TRANSNET

Office of the Chief Executive

national ports authority

Chief Executive Officer
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Dear Mr. Khan

AMENDMENT TO TRANSNET NATIONAL PORTS AUTHORITY'S ("AUTHORITY") TARIFF BOOK - SEPTEMBER 2012 TO MARCH 2013 AND FINANCIAL YEAR 2013/14

The National Ports Act Section 72(1)(b) makes provision for the Authority to amend the tariff book when considered necessary and the Authority would like to propose an amendment to the transshipment cargo dues tariff for the Ports of Ngqura and Port Elizabeth as well the Port of Durban. The proposed amendment would be for the period 1st September 2012 to 31 March 2013 as well as Financial Year 2013/14.

Shipping lines worldwide are confronted with financial challenges and are on cost cutting drives, one of the major problems in trying to attract transhipment volume is that transhipments introduce an additional port call, added transfer costs, storage, and transaction costs, the sum of which often exceed the cost and time saving introduced by faster, larger container and feeder vessels. To make transhipments attractive, the economic and operational benefits must outweigh added economic and operational costs such as additional handling costs, port dues, and possibly extra voyage distances or deviations. At the same time, transhipments are often necessary to attain economies of scale in shipping as well as reducing the costs of vessel demurrage in the overall logistics chain.

There is a strategic drive within the Authority to redirect container cargo from congested terminals to terminals that has unused capacity and therefore we recommend redirection of container transshipment from the Port of Durban to the Ports of Port Ngqura and Port Elizabeth.

The National Ports Consultative Committee (NPCC") of 12 March 2012 specifically referred to the way in which empty boxes and transshipments would contribute to the congestion in Durban during the berth deepening exercise thereby reducing the efficiency in the container terminal. This resulted in crowding out of full import and export boxes that make a much greater contribution to the economy, the port and maritime industry.

The NPCC therefore concurred that the Authority be empowered and is entitled to charge differential tariffs across different ports for the same service or function, to more strategically manage the ports as a system. This included instances where congestion exists in one port and the opportunity cost of using that facility was not reflected in the uniform tariff approach that was in operation. Whilst the Authority was empowered to implement such differential tariffs across the ports, the process of setting those individual differential tariffs is still subject to the tariff setting provisions of the regulatory framework.

In order to facilitate this, the Authority recommends the following tariffs for transshipment containers for the affected ports:

Port	Proposed Tariffs FY 12/13	Empty container tariff FY12/13	Tariff 2013/14 with 5.4%	Empty container tariff 5.4%	Proposed Tariffs FY 2013/14	Proposed Empty container tariff
Durban	R73.56	R72.10	R77.53	R76.00	R155.06 (100%)	R152.00 (100%)
Ngqura	R66.20 (10%)	R36.05 (50%)	R77.53	R76.00	R58.15 (25%)	R38.00 (50%)
Port Elizabeth	R66.20 (10%)	R36.05 (50%)	R77.53	R76.00	R58.15 (25%)	R38.00 (50%)

a. De-incentivize the handling of all transshipment containers in the Port of Durban by increasing the container transshipment cargo dues tariff. The tariff for the FY 2012/13 remains the same, for the FY 2013/14 it increases by 100%. Empty container tariff also remain the same for the FY 2012/13 and increases by 100% for FY 2013/14.

b. Incentivize the handling of full transshipment containers in the Ports of Ngqura and Port Elizabeth by discounting the container transshipment cargo with 10% for FY 2012/13 and by 25% for FY 2013/14. Empty container tariff is discounted by 50% for Ports of Ngqura and PE for FY 12/13 to FY 13/14.

c. Based on this proposal, the projected volumes including discounted rates will result in R63m revenue for FY 2012/13 vs budgeted revenue of R92m. The projected revenue without the discount and new business will result in R51m revenue and hence our discounted proposal will ensure additional revenue of R11m for this financial year.

d. The above approach encourages short sea shipping to the east and west coast of Africa, from the African container hub located at the Port of Ngqura. Furthermore, this initiative will sustain container traffic and ensure the utilization of available capacity at the Port of PE which has experienced declining volumes since the opening of the Port of Ngqura.

For the FY 2014/15, a review would be made by the Authority and application be filed to the Ports Regulator guided by the Pricing Strategy studies which revealed that trans-shipment container rates are priced between 0% and 50% of deep-sea imports/exports container rates.

Discounting transshipment does expose TNPA to the risk of shipping lines using ports for cheap storage thereby impacting negatively on much need capacity. The ports of Ngqura and Port Elizabeth, with a current combined total operational capacity of 1.2 million teus, affords TPT the opportunity to offer extended free storage periods as a lever to attract additional transshipment volumes. This offer is non-discriminatory and has proved attractive to shipping lines that use more than one feeder service to collect and reposition containers at the hub ports. Experience has shown that even though the facility for extended free storage is offered, it is very seldom utilized in full, and the average dwell time is circa 50% of the free storage time on offer.

It is also fully understood between the shipping lines and TPT, that the free storage dispensation offered by TPT is dependent on landside capacity being available, and it is a standard clause written into every contract, that this dispensation can be withdrawn on three months' notice to the shipping line, if operational capacity at the port starts getting affected by an excessive number of containers in the port.

Taking cognisance of the unutilised capacity in the Ports of Ngqura and Port Elizabeth and lower projected volumes it would be advisable to discount the transshipment cargo dues for these two ports in order to attract new business volumes. The Authority, together with stakeholders, is currently working on a longer term container transshipment strategy. This will assist further in determining future tariffs for transhipment cargos dues including possible further revision of the FY 13/14 transshipment tariffs requested here.

The Authority looks forward to your favorable consideration of this request which would apply prospectively based on the Ports Regulator approval.

Should you require any further clarity regarding the aforementioned, this can surely be arranged.

Kind Regards

Mr. Tau Morwe
Chief Executive Officer
Transnet National Ports Authority
Date: 6|11|2012