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The Chairman, Ports Regulator
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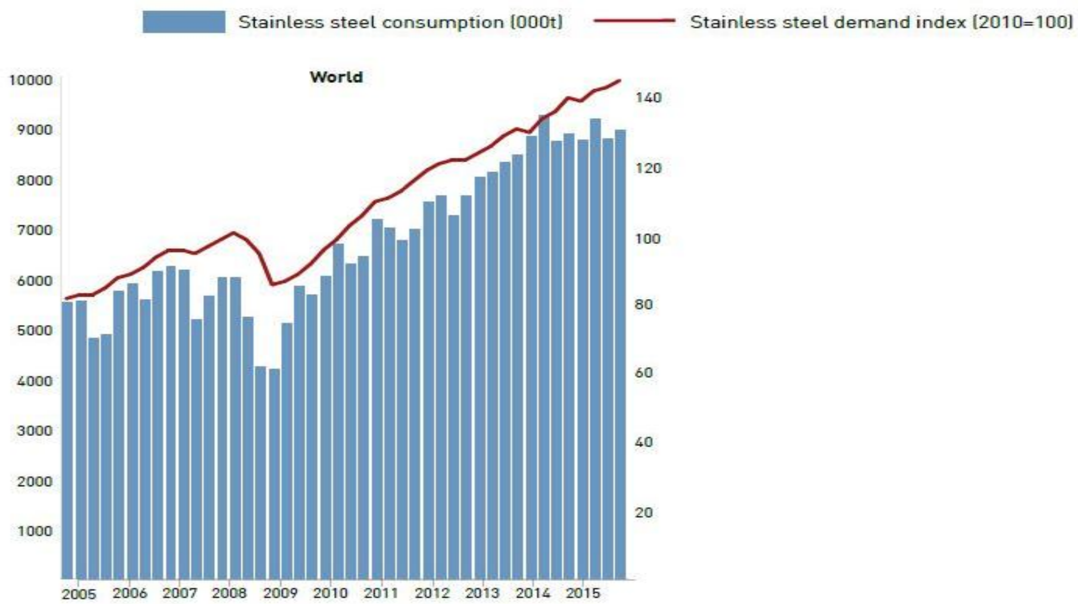
Re: Columbus Stainless (Pty) Ltd comment on the proposed draft Tariff Methodology for Tariff Years 2018/2019-2020/21

Introduction

Situated in Middelburg, Mpumalanga, Columbus Stainless is the only manufacturer of stainless steel product in Africa. With global sales consisting of 75% of the export market, Columbus has become a key player in the export of value adding products in the South African economy and is a competitive manufacturer in the global stainless steel industry.

The need to reach a fair port tariff agreement with the NPA remains the aim. This will allow Columbus to focus on streamlining manufacturing and supply chain costs and challenges with the global demand and consumption of stainless steel growing rapidly year on year.



The National Ports Act, 2005, page 11, Port Regulator of SA. www.portsregulator.org states that the Object of the Act is: “to promote the development of an effective and productive South African ports industry that is capable of contributing to the economic growth and development of our country.”

The outcome of the Port tariff methodology is expected to allow for much lower tariff increases in line with inflation.

Comments on the Port Tariff Methodology draft document are made as follows;

- The “use and benefit approach” which the port regulator will now use to cost allocation should take into account the level and volume of value adding products in the economy that is being exported. This will have a direct impact and benefit to increasing the value add trade in South Africa.
- While the NPA is a regulated, TPT is not. The NPA determines rental fees charged to TPT and its competitors. The rental costs charged by the NPA needs to be regulated with market related rental charges in the present times and not gradually over the next few years.
- **Rate of Return Regulation - Revenue Required (RR) Methodology/Revenue Cap**

  It can be fairly difficult to determine what a “fair” rate of return should be. The key performance indicators established with the efficiency gains should be included as a factor as the more efficient the NPA becomes with the resources being utilised the more lean and streamlined the operation will become leading to a lower tariff for end user’s which will increase global trade.
- **Risk Free Rate (*rf*) (RFR)**

  When determining the risk profile of the NPA, it should be noted that the NPA is under government guarantees, therefore the risk profile is fairly limited. Cost uncertainty cannot be regarded as a risk factor as there are good estimates of the projected costs that the NPA incur and recover with the rate of return regulation and revenue cap being used.

- **Beta (β)**

  The NPA is essentially operating in a risk-free environment covered by government guarantees. A beta of 0.0 is justifiable.

- **Gearing ratio**

  A nominal gearing ratio of 50% is being used. While a high gearing ratio does not directly impact a regulated monopolistic company, it does play a role in the transparency of the NPA's individual actual borrowings as opposed to using the Transnet Group borrowings.

- The weighted efficiency gains from operations (WEGO) is only set to be implemented in 2020/2021. The concern is then raised as to what mechanisms are already in place with regards to the pro-activeness of the NPA and current efficiency KPI's that can be used to ensure that the level of efficiency plays a role in determining the tariff increase over the next two years.

Conclusion on Comments made

- ❖ The NPA has a major influence on port operations and terminal handling charges. Excessive tariffs in comparison to the rest of the world is a barrier in the SA economy. The stainless steel interim figures for 2016 show that the stainless steel melt shop production increased by 10.2% year to date, this indicates growth and the need to remain competitive with other countries. Columbus beneficiates local inbound and imports raw materials such as nickel and chrome which are critical to the SA economy. These raw materials are converted into value added semi finished stainless steel products which enhances industrialization in SA. The global and local steel industry has dramatically changed over the last few years. Columbus has taken significant strides to remain competitive in these harsh times, but continues to face challenges of high port tariffs. A cost reduction calculation in tariffs for high value adding products such as stainless steel needs to be incorporated.