information.

8.1.6 Revenue Claw-back

In line with the approved Tariff Methodology, the claw- back mechanism is a tool used to manage excess or inadequate revenues realised as a result of deviations between forecasted and actual information; inaccurate information; and system shocks. It aims to ensure that the Authority and port users are fairly treated and not subjected to unfair gains or losses.

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8.1.6.1 Net Claw-back Re-computed calculation

The net claw-back adjusts for actual revenue for FY 2019/20 and a provisional adjustment for FY 2020/21. The calculation of the claw-back is illustrated in the Table below.

Table 19: Net Clawback Calculation

CLAWBACK	2019/20	2019/20
	ROD	Actuals
R'm		
Recomputation of Required Revenue		
Return on asset	4 570	5 023
Depreciation	2 074	2 312
Opex + Group Costs	6 291	4 728
Tax	509	431
Clawback	-1 419	-1 419
ETIMC	539	539
Re-computed Revenue Allowed	12 564	11 614
AFS Revenue		12 172
Clawback FY 2019/20		-558
Clawback as per above		-558
SIOC: Bilateral Agreements		-106
Reverse FY 2019/20 Clawback taken in FY 2020/21		-184
Add: Estimated Clawback for FY 2020/21 (50%)		764
Add: Return on clawback for FY 2019/20 and FY 2020/21		-62
Net Clawback		-146

8.2 Revenue Requirement

The Authority determined a required revenue of R13 569m comprising of Marine Business revenue of R9 708m and Real Estate Business revenue of R3 861m for FY 2021/22. Indicative required revenues for FY 2022/2023 and FY 2023/24 are R14 562m and R14 837m, respectively.

Table 20: Revenue Requirement from FY 2021/22 to FY 2023/24

DETAILS	2020/21	2021/22	2022/23	2023/24
	ROD	Fixed Tariff Year	Indicative Tariff Years	
	R'm	R'm		
RAB	73 241	73 022	76 938	81 632
Vanilla WACC	7.17%	7.53%	6.52%	6.82%
Return on Capital	5 248	5 500	5 018	5 570
Plus: Depreciation	2 321	2 280	2 362	2 362
Plus: Operating Costs	6 149	5 503	5 961	6 399
Plus: Taxation Expense	556	493	457	505
Plus/Less: WEGO	130	-62	-	-
Plus/Less: Clawback	-1 201	-146	764	-
Plus/Less: ETIMC	-567	-	-	-
Revenue Allowed	12 635	13 569	14 562	14 837
Less: Real Estate	-3 548	-3 861	-4 152	-4 522
Marine Revenue	9 088	9 708	10 410	10 315

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Revenues related to volume growth for FY 2020/21 of 7.54% is determined per Table 21 below.

Table 21: Revenues related to volume growth (FY 2021/22)

REVENUE	FY 2020/21		FY 2021/22		
	Revenue LE	Weighted Average Revenue Volume Increase	Revenue: Volume Increase	Revenue: Before Tariff Increase	
	R'm	%	R'm	R'm	
Containers	3 225	5.6%	181	3 406	
Break Bulk	90	7.5%	7	96	
Dry Bulk	1 175	16.1%	190	1 365	
Liquid Bulk	654	8.1%	53	707	
Automotive	289	14.9%	43	332	
TOTAL CARGO DUES	5 433	8.71%	473	5 906	
Marine & other revenue	2 107	4.5%	95	2 202	
TOTAL TARIFF BOOK REVENUE	7 540	7.54%	568	8 108	
Real estate revenue	3 568	8.20%	293	3 861	
TOTAL REVENUE	11 108	7.75%	861	11 969	

Table 22 below illustrates the required tariff adjustment taking into account the projected volume growth of 7.54% for FY 2021/22 and assumed volume growth of 7.54% for each of the following two (2) years:

Table 22: Marine Revenue for FY 2021/22 to FY 2023/24

MARINE REVENUE	2021/22	2022/23	2023/24
	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
Prior Year Revenue	7 540	9 708	10 410
Estimated Volume Growth	7.54%	7.54%	7.54%
Revenue after volume growth	8 108	10 440	11 195
Required Revenue	9 708	10 410	10 315
Tariff Increase	19.74%	-0.29%	-7.86%

In summary, the Authority has determined a required revenue of R13 569m comprising of marine revenue of R9 708m and Real Estate revenue of R3 861m for FY 2021/22. This translates into a weighted average tariff adjustment of 19.74% for FY 2021/22.

The indicative tariff adjustments for FY 2022/23 and FY 2023/24, based on a similar volume growth rate are -0.29% and -7.86% respectively.

The tariff adjustment outcome for FY 2021/22 and overall erratic tariff trajectory over the three years, in the context of the current economic climate, emphasises inherent limitations of the Tariff Methodology. The fundamentals of the Tariff Methodology are more attune to ensure returns are generated over longer periods thereby accommodating significant tariff outcomes in the short term which would normalise in time. Unfortunately significant tariff outcomes in the short term may at best be considered illogical and unsupportive of the Authority's needs and/or prevailing economic environment. Furthermore the Authority's interpretation of the Tariff Methodology constrains it from determining a tariff adjustment which would generate sufficient revenue to fund its operating requirements whilst at the same time be affordable and progressive for port users.

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Whilst acknowledging the outcome of the applied Tariff Methodology, the Authority requests the Regulator to consider an inflationary tariff adjustment for FY 2021/22 forecasted currently at 3.80%. Such an adjustment equates to approximately the smoothed average per annum tariff adjustment calculated using the Tariff Methodology. The Authority may be constrained in determining such an adjustment through the use of the Tariff Methodology; there are however mechanisms available to the Regulator such as, Excessive Tariff Increase Margin Credit (“ETIMC”) to give effect to this request.

8.3 The Tariff Strategy

The approved⁴ tariff strategy sets out the strategic direction for the SA port system, in order to provide port users and stakeholders with the envisaged port tariffs over the next couple of years. Included in the tariff strategy are guiding principles for setting base tariffs for different cargo categories and port users. Most importantly the port industry has opted for a progressive tariff strategy that establishes an appropriate level of tariffs that reflects the underlying costs, based on use and benefit. Essentially, implementation of the tariff strategy will result in some cargo dues categories increasing, with other categories such as Containers and Automotives decreasing. Furthermore, the revised required revenue allocation results in a significant increase in marine services’ contribution over the period.

The underlying principle of the tariff strategy is the user pay principle where cost based tariffs are formulated based on asset cost allocations as follows:

8.3.1 Asset Cost Allocations

The tariff strategy, follows a coherent cost infrastructure model that considers the allocation of assets in the similar manner prescribed by the Authority. The tariff strategy for the SA ports is premised on the following principles:

- **Cost causation:** To provide port users with the correct pricing signals when utilising port facilities;
- **Cost minimisation:** An approach seen to minimise costs;
- **Distribution of benefits:** To achieve equity and reasonability between causers and beneficiaries of costs; and
- **Practicality:** For practicality and ease of implementation of Tariff Strategy.

Furthermore in the allocation or attribution of the cost of port assets, the tariff strategy takes into consideration which user classes depend more on a particular asset type and the extent to which they would be affected if the infrastructure did not exist. Therefore, in considering where the burden of this asset class allocation should be, the tariff strategy also looked at the activities of the different users and the benefit they derive there from. The tariff strategy has categorised port users as follows:

- Shipping Lines
- Cargo Owners
- Terminal operators (and all cargo working lessees)
- All other lessees in the port system

⁴ Originally approved on 31 July 2015 and revised March 2020)

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The general underlying logic is that the seaward side benefits mostly shipping lines and cargo owners, while the interface benefits mostly shipping lines and tenants, and the landward side benefits mostly tenants.

As per the Tariff Strategy, Figure 5 that follows identifies the key port assets and allocates these assets to user groups in order to determine a more equitable share of infrastructure and cost sharing between the broad groups.

Figure 5: Tariff Strategy Asset Allocations

Port User Asset Class	Lessees	Terminal Operator	Cargo Owners	Shipping Lines
Breakwaters	33% shared on a NBV basis		33%	33%
Channels, Fairways, basins			50%	50%
Quay walls, berths and jetties		50%		50%
All ship working vessels and aids to navigation				100%
Vessel repair infrastructure	40%	15%	15%	30%
All movable NPA assets, buildings and structures (not part of lease agreements) and unused land	50% shared on a NBV basis		25%	25%
Terminal land and staging areas		100%		
Non-Terminal Land including recreational and yachting	100%			
All common access infrastructure	66% Shared on a NBV basis		33%	
Overheads	50% shared on a NBV basis		25%	25%

This pricing structure which is cost reflective is envisaged to be phased-in over a period of at least 10 years. The tariff strategy further highlights the following factors for a prolonged implementation period to be accommodated:

- Contractual agreements and binding leases prevents the tariff strategy from changing tariffs too quickly;
- Large shifts in tariffs may lead to unintended consequences and as such, a more gradual approach is favoured; and
- The cost structure of the port system by its very nature changes and evolves over time.

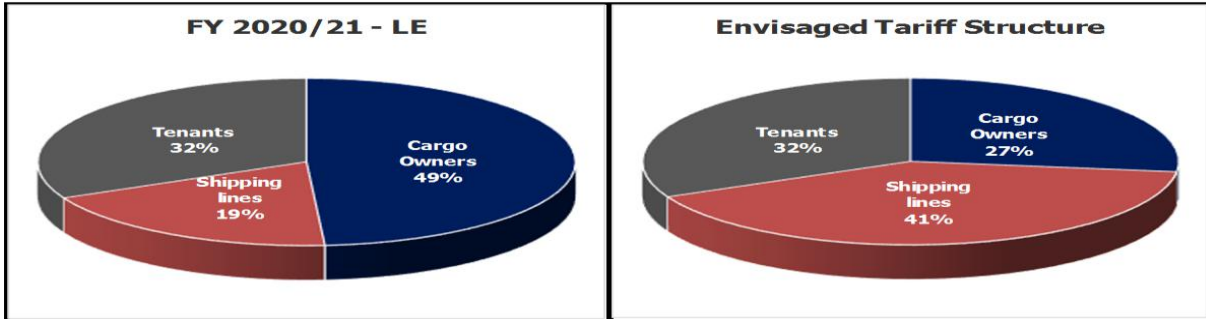
As envisaged by the tariff strategy, the gradual shift from the current allocation to a more equitable shift in cost allocation will be spread over the long term.

8.3.2 Tariff Book Proposal for FY 2021/22

The tariff strategy is intended to guide the annual setting (or revision) of port tariffs and charges. After the determination of the required revenue for FY 2021/22, the differentiated tariff adjustments for cargo dues are formulated in line with the tariff strategy. In aligning the tariffs to the tariff strategy (which is an exercise expected to be finalised in the medium to long term), the impact (i.e. feasibility and affordability) of these adjustments are considered for each user group; whilst also ensuring that the Authority remains revenue neutral.

The transition to the tariff strategy is depicted in figure 6 below.

Figure 6: Transition to the Tariff Strategy



8.3.2.1 Cargo Dues

The Tariff strategy prescribes that cargo owners should contribute 27% of the revenue stream, whilst Shipping Lines and Real Estate/Tenants should contribute 41% and 32%, respectively.

8.3.2.2 Shipping Lines

In the review of tariff lines for Marine Services, the vessel owners are required to contribute partially for breakwaters, channels, fairways, basins, quay walls, berths, jetties, all ship working vessels, aids to navigation, vessel repair infrastructure, as well as assets not earning lease revenue and overheads. These allocations increase the revenue contribution required from Marine Services to approximately 41%.

8.3.2.3 Real Estate /Tenants

The real estate revenue category contributes appropriately to the envisaged revenue contribution, in accordance with the tariff strategy.

8.3.2.4 FY 2021/22 Base Rates

Base rates are determined to provide a continuous update of the implementation of the Tariff Strategy. The base rates are updated on an annual basis due to changes in port structure, asset values and volume forecasts. The base rates provides an indication of the tariff trajectory over the implementation period in current terms. It is envisaged that over the implementation period tariffs will converge to the annually updated base rates. The table below provides a summary of the FY 2021/22 base rates relative to the proposed individual tariff book rates.

Table 23: FY 2021/22 Tariff Strategy Base Rates relative to the proposed individual tariff book rates

Cargo Type	Base Rate FY 2021/22	FY 2021/22 Proposed Tariff Book Rates	
		Import	Export
Containers	178.19	1 975.19	457.94
Break Bulk	66.60	9.32 - 32.70	4.43 - 32.70
Dry Bulk	5.61	6.56 - 18.68	4.11 - 18.68
Liquid Bulk	27.00	7.33 - 38.41	3.74 - 38.41
Automotive	63.13	172.71	66.65

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8.3.2.5 Differentiated Tariff Proposal

The differentiated tariffs proposed by the Authority are in line with the strategic direction of the Tariff Strategy. As such, consistently higher tariff increases for marine services is required into the foreseeable future, with a declining pattern of tariffs for cargo dues (applicable to cargo that goes over the quay). On the assumption that the PRSA would favourably consider inflation-tariff adjustment forecasted at 3.80% for FY 2021/22. The Authority's proposed tariff differentiation is highlighted in Table 24.

Table 24: Differentiated Tariff Approach results

REVENUE	FY 2020/21		FY 2021/22			
	Revenue LE	Weighted Average Revenue Volume Increase	Revenue: Volume Increase	Revenue: Tariff Increase	Weighted Average Revenue Tariff Increase	Projection
	R'm	%	R'm	R'm	%	R'm
Containers	3 225	5.6%	181	64	1.88%	3 470
Break Bulk	90	7.5%	7	4	3.80%	100
Dry Bulk	1 175	16.1%	190	52	3.80%	1 417
Liquid Bulk	654	8.1%	53	27	3.80%	734
Automotive	289	14.9%	43	5	1.51%	337
TOTAL CARGO DUES	5 433	8.71%	473	151	2.56%	6 057
Marine & other revenue	2 107	4.5%	95	157	7.12%	2 359
TOTAL TARIFF BOOK REVENUE	7 540	7.54%	568	308	3.80%	8 416
Real estate revenue	3 568	8.20%	293	-	0.00%	3 861
TOTAL REVENUE	11 108	7.75%	861	308	2.57%	12 277

In summary, the Authority proposes the following tariff differentiation:

- An average of 2.56% increase in Cargo Dues differentiated as follows:
 - 2.23% on Containers Imports & Other;
 - 0.00% on Container Exports;
 - 3.80% on Break Bulk, Dry Bulk & Liquid Bulk cargoes;
 - 2.23% on Automotive Imports and Other;
 - 0.00% on Automotive Export;
- Tariff increase of 7.12% on Marine charges (shipping lines).

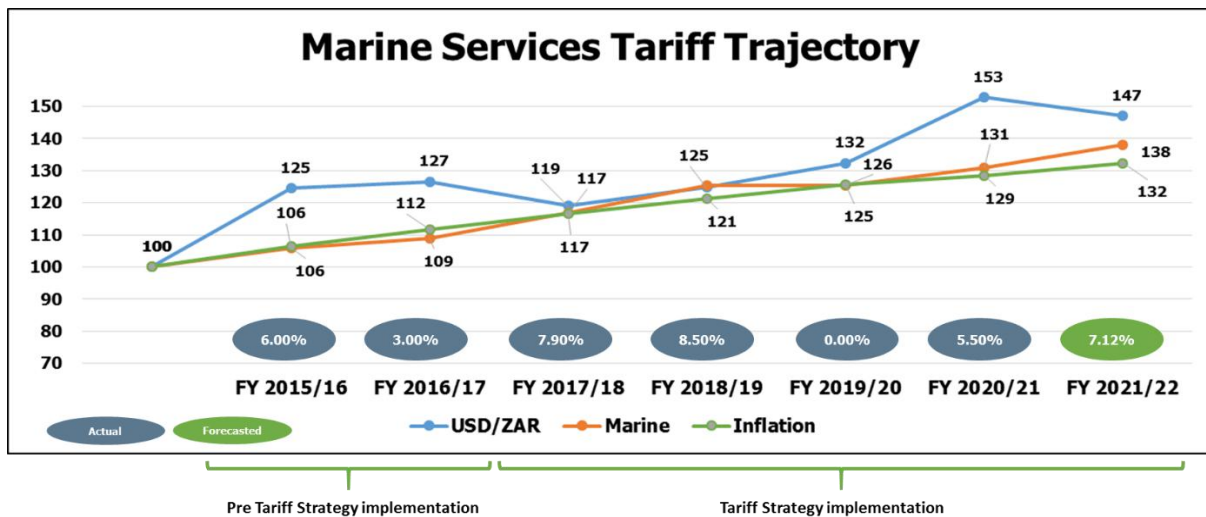
The rationale for the proposed tariff differentiation is as follows:

- **Containers Imports & Other:** Below RSA forecast CPI of 3.80% to ensure support to local manufacturers that import raw material/ components;
- **Container Exports:** Below RSA forecast CPI of 3.80%, support the export/consumption of locally manufactured/produced goods;
- **Automotive Imports & Other:** Differentiation between automotive export tariffs to ensure competitive advantage of local Original Equipment Manufacturers ("OEM") is maintained. Forecasted recovery of the rand to accommodate the below RSA forecast CPI of 3.80%;
- **Automotive Exports:** Supporting local OEM's competing with global sister companies, encourage localization and recovery of exports;
- **Break Bulk Imports & Other:** Aligned to RSA forecast CPI of 3.80% to support local manufacturers that import raw material. In addition, forecasted recovery of the Rand (R/\$) may provide some relief;
- **Break Bulk Export:** Aligned to RSA forecast CPI of 3.80% to support beneficiation and localisation. Further aligned to Tariff Strategy that requires increase in break bulk tariffs;

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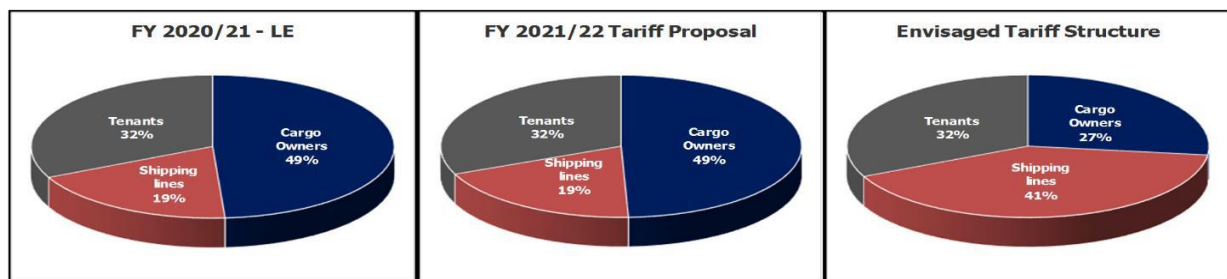
- **Dry Bulk Imports & Other:** Aligned to RSA forecast CPI of 3.80% to support local manufacturers that import raw material. In addition, forecasted recovery of the Rand (R/\$) may provide some relief;
- **Dry Bulk Exports:** Aligned to RSA forecast CPI of 3.80% to aid volume growth. Further aligned to Tariff Strategy that requires increase in dry bulk tariffs;
- **Liquid Bulk Imports & Other and Exports:** Aligned to RSA forecast CPI of 3.80%. Furthermore support to the liquid bulk sector is provided by the market in the form of lower oil prices;
- **Marine Charges (Shipping Lines):** Differentiated tariff increase above RSA forecast CPI of 3.80% as shipping lines have enjoyed the benefit of the depreciating Rand against the Dollar as depicted in the figure below. Despite forecasted recovery of the Rand, shipping lines may continue to benefit from the strong US Dollar.

Figure 7: Marine Services Trajectory



The result of the proposed tariff differentiated adjustments is depicted in the following diagram:

Figure 8: Transition to the Regulator’s Tariff Strategy



8.4 Update/ Amendment to clauses in the Tariff Book

The tariff book is a document that contains all the tariffs that are payable by port users for the use of facilities and/or services offered by the Authority. The tariff book includes all the terms and conditions the cargo dues and marine service charges applicable on each service or port infrastructure utilised in the port. The tariff book is therefore subject to change with each tariff application and resultant ROD. In order to ensure alignment with the tariff strategy and that the cost recovery and user pay principles are given effect to, the tariff terms and conditions are reviewed, on an annual basis. These enhancements include, amongst others, definitions, exemptions and most importantly business processes and documentation (i.e. Section 8 of the tariff book). These changes are reflected in Annexure E (Tariff Book Changes).

8.5 Port Tariff Incentive Programme (“PTIP”)

PTIP is an incentive implemented by the Authority, the Regulator, the Department of Trade and Industry, the Department of Transport, and other government departments, in support of beneficiation, industrialisation and localisation through port tariffs.

The PTIP incentive is available, amongst others, to port users, organisations, and industry bodies to apply for a discounted tariff as per the official tariff book. The discount is then afforded to entire industry in the form of an amendment to the item in the tariff book.

No applications have been received by the Authority for consideration in the FY 2021/22 Tariff Application.

9. Port Efficiency

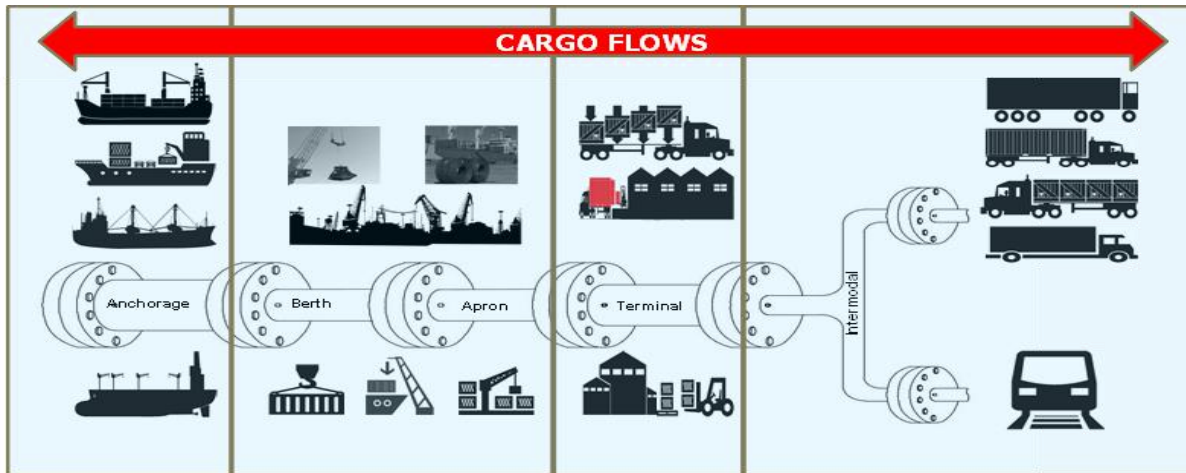
The ports system is central to SA’s ability to effectively engage in international trade and promote economic growth. Ports exist at the coastal end of supply chains and play a critical role in the effectiveness of respective hinterlands served by these supply chains. The overall performance of ports is therefore a matter of national strategic importance.

The primary role of the Authority is to provide port capacity and further to ensure that the full set of productive services exists at a port in order to serve demand. The provision of capacity is necessary but is in itself not sufficient to ensure that the objectives of the Authority are achieved. The levels of efficiency realized in the operation of such capacity have shown to be a key determinant of success and attractiveness of a port.

The efficiency of ports has long been recognized by the National Commercial Ports Policy of 2002 and several subsequent pieces of national transport and related policy, as a key factor in the extent to which ports can fulfil a strategic role in growing the economy through imports and exports. The drive to improve operational efficiency at the ports is also contained in various pieces of national policy and related instruments.

The main activities of the Authority’s operating model are shown in the figure 9 below:

Figure 9: Port Performance Model



It is important that the Authority’s operating model maintains a set of performance indicators. The Authority maintains a set of performance indicators through the establishment of Terminal Operator Performance Standards (“TOPS”), Rail Operations Performance Standards (“ROPS”), Haulier-Road Operations Performance Standards (“HOPS”) and Marine Operations Performance Standards (“MOPS”).

In order for the Authority to continue executing that mandate the following initiatives will continue to be implemented out in 2021/22.

9.1.1.1 Enforcement of Ports’ Oversight

With the TOPS system well embedded across the port system, the focus will shift to enforcing compliance to all the provisions of the Terminal Operator Licence (“TOL”), as well as the Act. It has therefore become necessary, as the next step in the growth of TOPS, to include an enforcement process and a standard operating procedure for the ports, as envisaged in terms of clause 20 of the TOL.

The Authority is in a process of engaging all stakeholders on the Performance Improvement Process (“PIP”). The enforcement of terminal compliance to the conditions of TOL/TOA will assist the Authority in exercising oversight over terminal operators.

PIP will serve as a guideline, to be used by the Port Oversight Committees (“POC”) and the National Oversight Committee (“NOC”) for all aspects of Terminal Operator Oversight, including but not limited to TOPS, assessment and enforcement of remedial actions as a results of poor performance and audit findings.

9.1.1.2 Capacity Study

In accordance with the Act, the Authority is required to ensure that Ports are being utilized to full capacity by port users. Capacity studies were therefore conducted between 2014 and 2015 by an independent body and, after due engagement, accepted by all stakeholders. It has, however, been recommended that Terminal capacity studies be reviewed and updated to reflect the continuous operational handling changes. It is worth noting that these changes have a direct impact on the TOPS

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targets, giving rise to the need for reliable, validated Terminal capacities to inform the setting of performance standards such as TOPS, ROPS, MOPS and HOPS. As such, the capacity study process will take place in two phases, with phase one being manual validation of port capacities and phase two being development of simulation models for the ports.

9.1.1.3 HOPS

After engagements with all ports, Key Performance Indicators (“KPI”) for landside operations were confirmed as Terminal Turnaround Time and Port Terminal Turnaround Time for all ports. These identified KPIs and targets will drive the Authority’s processes to ensure that landside operations are efficient and address stakeholder requirements. Weighted Efficiency Gains from Operations

The Regulator introduced an efficiency incentive in the form of the Weighted Efficiency Gains from Operations (“WEGO”) aimed at regulating port performance and tariff determination, allowing up to 5%⁵ additional return on equity to the Authority for an increase of 10% on performance improvements. Similarly, a 10% reduction in performance can result in a 5% reduction of return on equity. The previous best performance will be the baseline for the next year’s measurement.

In March 2018, the Regulator published the ROD on WEGO which identified the KPI’s to be used to determine the weighted port performance For FY 2018/19 (Year 1), a basket of five KPI’s of equal weighting were selected whilst for FY 2019/20 (Year 2), the weightings of the KPI’s were revised to individual port level. The KPIs for FY 2018/19 and FY 2019/20 are highlighted in Table 25 below:

Table 25: FY 2018/19 and FY 2019/20 WEGO KPIs for FY 2021/22

WEGO KPIs		WEIGHT (%)									
		Year 1: 2018/19	Year 2: 2019/20								
		All Ports	RCB	DBN	ELS	NGQ	PLZ	MSB	CPT	SLD	
1	Vessel Service Delays	20%	10%	10%	10%	25%	10%	30%	10%	15%	
2	Ship Working Hour	20%	20%	25%	20%	25%	15%	25%	25%	10%	
3	Berth Productivity	20%	30%	25%	20%	15%	25%	0%	25%	25%	
4	Ship Productivity Indicator	20%	20%	15%	30%	10%	25%	25%	25%	25%	
5	Ship Turnaround Time	20%	20%	25%	20%	25%	25%	20%	15%	25%	

Based on the above weightings, the weighted port performance for FY 2018/19 was determined as 8.52% and translated into a revenue gain of R130m.

⁵ Tariff Methodology (06 March 2020) Revised KPI’s and the introduction of the downtime adjustment will be applicable to WEGO FY 2021/22

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The Tariff Application FY 2021/22 considers the results for FY 2019/20 (Year2) based on the revised KPI's as per Table 25 above. The weighted port performance is illustrated in Table 26.

Table 26: WEGO Results for FY2019/20

2019/20 Financial Year - WEGO Annual Report								
WEGO Key Performance Indicators	Port of Richards Bay	Port of Durban	Port East London	Port of Ngqura	Port of Port Elizabeth	Port of Mossel Bay	Port of Cape Town	Port of Saldanha
Vessel Service Delays	-9.5%	7.3%	-14.0%	10.2%	0.5%	30.0%	-1.3%	-0.1%
Ship working Hour ave	-0.9%	-1.4%	3.7%	-5.4%	0.6%	0.0%	-4.1%	-1.6%
Berth Productivity	-1.5%	-1.8%	2.4%	-5.9%	-2.1%	0.0%	-5.6%	-4.9%
Ship Productivity Indicator	-6.2%	-3.1%	-2.2%	-5.4%	-1.9%	-14.9%	-2.8%	-4.6%
Ship Turnaround Time	-2.8%	-0.4%	-2.2%	-2.0%	-5.3%	4.7%	-4.2%	-5.5%
Port Efficiency Gain	-21%	1%	-12%	-8%	-8.3%	20%	-18%	-17%
Capped at 10%	-10%	1%	-10%	-8%	-8.3%	10%	-10%	-10%
Revenue Weighting	13%	49%	2%	6%	5%	1%	14%	9%
Weighted Port Performance	-1%	0%	0%	-1%	0%	0%	-1%	-1%
TNPA WEGO	-4.44%	LEGEND:		White	No Change from Previous Year's Performance			
				Green	Improvement from Previous Year's Performance			
				Red	Decline from Previous Year's Performance			

All ports, with the exception of the Port of Mossel Bay reported below the 10% efficiency cap. In accordance with the WEGO methodology, the efficiency gains for the Port of Mossel Bay has been capped to 10%. The sum of the weighted port performance for each port results in the total port efficiency loss of 4.44%. As per the WEGO Methodology, the incentive/penalty is to be capped at 5.00%, and as the Authority has achieved an efficiency loss of 4.44%, no capping will be applicable. The WEGO revenue loss of R62m has been factored into the RR for FY 2021/22.

10. Conclusion

Application of the RR formula as prescribed by the Tariff Methodology, results in a required revenue of R13 569m for FY 2021/21 comprising of Marine Business revenue of R9 708m and Real Estate Business revenue of R3 861m. This translates into tariff adjustment of 19.74% for FY 2021/22.

The indicative required revenues and resultant tariff adjustments for FY 2022/23 and FY 2023/24 are R14 562m (-0.29%) and R14 837m (-7.86%) respectively.

For some time now the South African economy has been challenged with slow economic growth, underinvestment and increasing levels of unemployment. The recent downgrades of South Africa's sovereign credit rating to sub-investment grade by Rating Agencies has added to the woes of government burdened with rising debt levels, collapsing state owned enterprises and weak business confidence levels.

The advent of the COVID-19 pandemic and response thereto locally and by countries around the world has exacerbated an already fragile local economy. Therefore whilst commercial activities are showing signs of improvement, it is projected to take 2-3 years before trade flows return to pre-Covid-19 levels. The Authority is viewed as a catalyst for economic growth and therefore more than ever delivering on its mandate whilst lowering the cost of doing business is of paramount importance.

Whilst acknowledging the outcome of the applied Tariff Methodology, the Authority requests the Regulator to consider an inflationary tariff adjustment for FY 2021/22 forecasted currently at 3.80%. Such an adjustment equates to approximately the smoothed average per annum tariff adjustment calculated using the Tariff Methodology. The Authority may be constrained in determining such an

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adjustment through the use of the Tariff Methodology; there are however mechanisms available to the Regulator such as, Excessive Tariff Increase Margin Credit (“ETIMC”) to give effect to this request.

Should the Regulator consider an inflationary adjustment forecasted at 3.80% for FY 2021/22, the following is the proposed tariff differentiation, based on the principles of the Tariff Strategy:

- An average of 2.56% increase in Cargo Dues differentiated as follows:
 - 2.23% on Containers Imports & Other;
 - 0.00% on Container Exports;
 - 3.80% on Break Bulk, Dry Bulk & Liquid Bulk cargoes;
 - 2.23% on Automotive Imports and Other;
 - 0.00% on Automotive Export;
- Tariff increase of 7.12% on Marine charges (shipping lines).

ANNEXURE A: The Authority's Tariff Book

Table 27: The Authority's Tariff Definitions

Tariffs	Services Rendered	Application
Light Dues	The provision of navigation aids to vessels along the SA coast	Raised per vessel (per gross ton) at the first port of call (Tariff Book Section 1)
Vessel Traffic Services	The provision of vessel traffic services, safety of the port environment and port control	Raised per vessel (per gross ton) at all ports (Tariff Book Section 2)
Port Dues	The provision and maintenance of entrance channels, breakwaters, turning basins, navigational aids (beacons and buoys inside port limits) and maintenance dredging inside the port	Raised per vessel (per gross ton), linked to the time that the vessel remains in port (Tariff Book Section 4)
Berth Dues	The provision and maintenance of repair quays and other non-cargo quay (berth) infrastructure	Raised per vessel (per gross ton), per 24-hour period (Tariff Book Section 4)
Cargo Dues	To recover the cargo contribution towards the provision and maintenance of basic port infrastructure	Raised per unit of cargo, differentiated between different commodities (Tariff Book Section 7)
Rentals	Lease of port land to terminal operators, port service and port facility providers	Rental arrangements including escalations are negotiated on a case-by-case basis and are not reflected in the tariff book.
Pilotage	Pilotage assistance to vessels entering/leaving the port	Raised as a basic fee per service, plus per vessel (per gross ton) (Tariff Book Section 3)
Tug Assistance	Tug assistance to vessels entering/leaving and shifting within the port	Raised per service, based on the size of the vessel (per gross ton) (Tariff Book Section 3)
Miscellaneous Tug/Vessel services	Tanker fire watch, firefighting and standby services	Raised per service, per hour (Tariff Book Section 3)
Berthing Services	Berthing services to tie/untie vessels at the berth	Raised per service (Tariff Book Section 3)
Running of Vessel Lines	Running of lines for vessels entering, leaving or shifting	Raised per service (Tariff Book Section 3)
Floating Crane Services	Floating crane services rendered to the vessels	Raised per service, per hour (Tariff Book Section 3)

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Ship Repair Facilities	Preparation, Docking and Undocking of vessels at repair facilities	Raised per service (Tariff Book Section 6)
Dry-dock, floating dock, synchrolift and slipways	Dry-dock, floating dock and synchrolift fees	Raised per service for the use of a facility, based on the size of the vessel (per gross ton) (Tariff Book Section 6)

The Authority has created a separate section in the Tariff Book, Section 5, where the licence, registration and permit fees are specified. This is summarized in the following table:

Table 28: The Authority's License Fees

Fees	Services Rendered	Application
Port Service Licence, Port Rule Licence, Port Rule Registrations and Port Rule Permit Fees	Fees payable for licences, registrations and permits in accordance with section 57 of the Act and with Port Rules issued in terms of section 80(2) of the Act.	Raised as a fee for the respective licences, registrations and permits issued (Tariff Book Section 5)

ANNEXURE B: Capital Expenditure

The Authority's investment spending is primarily influenced by the strategic initiatives, which are aimed at providing adequate port infrastructure, ahead of demand.

The capital expenditure for FY 2020/21 to FY 2025/26 is segregated into various categories in order to demonstrate the strategic objectives, major projects considered and the impact of such capital expenditure. The tables that follow provide an analysis of the capital expenditure:

Table 29: Strategic Capital Investment Objectives

Strategic objective	Details	LE	Projections					Total 6yr
		2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	
Re-engineering, Integration, Productivity and Efficiency	To maximise return on investments by obtaining additional volumes	416	1 051	1 376	1 955	2 551	4 458	11 807
	To maximise return on investments by improving operating efficiencies	44	226	177	207	253	344	1 251
	To preserve current revenue streams without obtaining additional volumes (ie. revenue protection)	604	1 527	922	1 390	2 657	4 951	12 051
Safety, Risk and Effective Governance	Ensure Safety Optimisation	77	196	129	383	518	705	2 009
	Optimise Business Enterprise Offerings	-	104	6	126	39	57	331
	Optimally Satisfy Social Investments (non economic value creating projects)	2	-	96	162	9	57	326
	Environmental	3	13	25	60	105	238	443
Human Capital	Optimise Human Resources	24	30	50	54	260	646	1 064
Total (excl. borrowing cost)		1 171	3 147	2 780	4 337	6 391	11 456	29 282

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Table 30: Major Capital Investment Projects for Tariff Application Period

Project	Corridor	Commodity
Provide additional rail facility for Duine area	RCB	Other
Replacement of helicopter ZS-RRB	RCB	Other
Replace 1 tug	RCB	Other
Port Fire Fighting Installation Expansion & Upgrade	RCB	Other
New Tug Jetty - FEL 4	DBN	Other
Execution: DCT berth deepening 203 to 205	DBN	Containers (Maritime)
Execution: Fire fighting infrastructure at berth 9 Island View	DBN	Liquid Bulk
Additional Administrative Facilities & Office Consolidation	EL	Other
Reconstruction of Quay 3	EL	Other
Tank farm Equip Berth B100, roads, port entrance and services	NGQ	Liquid Bulk
Manganese project	NGQ	Manganese
Boundary wall Manganese terminal	PE	Manganese
Two Replacement Tugs	CPT	Other
Replace two work boats	CPT	Other
Acquisition of 3 replacement Tugs	SLD	Other
2nd Grab hopper dredger	DRS	Other
Replacement of helicopter ZS-HDP	DBN	Other
Two replacement tugs	EL	Other
Acquisition of new Helicopter	CPT	Other
Expansion of Container Terminal : CPT Phase 2B - FEL3	CPT	Containers (Maritime)
Phakisa projects	All	Other

Table 31: Operation Phakisa Major Projects

Project Name	Port
Modifications of 1200 ton slipway cradle	PE
Replacement of Robinson Drydock floating caisson	CPT
Replacement of 10 cranes for Shiprepair	CPT
Execution : Dry dock Pump House upgrade, Civil works- Trenching and Resurfacing & Ancillary Plinths	DBN
Execution : Dry dock Fire System upgrade	DBN
Execution : Dry Dock Capstans Upgrade - FEL3&4	DBN
Refurbishment of Graving Dock - Jib Cranes	EL
Sturrock Dry Dock Infrastructure Upgrade	CPT
Sturrock Dry Dock Pump System Upgrade - FEL3&4	CPT
Sturrock Dry Dock Electrical Infrastructure Upgrade (Detail Design)	CPT
Replacement of Sturrock Drydock Inner Caisson	CPT
Replacement of Capstans on all docks - FEL3&4	CPT
Robinson Dry Dock Pump Sytem Upgrade - FEL3&4	CPT

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Table 32: Expansion Business vs. Maintenance of Current Business

FY 2020/21

Details	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	LE											
	2020/21											
	R'm											
Expand Business : - Growth initiatives	494	38	45	-	279	-	2	1	-	-	129	-
Maintain current Business : - Replacement Efficiency/ Service Quality	677	87	189	40	3	20	9	124	139	30	32	3
Total (excl. borrowing cost)	1 171	125	234	40	282	20	11	125	139	30	161	3

FY 2021/22

Details	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	Projections											
	2021/22											
	Rm											
Expand Business : - Growth initiatives	1 266	156	508	-	336	-	-	-	20	-	246	-
Maintain current Business : - Replacement Efficiency/ Service Quality	1 881	324	429	36	3	190	20	459	246	65	2	107
Total (excl. borrowing cost)	3 147	480	937	36	339	190	20	459	266	65	248	107

FY 2022/23

Details	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	Projections											
	2022/23											
	Rm											
Expand Business : - Growth initiatives	1 429	57	989	-	242	-	-	25	-	-	116	-
Maintain current Business : - Replacement Efficiency/ Service Quality	1 350	363	137	89	13	184	3	463	21	67	2	10
Total (excl. borrowing cost)	2 780	419	1 126	89	255	184	3	488	21	67	119	10

FY 2023/24

Details	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	Projections											
	2023/24											
	Rm											
Expand Business : - Growth initiatives	2 226	196	1 569	-	236	82	8	71	14	24	-	25
Maintain current Business : - Replacement Efficiency/ Service Quality	2 111	263	329	319	59	181	87	542	65	95	64	108
Total (excl. borrowing cost)	4 337	459	1 899	319	295	262	95	613	79	119	64	133

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Table 33: Ports Related Spending by Asset Type

FY 2020/21

	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	LE											
	2020/21											
	Rm											
Buildings and structures	102	87	5	5	-	-	6	-0	-	-	-	-
Aircraft	-	-	-	-	-	-	-	-	-	-	-	-
Land	-	-	-	-	-	-	-	-	-	-	-	-
Machinery, equipment and furniture	89	4	22	1	3	5	3	-	16	30	2	3
Permanent way and works	20	20	-	-	-	-	-	-	-	-	-	-
Vehicles, Rolling stock & containers	-	-	-	-	-	-	-	-	-	-	-	-
Port Facilities	749	15	207	34	279	15	3	72	123	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Pipelines networks (etc)	-	-	-	-	-	-	-	-	-	-	-	-
Marine craft (tugs,dredgers,workboats, etc)	211	-	-	-	-	-	-	53	-	-	159	-
Total (excl. borrowing cost)	1 171	125	234	40	282	20	11	125	139	30	161	3

FY 2021/22

	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	Projections											
	2021/22											
	Rm											
Buildings and structures	98	22	28	10	-	-	17	13	9	-	-	-
Aircraft	485	149	216	-	-	-	-	120	-	-	-	-
Land	-	-	-	-	-	-	-	-	-	-	-	-
Machinery, equipment and furniture	287	10	76	3	3	5	3	4	10	65	2	107
Permanent way and works	104	104	-	-	-	-	-	-	-	-	-	-
Vehicles, Rolling stock & containers	-	-	-	-	-	-	-	-	-	-	-	-
Port Facilities	1 504	37	577	23	336	137	-	257	136	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Pipelines networks (etc)	-	-	-	-	-	-	-	-	-	-	-	-
Marine craft (tugs,dredgers,workboats, etc)	669	158	40	-	-	49	-	65	110	-	246	-
Total (excl. borrowing cost)	3 147	480	937	36	339	190	20	459	266	65	248	107

FY 2022/23

	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	Projections											
	2022/23											
	Rm											
Buildings and structures	176	19	2	42	-	96	-	18	-	-	-	-
Aircraft	318	100	33	-	-	-	-	185	-	-	-	-
Land	-	-	-	-	-	-	-	-	-	-	-	-
Machinery, equipment and furniture	187	31	54	3	3	5	3	4	6	67	2	10
Permanent way and works	57	57	-	-	-	-	-	-	-	-	-	-
Vehicles, Rolling stock & containers	-	-	-	-	-	-	-	-	-	-	-	-
Port Facilities	1 740	28	1 036	45	252	83	-	281	15	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Pipelines networks (etc)	-	-	-	-	-	-	-	-	-	-	-	-
Marine craft (tugs,dredgers,workboats, etc)	302	185	-	-	-	-	-	-	-	-	116	-
Total (excl. borrowing cost)	2 780	419	1 126	89	255	184	3	488	21	67	119	10

FY 2023/24

	TNPA	RCB	DBN	EL	NGQ	PE	MSB	CPT	SLD	LHS	DRS	HO
	Projections											
	2023/24											
	Rm											
Buildings and structures	408	88	106	26	13	117	11	28	16	-	-	3
Aircraft	-	-	-	-	-	-	-	-	-	-	-	-
Land	55	-	15	-	-	40	-	-	-	-	-	-
Machinery, equipment and furniture	678	77	156	4	5	13	45	60	10	114	64	131
Permanent way and works	37	7	30	-	-	-	-	-	-	-	-	-
Vehicles, Rolling stock & containers	13	5	7	-	-	2	-	-	-	-	-	-
Port Facilities	2 728	273	1 585	105	278	91	39	305	53	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Pipelines networks (etc)	-	-	-	-	-	-	-	-	-	-	-	-
Marine craft (tugs,dredgers,workboats, etc)	417	9	-	183	-	-	-	220	-	5	-	-
Total (excl. borrowing cost)	4 337	459	1 899	319	295	262	95	613	79	119	64	133

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Table 34: Capital expenditure and throughput per commodity

Containers

Containers							Major Capital Projects
DETAILS	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26	
	R'm						
Containers	55	436	970	1 580	1 935	1 961	- Execution: DCT Berth Deepening 203 to 205 (DBN)
- Expand	54	424	960	1 555	1 758	1 766	
- Maintain	1	12	10	25	177	195	
Volumes ('000 TEUs)							- Expansion of Container Terminal: Phase 2B - FEL3 (CPT)
- Budget and Projections	4 010	4 292	4 444	4 626	4 793	4 978	
- Capacity	7 250	7 250	7 250	7 250	7 250	7 250	
Total Capex spend over the 6 Year period						6 937	
Indicative return on capital						1244	
Depreciation						0	
Total cumulative Revenue Required over the 6 year period						1 244	

Liquid Bulk

Liquid Bulk							Major Capital Projects
DETAILS	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26	
	R'm						
Liquid Bulk	264	332	142	133	480	1 501	- Provide additional Bulk Liquid berth 207 (RCB)
- Expand	241	273	100	40	221	855	
- Maintain	24	59	42	94	259	646	
Volumes (mkl)							- Execution: Fire fighting infrastructure at berth 9 Island View (DBN) - Tank farm Equip Berth B100, roads, port entrance and services (NGQ)
- Budget and Projections	37	40	41	42	43	45	
- Capacity	111	107	107	109	109	112	
Total Capex spend over the 6 Year period						2 853	
Indicative return on capital						500	
Depreciation						0	
Total cumulative Revenue Required over the 6 year period						500	

Iron Ore

Iron Ore							Major Capital Projects
DETAILS	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26	
	R'm						
Iron Ore	123	65	-	24	27	170	- Bulk electrical power supply related to Third tippler (SLD)
- Expand	-	-	-	-	20	167	
- Maintain	123	65	-	24	7	3	
Volumes (mt)							- Ore Expansion Phase 2 Berth Construction (SLD) - Pneumatic Fender Maintenance & Storage Area - Phase 2 (SLD)
- Budget and Projections	51	59	59	59	59	60	
- Capacity	60	60	60	60	60	60	
Total Capex spend over the 6 Year period						409	
Indicative return on capital						105	
Depreciation						0	
Total cumulative Revenue Required over the 6 year period						105	

Coal

Coal							Major Capital Projects
DETAILS	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26	
	R'm						
Coal	-	-	-	43	5	26	- Deepening On RBCT Berth (RCB)
- Expand	-	-	-	-	-	-	
- Maintain	-	-	-	43	5	26	
Volumes (mt)							- Refurbish fenders: Berths 301 to 306 (RCB)
- Budget and Projections	74	79	81	81	81	82	
- Capacity	110	110	110	110	110	110	

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Manganese

Manganese							Major Capital Projects
DETAILS	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26	
	R'm						
Manganese	14	63	238	348	208	188	- Manganese project (NGQ)
- Expand	14	63	142	231	208	188	
- Maintain	-	-	96	117	-	-	- Boundary wall Manganese terminal (PE)
Volumes (mt)							
- Budget and Projections	14	18	19	19	15	19	
- Capacity	30	30	30	* 24	24	24	
<i>* The Port of Port Elizabeth Manganese Terminal will be closed in this financial year</i>							
Total Capex spend over the 6 Year period						1 059	
Indicative return on capital						221	
Depreciation						0	
Total cumulative Revenue Required over the 6 year period						221	

Break-Bulk

Break Bulk							Major Capital Projects
DETAILS	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26	
	R'm						
Break Bulk	-	-	-	56	169	531	- Construction of Break bulk Berth B101 and associated services (NGQ)
- Expand	-	-	-	51	119	368	
- Maintain	-	-	-	5	50	163	- FEL 4 Quay 4 refurbishment (MSB)
Volumes (mt)							
- Budget and Projections	3	3	4	4	4	4	- Provision of dedicated facilities for Rig repair (Mossgas quay) (SLD)
- Capacity	27	27	27	27	27	27	

Automotives

Automotives							Major Capital Projects
DETAILS	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26	
	R'm						
Automotives	-	-	-	-	5	15	- New Automotive Terminal (PE)
- Expand	-	-	-	-	5	15	
- Maintain	-	-	-	-	-	-	
Volumes (units)							
- Budget and Projections	588 332	709 803	745 147	803 372	813 316	828 787	
- Capacity	2 100 000	2 100 000	2 100 000	2 100 000	2 100 000	2 100 000	

Other

Other (incl LHS & Bulk Services)							Major Capital Projects
DETAILS	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26	
	R'm						
Other (incl LHS & Bulk Services)	501	1 581	1 126	1 883	3 292	6 314	- Provide additional rail facility for Duine area (RCB)
- Expand	57	169	111	349	756	1 822	
- Maintain	444	1 412	1 015	1 535	2 536	4 493	- Reconstruction of Quay 3

Fleet – Craft and Dredging Service

Fleet - Craft and Dredging Services							Major Capital Projects
DETAILS	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26	
	R'm						
Fleet - Craft	53	423	185	205	208	747	- Two replacement tugs (EL)
- Expand	-	90	-	-	-	71	- Acquisition of 3 replacement Tugs (SLD)
- Maintain	53	332	185	205	208	676	- 2nd Grab hopper dredger (DRG)
Dredging Services	161	248	119	64	63	3	- Acquisition of new Helicopter (CPT)
- Expand	129	246	116	-	-	-	- Replacement of helicopter Z5-HDP (DBN)
- Maintain	32	2	2	64	63	3	- Replacement of helicopter Z5-RRB (RCB)
							- Replace two work boats (CPT)

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Table 35: Multi-Year Capex per Port Service

Capex spend per Port Service / Facility	LE	Projections					Total 6yr
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	
	R'm						
Infrastructure	927	2 412	2 409	3 949	6 005	8 292	23 995
Marine services	53	423	185	205	208	3 011	4 084
Lighthouse services	30	65	67	119	115	150	545
Dredging services	161	248	119	64	63	3	657
Total (excl. borrowing cost)	1 171	3 147	2 780	4 337	6 391	11 456	29 282

Table 36: Multi-Year Ports Related by Asset type

Asset Type	LE	Projections					Total 6yr
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	
	R'm						
Buildings and structures	102	98	176	408	895	1 615	
Aircraft	-	485	318	-	-	-	
Land	-	-	-	55	81	163	
Machinery, equipment and furniture	89	287	187	678	814	1 258	
Permanent way and works	20	104	57	37	90	313	
Vehicles, Rolling stock & containers	-	-	-	13	23	28	
Port Facilities	960	2 173	2 042	3 145	4 488	8 078	
Other	-	-	-	-	-	-	
Pipelines networks (etc)	-	-	-	-	-	-	
Total (excl. borrowing cost)	1 171	3 147	2 780	4 337	6 391	11 456	

Table 37: Multi-Year Port Related per Commodity

Major Commodity	LE	Projections					Total 6yr
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	
	R'm						
Containers	55	436	970	1 580	1 935	1 961	6 937
Liquid Bulk	264	332	142	133	480	1 501	2 853
Iron Ore	123	65	-	24	27	170	409
Coal	-	-	-	43	5	26	74
Manganese	14	63	238	348	208	188	1 059
Break Bulk	-	-	-	56	169	531	755
Automotive	-	-	-	-	5	15	20
Fleet - craft	53	423	185	205	208	747	1 820
Dredging Services	161	248	119	64	63	3	657
Other (incl LHS)	501	1 581	1 126	1 883	3 292	6 314	14 698
Total (excl. borrowing cost)	1 171	3 147	2 780	4 337	6 391	11 456	29 282

ANNEXURE C: Volumes

Table 38: Cargo Dues Revenue from Volume Increase Before Tariff Increase

DETAILS	2020/21	2020/21	2021/22	2021/22
	Volumes: Latest Estimate	Revenue: Tariff Book Latest Estimate R'm	Volumes: Increase Budget	Revenue: Volume increase before Tariff Increase Budget R'm
Containers TEU's				
Deepsea Full: Imports	1 382 447	2 665	75 885	146
Deepsea Full: Exports	1 038 436	481	60 242	28
Transshipment	719 598	41	63 735	3
Other	870 015	38	82 001	4
Total Container (TEUs)	4 010 497	3 225	281 863	181
Vehicles (Units)				
Vehicles: Imports	275 606	210	17 159	13
Vehicles: Exports	271 908	77	103 931	30
Other	40 818	2	381	0
Total Ro-Ro (Units)	588 332	289	121 471	43
Breakbulk (Metric Tons)				
Breakbulk: Imports	1 758 526	53	80 880	2
Breakbulk: Exports	1 364 864	36	123 103	4
Other	108 302	1	17 845	0
Total Breakbulk (Tons)	3 231 692	90	221 828	7
Dry Bulk (Metric Tons)				
Coal Exports	73 761 856	346	5 357 560	25
Iron Ore Exports	50 887 831	364	8 112 169	58
Manganese Ore Exports	13 823 134	130	3 955 946	37
Other	27 024 748	336	9 163 577	70
Total Dry Bulk (Tons)	165 497 570	1 175	26 589 252	190
Liquid Bulk (Kl)				
Petroleum	29 543 165	481	2 411 734	39
Chemicals	2 259 303	63	20 342	1
Other	5 005 335	110	738 723	13
Total Liquid Bulk (Kilo litres)	36 807 803	654	3 170 800	53
Cargo Dues Revenue	-	5 433		473

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ANNEXURE D: Operating Expenditure (“Opex”)

Table 39: Operating Expenditure

Cost Category	Actual 2019/20 R Million	Forecast 2020/21 R Million	Forecast 2021/22 R Million	Dev '20/21 vs 21/22 R Million	Dev '20/21 vs 21/22 Percentage	% of Opex 21/22	Forecast 2022/23 R Million	Forecast 2023/24 R Million	CAGR 2021/22 - 2023/24
Labour Costs	2 518	2 635	2 845	210	8%	57%	3 057	3 350	9%
Rates & taxes	400	421	456	36	8%	9%	499	541	9%
Maintenance	335	397	451	54	14%	9%	539	554	11%
Contract Payments	12	15	15	-0	-3%	0%	16	17	8%
Energy	593	586	627	41	7%	13%	678	740	9%
Professional services	58	45	47	2	5%	1%	57	59	12%
Material	87	91	100	10	10%	2%	112	122	10%
Computer & Info systems	115	117	125	8	7%	3%	127	136	4%
Rental	56	63	60	-3	-4%	1%	62	67	5%
Security costs	112	123	129	6	5%	3%	139	151	8%
Pre -Feasibility Studies	34	58	71	12	21%	1%	96	95	16%
Sundry operating costs	-13	19	59	39	204%	1%	60	61	2%
Total operating cost (excluding depreciation)	4 306	4 570	4 985	416	9%	100%	5 443	5 891	9%
Group Costs	422	514	517	3	1%		518	508	-1%
Total operating cost (Including Group Costs)	4 728	5 084	5 503	419	8%		5 961	6 399	8%

The Authority’s total costs is R 5 503m for FY 2021/22. This includes the Transnet Group overhead costs of R517m.

The Operating Expenditure represents all the expenses incurred on a day to day basis in the course of running the business of the Authority at ports and business units. The Authority’s operating costs are projected to grow by approximately 8% (R419m) in FY 2021/22

The sections that follow provides a high level explanation for cost items per Table 39 above.

Labour Cost

The Authority is labour intensive and as such Labour costs form a substantial portion of the overall operating expenditure, comprising approximately 57% of the total operating costs for FY 2021/22.

The expected increase in labour costs for FY 2021/22 is approximately 8% (R210m). This represents an average increase of 9% in the 3 year tariff period. The growth is inclusive of headcount as well as the salary increments over the 3 year tariff period.

○ Headcount

Resourcing of the Authority is informed by its mandate including operational requirements, oversight role in the port system as well as execution of projects in an efficient manner.

The forecasted total number of permanent employees for FY 2021/22 to FY 2023/24 is highlighted in the table below:

Table 40: Total Number of Employees

Cost Category	Actual 2019/20	Budget 2020/21	Forecast 2021/22	Deviation 19/20 vs 20/21	Deviation % 19/20 vs 20/21	Forecast 2022/23	Forecast 2023/24
Total Number of Employees	4 155	4 721	4 804	83	1.8%	4 876	4 908

Not much progress was been made in FY 2019/20 in terms of recruiting the required personnel (5 214 planned 2019/20 vs 4 155 actual 2019/20) and hence the planned increase in headcount from 2020/21 to 2021/22.

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The key drivers for growth in headcount are as a result of the following:

- Employment of port engineering personnel in order to create adequate port infrastructure capacity ahead of demand and maintaining existing and new assets;
- Meeting minimum manning levels of marine at 100% service and matching manning levels with number of tugs required per shift linked to meet the MOPS requirements;
- Manning of the port operational centres to ensure systematic views of port performance;
- Increase Fire Services personnel to ensure correct manning levels i.t.o. operating of new fire trucks;
- Enterprise Risk Management (“ERM”) personnel to ensure oversight and compliance with risk management requirements;
- The key operations functions filled with staff include Marine operations, Port Engineering, Port operations.
- Security personnel to assist with CCTV monitoring, access control and overall safety within the ports;
- Given the rapid changes maritime practices and technology, ICT specialist positions have been earmarked;
- Trainees required for marine pipeline in scarce marine grades, i.e. Chief Marine Engineering Officers and Tug Masters; and
- Additional support services staff to complement increase in core operational personnel and ensure compliance to increased legislative/ regulatory requirements.

○ **Remuneration**

Remuneration is made up of annual salary adjustments. An increasing headcount leads to increased remuneration.

○ **Training**

Adequate training and development of human capital is a core focus area for the Authority. This ensures continuous growth and advancement of the Authority and therefore remains a priority. The Authority continues with various training initiatives including cadet training, pilot training, tug master training and chief marine engineer officer training.

The Authority has extended the Operation Phakisa programme by establishing Marine Engineering training in East London and marine training schools in Mossel Bay. This is intended to create opportunities for the communities to participate in the port sector with the aim to address poverty, unemployment and inequality and additional training is planned for the Africa Leadership training across all the ports.

The status of progress on the training centre is as follows:

- Port of East London: The project to construct the training centre commenced in July 2020 and the expected completion date will be August 2021.
- Port of Mossel Bay: Training of 15 learners commenced in February 2018. The Service Level Agreement (“SLA”) was renewed between the Authority and PETROSA. There are currently still 13 learners in the programme.

Rates and Taxes

Rates and taxes relate to municipal rates and are based on the methodology employed by the municipalities in accordance with the Municipal Rates and Taxes Act. Normally the increase in this cost category is above inflation rate.

Rates and taxes are expected to increase by approximately 9% over the 3 year period.

Maintenance

Maintenance cost covers the upkeep of aged infrastructure as well as routine maintenance for newer infrastructure assets, newer marine craft and increased maintenance focused on the ship repair business.

It is necessary to ensure that Aids to Navigation infrastructure and other assets are maintained to ensure general safety of navigation and protection of the marine environment.

- Currently there is a back log on maintenance as the 2019/20 spend was significantly below budget and has necessitated the need to focus on upkeep of assets.
- The average growth in maintenance over the three year period of approximately 14% and is mainly attributed to the following:
 - Road maintenance
 - Navigational Aids
 - Ship Repair infrastructure
 - Quay wall repairs
 - Building Repairs
 - CFI Mechanical Valves, hydrant repairs and general Statutory inspections
 - Per way labour and material
 - Break water crane
 - Repairs to cranes, pumps and valves at dry-dock.
 - Maintenance of marine craft, ensuring compliance to SAMSA requirements and craft being operational at all times.
 - CCTV maintenance carried out by the Security Department.
 - Maintenance Dredging at Container Terminal & Phase 3 Elliot Basin
 - Track maintenance
 - Access Control Repairs and Maintenance
 - Repair wharf Cranes at Ship Repair
 - Civil related works (TNPA owned/ leased buildings – Structure)
 - Sewer System Maintenance
 - CCTV Systems Repairs and Maintenance
 - Potholes repairs in the Port
 - VTS Equipment and Maintenance
 - Quay Furniture - Quay Fenders (Cylindric Fenders)
 - Electrical related works (COC compliance)
 - Clearing of sediment under syncrolift platform
 - Substation service

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- Repair valves at Sturrock Dry Dock
- Refurbish and paint all Mess and Ablution facilities, including painting of the office building, Water proof roof to avoid the leakages and Replace missing ceiling panels at Civil/Perway
- Repairs to A-Berth potable waterline (inside Tunnel) - not RME, out to market
- WINCH & Capstain REPAIRS
- Repairs for to SCADA system & Industrial Computer
- Supply and install grease pumps at Sturrock Dry dock
- Replace Sub Earthing
- Replace, repair, waterproof, clean and paint roofs in the port of Cape Town
- Manufacture long arms at Synchronlift Dry Dock
- Port Stormwater Drains Network Inspection and clean-up.
- Break water crane
- Maintenance of marine craft, ensuring compliance to SAMSA requirements and craft being operational at all times.
- Increase in the Maintenance of electrical network (high masts and substations).

Owing to the COVID-19 pandemic and introduction of lockdowns and social distancing, planned maintenance for FY 2020/21 will be restricted to essential maintenance. This would need to be addressed with more aggressive plans in FY 2021/22 and beyond to mitigate exponential deterioration of the Authorities facilities and assets attributed to the slow-down in maintenance during FY 2020/21.

Contract Payments

The decrease on contract payment for FY 2021/22 is approximately 3% with the average increase over the three year tariff application period of approximately 8%.

Contract payments mainly relates to wave monitoring services and IPOSS upgrade payments are also included.

Energy

Energy costs are mainly attributable to the fuel and electricity consumption of the Authority. The increase in costs for FY 2021/22 is approximately 7% (R41m) and mainly due to the following:

- Increase in electricity bills/tariffs of approximately 9% over the 3 year period.
- Larger bollard pull capacity (59 tons vs previous average of 46 tons) of the new craft for improved efficiencies, this results in higher fuel (Diesel) consumption at approximately 350 litres/hour, compared to old generation craft that consumed average of 290 litres/hour.

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Professional Services

Professional fees relate to Operational Audits & Transnet Certification, and Real Estate projects relating to Land use audit projects, Anticipated Section 56 consultants and Investment Property Valuation Fees. These include the pre-feasibility study for the development of LNG Import Facilities at the Port of Richards Bay, as part of the country's medium to long term energy supply strategy.

Studies planned for FY 2021/22 include:

- Breakwater photo survey at the port of East London.
- Wave monitoring IPOSS at the port of East London.
- Bulk service masterplan at the port of East London.
- Condition assessment of retaining structure at the port of East London.
- Sediment assessment CSIR at the port of East London.
- Legal fees at the port of East London.
- Geotechnical work at turning basin at the port of East London.
- Quay walls, breakwater and bollard strengthening at the port of East London.
- Bollard load test at the port of East London.
- Strengthen and deepening of N Berth at the port of East London.
- Structural inspections of buildings (asset condition)/ External Valuers across all ports
- Port of Cape Town Desalination Plant Studies (Mandatory as per Transnet AMP)
- Professional fees for legal requirements for Domestic drinking water sampling (Marine Tugs, Buildings) at the port of Port Elizabeth,
- ISO 45001 Requirements at the port of Port Elizabeth,
- Rezoning and Consolidation of Property at the port of Port Elizabeth,
- Land use plans at the port of Mossel Bay,
- NDT (Non-destructive testing) at the port of Mossel Bay,
- TIMS Certification and BCM System at the port of Mossel Bay,
- Professional fees consulting on bridge inspection at the port of Mossel Bay,
- Ergonomic studies at the port of Mossel Bay,
- Occupational Hygiene Survey for the new Admin building at the port of Mossel Bay,
- Infrastructure assessment sewerage, water, storm water and rail network, at the port of Richards Bay.

Material

Material costs relate to material used in the maintenance of marine fleet and civil maintenance and are therefore directly influenced by maintenance activity. The increase in material costs for FY 2021/22 is approximately 10% and is aligned to the average increase (approximately 10%) in material costs over the 3 year tariff application period. The explanations provided under Maintenance costs have a direct relation to material costs.

Computer and Information Systems

Computer and information systems include network costs, software licences, information system support, development cost, computer consumables and on-going maintenance thereof.

The average increase over the three year period is approximately 4%. The major part of this cost increase is attributed to the implementation of the Smart People's Port programme. This is an all-encompassing, integrated digital platform created to enhance efficiencies and improve port operations control. It encompasses functions such as Smart Ports capacity planning, Smart Ports logistics location and scheduling control, Smart Ports traffic management and Smart Ports container management.

The increase in cost is further attributed to support and maintain the Order to Cash System, Integrated Port Community System, eSubmissions System and Port Community System (Single Window Platform).

The Authority together with Transnet is actively pursuing a Single Window Platform which will be an overarching system for an integrated and seamless supply chain system to enhance market growth and improve and influence seamless integration of the South African port ecosystem with the global logistics supply chain.

Rental

Rental costs relates to the hiring of construction equipment at the Port of Durban and the hiring of internal land and buildings, leasing of vehicles, equipment, computers and furniture. The decrease in rental costs from FY 2020/21 to FY 2021/22 is approximately 4%. The average increase over the three year period is approximately 5%.

Security

Security costs relate to the use of private security firms at the ports and the expected increase from 2020/21 to 2021/22 is approximately budgeted at 5%, with a 3 year average growth of approximately 8%. New service providers were appointed through an open tender process in December 2019, this increased the cost of security owing to the new service providers needing to incur establishment costs.

Pre-Feasibility Studies and Research & Development ("R&D")

Pre-feasibility studies are undertaken to determine future capital investments in a pre-feasibility phase to determine the best alternative for construction, preliminary design work and costing to assess overall viability of the project. The increase in pre-feasibility costs for FY 2021/22 is 21% (R12m).

The Authority will be embarking on research on the following pre-feasibility and R&D projects:

- Hydraulic Tensioning System at the Cape Town Container Terminal,
- Precinct Plans and Master Plans across all ports
- Port of Port Elizabeth Ship Repair Strategy
- Decommissioning of Tank Farm at the port of Port Elizabeth,
- FEL 2 Tug Jetty Refurbishment at the port of Port Elizabeth,
- Port Development Framework Plan at the port of Port Elizabeth,

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- FEL 2 Sand Trap and Sand Bypass Study at the port of Port Elizabeth,
- Relocation of NMB dumpsite at the port of Port Elizabeth,
- Desalination Plant at the port of Port Elizabeth,
- Port Logistics Park at the port of Port Elizabeth,
- Decommission of Ore Plant at the port of Port Elizabeth,
- Impact of climate change on sea walls at the port of Port Elizabeth,
- Truck Staging Study / Positioning Way bridges at the port of Port Elizabeth,
- TGC Port expansion and deepening Studies FER at the port of Mossel Bay,
- CSIR Breakwater photographic survey at the port of Mossel Bay,
- Geotech soil testing for dredging purposes (“CSIR”) at the port of Mossel Bay,
- Firefighting upgrade – design at the port of Mossel Bay,
- Investigation into electricity meter efficiency at the port of Mossel Bay,
- Maydon Wharf Channel deepening at the port of Durban,
- Bridge studies at the port of Durban,
- Maydon road upgrade at the port of Durban,
- Millenium Tower land purchase & cowl at the port of Durban,
- Upgrade Island View Roads at the port of Durban,
- Maydon Wharf truck stage FEL4 at the port of Durban,
- Island View 3 Berth upgrade at the port of Durban,
- Provision of additional office space at OTB & Tween Deck at the port of Durban,
- Reconstruct Bluff Berths at the port of Durban,
- Durban Hangar refurbishment at the port of Durban,
- Pre-Electrical Shore Supply to vessels at the port of Durban,

Sundry Operating Costs

The detailed costs relating to sundry expenses are highlighted in Table 41 below. Sundry Costs include expenses relating to insurance, stationery and printing, transport, promotions and advertising, and other miscellaneous operating expenditure. Most of these costs will be underspend during FY 2020/21 as a result of social distancing and the impact of COVID-19.

The main cost drivers relating to sundry expenses are as follows:

- Miscellaneous revenue
- Environmental
- Water
- Promotion and Advertising
- Local Travel
- Other (i.e. mainly consulting)

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Table 41: The Authority's Sundry Operating Costs

Cost Category	Actual 2019/20 R Million	Forecast 2020/21 R Million	Forecast 2021/22 R Million	Dev '20/21 vs 21/22 R Million	Dev '20/21 vs 21/22 Percentage	% of Opex 21/22	Forecast 2022/23 R Million	Forecast 2023/24 R Million	CAGR 2021/22 - 2023/24
External property auxiliary costs revenue	-299	-316	-312	3	-1%	-6%	-321	-346	5%
Intra NPA recoveries	-400	-401	-400	0	0%	-8%	-431	-461	7%
Intra cc recoveries	278	279	280	1	0%	6%	297	321	7%
Intra cc charges	64	64	64	0	0%	1%	66	72	6%
Miscellaneous revenue	-58	-30	-57	-27	92%	-1%	-67	-69	10%
External Audit Fees	6	16	16	0	3%	0%	17	18	5%
Entertainment	5	5	6	2	40%	0%	7	8	10%
Environmental management	-1	13	18	6	44%	0%	20	21	7%
Fines and Penalties	14	-	-	-	0%	0%	-	-	0%
Health and Sanitation	43	53	48	-4	-8%	1%	46	45	-3%
Insurance Operations	42	47	49	2	4%	1%	50	54	5%
Legal Costs	14	14	14	0	1%	0%	15	16	7%
Internal Audit	12	35	35	-0	-1%	1%	36	38	5%
Membership Fees	5	6	6	-0	0%	0%	7	7	6%
Bank Charges	0	0	0	-0	-2%	0%	0	0	6%
Catering Costs	3	2	3	1	60%	0%	4	4	5%
Claims Paid	-2	0	-0	-0	-106%	0%	-0	-0	11%
Commission Paid	0	-	0	0	0%	0%	0	0	5%
License Fees	3	0	0	0	5%	0%	0	0	5%
Magazines, Books and Periodicals	0	4	5	0	12%	0%	5	5	7%
Nursery / Flower Expenditure	8	10	11	0	2%	0%	11	12	6%
Water	121	99	103	4	4%	2%	119	127	11%
Other 1	13	30	33	3	9%	1%	34	36	4%
Navigation, Landing and Parking	10	1	1	0	0%	0%	1	1	6%
Postage	0	0	0	-0	-39%	0%	0	0	33%
Printing and Stationery	4	8	10	1	13%	0%	10	11	6%
Promotions and Advertising	13	15	19	4	29%	0%	26	25	15%
Telecommunication Services : External	16	16	16	-0	-3%	0%	17	19	9%
Transport Cost : External	3	3	3	0	8%	0%	3	3	5%
Travel - Local	64	37	69	32	86%	1%	75	79	7%
Travel - Overseas : Deductible	4	4	6	2	50%	0%	6	7	5%
Other operating expenses : 2	1	3	12	9	269%	0%	5	6	-28%
Total sundry operating expenses	-13	19	59	39	204%	1%	60	61	2%

Other 1

This is mostly for the world maritime day, corporate identity, corporate social investment, conferences and intra charges.

Table 42: Breakdown of Other 1 Cost

Cost Category	Actual 2019/20 R Million	Forecast 2020/21 R Million	Forecast 2021/22 R Million	Dev '20/21 vs 21/22 R Million	% of Opex vs 21/22 Percentage	% of Opex 21/22	Forecast 2022/23 R Million	Forecast 2023/24 R Million	CAGR 2021/22 - 2023/24
Total Other 1	13	30	33	3	9%	1%	34	36	4%
Contributions	0	0	0	(0)	-1%	0%	0	0	5%
Corporate Identity	1	1	2	1	107%	0%	2	2	-14%
Bouquets & Wreaths	0	0	0	0	23%	0%	0	0	6%
Sponsorships	-	10	15	5	51%	0%	16	17	5%
Corporate Social Investment	0	2	2	(0)	-1%	0%	2	2	5%
Suspense Account	1	4	(0)	(4)	-106%	0%	-0	-0	11%
General Ledger Clearance Account	1	-	-	-	0%	0%	-	-	0%
Conference	0	1	1	0	35%	0%	1	2	5%
Intra Pad Miscellaneous Charges	10	12	12	0	1%	0%	12	13	7%

Group Overhead Costs

The services provided by each Transnet corporate cost centre to the respective Operating Divisions (“ODs”) vary in accordance with the OD requirements and the nature of its activities. Shared costs are based on a top down costs centre allocation approach as opposed to a top down expenditure line item allocation approach.

Meaning that the total costs relating to a particular cost centre are allocated to the ODs using a cost driver predetermined by and agreed with the cost centre managers for that particular cost centre. Consequently, this informs the allocation of the expenditure line items such as personnel costs, fuel costs etc. within that cost centre.

Furthermore, where possible, identified costs per general ledger account that could be traced to ODs are allocated directly without the use of predetermined cost drivers. These may include but are not limited to the incentive bonuses provision, impairments on trade receivables and other internal income and expense recoveries.

Year on year differences in allocated corporate overhead costs or differences between budgeted cost and actual cost allocations will be as a result of changes in spending priorities due to cost optimisation as well as changes in cost driver percentages (per cost centre) with the cost driver remaining the same.

The actual and projected corporate overhead cost allocated are audited by Transnet’s external auditors to assess whether the allocation was carried out in a manner compliant with Transnet’s policy and to ensure that the allocation is reasonable and fair.

A proportion of 15.54% of the total Group Corporate overhead costs for FY 2021/22 has been allocated to the Authority. The remaining 84.46% has been allocated to other Transnet ODs. It is worth noting that the allocation to the Authority has marginally increased by 0.6% (R3.1m from approximately R514 million in FY 2020/21 to approximately R517 million in FY 2021/22). Transnet is continuously striving to contain the increase in group corporate overhead costs to be within a reasonable inflationary range.

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Table 43: Group Overhead Costs

Transnet Group Corporate Overhead Costs							
Description	FY 2019/20 Actual	FY 2020/21 Budgeted	FY 2021/22 Projection	FY 2020/21 vs FY 2021/22 Diff (R)	FY 2020/21 vs FY 2021/22 Diff (%)	FY 2022/23 Projection	FY 2023/24 Projection
Revenue external	(0)	(605 998)	(557 970)	48 028	-8%	(574 614)	(583 521)
Revenue internal	-	-	-	-	0%	-	-
Internal recoveries	-	-	-	-	0%	-	-
Revenue	(0)	(605 998)	(557 970)	48 028	-8%	(574 614)	(583 521)
Net operating expenses excluding depreciation and amortisation	346 723 559	332 847 565	327 482 759	(5 364 806)	-2%	337 712 476	345 986 774
Personnel costs	124 775 096	123 148 672	121 896 709	(1 251 963)	-1%	125 995 407	129 335 419
Fuel costs	128 977	160 267	157 653	(2 614)	-2%	162 957	167 555
Electricity costs	354 823	489 792	453 787	(36 005)	-7%	467 291	474 871
Material costs	(39)	115	106	(9)	-8%	109	111
Other operating costs	221 464 702	209 048 720	204 974 504	(4 074 216)	-2%	211 086 712	216 008 818
<i>Accommodation and Refreshments</i>	1 647 428	554 401	547 845	(6 556)	-1%	565 980	580 965
<i>Professional Fees</i>	41 415 728	44 586 089	45 750 840	1 164 751	3%	47 090 129	48 399 488
<i>Electronic Data Costs</i>	67 282 187	66 179 888	61 536 656	(4 643 231)	-7%	12 557 613	64 421 170
<i>Internal Audit</i>	11 191 388	11 875 417	12 208 190	332 773	3%	63 366 387	12 904 530
<i>Social Investment</i>	11 685 770	9 459 481	9 724 555	265 074	3%	10 002 891	10 279 231
<i>Miscellaneous Costs</i>	88 242 200	76 393 443	75 206 417	(1 187 026)	-2%	77 503 712	79 423 435
Profit from operations before depreciation, amortisation and items listed below	346 723 559	332 241 567	326 924 789	(5 316 778)	-2%	337 137 862	345 403 253
Depreciation and amortisation	44 503 226	43 720 988	53 720 440	9 999 452	23%	41 230 199	20 469 080
Profit from operations before the items listed below	391 226 784	375 962 555	380 645 229	4 682 674	1%	378 368 062	365 872 333
Profit on sale of interest in businesses	-	-	-	-	0%	-	-
Impairment of assets	(37 023)	-	-	-	0%	-	-
Dividends received	-	-	-	-	0%	-	-
Post-retirement benefit obligation costs	16 681 739	42 625 449	39 247 163	(3 378 286)	-8%	40 417 855	41 044 387
Fair value adjustments	148 682	415 764	382 813	(32 951)	-8%	394 231	400 342
Income from associates	-	-	-	-	0%	-	-
Profit from operations before net finance costs	408 020 183	419 003 768	420 275 204	1 271 437	0%	419 180 148	407 317 063
Transnet Capital Projects	14 442 095	95 100 037	96 920 032	1 819 995	2%	99 138 962	101 080 126
Transnet Foundation	-	-	-	-	0%	-	-
Total Overhead Costs	422 462 277	514 103 805	517 195 237	3 091 432	1%	518 319 111	508 397 189
YOY % Increase		21.69%	0.60%			0.22%	-1.91%

ANNEXURE E: FY 2021/22 Tariff Book Changes

Table 44: Proposed Tariff Book Changes

Issue	Current read	Proposed Changes
Tariffs		
<p>1. Definitions: Transshipment</p> <p><i>Page 07</i></p>	<p>“Transshipment” means an act of off-loading cargo from one ship (generally at the hub port) and loading it onto another ship to be further carried to the final port of discharge.</p>	<p>Amendment</p> <p>“Transshipment” means an act of off-loading cargo from one ship (generally at the hub port) and loading it onto another ship to be further carried to the final port of discharge outside SA ports.</p> <p>Rationale</p> <p>Enhancement of definition to provide distinction between the definition of coastwise and transshipments.</p>
<p>2. Berth Dues</p> <p><i>Page 23, Section 1.2 (first paragraph)</i></p>	<p>Currently there is no fee for non-submission of Statement of Facts.</p>	<p>Amendment</p> <p>New wording to be introduced:</p> <p><i>Statement of facts for each voyage must be submitted to the Authority within 24 hours after vessel departure.</i></p> <p><u>Non-submission of Statement of Facts</u></p> <p><i>The fee for non-submission of Statement of Facts will be R1 655.31 per Statement of facts.</i></p> <p>(Currently quoted at FY 2020/21 tariff book rates)</p>

Issue	Current read	Proposed Changes
Tariffs		
		<p>Rationale</p> <p>To encourage customers to comply, as the Statement of Facts is used in calculating whether berth dues are payable or not.</p> <p>Basis of tariff quantum: Aligned to tariff rate for non-submission of the Manifest.</p>
<p>3. Cargo Dues Order</p> <p><i>Page 49, Section 8, Clause 1, last paragraph</i></p>	<p>Any cancellations and amendments on this order will be applicable per each container on the list.</p> <p>Any applicable fees will be levied per cargo dues order.</p>	<p>Amendment</p> <p>Any cancellations and amendment fees on this order will be applicable per cargo dues order.</p> <p>Any applicable fees will be levied per cargo dues order.</p> <p>Rationale</p> <p>To provide clarity as the fee is applicable per cargo dues order and not per container, e.g. some cargo dues orders may have between 100 and 500 containers per order.</p>
<p>4. Timing of Documentation</p> <p><i>Page 51, Clause 1.2</i></p>	<p>1.2 Timing of Documentation</p> <p>Inbound Transshipment / Coastwise</p> <p>1. Cargo dues must be submitted within seven (7) days after vessel arrival</p>	<p>Amendment</p> <p>1.2 Timing of Documentation</p> <p>Inbound Transshipment / Coastwise</p> <p>1. Cargo dues must be submitted within three (3) days after vessel departure</p> <p>Rationale</p>

Issue	Current read	Proposed Changes
Tariffs		
		To have all cargo dues aligned with vessel departure.
<p>5. Non-submission of Cargo Dues Orders</p> <p>Page 53, Section 8, Clause 3.2</p>	<p>Where cargo documentation is submitted, whether timeously or not subsequently amended for whatever reason and resubmitted, late order fee charges if applicable will be levied from the date of the new order, on the difference in value, in addition to the amendment fee of R331.05 per order.</p>	<p>Amendment</p> <p>3.2.2 Amendment to cargo dues order submitted</p> <p>Where an amendment of a cargo dues order is submitted, late order fee charges if applicable will be levied from the date of the new order on the under declared quantum, in addition to the amendment fee of R331.05 per order.</p> <p>(Currently quoted at FY 2020/21 tariff book rates)</p> <p>Rationale</p> <p>To provide clarity in terms of under declaration for an order that was previously processed and to accommodate for the difference in volumes.</p>
<p>6. Amending Orders</p> <p>Page 53, Section 8, Clause 4</p>	<p>Incorrect orders amended within seven (7) days from the date of submission (inclusive of public holidays) will not attract an amending fee for any changes to container/engine numbers/country of origin or country of destination/Bill of lading or Mates receipt/Port of loading and discharge/Terminal/Container Operator or Shipping Agent. (Note that the same order number and invoice number will be retained and an updated confirmation will be issued).</p>	<p>Amendment</p> <p>Cargo dues orders amended within seven (7) days from the date of submission (inclusive of public holidays) will not attract an amending fee for any changes to container/engine numbers/country of origin or country of destination/Bill of lading or Mates receipt/Port of loading and discharge/Terminal/Container Operator or Shipping Agent. (Note that the same order number and invoice number will be retained and an updated confirmation will be issued).</p>

Issue	Current read	Proposed Changes
Tariffs		
		<p>Rationale</p> <p>To provide clarity on how the charge will be levied.</p>
<p>7. Port Revenue Offices</p> <p><i>Page 54, Section 8, Clause 6.1</i></p>	<p>Port of Durban</p> <p>1st Floor</p> <p>45 Bay Terrace Point</p>	<p>Amendment</p> <p>Port of Durban</p> <p>2nd Floor</p> <p>45 Bay Terrace Point</p> <p>Rationale</p> <p>Correction of revenue office floor.</p>
<p>8. Order-to-cash</p> <p><i>Page 54, Section 8, Clause 6.2</i></p>	<p>Registered customers may submit electronic cargo dues or EDI Data.</p>	<p>Amendment</p> <p>Registered customers must submit electronic cargo dues and/ manifest or EDI Data (cargo dues, outturns, manifest) via the electronic platforms.</p> <p>Rationale</p> <p>To ensure online submission of documents and where possible via the same platform. This will enable a uniform approach to document control throughout the ports.</p>

End.