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### Tariff Application 2018/19

The questions and answers asked and responded to during the 2018/19 Tariff Application Road Show are recorded below. Care was taken to provide as accurate as possible reflection of the questions raised. The questions and responses follow no particular order, but were grouped according to city under consideration.

#### Questions and Answers

##### Jhb Roadshow

Date: 07 August 2017

Venue: Emperors Palace Hotel, Jhb

1. In terms of the asset allocation split to cargo owners, it is much of a muchness as to who pays the increase. The cargo importers / exporters ultimately pay it and aren't being spared the cost. However, regarding efficiencies, despite the recent measurements put in place by the PRSA, they have for the past eight years been left with 200% or 300% of their cargo dues being paid in inefficiency costs. What should've taken two and a half years has taken eight years and is still not done. A 10% penalty is not going to be compensation enough.

##### NPA Response

The base assumption is that the cargo owner pays berthing at the end of the day. However, by shifting costs we achieve two things, firstly we send the correct investments signals and secondly, by moving the cost to the shipping line is actually another manner to allow them to align with global norms,

2. Regarding the power services at the Port of Richards Bay, one of their challenges is the changing weather patterns which I having a huge impact on volumes. Going forward, the Port of Richards Bay is due for two new helicopters, what is the status of this project and can it be fast-tracked.

##### NPA Response

The tender documents for the two helicopters were being evaluated last week and they are expecting to award shortly. The supply chain process is time consuming as it includes international investors and these are long term relationships that are being created. Furthermore, the Port of Richards Bay has grown to a point where they require two helicopters on a permanent basis. The business cases include an additional helipad as well as increased services. NPA is certainly expediting the process.

The NPA wants to in-source the piloting skills and the nature of the training programme requires flight hours and other requirements, therefore the trainees require additional time. The process has taken in the region of five years to complete; it is not a one-year process. They are currently sourcing pilots from Denel but are trying to wean off support on other companies. As an organisation, they have gone through the system in order to nationalise and their OPEX has therefor has decreased rapidly. However, at the same time, they cannot have machines replacing humans, when they talk about labour, they are talking about skills development.

3. Regarding the Island View Strategy, it has been on the table for quite some time, when will this be presented to Industry? Furthermore, what are the timelines for the various berths including Island View One, as well as the relevant pre-feasibility studies?

##### NPA Response

The position paper for the Island View Strategy has been drafted and will be shared with both the Shareholding Minister (Minister of DPE), and the Minister of Transport. It is critical that the NPA conduct the necessary evaluations and co-operation from Industry is requested in this regard. There is a balancing act between security of supply and investment and transportation, the correct trajectory is therefore crucial. Furthermore, the NPA is aware of the expired leases and are in the process of reviewing short-term leases.

4. Highlighting the sensitivity and impact of changing the unit – the 5% on passenger vehicles, it is assumed that the average vehicle length is 5m, but that's not true, the average length may be 4,25m and is therefore proposed that tariffs be re-looked at in terms of the various categories.

#### NPA Response

Eventually the NPA Tariffs are to align with the TPT tariffs and at the end they will have the same numbers. The 5m is a peg and further comments will generate a common understanding and move from a tonnage basis to a unitized basis.

5. There is always talk of the issue of efficiency in the Port of Durban. What is the NPA doing about the overcrowding at Cato Ridge and City Deep?

#### NPA Response

Transnet has put into place a massive strategy. Competitiveness speaks to how good the overall supply chain system is in terms of ports, rail, and road. There have been investments at City Deep which has helped drive down dwell times, there are cranes being installed, as well as other initiatives including an inland terminal by Heidelberg. Bayhead road and the surrounding area of the port actually cannot sustain the congestion. The copper trucks are being run as train trucks, from up north all the way to the port.

6. Under Operation Phakisa there is a huge effort to use coastal shipping to connect South African Market but there are limitations. There is a need for a clear strategy on how we can introduce and incentivise coastal shipping and on how to encourage more direct transport system into SA market. How does one introduce coastal shipping so that coast-to-coast cargo does not touch trucks?

#### PRSA Response

The DoT launched the maritime policy which looks at coastal shipping, that then needs to be developed further regarding how coastwise shipping can be taken forward as well as how provisions should be made for SA flagged vessels as well. It is important to understand the extent of the effect it could have.

**Roadshow Cape Town:**

**Date: 08 August 2017**

**Venue: Southern Sun Cape Sun**

1. Regarding the various NPA projects that are planned, the Port of Durban extension is listed as being in the pipelines, but there is no specific timeline attached to such expansion and more information is required thereto.

**NPA'S Response**

The berth deepening in the Port of Durban is well under way, there have been a few set-backs including the environmental impact assessment and the approval thereof and dealing with stakeholder impact and comments. The tender for the project is out and is due to close in a few weeks. The anticipated timeline is somewhere along the lines of three to four years and they would have to take out one berth at a time due to it being located in an operational area. They are pleased to announce they should be announcing a contractor soon.

2. Given that the Regulator has proposed a balancing of the revenue required (the Tariff Strategy) by the NPA, he wants to understand why NPA has not attempted to move closer to that balance in this application?

**NPA'S Response**

By virtue of the increase and the split thereof, what NPA is proposing doesn't regress in terms of the contribution, rather it remains static. In order to see a shift in the pie, the tariff would need to be increased by 20 – 30 % next year.

3. The goal is to have the cargo dues set at half of the global sample, why is this the case, as opposed to the goal being on par with the global sample?

**NPA'S Response**

The issue there is that it is a sample, if we were to change the sample, then we could be above or below. It is the trend that is important, rather than the value. Furthermore, it must be noted that there isn't an intention to use the studies to set prices, it is rather an indicator. Whilst other global prices may still be incorrect, South Africa is moving towards a cost-reflective price structure in the port system.

## Roadshow P.E

Date: 10 August 2017

Venue: Radisson Blu Hotel, P.E.

1. The training colleges that were previously shared with Transnet Port Terminals are now being rolled into the NPA. Do these colleges fall within the regulated part of the NPA and will the costs be recovered?

Regarding the training colleges, the Maritime School of Excellence was previously housed at Group Level. Based on the maritime front developments and their focus on training, the school undertakes a fair amount of the work that the NPA should've been doing. Numerous complexities then arose. Therefore, if the school is really about maritime training then it should be housed /administered / and run by the NPA rather than by the Transnet Group.

Further, as a part of Operation Phakisa the NPA has invited people to partner with them to develop the skills set of the local communities. The key focus of the Maritime School will centre around training for both students and NPA officials, the tug masters, the pilots, and the like. They are doing crane handling etc. for TPT, but it is open to more than that. They have been approached by other African ports for various training requirements and as they have the equipment, they would rather fill the classroom.

2. The last Application of the NPA indicated that a 23% tariff increase would be required for the 2018/19 tariff year, we are now in that year and the tariff increase applied for is 8.5%. We now look at 2019/20 application and it is again very high, will it still be this high next year. If we had made a multi – year determination, we would've been in a situation with excessive price increases.

Without the clawback indicated, the Methodology would result in a 20% tariff increase. This may be applied to each of the years, however the clawback is reducing the request. They (the NPA) have found that the economy has just not been doing as well as anticipated. Each time the economy doesn't show any growth, as an organisation they have responded by reviewing their plans and cost basis, and their CAPEX programme. Commitment by their customers have changed and they (the NPA) have to in turn respond by changing their CAPEX programme. Based on the last few months of this financial year, the NPA is optimistic that they are starting to see some turn around and some of the volumes are coming through. If this is true, they will pursue their plans in a responsible manner.

3. Reg. cargo dues in the Tariff Methodology, whilst costs are based on the use of port infrastructure, how does the NPA or the PRSA promote cargo that is sustainable to economic growth.

Regarding the cargo dues, we want to favour manufactured goods and move away from the dependency on exporting raw goods. The PTIP is moving in that direction, this will reflect the discounts and growth of those smaller industries. The underlying assumption that is the base of the Tariff Strategy is to have cost reflective tariffs. Only then, in a transparent and fair manner can you look at fair cross-subsidies. What the PRSA intended through the Tariff Strategy is to reflect a user pay principle. The PTIP will formalise where a cross subsidy can be allowed in the tariff book. The process is similar to that of ITAC. The process will determine what is in the public interest and the benefit to the economy and the socio benefit to South Africa. Everyone who utilises the tariff will have access to the discount, furthermore everyone will know what the tariff is and it will be both transparent and fair.

4. The city will be happy about the manganese being shifted to Ngqura, however he thinks this could have bearing on the tariffs in the future. How will they replace the revenue coming into this port? If they have a waterfront, what will they have to do to keep the port?

The fact is that the Port of Ngqura is leveraging off the system, it needs to be stabled. The bulk of the costs has already been invested and is already part of the costs coming through in terms of tariff. The other positive factor is that we are currently constrained regarding the amount of manganese we can

move. PE can only accommodate 5 million tons, if we can see increased volumes through Ngqura, we are not dependent on tariffs, we are looking to volumes to drive that. Regarding the waterfront, they need to chat to the private sector and see what can be done. There's an optimism as to what can possibly be achieved.

5. Wearing the hat of the shipping lines, marine services has been the hardest hit in terms of the Tariff Strategy. A 10% increase to tariffs in the current economy is quite severe. Especially port dues, an increase of 14% is a lot. Efficiency is currently of paramount importance; WEGO is still a long way to go.

The request of 10% is in line with the Tariff Strategy and the end goal for ten-years' time. The current request does not even shift the pie, and it therefore a decision to move in that direction. Let's not regress and rather move towards the slicing of the pie.

6. Regarding 'slag', it doesn't have its own category and therefore falls under category 'other', which is quite high a tariff, what process will be undergone to allocate a fair tariff to slag as a commodity.

They are faced with these requests at time to time, they envisage as the NPA that the tariff be informed by the terminal being used, and the cargo handling mode. The reality is in that it is a journey. Regarding the implementation of a tariff now, they request you provide a commodity which is similar in terms of handling and moving etc., that tariff could be used as a best reflection.

**Durban Roadshow**

**Date: 11 August 2017**

**Venue: The Riverside Hotel**

1. In considering the request for tariff adjustments, the PRSA has to as accurately as possible determine the required revenue of which a key component is taxation. It was mentioned that the taxation is calculated on group results rather than NPA results. In the interest of fairness, why is the NPA result not used for a more accurate number. In support of that logic, the Act calls for the NPA to be corporatised as a duly constituted body, why is it that ten years later it is still not a stand-alone entity. If it was, it would allow it to regulate TPT.

**PRSA's Response**

Regarding taxation, if the NPA were a stand-alone entity, then it would've been a straightforward calculation as the profits would've been determined beforehand with audited results. However, they are not, and based on efficient taxation planning from a Group perspective, it has to be taken into account. Gains or losses of the different sub-divisions must then be taken into account.

Furthermore, the second part of the question speaks to the first, the Act does require them to be corporatised and thinking this would happen, we have always allowed that 28%. Due to it still not have happened, and the NPA still being treated as a division rather than a subsidiary must be taken into account. Due to the treatment of losses and gains and the manner it affects the Group must be taken into account as the Group will keep the additional tax as a profit. The Act requires the Minister of DPE to take that forward, it is not for the Regulator to decide when.

**NPA's Response**

It is important to understand that port tariffs must reflect port costs. And these must be transparent. Regarding losses in the group, it does not necessarily mean the other divisions are not making profits, they sometime get accelerated tax deductions due to their socio economic drives etc. the authority makes great profit is what Chris said due to regulation, he must say that they make reasonable profits as per the act. Volumes must be taken into account. If they could get 11% volume growth they wouldn't ask for a tariff increase. They are aware that they shouldn't expect such high volumes as they did this year (manganese).

2. Request to the Regulator, after the past five years, it has become very apparent that the need for submissions is not so obvious. What would the Regulator like to see in the comments that would add value to the Regulator? They have both an Application and a Methodology that they are very satisfied with and therefore what input would the Regulator like going forward?

**PRSA Response**

Volumes, and the forecast thereof, is an important part of the submission. Furthermore, the Regulator is looking at reviewing (cleaning up) the Tariff Book, any suggestions in this regard would be appreciated and should be included, especially if it can be rationalised and towards the direction intended by the Tariff Strategy. Whilst the days of arguing over the components of the Required Revenue are behind us, the Regulator requires input in terms of efficiencies, volumes, etc.