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Submission to the National Ports Regulator of South Africa

Reference: Transnet National Ports Authority (TNPA) Tariff Application 2015/16

Submission 1: 16th October 2014

Presented by: The FSA Port Tariffs and Regulatory Committee

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Preamble

The Fruit South Africa (FSA) Port Tariffs and Regulatory Committee (hereon referred to as The Committee) has drafted this submission on behalf of constituents of Fruit South Africa. Constituents of FSA comprise The Citrus Growers Association of Southern Africa (CGA), The South African Table Grape Industry (SATGI), Hortgro Services (HORTGRO), The Subtropical Association of South Africa (SUBTROPS) and The Fresh Produce Exporters Forum (FPEF). Members of these associations comprise all producers and marketing agents of fruit for exporting purposes; this is a statutory requirement as approved by the Minister of the

Department of Agriculture, Forestry and Fisheries in terms of sections 15, 18 and 19 of the Marketing of Agricultural Products Act no. 47 of 1996.

The Committee urges the Ports Regulator to exercise due diligence in consideration of the Authorities tariff application for 2015/16. The Committee further implores the Regulator to exercise its mandate to ensure that utilization of the national asset "the ports" is commensurate to the Authorities policy statement, "Transnet's commitment to reducing the cost of doing business in South Africa".

The Committee has identified the following criteria to be of importance in response to the 2015/16 tariff application by the Authority,

1. Comments on the National Ports Act, 2005 (Act No. 12 of 2005) and the Implementation of the Requirements by the Authority in Adhering to the Act,
2. Comments on the Transnet SOC Market Demand Strategy (MDS) in Relation to the TNPA Capital Expenditure Projections,
3. Comments on the Ports Regulator of South Africa Regulatory Manual for the Tariff Years 2015/16 – 2017/18.
4. Comments on the Authorities (TNPA) Application for FY 2015/16,
    - 4.1. Comments on the Revenue Required (RR) Components in the Context of the Application,
    - 4.2. Comments on the Authorities Operating Expenditure,
    - 4.3. Comments on the Authorities Cargo Volume Projections,
5. Submission on Fruit Export Port Tariff Charges,
6. Submission on Fruit Export Related Supply Chain Costs with Special Emphasis on Transnet SOC Revenue Generated from Fruit Exports,
7. Conclusions and Key Recommendations

These points are considered hereunder.

1. Comments on the National Ports Act, 2005 (Act No. 12 of 2005) and the Implementation of the Requirements by the Authority in Adhering to the Act

In terms of section (2) of the Act, the Committee wishes to express that it is of the view that the Authority has not effectively met certain objectives as outlined in the Act, specifically with regards to-

a) not sufficiently promoting an effective and productive South Africa ports industry that is capable of contributing to the economic growth and development of our country; specifically in regards to the Durban port system,
b) promote and improve efficiency and performance in the management and operation of ports; specifically in regards to the Durban port system,
c) facilitate the development of technology, information systems and managerial expertise through private sector involvement and participation, and
d) promote the development of an integrated regional production and distribution system in support of government's policies.

It must be further brought to the attention of the Regulator that proposals have been tabled with the Authority to introduce a truck staging zone in the Durban port for the staging of port bound cargo. This to effectively control frequent and continued congestion in and around the port of Durban. This proposal has not been acknowledged by the Authority. Furthermore the Authority as landlord of space located within the port precinct of Durban, has not adequately apportioned the use of land and entered into lease agreements with tenants so as to mitigate the continued congestion in the port of Durban. Specific mention can be drawn on the Bayhead precinct in the Durban port which by virtue of the tenant base and the business conducted by those tenants as being a main contributor to the continued and ongoing congestion in the Bayhead precinct.

In terms of Section 12 (c) of the Act, it stipulates that the aim of the Authority is to - enable the port users to access the port system in the most efficient way possible. The Committee wishes to highlight the continual and reoccurring congestion in the Durban port. It is deemed by the Committee that the Authority has not applied sufficient measures to adhere to this requirement as required by the Act.

In terms of Section 72 (1) (a) of the Act, Transnet National Ports Authority, a division of Transnet SOC Limited is required, with the approval of the Ports 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. In terms of these Directives, when considering the proposed tariffs for the Authority, the Regulator must ensure that such tariffs allow the Authority to:

I. Recover its investment in owning, managing, controlling and administering Ports and its investment in port services and facilities;
II. Recover its costs in maintaining, operating, managing, controlling and administering Ports and its costs in providing port services and facilities; and
III. Earn a return commensurate with the risk of owning, managing, controlling and administering ports and of providing port services and facilities.

The Committee agrees in part that the authority should:

I. Recover its investment in port services and facilities; provided the recovery is not deemed excessive and a burden to the country. The Committee wishes to express that the cost of the Regulatory Asset Base (RAB) as determined in the ports Tariff Methodology contained within the Required Revenue (RR) methodology is considered excessive.
II. Recover its cost of operations to provide a service; provided the recovery is fair and equitable and in line with those services rendered to operate the ports efficiently and effectively. The committee would like to convey that the Authorities annual increase in Operating Costs grossly exceeds that of inflation.

The Committee however does not agree in full that the authority should:

I. Earn a return commensurate with the risk of owning, managing, controlling and administering ports and of providing port services and facilities. The South African ports are national strategic asset operated to facilitate trade. The cost for services provided by the authority should be an enabler and contributor toward the competitiveness of South African trade. The financial structure of the national strategic asset should not be balanced against the recovery of opportunity cost of capital employed but rather be structured to enhance the competitiveness of the economy. The Committee calls for a review of this directive with the view of an amendment of such directive in the interest of protecting and enhancing the competitiveness of Southern African trade.

2. Comments on the Transnet SOC Market Demand Strategy (MDS) in Relation to the TNPA Capital Expenditure Projections

The South African fruit export business utilizes 90% of containerized sea transport to export fruit to global markets. The specific services and infrastructure rendered by the Transnet SOC Limited operating divisions for containerized cargo, is a key component in consideration of the Transnet MDS. In terms of the MDS initiated and presented in 2013, Transnet forecast a capital expenditure plan of R307bn over the period of 7 years FY2012/13 – FY2018/19. A planned Capital Expenditure (Capex) of R47bn (15.6%) is shown to be allocated by TNPA which to be funded by financing of cargo dues and other. R24bn (8%) is reflected to be allocated towards containerized services and infrastructure projects across all operating divisions. Transnet Port Terminals (TPT) is shown to allocate R9.8bn (3.3%) towards containerized business projects specifically and this Capex will be financed through Terminal Handling Charges (THC's) and other. In summary the Transnet MDS Capex program was shown to be allocated primarily to non-containerized business. Of the 8 ports (transit corridors) in which TNPA operate, R146.8bn was to be allocated of which R78.5bn (53.4%) is reflected as non-containerized business in the ports of Saldanha and Richards Bay.

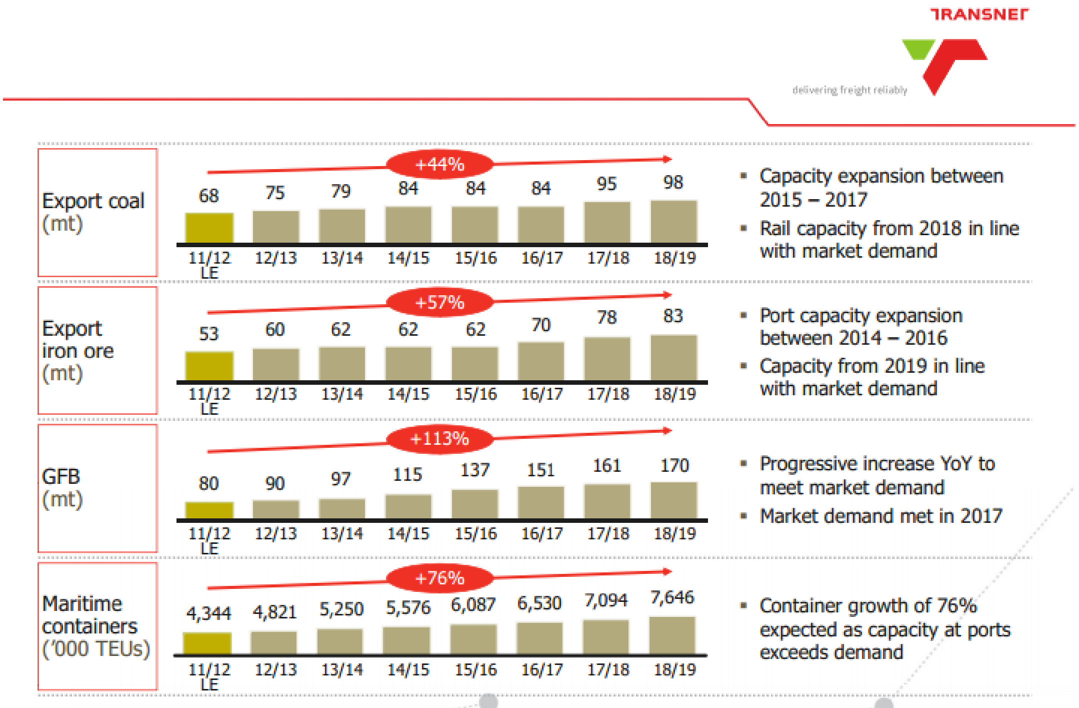

Figure 1: Transnet 2013 MDS Volume Forecast Projections FY2012/13 – FY2018/19 (Source: MDS)

As in Figure 1, the volume projections for the period FY2012/13 – FY2018/19 are shown which are contained within the MDS Booklet. Containerized business is reflected to increase from 4,344,000 TEU's in FY2011/12 – 7,646,000 TEU's in FY2018/19. By the Authorities own admission the volume projections reflected in the MDS will more than likely not materialize as is projected. Containerized volume especially will more than likely not escalate to the forecast volume of 7,646,000 TEU's within FY2018/19. Containerized volume handled at South African ports is likely to increase incrementally by a mere 3% p.a based on the volume indications contained in the TNPA Tariff Application FY2015/16. The Transnet MDS published in 2013 projected an increase in container volume to be handled at South African ports to increase by 3,293,722 TEU's (a 75.7% increase) from 4,352,278 TEU's handled in FY2011/12 – 7,646,000 TEU's in FY2018/19. The TNPA Tariff Application projection for container volumes to be handled at South African ports has been radically reduced and is estimated to increase by a mere 951,774 TEU's (a 21.9% increase) from 4,352,278 TEU's handled in FY2011/12 – 5,304,052 TEU's in FY2018/19. This is an indication that the Capital Expenditure program reflected in the MDS towards containerized business is likely to be altered substantially (See figure 2).

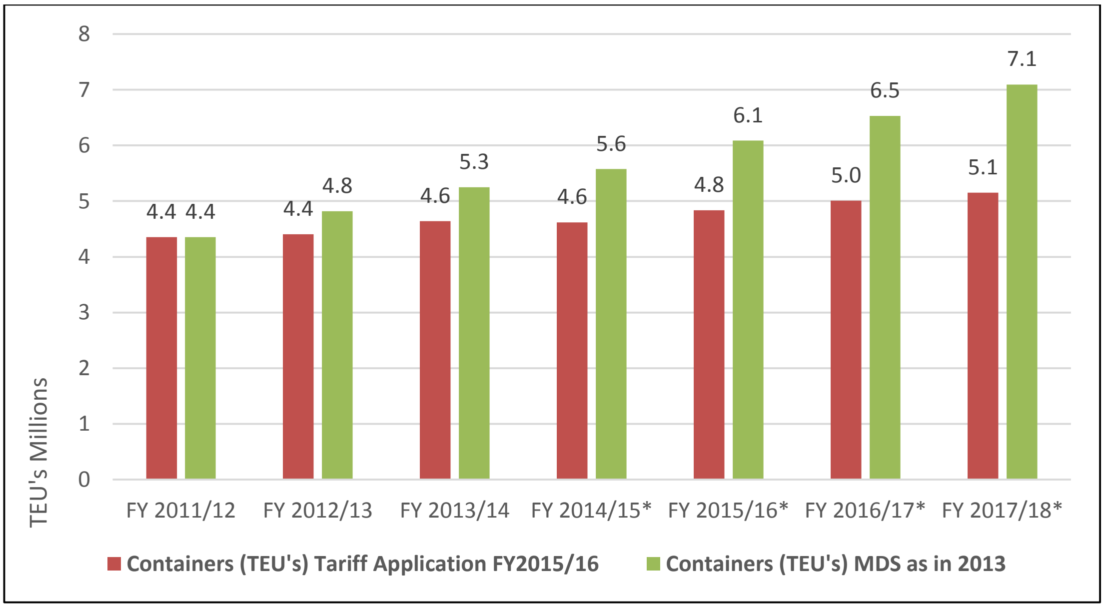

Figure 2: Chart reflecting container projections to be handled at South African ports FY2011/12 – FY2018/19. (Source: The MDS vs. the TNPA Tariff Application FY2015/16)

Details	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15*	FY 2015/16*	FY 2016/17*	FY 2017/18*	Dev 2011/12 vs. 2017/18	Dev % 2011/12 vs. 2017/18
	Actual			Trending					
Containers (TEU's) Tariff Application FY2015/16	4,352,278	4,403,358	4,641,203	4,619,864	4,834,488	5,011,008	5,149,565	**797,287**	**18.32%**
Containers (TEU's) MDS as in 2013	4,352,278	4,821,000	5,250,000	5,576,000	6,087,000	6,530,000	7,094,000	**2,741,722**	**63.00%**
Vehicles (Units)	674,777	667,265	692,288	663,423	697,710	710,919	730,439	**55,662**	**8.25%**
Break-bulk (Mt)	8,559,299	8,933,935	8,715,915	7,926,663	8,671,143	8,825,188	8,953,728	**394,429**	**4.61%**
Dry Bulk (Mt)	151,173,612	154,644,955	159,464,083	165,517,719	172,220,152	175,987,710	179,893,302	**28,719,690**	**19.00%**
Coal Exports	70,777,361	73,307,314	71,921,933	76,750,000	79,252,931	81,414,017	84,596,708	**13,819,347**	**19.53%**
Iron Ore Exports	52,393,542	53,597,302	53,663,732	56,250,000	58,105,245	58,105,245	58,105,245	**5,711,703**	**10.90%**
Mangeneze Ore Exports	6,933,425	7,451,418	8,915,352	7,760,000	7,927,532	8,178,831	8,262,597	**1,329,172**	**19.17%**
Other Dry Bulk	21,069,284	20,288,921	24,963,066	24,757,719	26,934,444	28,289,617	28,928,752	**7,859,468**	**37.30%**
Liquid Bulk (Kl)	42,646,693	41,872,652	39,278,459	35,205,554	37,317,399	36,532,076	37,042,802	**-5,603,891**	**-13.14%**

Table 1: TNPA Volume Projections FY2011/12 – FY2017/18 (Source: TNPA Tariff Applications)

Commodity	Target	Projection						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total 7yr
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Containers	123	345	394	395	1 481	2 080	2 400	7 218
Liquid Bulk	132	270	300	1 685	1 014	328	200	3 929
Iron Ore	18	100	-	367	922	1 502	300	3 209
Coal	6	128	30	80	-	-	-	244
Manganese	64	106	1 667	4 269	2 174	400	-	8 681
Break Bulk	318	580	204	720	803	905	1 578	5 108
Automotive	-	-	-	5	10	10	20	45
Fleet - craft	584	557	467	179	270	353	1 111	3 521
Dredging Services	767	216	175	2	2	2	92	1 257
Other (incl LHS)	717	1 282	1 401	1 392	1 437	1 416	1 879	9 524
Total (excl. borrowing cost)	**2 730**	**3 584**	**4 638**	**9 094**	**8 114**	**6 996**	**7 580**	**42 736**

Table 2: TNPA Capex Allocation FY2014/15 - 2020/21 (Source: TNPA Tariff Application FY2015/16)

In terms of the CAPEX allocation apportioned to the container sector, the current CAPEX allocation is estimated at R7, 218bn during the period under review. Of this amount R6, 715bn is planned for expansion whilst a mere R500m is planned for maintenance. The Committee wishes to convey that the container volume projections as indicated in the Tariff Application FY2015/16 are deemed to be an accurate assumption. Is it therefore deemed to be necessary to allocate the projected R6, 715bn for expansion projects in light of this? The Authority has only alluded to the following projects which are specific to the container business of the ports,

i. Berth deepening at Durban Container Terminal Pier 2 berths 203 to 205,
ii. Durban Container Terminal Pier 1 phase 2 infill of Salisbury Island, and
iii. Automatic mooring system at Ngqura Container Terminal.

The Committee wishes to express that the allocation of CAPEX to the Pier 1 infill phase 2 should not commence prior to the reconstruction of the entry lanes along Bayhead Road to DCT Pier 1 and 2. Another point to allude on is whether it is necessary to expand the capacity of Pier 1. Increased productivity and proactive planning of both DCT Pier 1 and Pier 2 would increase the terminal throughput thus increasing the overall capacity of both terminals. Increasing berthing capacity at DCT Pier 1 will cause additional congestion on the already over congested entry lanes along Bayhead road leading to the Bayhead precinct, DCT Pier 2, DCT Pier 1 and the Cutler Complex (Island View).

A further point of consideration is to ring-fence the CAPEX allocated to non-containerized business where specific commodities are allocated higher tariff increases relative to the CAPEX allocation. E.g. the CAPEX allocation for the transfer of the Manganese and Liquid Bulk commodities handled at Port Elizabeth to newly constructed terminals at Ngqura. The Authority has indicated in presentations that the Manganese and Liquid Bulk terminals in Port Elizabeth are to be replaced by an additional RoRo terminal. The Committee asks is it necessary to incur such an expense in light of the Authorities forecasted volume of Manganese and Liquid Bulk?

Region	CAPEX Indication	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	Total
Durban	FY 2013/14 Application	689	2,471	2,592	3,518	5,455	4,686	1,583			**20,994**
	FY 2014/15 Application		735	4,287	3,846	3,664	2,966	3,899	2,089		**21,486**
	FY 2015/16 Application			568	787	711	1,481	2,100	3,244	3,037	**11,928**
Eastern Cape	FY 2013/14 Application	436	992	1,325	1,509	1,508	2,657	3,018			**11,445**
	FY 2014/15 Application		403	1,523	2,734	2,024	2,287	1,707	2,039		**12,717**
	FY 2015/16 Application			610	1,061	2,614	6,119	3,782	730	1,032	**15,948**
Other	FY 2013/14 Application	258	503	423	251	26	51	44			**1,556**
	FY 2014/15 Application		198	545	399	58	63	68	57		**1,388**
	FY 2015/16 Application			887	467	360	88	111	165	194	**2,272**
Richards Bay	FY 2013/14 Application	133	619	525	500	568	1,022	2,295			**5,662**
	FY 2014/15 Application		534	1,014	882	1,381	1,009	1,591	3,544		**9,955**
	FY 2015/16 Application			322	600	454	396	328	309	604	**3,013**
Western Cape	FY 2013/14 Application	859	740	569	614	577	1,750	2,100			**7,209**
	FY 2014/15 Application		198	879	2,241	1,268	1,286	776	1,543		**8,191**
	FY 2015/16 Application			382	670	498	1,010	1,793	2,548	2,114	**9,015**

Table 3: CAPEX indications from TNPA tariff applications (Source: TNPA Tariff Applications)

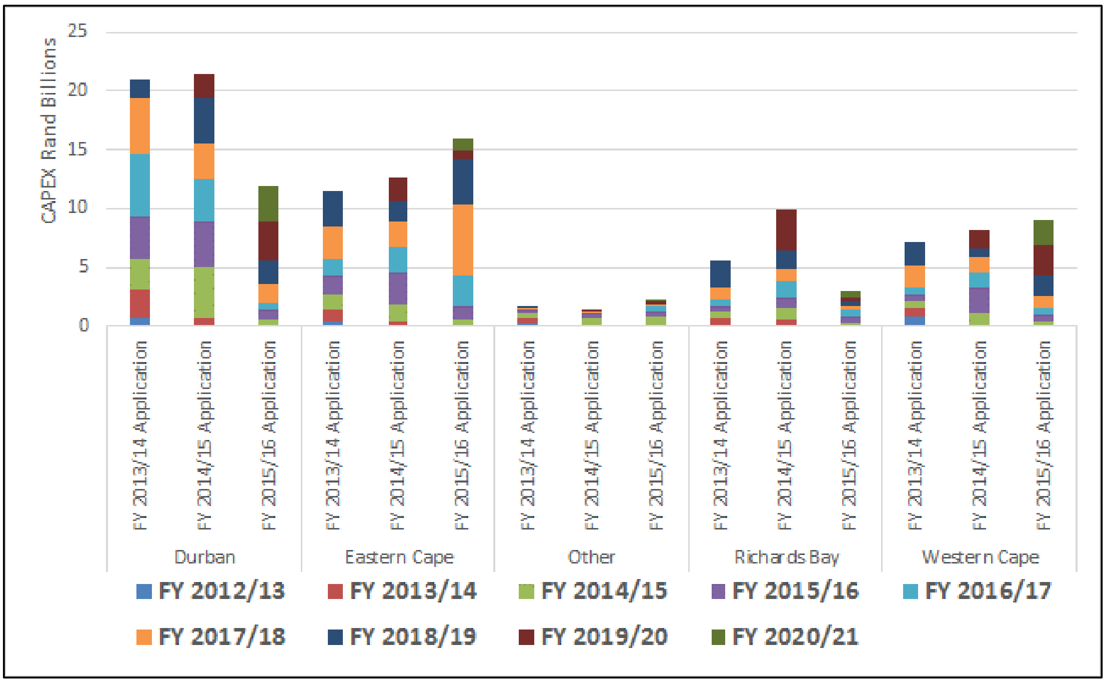

Figure 3: TNPA CAPEX Allocation per Region

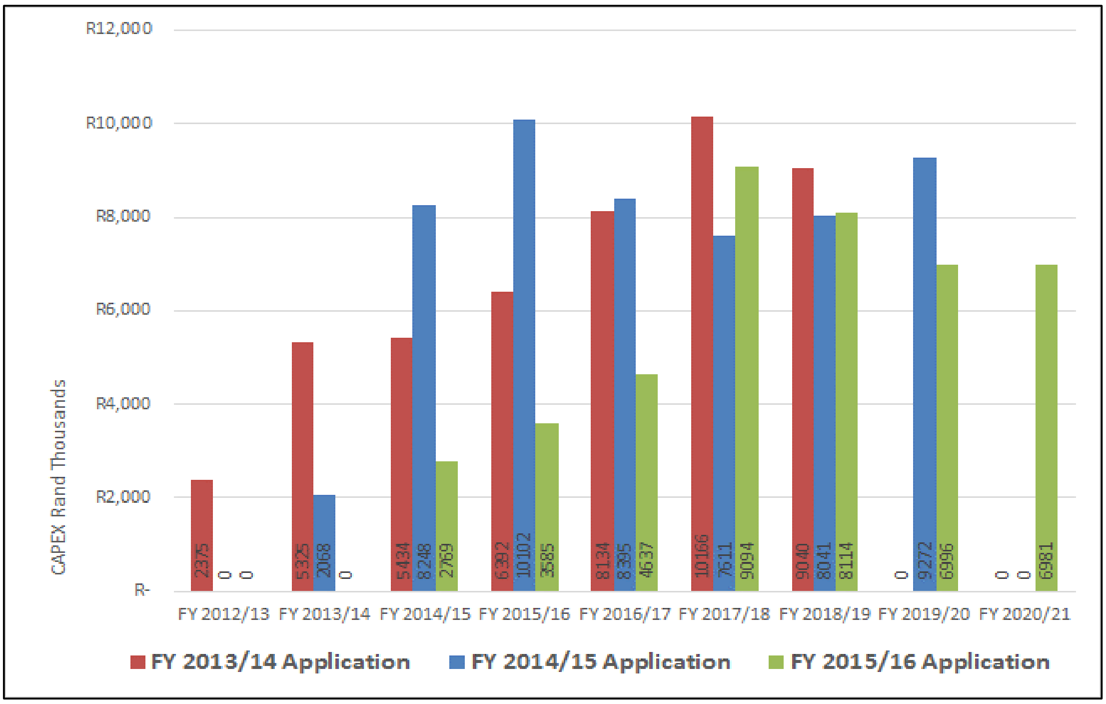

Figure 4: TNPA Total CAPEX allocation per tariff application

The Committee wishes to convey to the Regulator that there is a vast disparity in the Authorities reporting on the CAPEX allocation contained within each application. Each tariff application for the past 3 tariff application cycles, the Authority has reflected vastly different CAPEX projections. It is unclear as to why the CAPEX allocation would vary so vastly from one year to the next. It is also apparent that the CAPEX projections are not met within a specific tariff year. The Committee implores the Regulator to convey to the Authority that a level of CAPEX certainty is required given the multi-year tariff application approach.

3. Comments on the Ports Regulator of South Africa Regulatory Manual for the Tariff Years 2015/16 – 2017/18

Section 3.2.4 of the manual requires the Authority to articulate annual CAPEX projections and volume forecasts over a seven year cycle. The Committee requests that the Authority supply the following information within the tariff applications.

i. For each tariff application the Authority should supply historical (4 years) budgeted vs. actual volume and a 5 year trended projection on volumes.
ii. For each tariff application the Authority should supply historical (4 years) budgeted vs. actual CAPEX spend and a 5 year projection on CAPEX.

This request is deemed important so as to scrutinize the budgets against actuals to make adequate comment.

4. Comments on the Authorities (TNPA) Application for FY 2015/16

The Committee wishes to express that the Authority has misprinted the National Ports Act, 2005 as (Act No.12 of 2013) in the header page of the Tariff Application.

4.1 Comments on the Revenue Required (RR) Components in the Context of the Application

Revenue Requirement = Regulatory Asset Base (RAB) x Weighted Average Cost of Capital (WACC) + Operating Costs + Depreciation + Taxation ± Claw-back ± Excessive Tariff Increase Margin Credit (ETIMC).

4.1.1 Regulatory Asset Base (RAB) and Vanilla WACC in determining the Return on Capital

The Authority has determined the RAB in FY 2015/16 to be R67bn giving a Return on Capital of R3, 745m by applying the Vanilla WACC determined by the Authority to be

5.59%. The Committee cannot make a determination of the RAB and therefore rely on due diligence and the discretion of the Regulator and the Authority in its determination. The Return on Capital (RAB x Vanilla WACC) contribution to the Revenue Requirement for FY 2015/16 application is 33.4%.

Description (Rbn)	FY2014/15	FY2015/16	% Diff FY2015/16 vs. FY 2014/15	FY2016/17	% Diff FY2016/17 vs. FY 2015/16	FY2017/18	% Diff FY2017/18 vs. FY 2016/17
RAB	64,485	67,000	3.90%	72,995	8.95%	81,532	11.70%
WACC	5.47%	5.59%	0.12%	5.78%	0.19%	6.01%	0.23%
Return of Capital	**3,528**	**3,745**	**6.15%**	**4,219**	**12.66%**	**4,900**	**16.14%**
Revenue Allowed	10624	11208	**5.50%**	13050	**16.43%**	14225	**9.00%**
RAB as a % of Revenue Allowed	**33.21%**	**33.41%**		**32.33%**		**34.45%**	

Table 4: Return on Capital Projections

The Committee would express concern at the increase in the RAB determination from FY2014/15 (as contained in the Regulators Record of Decision for Tariff Year 2013/14) to FY2017/18. The Authorities RAB as shown is set to increase by R16.50bn being an incremental increase of 3.90%, 8.95% and 11.70% respectively during the current 3 year tariff cycle. Of even greater concern is the increase in the Return on Capital as reflected by the Authority in the tariff application. The Return on Capital is reflected to increase by R1.4bn being an incremental increase of 6.15%, 12.66% and 16.14% respectively over this period. The Committee would implore the Regulator to scrutinize these calculations in the determination of the Record of Decision in terms of the Authorities application. The projected Return on Capital (RAB x WACC) is forecast to escalate beyond what can be deemed as reasonable.

4.1.2 Comments on the Authorities Operating Expenditure

The Committee wishes to express grave concern regarding the forecast budget leading to FY2017/18 compared to the actual operating costs of FY2013/14. The Authority has indicated that the total operating expenditure is forecast to increase by R2, 270bn (62.4%) over this period. The Authority has sited the reasons for the increased expenditure from FY2013/14 to FY2017/18 due to the following specific costs,

i. Table 36 of the application suggests that the number of employees is due to rise by 1,081, from 3,802 employees to 4,883 employees. The Authorities labour cost is due to increase by R890m from R1,767m to R2,657m (50.4%). The Authority has indicated that the manning of the port operations centres, the implementation of the quad shift system and moving from outsourcing to in-house functions of aviation and security functions. The Committee cannot determine the value of the increased employment as there are no indications as to which operating expenses will decrease as a result of functions becoming in-house. This requires further substantiation.

ii. Maintenance costs are indicated to increase by R243m from R296m to R539m (82.1%). The Authority sites the expenditure to ensure efficient continuity of operations.

iii. Energy costs are indicated to increase by R212m from R399m to R611m (53.1%). The Authority sites rising electricity costs and rising fuel costs as to the reason for the forecast increase. The Committee wishes to express that the global call for reduced carbon emissions must similarly be emphasized and adopted by the Authority. The increased energy costs cannot be justified on any basis and especially in relation to volume growth forecasts being revised downwards in recent times. The Committee would request the Regulator to bring a level of oversight to the consumption of electricity and fuel by the Authority. The Authority should report within tariff applications appropriate measures adopted to reduce the overall energy consumption.

iv. The cost allocation to pre-feasibility studies is somewhat of a contentious issue since pre-feasibility studies for CAPEX projects should be funded directly by the Authority. Pre-feasibility costs are indicated to increase by R143m from R47m to R190m (304.3%). The Authority sites that the pre-feasibility studies are in relation to 1) deepening and widening of the entrance channel at port of East London, 2) Edwin Swales Link Road FEL4, and 3) constitution of Berth A100 at Ngqura port.

v. The Authority sites sundry operating costs as being generalized operating costs. Sundry operating costs are indicated to increase by R219m from R51m to R270m (429.4%).

vi. The Authority has forecast that the Transnet SOC Group costs are to increase by R283m from an actual cost of R398m in FY2013/14 to a forecasted cost of R681m (71.1%) over this period. There are various anomalies in the corporate overhead costs, the most prevalent being the variances between budgeted costs and actual expenditure. The Committee would implore the Regulator to give substantive oversight to the decreed group overhead cost allocation to the Authority.

In summary and as illustrated in table 5 below, the Authorities forecast on budgeted operating costs are specified to increase by R2,270m from an actual total operating cost of R3,635m in FY2013/14 to R5.905m in FY2017/18 (62.4%). The Committee wishes to express that the Authorities reporting on operating costs are unduly and severely overstated. The cost items as highlighted above must come under strict review by the Regulator to ensure that operating expenses reported are defendable.

Cost Category	Budget 2013/14	% of OPEX	Actual 2013/14	% of OPEX	Budget 2014/15	% of OPEX	Dev 2014/15 vs. 2013/14	Dev % 2014/15 vs. 2013/14	Forecast 2015/16	% of OPEX	Dev 2015/16 vs. 2014/13	Dev % 2015/16 vs. 2014/13	Forecast 2016/17	% of OPEX	Dev 2016/17 vs. 2015/16	Dev % 2016/17 vs. 2015/16	Forecast 2017/18	% of OPEX	Dev 2017/18 vs. 2016/17	Dev % 2017/18 vs. 2016/17	**Dev 2017/18 vs. 2013/14**	**Dev % 2017/18 vs. 2013/14**
	R'm	Percentage	R'm	Percentage	R'm	Percentage	R'm	Percentage	R'm	Percentage	R'm	Percentage	R'm	Percentage	R'm	Percentage	R'm	Percentage	R'm	Percentage	**R'm**	**Percentage**
Labour Costs	1,781	50.4%	1,767	54.6%	1,877	54.9%	110	6.2%	2,159	49.1%	282	15.0%	2,439	50.4%	280	13.0%	2,657	50.9%	218	8.9%	**890**	**50.4%**
Rates & Taxes	250	7.1%	290	9.0%	302	8.8%	12	4.1%	328	7.5%	26	8.6%	345	7.1%	17	5.2%	364	7.0%	19	5.5%	**74**	**25.5%**
Maintenance	355	10.0%	296	9.1%	273	8.0%	-23	-7.8%	405	9.2%	132	48.4%	468	9.7%	63	15.6%	539	10.3%	71	15.2%	**243**	**82.1%**
Contracts Payments	65	1.8%	56	1.7%	60	1.8%	4	7.1%	69	1.6%	9	15.0%	73	1.5%	4	5.8%	77	1.5%	4	5.5%	**21**	**37.5%**
Energy	445	12.6%	399	12.3%	424	12.4%	25	6.3%	526	12.0%	102	24.1%	565	11.7%	39	7.4%	611	11.7%	46	8.1%	**212**	**53.1%**
Professional Services	37	1.0%	20	0.6%	28	0.8%	8	40.0%	41	0.9%	13	46.4%	54	1.1%	13	31.7%	57	1.1%	3	5.6%	**37**	**185.0%**
Material	97	2.7%	85	2.6%	87	2.5%	2	2.4%	107	2.4%	20	23.0%	114	2.4%	7	6.5%	119	2.3%	5	4.4%	**34**	**40.0%**
Computer & Info Systems	81	2.3%	100	3.1%	117	3.4%	17	17.0%	171	3.9%	54	46.2%	180	3.7%	9	5.3%	190	3.6%	10	5.6%	**90**	**90.0%**
Rental	60	1.7%	61	1.9%	61	1.8%	-	0.0%	68	1.5%	7	11.5%	71	1.5%	3	4.4%	75	1.4%	4	5.6%	**14**	**23.0%**
Security Costs	68	1.9%	64	2.0%	71	2.1%	7	10.9%	80	1.8%	9	12.7%	71	1.5%	-9	-11.3%	75	1.4%	4	5.6%	**11**	**17.2%**
Pre-feasibility Studies	82	2.3%	47	1.5%	51	1.5%	4	8.5%	220	5.0%	169	331.4%	194	4.0%	-26	-11.8%	190	3.6%	-4	-2.1%	**143**	**304.3%**
Sundry Operating Costs	215	6.1%	51	1.6%	67	2.0%	16	31.4%	228	5.2%	161	240.3%	265	5.5%	37	16.2%	270	5.2%	5	1.9%	**219**	**429.4%**
Total Operating Costs (Excl. Depreciation)	3,537	100.0%	3,237	100.0%	3,419	100.0%	182	5.6%	4,401	100.0%	982	28.7%	4,840	100.0%	439	10.0%	5,223	100.0%	383	7.9%	**1,986**	**61.4%**
Group Costs	653	15.6%	398	10.9%	591	14.7%	193	48.5%	619	12.3%	28	4.7%	650	11.8%	31	5.0%	681	11.5%	31	4.8%	**283**	**71.1%**
Total Operating Costs (Incl. Group Costs)	**4,190**	**115.6%**	**3,635**	**110.9%**	**4,010**	**114.7%**	**375**	**10.3%**	**5,020**	**112.4%**	**1,010**	**25.2%**	**5,490**	**111.8%**	**470**	**9.4%**	**5,905**	**111.6%**	415	**7.6%**	**2,270**	**62.4%**

Table 5: TNPA Operating Expenditure between FY 2013/14 – FY2017/18

4.1.3 Comments on the Authorities Cargo Volume Projections

Figure 1 and Table 1 above highlights the volumes as indicated by the Transnet MDS and the revised volumes contained in the present tariff application. It is apparent that the volumes as depicted in the MDS were grossly overstated and have been revised downwards. The anomaly which arises is that although the volumes between the two are vastly differing, the CAPEX program of in excess of R46bn still persists. The Committee is of the view that if the volumes as indicated in the present tariff application are reflective of the current volume assumption, then the Authorities CAPEX program must similarly be revised downwards; in line with the trended volume forecasts.

Table 6 below represents the Authorities volumes and the revenue earned from those volumes. For purposes of comparisons of the tariff charges for containers and other dry and break-bulk, a cargo payload mass of 12tons per TEU has been used to simulate the container tariff charged per Mt. As can be seen from this exercise that the tariff charged for containers when converting the payload mass to equate the per unit (Mt) cost, that the average tariff charge for full export TEU container grossly exceeds that of all other export related average tariffs. To illustrate, the unit Mt average tariff charged for full export containers equates to R54.24. The average break-bulk, dry-bulk and liquid-bulk export tariff is R21.72, by comparison there is more than twice the tariff charged for full export containers. The Committee proposes to the Regulator and the Authority the following adjustments to the tariff book based on the FY2014/15 tariff charges-

i. *A 30% reduction in the tariff charged for full export containers,*
ii. *A 30% increase in the tariff charged for Transhipped containers (the average tariff charged for transhipped containers is considered to be grossly discriminatory), and*
iii. *A 20% increase in the tariff charged for Dry-bulk cargo.*

The proposed amendments to the tariff book would decrease the current imbalances and disparities between the excessive tariffs charged for full export containers and the perplexed tariffs charged for Dry-bulk commodities. I.e. Coal exports, Manganese exports and Iron Ore Exports.

The Committee wishes to bring to the Regulator and the Authorities attention that the Total Dry-Bulk calculations appear to be erroneous as contained in table 20 of page 45 of the Authorities tariff application FY2015/16. The reported budget volume for Dry-Bulk is reflected as 165,517,719 (Tons) when the correct calculation should be 229,527,719 (tons). The oversight may alter the budgeted Cargo Dues Revenue for FY2014/15 and FY2015/16 considerably as the cargo dues revenue calculations for FY2014/15 appears to be understated by R363m. The total forecast revenue for FY2014/15 would then change from R10, 054bn to R10, 417bn.

If the Committee is correct in the assumption of the miscalculation, it is expected that the Authority resubmit the tariff application for the FY2015/16 – FY2017/18 taking into account the errors. Being that the calculations are indeed recorded as being correct, the Committee requests clarification from the Authority on the method of the calculations.

Description		Tariff Book FY2014/15				Proposed Tariff Book FY2014/15				
		Volume	Revenue	Ave Unit Tariff	% Total Tariff Revenue	Proposed % Tariff Adjustment	Ave Unit Tariff	Volume	Revenue	% Total Tariff Revenue
Container Exports Ave. Tariff per MT	Total Containers TEU's			R 650.85			R 455.59			
	Ave Gross MT per TEU*	1,166,173	R 759,000,000	12	82.49%	-30.00%	12	1,166,173	R 531,300,000.00	61.16%
	Ave Tariff / MT			**R 54.24**			**R 37.97**			
Container Imports Ave. Tariff per MT	Total Containers TEU's			R 1,976.37			R 1,976.37			
	Ave Gross MT per TEU*	1,396,498	R 2,760,000,000	12	250.50%	0.00%	12	1,396,498	R 2,760,000,000.00	265.30%
	Ave Tariff / MT			**R 164.70**			**R 164.70**			
Container Transshipment Ave. Tariff per MT	Total Containers TEU's			R 77.23			R 100.40			
	Ave Gross MT per TEU*	1,048,826	R 81,000,000	12	9.79%	30.00%	12	1,048,826	R 105,300,000.00	13.48%
	Ave Tariff / MT			**R 6.44**			**R 8.37**			
Container Other Ave. Tariff per MT	Total Containers TEU's			R 44.63			R 44.63			
	Ave Gross MT per TEU*	1,008,369	R 45,000,000	12	5.66%	0.00%	12	1,008,369	R 45,000,000.00	5.99%
	Ave Tariff / MT			**R 3.72**			**R 3.72**			
Total Container Ave. Tariff per MT	**Total Containers TEU's**			**R 788.98**			**R 744.96**			
	Ave Gross MT per TEU*	**4,619,866**	**R 3,645,000,000**	**12**	**100.00%**	**-5.58%**	**12**	**4,619,866**	**R 3,441,600,000.00**	**100.00%**
	Ave Tariff / MT			**R 65.75**			**R 62.08**			
Break-bulk Exports Ave. Tariff per MT		5,232,703	R 136,000,000	**R 25.99**	93.22%	0.00%	**R 25.99**	5,232,703	R 136,000,000	93.22%
Break-bulk Imports Ave. Tariff per MT		2,355,471	R 73,000,000	**R 30.99**	111.16%	0.00%	**R 30.99**	2,355,471	R 73,000,000	111.16%
Break-bulk Other Ave. Tariff per MT		338,490	R 12,000,000	**R 35.45**	127.16%	0.00%	**R 35.45**	338,490	R 12,000,000	127.16%
Total Break-bulk Ave. Tariff per MT		**7,926,664**	**R 221,000,000**	**R 27.88**	**100.00%**	**0.00%**	**R 27.88**	**7,926,664**	**R 221,000,000**	**100.00%**
Dry-bulk Exports Ave. Tariff per MT		219,518,547	R 1,095,000,000	**R 4.99**	89.66%	20.00%	**R 5.99**	219,518,547	R 1,314,000,000	91.84%
Dry-bulk Imports Ave. Tariff per MT		8,970,050	R 162,000,000	**R 18.06**	324.61%	0.00%	**R 18.06**	8,970,050	R 162,000,000	277.09%
Dry-bulk Other Ave. Tariff per MT		1,039,122	R 20,000,000	**R 19.25**	345.95%	0.00%	**R 19.25**	1,039,122	R 20,000,000	295.30%
Total Dry-bulk Ave. Tariff per MT		**229,527,719**	**R 1,277,000,000**	**R 5.56**	**100.00%**	**17.15%**	**R 6.52**	**229,527,719**	**R 1,496,000,000**	**100.00%**
Liquid-Bulk Exports Ave. Tariff per Kl		2,019,459	R 69,000,000	**R 34.17**	225.68%	0.00%	**R 34.17**	2,019,459	R 69,000,000	225.68%
Liquid-Bulk Imports Ave. Tariff per Kl		27,741,062	R 387,000,000	**R 13.95**	92.15%	0.00%	**R 13.95**	27,741,062	R 387,000,000	92.15%
Liquid-Bulk Other Ave. Tariff per Kl		5,445,034	R 77,000,000	**R 14.14**	93.41%	0.00%	**R 14.14**	5,445,034	R 77,000,000	93.41%
Total Liquid-Bulk Ave. Tariff per Kl		**35,205,555**	**R 533,000,000**	**R 15.14**	**100.00%**	**0.00%**	**R 15.14**	**35,205,555**	**R 533,000,000**	100.00%
Vehicles Exports (Units)		262,303	R 98,000,000	**R 373.61**	48.79%	0.00%	**R 373.61**	262,303	R 98,000,000	48.79%
Vehicles Imports (Units)		319,367	R 282,000,000	**R 883.00**	115.32%	0.00%	**R 883.00**	319,367	R 282,000,000	115.32%
Vehicles Other (Units)		81,754	R 128,000,000	**R 1,565.67**	204.47%	0.00%	**R 1,565.67**	81,754	R 128,000,000	204.47%
Total Vehicles/RoRo (Units)		**663,424**	**R 508,000,000**	**R 765.72**	100.00%	**0.00%**	**R 765.72**	**663,424**	**R 508,000,000**	**100.00%**
TOTAL CARGO DUES REVENUE		**R 6,184,000,000**				**R 6,199,600,000**				
Marine & other revenue		**R 1,962,000,000**								
TOTAL TARIFF BOOK REVENUE		**R 8,146,000,000**								
Real estate revenue		**R 2,271,000,000**								
TOTAL REVENUE		**R 10,417,000,000**								

* An average of 12Mt has been used to represent the cargo payload mass of a TEU container

Table 6: FSA Committee's proposed changes to the tariff base

5. Submission on Fruit Export Port Tariff Charges

The TNPA are in a process of implementing (as approved by the Ports Regulator) a port pricing strategy aimed at restructuring costs recovered from Leases, Marine Services and Port Cargo Tariffs. The issue of the beneficiation discount program is a relative one to the fruit sector whereby the harvesting and production of export fruit is in a final stage of beneficiation. The fruit sector should thereby be included in the beneficiation program as representative of the advanced phase. The port tariff rationale is prejudiced toward the fruit sector in that the tariff structure is misaligned across the broad base of commodities including the tariff of citrus and deciduous/exotic fruit exports. Below a comparison of the TNPA cargo dues tariffs levied to fruit exports as opposed to high valued mineral exports.

Commodity	Cargo Dues Levy per Ton FY 2014/15 (Excl. VAT)
Citrus Fruits	R 21.50
Deciduous and Exotic Fruits	R 39.16
Coal	R 3.11
Manganese	R 16.36
Iron Ore	R 23.37

Table 7: Comparison of Fruit tariff vs. Mineral tariff FY2014/15

Below is the disparity in the TNPA tariff within the fruit sector between container and break-bulk exports by fruit type.

Fruit Commodity	FY 2014/15 Export FEU Containerized Cargo Dues Tariff	Pallets per FEU Container	Containerized Cargo Dues Tariff per Pallet	Containerized Cargo Dues per 15Kg Carton Equivalent	FY 2014/15 Export Break-bulk Cargo Dues Tariff per Ton	Average Pallet Mass (Tons)	Break-bulk Cargo Dues per Pallet	Break-bulk Cargo Dues per 15Kg Carton Equivalent	Difference between Containerized Cargo Dues Tariff and Break-bulk Cargo Dues Tariff per 15Kg Carton Equivalent
Citrus	R 1 301.19	20	R 65.06	**R 0.81**	R 21.50	1.2	R 17.92	**R 0.26**	**R 0.56**
Stone and Pome	R 1 301.19	20	R 65.06	**R 0.81**	R 39.16	0.8	R 48.95	**R 0.70**	**R 0.11**
Subtropical	R 1 301.19	20	R 65.06	**R 0.81**	R 39.16	1	R 39.16	**R 0.56**	**R 0.25**
Table Grapes	R 1 301.19	20	R 65.06	**R 0.81**	R 39.16	0.9	R 43.51	**R 0.62**	**R 0.19**

Table 8: Comparison of fruit export containerized cargo due tariffs vs. Break-bulk cargo dues tariffs FY2014/15

The above table is evidence that the tariff rationale for fruit exports is grossly misaligned between that of containerized exports and break-bulk exports. Furthermore the tariffs are markedly higher for deciduous and exotic fruits against that of citrus fruits. The TNPA cargo dues tariffs must be fair and impartial across the various fruit kinds and be representative in supporting the fruit sector. The Committee urges the Regulator and the Authority to consider a proposal to reduce the break-bulk tariff for Deciduous and Exotic fruits in line with the tariff for citrus exports (R21.50 per ton FY 2014/2015).

6. Submission on Fruit Export Related Supply Chain Costs with Special Emphasis on Transnet SOC Revenue Generated from Fruit Exports

The cost of the South African fruit export logistics chain has increased exponentially over the course of 5 years. Figure 5 below shows the average increased costs in the chain for the exporting of fruit in containers to Europe. The average total cost per pallet has increased by R1, 600 per pallet from 2009 to 2014. The main reasons for the increased cost can be attributed to the following:

i. *Transport costs as a result of a steep increase in fuel costs,*

ii. *Port costs due to increased cost of cold storage (rising electricity costs and labour), Transnet cargo dues and container terminal handing fees,*

iii. *Freight costs due to specific increases imposed by shipping lines to the reefer sector globally,*

iv. *Bunker costs due to rising oil and bunker costs globally,*

v. *Weakening Rand/USD exchange rate pushing up freight and bunker costs.*

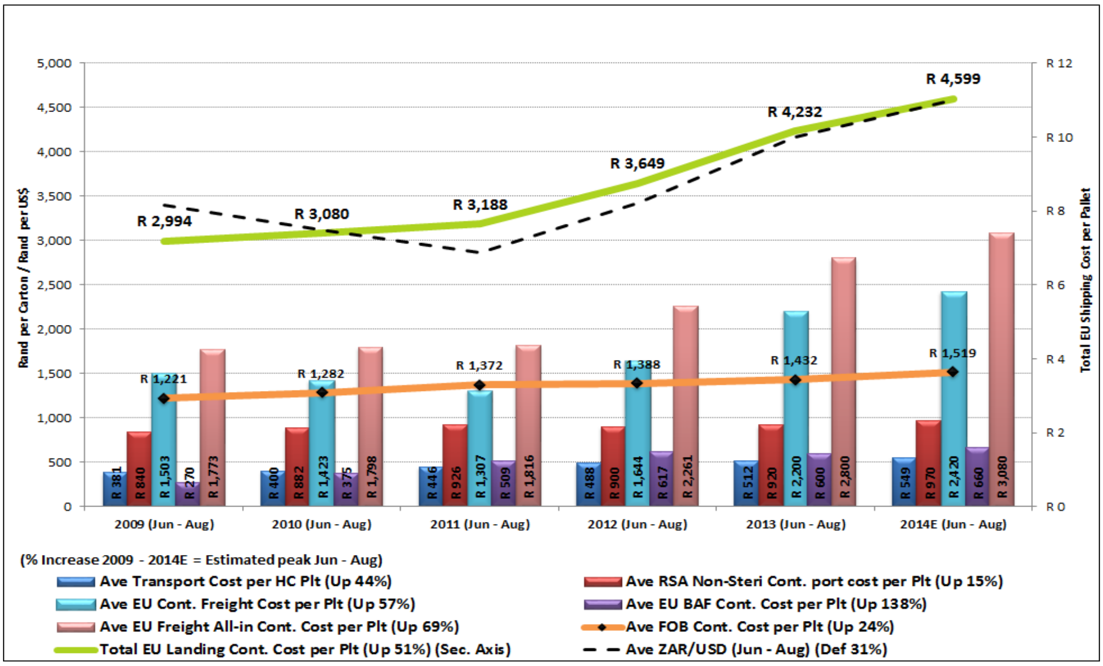

Figure 5: Average South African Fruit Export Logistics Costs for container of fruit to Europe Market (Source: FSA Data)

Transnet SOC port revenue from fruit exports increased by 40% from R343 million in FY2009/10 to a calculated R480 million in FY 2014/15 – mainly due but not limited to-

i. *Increased fruit export volumes by 17%,*
ii. *Increased fruit containerized volume by 32%,*
iii. *containerized cost per pallet is R207.16 as opposed to R22.91 for break-bulk reefer exports,*
iv. Transnet increased revenue per pallet basis from R159.94 to R187.40 (17%).

The trends in pallets exported by the fruit industry (six year period) and Transnet's revenue from these exports are illustrated in the figure below.

Year	Commodity Group	FY 2009/10	FY 2010/11	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15 (est)
Fruit Containerized Exports (Pallets) *	Citrus	823 634	933 228	972 058	1 048 623	1 210 456	1 250 000
	Table Grapes	312 167	306 629	302 000	320 200	325 440	330 000
	Stone and Pome	523 445	480 212	503 200	522 223	633 958	650 000
	Subtropical	40 869	48 197	20 765	40 083	47 771	48 000
	Total	***1 700 115***	***1 768 266***	***1 798 023***	***1 931 128***	***2 217 625***	***2 278 000***
Total Fruit Export by FEU Containers (~20 pallets per 12m container)		**85 006**	**88 413**	**89 901**	**96 556**	**110 881**	**113 900**
Fruit Break-bulk Exports (Pallets) *	Citrus	403 869	432 880	335 746	284 664	259 980	250 000
	Table Grapes	16 748	7 961	1 062	5 673	15 798	20 000
	Stone and Pome	23 882	16 446	14 705	18 667	9 865	10 000
	Subtropical	0	0	0	0	0	0
	Total	***444 499***	***457 287***	***351 513***	***309 004***	***285 643***	***280 000***
Fruit Break-bulk Exports Ave. Gross Tons per Pallet	Citrus (1.2 tons per Pallet)	*484 643*	*519 456*	*402 895*	*341 597*	*311 976*	*300 000*
	Table Grapes (0.8 tons per Pallet)	*13 398*	*6 369*	*850*	*4 538*	*12 638*	*16 000*
	Stone and Pome (1 tons per Pallet)	*23 882*	*16 446*	*14 705*	*18 667*	*9 865*	*10 000*
	Subtropical (0.9 tons per Pallet)	-	-	-	-	-	-
Total Fruit Export by Break-bulk (Gross Ave Tons)		***521 923***	***542 271***	***418 450***	***364 802***	***334 479***	***326 000***
Total Fruit Exports (Pallets)		**2 144 614**	**2 225 553**	**2 149 536**	**2 240 132**	**2 503 268**	**2 558 000**
Containerized TNPA Cargo Dues Tariff Export 12m FEU		1 929.37	2 014.65	2 105.11	343.21	1 228.70	1 301.19
Containerized TNPA Cargo Dues per Ton Equivalent		*115.76*	*120.88*	*126.31*	*20.59*	*73.72*	*78.07*
Containerized TPT Export THC Reefer 12m FEU **		1 988.00	2 127.00	2 247.00	2 440.00	2 601.00	2 842.00
Gross Fruit Export - Containerized TNPA Cargo Dues Revenue		***164 007 544***	***178 121 855***	***189 251 767***	***33 139 131***	***136 239 788***	***148 205 541***
Gross Fruit Export - Containerized TPT THC Revenue		***168 991 431***	***188 055 089***	***202 007 838***	***235 597 677***	***288 402 123***	***323 703 800***
Gross Fruit Export - Total Containerized Revenue		***332 998 975***	***366 176 944***	***391 259 605***	***268 736 807***	***424 641 911***	***471 909 341***
Breakbulk Cargo Dues Tariff Citrus Export / Ton	Citrus	18.11	18.91	19.76	20.30	20.30	21.50
	Table Grapes	32.98	34.44	35.99	36.98	36.98	39.16
	Stone and Pome	32.98	34.44	35.99	36.98	36.98	39.16
	Subtropical	32.98	34.44	35.99	36.98	36.98	39.16
Gross Fruit Export - Breakbulk TNPA Cargo Dues Revenue		***10 006 389***	***10 608 655***	***8 521 017***	***7 792 551***	***7 165 289***	***7 468 160***
Total Transnet SOC Revenue (ZAR)		**343 005 364**	**376 785 599**	**399 780 622**	**276 529 358**	**431 807 199**	**479 377 501**
Transnet SOC Ave. Revenue per Pallet		*159.94*	*169.30*	*185.98*	*123.44*	*172.50*	*187.40*
Revenue Percentage Change (Year on year)		**0%**	**10%**	**6%**	**-31%**	**56%**	**11%**

Table 9: Transnet SOC Gross Tariff Revenue Generation from Fruit Exports (Source: PPECB)

Additional to the revenue illustrated in the table above – Transnet also earns revenue from:

i. *Lease agreements with fruit port terminal operators*

ii. *Freight rail (fruit)*

iii. *Exports of frozen fruit and pulp concentrates*

7. Conclusions and Key Recommendations

I. A major component of the increased operating costs going forward relates to the labour, resources and equipment components in implementing the Operations Centres so that the Authority can fulfil the requirements of the Ports Act. The Committee wishes to convey that the implementation of operations centres and the cost allocation of such must be clearly defendable and clearly illustrate how the benefits will be relayed back to the beneficiaries' of the ports (the cargo owners and users of the ports). If the Authority cannot guarantee that there will be savings in an aspect of the port system given the level of expenditure in implementing the operations centres, the cost of such should not be bourn onto port users but directly to the Authority.

II. The Authorities CAPEX program as contained in the Transnet MDS must be aligned to the current volume projections and not be overstated. Each tariff application cycle reflects a vastly differing CAPEX program with major CAPEX projects being altered and/or shifted. The Authority must produce a CAPEX program aligned to increasing capacity where capacity is required in terms of credible volume projections.

III. The components determining the Authorities Cost of Capital must be given attention. This specific aspect in the tariff application cycle; by indication of the Authority, is due to increase beyond what can be deemed as reasonable and fair.

IV. The cost of exporting fruit from South Africa to Europe (representing 70% of the export volume) has escalated exponentially. The increased cargo dues tariff as contained in the tariff application cycle contributes to increased costs and goes against certain sections contained in the National Ports Act.

V. It is common knowledge that containerized cargo subsidizes the ports revenue base. The Committee is of the view that increasing containerized cargo dues cannot be substantiated given the current low level of cargo dues for Dry-bulk exports of Coal, Iron Ore and Manganese commodities. A proposal has been presented by the Committee to the Regulator and the Authority to amend the tariffs for full export containers (decrease by 30%), transhipment containers (increase by 30%) and dry-bulk exports (increase by 20%).

VI. The CAPEX allocation for the proposed transfer of the Manganese and Liquid Bulk terminals from Port Elizabeth to Ngqura must be given due attention in correctly apportioning of potential tariff increases as is indicated above.

VII. Furthermore, the Committee requests that the Regulator and the Authority consider the tariffs specific to the fruit sector by equalizing the break-bulk tariffs for Deciduous and Exotic fruits to that of the Citrus tariffs.

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