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30 May 2013

Ports Regulator
Private Bag X54322
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4000

Attention: The Chairman

Dear Sirs,

Transnet National Ports Authority: Public hearings – Pricing Strategy: 4-7 March 2013

Grindrod (South Africa) (Pty) Ltd ("GSA") operates several terminals in the Ports of Durban and Cape Town through its operating divisions, Grindrod Tank Terminals and Grindrod Terminals. As a terminal operator we would like to take this opportunity to comment on the Transnet National Ports Authority's ("TNPA") proposed Pricing Strategy as presented at the public hearings between 4 and 7 March 2013.

It should be noted that as a terminal operator GSA is limiting its comments to those on the proposed revenue applicable to Tenants. Grindrod Holdings (Pty) Ltd through its operating subsidiary Ocean Africa Container Lines (Pty) Ltd is a member of the South African Association of Ship Owners and Operators ("SAASOA") and supports the associations separate submission in respect of the tariff methodology.

Implementation of section 67(1) (b) of the National Ports Act (No.12 of 2005)

Many, if not all, terminal operators in South African Ports have over the last 3 to 4 years been engaged in negotiation with the TNPA on the implementation of section 67(1)(b) of the National Ports Act (No.12 of 2005). Section 67(1) (b) of the National Ports Act (No.12 of 2005) is quoted below:

> *"67. (1) If, in any area within a port-*
>
> > *(b) the terms of a long-term lease which existed immediately before this section took effect are substantially prejudicial to the operation of a port, including terms providing for unreasonable low rentals or containing no restrictions on sub-letting or no provision confining the use of the property to a use relating to the relevant port, the Authority may in writing addressed to the lessee direct that the applicable terms be renegotiated in order to remove the prejudice; or"*

The application of section 67(1) (b) has been targeted amongst other things on favourably low rentals enjoyed by certain terminal operators resulting from historic rental calculation methodologies that are now outdated. The end result of the implementation of section 67(1) (b) is that all rentals in South African ports should be set at commercially equitable rates for all parties.

The method used to set the property land rentals through the section 67(1) (b) process is the accepted norm in the property sector for freehold property. The methodology to be used for leasehold property is different where the rental rates for land are lower than those used for improved properties. This is generally accepted to be a lower risk as it relates to ground leases as opposed to improved property which carry a higher risk due to the buildings deteriorating and becoming less attractive to lease over time.

The basis of the methodology for establishing the rentals is the valuation of the respective properties at a fair market value determined by comparative properties and the prices that they have changed hands at in recent transactions. An accepted first year yield is then applied to the value to establish a reasonable and market related return that should be earned by the owner of that land and hence charged as rental. Over and above the rental the tenant is also liable for all running costs.

A typical calculation of such a rental is shown below:

Land Value	1 500.00	R/sqm
First year yield	8%	
Annual rental	120.00	R/sqm
Monthly rental	10.00	R/sqm

The TNPA approach to determining rentals, which was a commercial approach, is appropriate where TNPA leases land to non-port related tenants who do not generate any other income for the TNPA. The position is very different for the majority of leaseholders who utilise the property to conduct terminal operations, thereby providing additional sources of revenue to the TNPA in the form of marine charges and cargo dues. It is clear to GSA that terminal operators need to be dealt with by the TNPA on a different commercial basis so as not to be discriminated against. The TNPA through the existing methodology requires the same rentals to be paid whether the tenant is a licensed operator or not. Given that the current practice separates leases from licenses a two tier regime has been established which severely prejudices lessors with port related activities, versus those using the facilities for warehousing and storage.

The property valuation methodology being used is inadequate and a broader approach needs to be considered, which takes the following into consideration

- Other economic factors need to be included which affect the terminal operators namely- access, port infrastructure requirements, position of leased property, etc;

- Volume throughput and other revenue generated for the TNPA should be factored into the rental negotiations;

- Future value to the TNPA of improvements to the terminal at the end of the lease are not taken into consideration in calculating the appropriate rental. At the end of the lease these assets and their economic benefit are passed on to TNPA;

- Operating conditions agreed to in both the lease and the newly issued licenses. It is our view that all leaseholders have different usage and other rights and this needs to be formally agreed by all in order to ensure that certain leaseholders are not receiving preferential operating treatment which could give rise to potential anti-competitive behaviour.

The first year yield in the market at present on low risk land is 8%. This has been confirmed with the various Property Funds who are the major investors in commercial property in South Africa. The annual escalation rates in the commercial property market are between 7,5% to 8,5% depending on where the property is situated.

The implication of the implementation of section 67(1) (b) in GSA's experience has been:

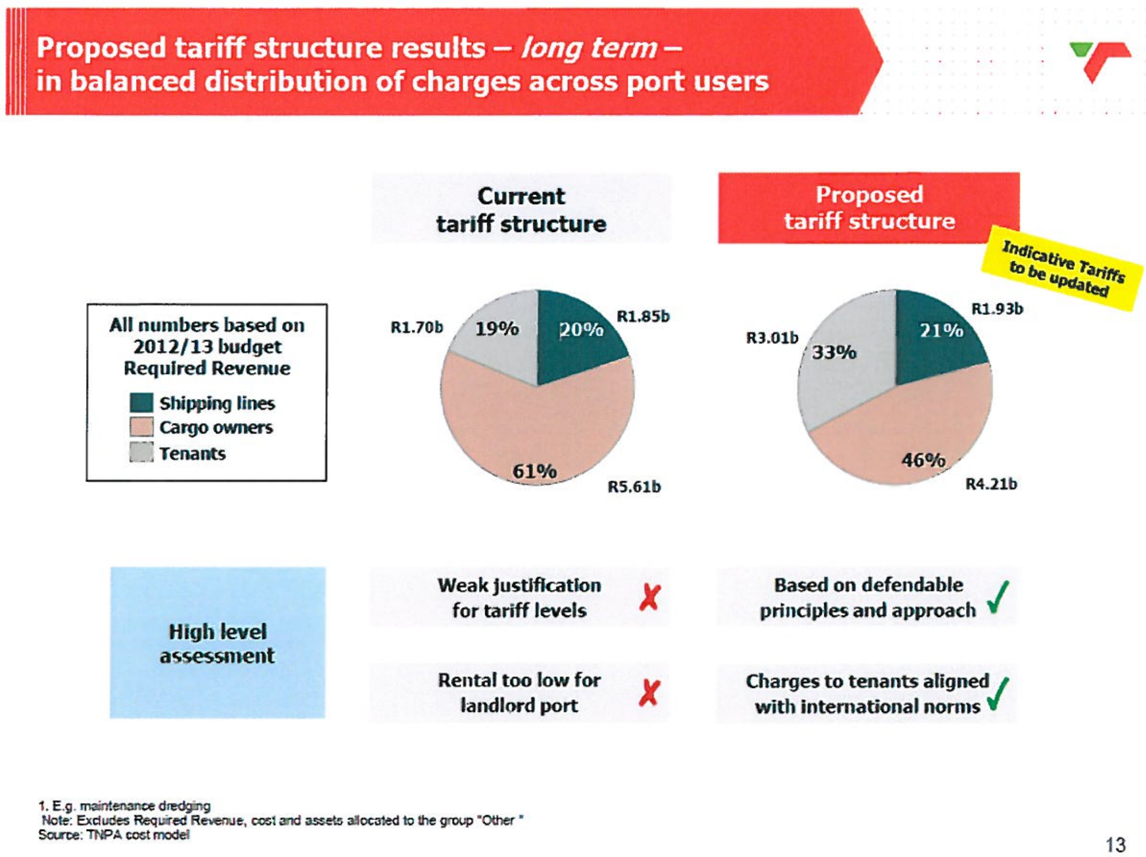
1. That Port of Cape Town rentals are already at market related rates, if not above market rates, and hence were not adjusted.

2. The Port of Durban rentals in Maydon Wharf were below market and have been increased by up to 604% effective 1 January 2012.

As can be seen form the information above rentals have been substantially increased to establish a market related rental. While this is difficult to absorb GSA has been accepting of this as it realised that the previous rentals were unrealistically low and unsustainable.

TNPA Pricing Strategy

It is somewhat concerning to GSA that TNPA included a proposal to further increase rentals as shown on page 13 of the presentation on the proposed pricing strategy.



By our calculation this is a further increase of rentals and property related costs by 77% which will increase rentals to well above market related rentals given that rentals have only recently been set at market related levels. It is not clear what rational supports this proposed jump in rentals as it cannot be market forces as these have already been taken into account in the implementation of section 67(1) (b). Should these increases be implemented port terminal operators will have no choice but to pass these costs on to the cargo interests which would seem a bit disingenuous given the fanfare over reducing cargo dues to assist in bringing the overall logistics costs down. This would appear to undermine the purpose of the pricing strategy.

Proposal on way forward

In GSA's opinion there is only one equitable way forward for the setting of terminal rentals in the Ports of South Africa, and it should embody the following principles:

1. Property rentals should be aligned to the property value and a first year yield rate as is the norm in the property market;

2. First year yield rate needs to be appropriate to leasehold property rather that Freehold property and be based on market related yields at the time;

3. Property values are particular to each site and should be based on factors such as leasehold and license rights, proximity to quayside, rail access, and condition of property, investments made by the tenant, product handling rights and other TNPA revenue generated by the tenant's activities;

4. Escalations should be market related at the time.

We trust that GSA's input will be well received by the Port Regulator and we would be willing to engage in further dialogue on the matter should the Ports Regulator wish to do so.

Yours faithfully,

D A Rennie
Chief Executive Officer Grindrod Freight Services
Ports, Terminals and Infrastructure