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The Chairman
Ports Regulator
Private Bag X54322
Durban
4000

14 October 2015

RE: Tariff Application FY2016/17 **Att: Mr Thaba Mufamadi**

Dear Sir,

In line with our previous submissions to the Ports Regulator, Atlas Holdings herby wishes to address issues relating to a sector of Cargo Owners within the automotive industry, namely the *Independent Importers*, who for reasons explained herein have very specific needs and challenges.

It is our humble opinion that any tariff determination relating to the Authority's application for FY2016/17 should be in alignment with the long-term Tariff Strategy. Nonetheless we are delighted that the Regulator has expressed its willingness to address an issue raised in our last submission, namely the acceleration of tariff parity within our industry, from the originally proposed ten year or longer period down to five years. We intend interacting further with the office of the Regulator to assist, where possible, and ensure that implementation may be initiated as early as possible.

However, our primary concern at this stage is the potential impact of proposed tariff increases in the context of the planned removal of the RoRo volume discount scale and proposed effective tariff decreases going forward. We believe this may impact negatively on a significant proportion of the industry's volumes by exacerbating the inequities of current base rates. Accordingly we have addressed these issues and hope that the Regulator will observe the way we have defined them and consider our previously proposed approach to be fair and equitable to all parties.

We look forward to the issues affecting our industry, if not on all at least those of greater importance, being acknowledged and addressed accordingly.

Yours faithfully,

Costas Couremetis

C.E.O.

Submission

by

Atlas Holdings (Pty) Ltd

to

Ports Regulator of South Africa

14th October 2015

Contents

1. Introduction

In line with previous submissions to the Ports Regulator, we have addressed the requirements of our industry by taking into account our clients' needs and comments over the past few months. There is particular interest in the current Tariff Application, being the year preceding the newly ratified Tariff Strategy and in view of the Regulator s comments thereto. We have expressed below our reservations as to the alignment of the proposed tariff adjustments with these long-term strategic objectives.

2. Volume Growth & Revenue Required

The Marine Business revenue requirement, and subsequent tariff adjustments, are a function of the revenue required in the application period (R 9 295m for FY2016/17) compared to the prior year revenue (R8 571m for FY2015/16) adjusted for estimated volume growth (2.40%) as depicted in the table below:

Figure 1 - Marine Revenue for FY 2016/17 to FY 2018/19 (Growth @ 2.40%)

Marine Revenue	FY 2016/17	FY 2017/18	FY 2018/19
	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
Prior Year Revenue	8,571	9,295	10,814
Estimated Volume Growth	2.40%	3.20%	2.60%
Revenue after Volume Growth	8,777	9,592	11,095
Required Revenue	9,295	10,814	11,942
Tariff Increase	5.90%	12.74%	7.63%

When assessing the estimated volume growth figures, as provided on Pg. 30 of the Tariff Application, it appears as though the forecast growth percentages for all CHTs are greater than the 2.40% utilised in the Authority's calculation. In the absence of any further clarity regarding the figures, a recalculation of the weighted estimated volume growth, given the figures provided, indicated a 4.82% increase.

The impact on required revenue and thus tariff increases is therefore derived as follows:

Figure 2 - Marine Revenue for FY 2016/17 to FY 2018/19 (Growth @ 4.82%)

Marine Revenue	FY 2016/17	FY 2017/18	FY 2018/19
	Fixed Tariff Year	Indicative Tariff Years	
	R'm		
Prior Year Revenue	8,571	9,295	10,814
Estimated Volume Growth	4.82%	4.15%	2.98%
Revenue after Volume Growth	8,984	9,681	11,137
Required Revenue	9,295	10,814	11,942
Tariff Increase	3.46%	11.71%	7.23%

Due to the material impact of estimated volume growth on required revenue and subsequently tariff adjustments, we respectfully request that the Regulator investigate further.

3. Tariff Differentiation Across Port Users

The NPA, in line with the objectives of the Tariff Strategy, has proposed differentiation in tariff increases for port users as follows:

- **6.80% on marine charges (shipping lines);**
- **5.90% on exports of dry bulk (coal, iron ore & manganese); and**
- **5.60% on all other cargo dues.**

However, with respect it is felt that the Authority could have proposed a more proactive approach to achieving tariff rationalisation. By applying an almost across the board increase, the current tariff imbalances are perpetuated.

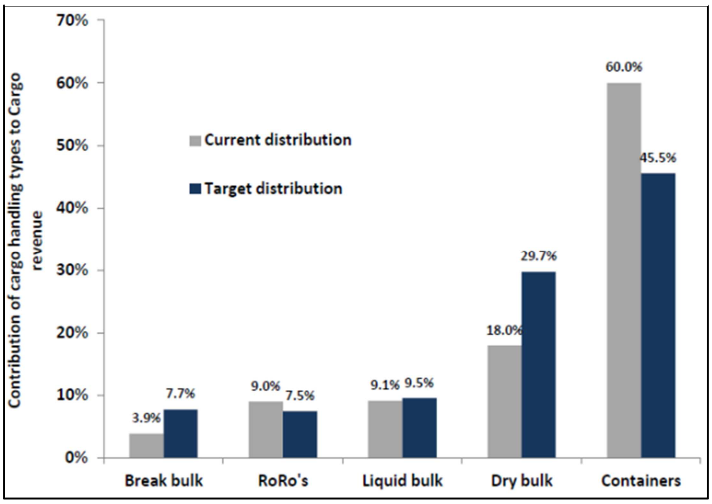
It is suggested that strategic application of proportional increases/decreases across individual tariff lines, albeit in line with but not in the same magnitude as the Tariff Strategy, would align the tariff book more closely with the long-term objective. This would also potentially unveil unintended consequences on a manageable scale.

4. RoRo & Container Tariffs

The proposed 5.60% increase for RoRo and Containers mirrors that of all other CHTs with the exception of Dry Bulk. This appears to be a counter-productive strategy knowing the zero-sum nature of the Tariff Methodology & Strategy and the Regulator's clear intention to reduce these tariffs, in real terms, in comparison to other Cargo Owners.

As proposed above, it is anticipated that tariff differentiation more closely aligned with the Tariff Strategy would result in reduced cross-subsidisation by RoRos and Containers. This would be welcomed relief in the short term for the long suffering Cargo Owners whose tariffs are not commensurate to their asset utilisation.

Figure 3 - Cargo Dues Annual Changes Required



5. RoRo Import : Export Ratio

Further to the above, it is suggested that additional tariff differentiation within CHTs could have been proposed by the Authority, to more closely align with the determined Tariff Strategy. In line with government policy, it is accepted that import tariffs should support those of exports at a ratio of 2:1. However it is noted that RoRo import tariffs are currently well beyond this level of support (2.53:1) contrary to the view of the Regulator that port users should proportionately pay for the assets they utilise. This further perpetuates the magnitude of cross-subsidisation levied on imported units.

It is important to note that every stakeholder within the automotive industry is obliged to broaden their marketing mix through imported units in order to remain competitive. Independent importers however do not have the ability to balance their costs by way of their own exports. It should also be noted that were it not for the market forces created through imported models, consumers would be void of variety and competitive pricing, most notably in the price sensitive entry level market segment.

6. RoRo Volume Discount Scale

Although not reflected in the Tariff Application, we welcome the Regulator's comments that tariff parity, per unit, within RoRo is likely to be achieved within a 5 year period compared to the initial plan of 10 years or more. We understand that extensive modelling is being undertaken to assess the unintended consequences of the combination of diminishing volume discounts and tariffs for RoRo. Similarly, we have created a model to simulate the likely impact and establish the levels of tariff reductions required to compensate for variable volume discounts reductions. This has been most informative and we would be delighted to share these results with the Regulator should it be requested.

It must be stressed that if the rate at which tariffs are decreased does not supersede that of lowering volume discounts, high volume stakeholders will receive real term increases. This would be deemed by the large stakeholders within the industry as being grossly inappropriate and counter-productive. Even Cargo Owners achieving the maximum discount level are charged 4.4 times on Imports and 3.5 times on exports, compared to what they should be according to Regulator's assessment of asset utilisation.

Figure 4 - Indicative Cargo Dues Base Rates

Base tariffs (R) in the proposed end state (based on 2013/14 data)		
Dry bulk	Import (tons)	6.53
	Export (tons)	6.53
Break bulk	Import (tons)	31.03
	Export (tons)	31.03
Liquid bulk	Import (tons)	15.21
	Export (tons)	15.21
RoRo	Import (Tons)	51.30
	Export (Tons)	25.65
Container (full)	Import (TEU)	651.53
	Export (TEU)	325.77

Furthermore, it should be noted that over 70% of the industry, by volume, currently receive 50% or more relief through the discount table. As such, any changes resulting in effective increases to these stakeholders will have a widespread negative impact in an already depressed trading environment.

7. Operation Phakisa

Is there an intention to provide some support to SA flagged vessels calling on our ports, including transhipment of the Short Sea Service in line with government policy? The intention would be assisting the industry in terms of costs whilst move freight off the road.

In the absence of finalisation relating to project funding for Operation Phakisa, would it not be prudent to have all costs (i.e. contract costs, pre-feasibility study costs, professional fees, etc.) relating to the project ring-fenced and shifted to group level.

8. Port Efficiency (TOPS, MOPS)

With the TOPS programme now two years down the line, industry would hope to see more evidence of the successes &/or challenges faced by the efficiency programme. We would also like some indication from the Authority as to how and when it deems appropriate to link these results to terminal (rental) and marine operator agreements, which will in itself have an effect on the Authorities Required Revenue and subsequent tariffs.

9. SINGLE TRANSPORT ECONOMIC REGULATOR

Over the last few years we have been a strong advocate for the consideration of Regulator y oversight being extended to Terminal Operators. We believe this is of particular importance for those State Owned Enterprises, leasing strategic port land and assets, operating in an environment void of any private sector competition. Their customers have consistently received above inflation increases without appropriate stakeholder engagement on the basis of non-disclosure covenants being cited.

We believe that the current ambit of the Ports Regulator is not sufficiently extensive to fulfil its mandate in terms of the Ports Act, namely to "Exercise economic regulation of the **ports system** in line with government's strategic objectives" and "Promote equity of access to ports and to **facilities and services** provided in ports". In addition, irrespective of the assurances provided by NPA that it will safeguard against excessive increases being levied by its customers, this still does not address the issue of perceived unequal base rates being levied to clients processing similar cargo at similar volumes.

We have motivated this issue through various Government Departments as well as through the Regulator's office and are pleased to note the Regulator's response to stakeholder questions at the roadshow that "In the near future a single transport Regulator will be established…". We are confident that this will result in total transparency and remove the veil of secrecy that currently limits tariff negotiations to bilateral agreements with the operating division of the SOE.

10. CONCLUSION

Whilst it is noted that the Tariff Strategy will only officially commence in the FY2017/18, we are of the humble opinion that the current Tariff Application should be considered in the context of these long-term objectives. The tariff determination for the upcoming period has the potential to assist the Regulator to achieve tariff rationalisation, by aligning with proposed end-state base rates (all things remaining equal).

Once again, we would like to thank both the Ports Regulator as well as the National Ports Authority for their transparency and willingness to engage with stakeholders in the productive Tariff Application process. We are also grateful that our previous contributions have been acknowledged as being in line with Regulator's expectations of stakeholder's submissions.