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To : The Chairman: South African Ports Regulator

From : The National Port Consultative Committee

Subject : Proposals to Transnet National Ports Authority's Alteration of Tariffs for 2013/2014

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PROPOSALS TO TRANSNET NATIONAL PORTS AUTHORITY'S ALTERATION OF TARIFFS FOR 2013/2014

1. PURPOSE

The purpose of this memorandum is to submit proposals and recommendations from the National Ports Consultative Committee to the Ports Regulator of South Africa.

2. BACKGROUND

Section 82(1) of the National Ports Act, Act 12 of 2005, empowers the Minister of Transport in the appointment of the National Ports Consultative Committee (NPCC). The function of the NPCC, amongst others, is to consider the National Ports Authority's (NPA) tariff applications, to comment on those, and to propose meaningful alterations where it is felt that it is necessary to do so.

Since the institution of the NPCC, the current tariff application is the second to be considered. As had been agreed on the first occasion, an ad-hoc meeting of the NPCC was convened to discuss the tariff application, and to formulate and record any alterations for submission to the Ports Regulator of South Africa (PRSA).

3. NPCC TARIFF RESPONSE DISCUSSION

The meeting referred to above was convened in Durban on Thursday and Friday 29-30 November 2012. Participants held intensive deliberations on the tariff application as well as the new draft Tariff book. The meeting resolved that the NPCC's response to the PRSA should cover the following headings:

- Compliance with the National Ports Act, Port Regulations, Directives and the issues raised by the PRSA in the 2011/12 Record of Decision
- Content and Completeness: If there was sufficient information provided in the tariff application, or not.
- To judge whether the Application was Methodological Consistent, or not
- To comment on the Pricing Methodology applied by the NPA

- To comment on the Level of Content Detail provided in the Application
- To analyse and comment on the draft Tariff Book
- To make Recommendations deemed necessary

3.1 Compliance with the Act, Regulations, Directives and the Records of Decision for 2011/12

3.1.1 Section 72(2) of the National Ports Act, indicates that the Authority must, prior to any substantial alteration of tariffs, consult with the NPCC. The NPA's Tariff Application for 2013-2014 was submitted to the PRSA on 1 August 2012. It must be borne in mind that although said Application was submitted on the agreed date, August 2012, it was partially incomplete. This necessitated extensive interaction sessions between the NPA and the PRSA to ensure that the final submission was in an acceptable form. The result was that the PRSA was only able to publish the Application on 15 October 2012.

NPCC's recommendations

The NPCC strongly recommends that the in future NPA ensures that its submission is complete and acceptable in all respects prior to the agreed submission date.

NPA is requested to ensure that when presenting Capital Investment Plans to each of the Ports Consultative Committees (PCC's) and then to the NPCC as required by the Act, that these plans show actual capital investment, per project, together with amounts spent in the year to date; and the anticipated expenditure expectations for the ensuing period.

NPCC's comments

Following the model used for the 2012-13 financial year, NPA again based its tariff adjustment proposal on the Revenue Requirement Model. This was based on NPA's stated need to recover its investment, its cost of operations, (including maintenance), and to derive a profit from owning, managing, controlling and administering ports and investing in them. It is for this reason that NPA's capital spending plans must be presented to local PCC's for approval in the first instance.

The NPCC questions the use of the Revenue Requirement (RR) Model as the most appropriate method for founding its tariff adjustment application. It appears that not only does it seek to ensure NPA's sustainability and profitability, but also that of the entire business of Transnet. Admittedly this could be seen as speculative, but that is because there is not a high enough level of transparency that would enable assessors to determine the facts with any degree of precision, so that anomalies inherent in the model, are not easy to understand, or resolve. The RR Model presents a natural temptation to NPA to continuously upwardly evaluate its regulated asset base to increase its revenue requirement. It appears that in this process, the main motivation is profit enhancement and we have our doubts whether that takes into account the responsibilities imposed on the Authority in terms of broader benefits to the economy and the need to create an environment that facilitates trade.

3.1.2 Section 73(1)(b)(i) and (c) of the National Ports Act states that the Authority may charge fees in accordance with a tariff determined in terms of Section 72 for provision and maintenance of port infrastructure, port terminals and port facilities, including, amongst others, land rentals and granting concessions and licenses.

It is noted that the tariff applications for 2013/14 submitted by the Authority included its Real Estate business, complying with the decision by the PRSA, in its Record of Decision dated 20 January 2011, not to accept any further applications not including the real business estate.

However, a consolidated real estate value of R1 856 bn has been included in the Application, but not explained in any way.

NPCC's comments

The NPCC disagrees with the Authority's view that the tariff determination for the business should include the Durban International Airport site (DIA) portion. The DIA has not been formally submitted to the NPCC and could therefore not be considered and approved. Consequently, there can be no justification for including it in the Regulatory Asset Base (RAB) underlying the current Application.

3.2 Contents and Completeness

The NPCC gathers from the Tariff application that the current Real Estate tariff model is premised on typical land valuation approaches without much regard to the nature of the business operated thereon. Furthermore, by virtue of Transnet Port Terminals (TPT) being one of the divisions of Transnet Ltd, assets leased to this organisation by the Authority are not recorded at fair value as these are considered owner occupied in terms of the accounting standards. Hence, in calculating the revenue requirement of the real estate business on this basis and combining the outcome with the balance of the authority's business, the risk exists that cross subsidisation could occur, which cannot be interrogated. While the NPCC accepts that a case can be made for cross-subsidisation in certain areas, as stipulated in the Ports Act, it must be transparent and open to examination. Otherwise it is possible that low productivity and inefficiencies could develop in certain areas of Transnet's business.

NPCC's Recommendations:

The NPCC therefore recommends that the land leased to TPT should be leased at the same rates as it would be to non- Transnet port operators and would like to encourage the Authority in future to be transparent on the total value of rentals acquired. In much the same way as the cargo dues and marine tariffs are published, we feel that the income to be derived from rentals should be similarly exposed.

3.3 Methodological Consistency

The methodology applied in this tariff application is the revenue requirement approach of determining the opening regulatory asset base and depreciation. The revenue requirement approach takes into consideration the calculation of a revenue requirement in the tariff review year and the conversion of the revenue requirement into a tariff increase, taking into account estimated revenue for the current financial year.

The following formula is used to calculate the revenue requirement

Revenue requirement = (cost of capital x RAB) + operating costs + depreciation + taxation expense – claw back – financing requirements costs of the previous year x (1 + cost of capital previous year) + financing requirements costs current year

NPCC's Comments:

Although it is understood that this is a widely accepted method of calculation, it appears that there are no restrictions in terms of how NPA justifies a revenue requirement in excess of R10b. NPA is requesting revenue in excess of R10b, with operating expenses of less than R4b, including Transnet's excessive over heads. Since it appears that dividends are not paid, and tax is a notional figure, the implication is that cash of some R6b is being generated within Transnet.

It is accepted that the cost of borrowings must be covered; still a significant cash flow is being generated. It is further understood that the pipeline business is self-sustaining; there is a logical inference that these funds are being used to assist Transnet Freight Rail (TFR). The other expense item shown in the application is of course depreciation, but given our earlier comments on the revaluation of assets, there must be doubts as to the validity of this figure.

In translating required revenue into tariffs, NPA has made percentage adjustments to existing tariffs, having regards to Revenue Requirements adjusted for anticipated volume increases. NPA In its initial calculations shows a revenue requirement of R 10.978bn, resulting in an upward tariff adjustment of 14.2%. In what appears to be a bargaining position, it then adjusts its revenue requirement by capping it at R10 275bn. This then reduces the tariff adjustment to 5.4%. The adjustment in revenue requirement has been achieved by reducing the marine revenue requirement by R 703 m, by a process of adjusting current year revenue and applying the forecast volume change. The bargaining position to which we refer can be found in NPA's request that future tariffs be determined on a multi-year basis, as indicated on page 7 of the application: "… in anticipation that a multi-year tariff application approach will be adopted by the next tariff application FY 2014/15."

The view of the NPCC is that the Authority should focus more of its efforts on a volume driven approach to increase revenue in the ports. It is critical that the Authority should engage the cargo owners and shipping lines on the incentives that can be offered to ensure that higher volumes are shipped in and out of our ports. The NPCC believes that potential volume increases could be higher than those used in calculating the revenue requirement, and this would obviously have the effect of reducing the eventual tariff increase.

Furthermore, there seems to be merit in the application of a multi-year approach when the tariff methodology is reviewed in the New Year, but the NPCC sees no merit in basing this on inflation plus 3%, with a minimum of 8.5%. This, if allowed, would give NPA unlimited upside potential, with no downside risk. If NPA wishes to use, for example, the JSE Top 40 as a comparator, then it should also be in a position to accept the same risk parameters. This means that we do not believe that NPA can apply a risk Beta based on specific comparators, and then distance itself from the very risk factors experienced by the comparators.

Another point worth recording is that in the application, NPA makes very little reference to its oversight role and possible cost benefits for port users that could flow from such oversight.

3.4 Pricing Strategy

The issue of Strategic pricing has been discussed in great detail at the Port of Ngqura PCC and also at the NPCC. The principle of differential strategic pricing has been supported in both fora. The Port of Ngqura has been touted as a transhipment hub, yet very little seems to have emerged in terms of a pricing strategy to support this strategic intent.

The NPA was requested more than 18 months ago to submit a pricing strategy which was finally submitted to the PRSA. The Stakeholder engagement process is still to follow.

As part of its Pricing Strategy exercise, the Authority should re-categorised its business into Real Estate and Marine, but as noted, here is a lack of transparency in its presentation of its real estate activities, which makes it difficult to properly assess the impact of this business on the overall operation.

It is instructive to note that in the current application, the proportion of total revenue to be derived from real estate has increased markedly, with a concomitant decrease in the proportionate contribution from marine business, specifically cargo dues.

The logical inference is that tenants will need to increase their charges to cargo sharply. However, it appears that TPT (by far the largest tenant) has undertaken not to increase its tariff by more than the rate of inflation, and this anomaly requires further scrutiny. In the absence of any firm indications on TPT's proposed tariffs for 2013/2014, it is not possible for the NPCC to interrogate this in any great detail.

NPCC's Comments:

The NPCC has noted that although the application goes into considerable detail in applying itself to the concept of Activity Based Costing, the results are not clear in the proposed tariffs, which still appear to contain many items that might be described as historical hangovers. To quote just one example, there is still a tariff for break-bulk coal. To our knowledge, coal is not shipped in that manner, and even if it was, how could it justifiably be shipped at the same rate (R6.00 per ton) as the bulk product? It therefore appears that the pricing strategy remains skewed, with over- and under collections in a number of areas. The concept of cargo dues, which does not exist in many other jurisdictions, militates against an activity based approach, since NPA does not itself engage in the physical activity of handling cargo, which is undertaken by the terminals to which it rents property. To that extent, cargo dues is viewed as an impost, rather than as payment for a service rendered. Similarly, this is an area that needs to be addressed.

In the areas where NPA does render a physical service, namely marine services, the concept of activity-based costing is clearly more appropriate for NPA. Here, it is the view of the NPCC that pricing methodology still contains historical legacies that should be reviewed in terms of current competitive trends and activity-based costing. Pricing should take into account efficiencies and volume increases in each port and terminal.

The NPCC observed for example that tug charges do not take time and distance factors into account. The NPCC recommends that tug charges

per port be differentiated depending according hangovers we have already mentioned, consider the proposed pilotage tariffs. Richards Bay is shown at R16 141.51 basic, plus R5.70 per 100 tons. Durban is R9 701.76 plus R5.07 per 100 tons. Justification of same is questionable, further exacerbated by the fact that vessels calling at Richards Bay are generally of a much higher GRT than those that call at Durban in respect of time, distance, fuel consumption and tug type used. The Authority's tariffs appear to be skewed and open to assumption and interpretation.

As an example of this, the NPCC recommends that tug fees for the Port of Ngqura be decreased as the port does not currently offer 24-hour service and is also able to share services with Port Elizabeth, thus resulting in efficiencies which should be reflected in the tariff.

Conversely, tariffs for running lines should be the same at all ports as theoretically; there should be no differences in the cost of providing this service.

The setting of cargo dues tariffs remains questionable. Analysis of individual tariffs indicates that the Authority has not yet fully migrated from a value base to a unit (weight or volume) base charge.

NPCC's recommendations

The NPCC strongly believe that in order to attract additional vessels/volumes routed through the port of Ngqura, Transnet needs to look at means of incentivising this port by offering Shipping Lines a reduction in marine costs.

Transnet's request to the shipping lines to re-route 400,000 TEUS over a 3 year period from Durban to Ngqura during the upgrading process of the Durban Container Terminal, can only be achieved at a huge cost to the shipping lines.

Herewith an illustration of the additional cost incurred by a shipping line to tranship containers which were normally handled at Durban port to now transship those same containers at Ngqura:

A typical feeder vessel consumes 135 tons of fuel on average per day.

Transit Time: Durban/Ngqura/Durban = 2 days

2 days x 135 tons x USD700/ton = USD189 000.00

@ r.o.e 8,5 = ZAR1 606 500.00

This is just the price for bunkers incurred, extra per vessel, and excludes the additional port call expenses.

NPCC's Recommendations:

The NPCC recommends that the NPA subsidize these additional expenses incurred, or provide incentives by way of reducing the marine charges at the port of Ngqura.

The other area which needs to be addressed in order to sustain the viability of utilising the port of Ngqura is the equalisation of rail rates from Ngqura to Gauteng region; equal to the rates from Durban.

NPCC's Recommendations:

The NPCC further recommends no further increases until such time that detailed transparent costing and cost benefit analyses are done and shared with Port Users.

The cost of slow decision making and administrative inefficiencies weighs heavily on all port users. The Ship Repair concessioning process bears testimony to this. There is therefore reason to believe that Capex is overestimated to allow for same inefficiencies.

NPCC's recommendations:

The NPCC recommends integrated planning across all modes of transport.

3.5 Content specifics

3.5.1. **NPA's Regulated Asset Base**

The NPCC observed that over a three year period the NPA moved from a RAB of R12bn to R48bn without adding any significant additional assets.

This was primarily through a revaluation of existing assets, which has resulted in the figure of R66 315bn for 2013/14. This revaluation has been carried out during a period when real estate values have been negatively impacted by the global financial crisis. How is it possible for the NPA to upscale its RAB so dramatically, thereby heightening the negative impact on the SA economy? This unprecedented artificial increase in the NPA's RAB presents a serious concern as it has a major impact on the current tariff calculation. While this approach may benefit Transnet and its shareholder, it has a lot to do with the cost of doing business in SA.

NPCC's Recommendations:

It is recommended that a more realistic valuation of historic assets be used in calculating NPA's RAB when preparing future tariff applications.

NPCC's Comments:

It is further noted that NPA has not entirely cleaned up its asset base, with assets belonging to TFR and TPT still taken into account despite the migration of assets from NPA to TPT that was effected on 1 April 2012. This further increases an already inflated RAB.

NPCC's Recommendations:

Furthermore it is proposed that the 2013/14 RAB be calculated as indicated below in table 1.

Calculation of Regulatory Asset Base

	SAR Million	Source
RAB April 2011	44 635.00	(ROD 2012)
Inflation	2 745.00	(6.15% annualised as at March 2012)
Depreciation	-937.00	(per NPA)
Capex	1 780.00	(planned CAPEX 2,929 minus underspend 1,149)
RAB April 2012	48 223.00	
Inflation	2 604.00	(ROD 2012)
Depreciation	-1 276.00	(NPA)
Capex	3 320.00	(NPA)
RAB April 2013	52 871.00	

Table 1

Note:

Inclusion of real estate into RAB by NPA in their application is rejected because Real Estate income is excluded.

Inclusion of DIA into RAB is rejected as the acquisition was not approved in the 2012 ROD. It was agreed at a previous NPCC meeting that the NPCC will deal with all DIA related issues. To date the NPA has not submitted any motivation for approval. Following due NPCC processes same may be included in the RAB in future.

3.5.2. **Return on Assets**

In respect of the gearing ratio the NPCC observed that the Transnet Group operates on a gearing preference of 45%. The Transnet Group gearing preference of 45% is not unusual for an established company, but in an organisation that generates such a strong positive cash flow, we question whether NPA needs to follow suit. With an EBIT margin of around 60%, it is felt that a gearing ratio of 36% is excessive and should be modified accordingly.

However, the intentions and application of value generated (R100m) is what must be understood. Direct correlation to the NPA's strong and reliable cash flow track record and in particular its push for what it considers in its Revenue Required Model for 2013/14. Given the reduction in the prime lending rate financing debt has become somewhat cheaper, the 36% proposed by the NPA is consistent with the 2012/13 ROD, but in terms of our comments above, is not appropriate.

NPCC's comments

The NPCC further noted that the gearing ratio should be a constant and not be manipulated year on year.

The NPCC considered material changes regarding the prime rate, inflation R/$ exchange rate, should there have been any.

3.5.3. **Cost of Capital**

The vanilla WACC as calculated in the application is generally in line with international practice, but the methods used to select the Beta, MRP and risk free rate can lead to substantial differences in the final derived funding requirement. These need further examination, but the NPCC wishes to record that it is extremely difficult to unpack this in the absence of a final agreed tariff methodology, which is unlikely to be available until the first quarter of 2013. As recorded in submissions in previous years, the lack of supporting business plans, cash flow projections and cost/benefit analyses indicates that these criteria have been arbitrarily selected in a manner that suits NPA's objectives, from a revenue point of view.

In addition, the question has been raised as to whether port users should be expected to fund projects from which they do not necessarily benefit, particularly, if such projects are not developed for sound commercial reasons. The proposed DIA development and incorrect sequencing of projects could be used as examples.

Cost of Debt last 2012/13: 4.51 accepted by the PRSA “comparable to an equivalent SA infrastructure State Owned Enterprise”.

Cost of Debt requested 2.81%.

3.5.4. **Risk**

During 2010/11, 5.68% Risk Premium was accepted by the PRSA. The MRP shown in the current application is 6.3%, which, whether coincidentally or not, is the precise figure suggested by Port Users in last year’s response.

NPCC’s Comments:

Scanning the NPA’s Risk Profile raises several questions; what are the inherent risks for the NPA to lose its Market share when operating at efficient levels and managing its respective Terminal Operators in a similar manner with predetermined agreed KPI’s? Given that this is something that the NPA can influence to what degree are they exposed to risk in this area? And as mentioned, it is not appropriate that a legislated monopoly, protected from revenue shortfalls by the claw back mechanism, should be equated with private competitive operators in terms of risk assessment.

NPCC’s Recommendations:

The NPCC recommends that the long-term average MRP of 5.8%, as previously determined by the PRSA, would be more appropriate.

The asset Beta calculation: The current application uses a figure of 0.8907, whereas as recently as the 2011/12 ROD, a figure of 0.5 was considered to be acceptable by the PRSA. In the light of earlier comments in this document, we do not believe this figure is justified. It is virtually impossible to accurately determine what it should actually be.

NPCC's Comments:

The NPCC considers it appropriate it should remain in the area of 0.5. The figure used in the application, after the Hamada formula is applied, results in an equity Beta of 1.2514.

NPCC's recommendations:

The NPCC recommend that the *equity Beta* should not exceed 1.0 following the Hamada application.

3.5.5. **Risk free rate**

The NPA applied a rate of 8.36%. In the absence of valid comparators, the NPCC accepts the PRSA's previous decision that this as an appropriate rate when compared with organisations of a similar size in the private sector.

3.5.6 **Operating Costs**

Labour Costs: Indicates an increase of 12.8% (R190m) on 2012/13, raising several questions as to what has changed. Information provided on page 36 of the Application is insufficient in explaining why so many more people are required. NPA is a relatively small employer in the overall context of the ports, and although the NPCC understands that wage increases have generally been above inflation, it is difficult to understand why this level of increase should be necessary. The 12.8% increase in financial terms is not readily understandable in view of the fact that NPA plans to increase its head count by over 21% by the end of the 2013/14 financial year.

NPCC's comments:

12.8% is regarded as excessive. In a previous ROD the PRSA ruled that Labour cost could be increased with Inflation + 3%. The NPCC supports that the Labour cost component increase be consistent with that determination.

Contract Payments: Presents a relatively small increase yet it provides very little information.

NPCC's comments:

More information is required.

Professional Services: The NPCC observed that this line item doubled 2011/12 to 2012/13 with a further increase of 17% for 2013/14. This presents a significant increase without providing any meaningful detailed information. NPA mentions consultancy services, with particular reference to the Section 56 processes related to the Port of Ngqura, but with the professional expertise available within the organisation, and the proposed increase in head-count, same is questioned. The Authority has the obligation to disclose sufficient relevant information which was not provided given the significant increase.

NPCC's comments

The NPCC is of the opinion that NPA must explain this deviation and further explain projected expenses in this category. It is required that the expenses be specified per port...

Rental:

NPCC's Comments:

Given the 24.6% increase requested, the NPCC resolved that NPA should provide a detailed breakdown per Port for each of the sub categories, i.e. internal and external land and buildings, machinery, equipment and furniture, etc. This should be further unpacked in respect of Rentals catered for linked to Transnet and or other divisions. The Rental breakdown to further explain NPA Buildings etc. that have been standing vacant, as the NPCC has difficulty in understanding why a major land owner needs to spend R88m on rentals .

Security Costs: ***NPCC's Comments***:

The Committee questions whether 6.8% is sufficient and requests a detailed breakdown and explanation.

Group Costs: ***NPCC's Comments***:

The NPCC resolved that 19.1% is excessive and requests a detailed breakdown of the costs, as well as how this apportionment compares with the other Transnet Divisions. The 19.1% cannot be viewed in isolation, as the increase from 2011/12 to 2013/14 is actually 130.5%, and this is surely excessive, particularly in its "labour" component, which is increased by nearly 200% over the same period.

NPCC's Recommendations:

The NPCC recommends that there be a zero increase in this category. Furthermore that a detailed explanation be provided regards previous increases and value added.

Depreciation: ***NPCC's comments***

Referring to the 2010/11 ROD the NPCC resolved that the NPA should provide more clarity regarding the elements of its depreciation. It appears that the depreciation period of assets is something of a moving target; this figure also relates to the revaluation of assets previously referred to.

NPCC's Recommendations:

The NPCC recommends that guidelines regards depreciation be clearly defined and agreed to.

3.6 Tariff Book

Overall increase of 5.4% requested:

Informed by the Tariff Book, it is it is clear that the Authority uses Gross Registered Tonnage as a key determinant in Marine Tariffs. This is of material interest as the Authority does not disclose projected average size vessels and number of vessel calls per sector. Fleet changes on the East-West Highway impacting on North-South and South–South trade, i.e. increased GRT vs. vessel capacity and draft restrictions are not taken into account in the Authority's planning. This holds true for all sectors, including Ship Repair.

NPCC's Comments:

Incorrect vessel sizes are likely to misinform revenue expectations. This creates further misalignment in terms of safety, security and risk mitigating measures. Incorrect projections further inform or misinform Marine Capex and productivity standards.

Marine Services:

Pilotage: The applied methodology requires further explanation. Cape Town is generally lower than all the ports; Ngqura and PE appear to be penalised on their per 100 ton increments, and the Richards Bay anomaly has already been mentioned

NPCC's Recommendation:

The Committee request that the NPA explains the variance.

Tugs: The NPCC noticed that the Richards Bay surcharge is historical which has to be explained. The Port of Ngqura is being marketed as a transhipment hub, yet it appears to be penalised in the NPA's tariff application.

NPCC's Comments:

The NPCC resolves that NPA explains same. It is required that there be a differentiation in tug fees for different vessel sizes in the Port of Saldanha Bay.

Berth Dues: Similarly, delays on the berths are billed directly to the Shipping Lines even though the Terminal Operator may be at fault.

NPCC's Comments:

This calls NPA's oversight role into question.

Cargo dues:

At the outset, the NPCC records that the "one size fits all" approach often adopted in NPA's tariffs are not appropriate.

NPCC's Comments:

While there is no desire to revert to an ad valorem system, it is felt that (particularly in respect of containers), a more regional- and commodity-based approach is needed. Having said that, there are some particular items that require comment:

Motor vehicle tariffs:	The proposed tariff, although representing a decrease on the official 2012/13 rate, still constitutes a substantial hike over the discounted rate that has been levied for most of the year, following the rebate that was applied. ***NPCC's Comments:*** ***Given the sensitive nature of this market, the NPCC is of the opinion that the proposed tariff runs the risk of rendering this market sector less competitive internationally.***
Cement and Clinker exports:	Significant increase with NPA setting at a minimum tariff level of R6. ***NPCC's Comments***: ***Clarity is required as to the NPA's strategy relevant there. The NPCC acknowledged that increasing these tariffs will no doubt dramatically increase the NPA's revenue however, cognisance must be taken with regards to the impact or advantage this may provide to competitors.***

Coal: Similarly to the previous category. R3 presents a major increase. The NPCC requires the NPA to explain this major increase.

NPCC's Comments:

We understand that in general, Richards Bay's tariffs may be lower than in other parts of the world, but is this adequate justification for a 100% increase in the tariff? Particularly when it comes as a direct charge on exporters?

Liquid bulk: ***NPCC's Comments***:

The cargo dues on liquid bulk, especially on crude oil and petroleum products need to be benchmarked and assessed given that the cargo dues on these commodities increases the costs of all products in the value chain and impacts on the cost of investments.

Container Exports: The NPCC assessed the implications of the proposed changes. The proposed reduction is likely to result in the NPA increasing its rental fees with Terminal Operators in return increasing its THC. We have already referred to same opacity when viewed against TPT's commitment not to increase its charges by more than the official inflation rate.

NPCC's Recommendation:

The Committee requests NPA's explanation on this grey area.

<u>Container Imports:</u> The NPCC agreed that a reduction in import tariffs will no doubt be welcomed.

NPCC's comments

Having said that, and having regard to SA's balance of payments status, the NPCC questions whether Container Import reductions benefit our country's current trade deficit.

<u>Cargo Dues order Cancellation Fees</u>:

The NPCC discussed the reasons resulting in CDO being cancelled and why cargo owners and their forwarders often submit ahead of vessel arrival. An example was illustrated with SAECS vessels.

Vessels often arrive on a Friday; cargo owners may want to collect their cargo on Monday; Shipping Lines prefer that documents are submitted upfront; Customs entry needs to be passed; It is accepted that the NPA allows for 3 working days from the time the vessel arrives. Cargo Owners become liable to pay storage, demurrage etc. should they submit their documentation post vessel arrival. In the event a vessel decides to bypass a port due to it being wind bound, or cut and run etc. cargo owners have the obligation to amend their documents manually incurring a fee of nearly R300 per document.

The NPA's Ports On line system does not recognise the Ports System in its design. The NPA has to ensure that their systems allows for electronic amendments without charging excessive fees.

NPCC's Comments:

The NPCC is aware that this matter is currently under review by the Regulator, but requests that the NPA not consider this an alternate revenue stream.

Until this has been resolved, NPA is requested to declare revenue earned from this practice together with providing insight regarding adverse

implications experienced due and related costs incurred. The NPCC further requests that the NPA communicate steps taken to ensure that Ports on Line makes provision for electronic amendments and passing of replacement orders, and address the issue of cargo owners being penalised for circumstances beyond their control.

4. RECOMMENDATIONS

4.1 Labour

The Tariff application reveals that labour costs are the largest expense for the Authority, contributing 50.4% to total operating costs. A component of salaries is negotiated with labour unions and historically this escalation is above, or equal to the inflation rate. The salary increase for the 2011/12 financial year was greater than what was budgeted.

Included in the Group's overhead labour cost for FY 2011/12 and FY 2012/13, is an incentive provision for the Authority which has been accounted for in the actuals of the Authority for FY 2010/11. This, in conjunction with additional skills required to meet objectives of the growth strategy and to support delivery in key focus areas have increased labour costs significantly, as well as by staffing the Port of Ngqura. The number of employees at the Authority is planned to increase from 3422 as at March 2012 to 4044 March 2013 to 4159 in 2013/14.

South Africa has enjoyed relatively strong economic growth between 1994 and 2008. Despite improved growth, the South African Economy remained one of the most inequitable in the world. Deep inequities were associated with extremely high levels of joblessness. Reports from Statistics South Africa indicate that South Africa has not created sufficient employment opportunities; the current levels of unemployment remain high at 25%. Government has a vision of growing employment by five million jobs in 2020, reducing unemployment by 10%. On the other hand inflation in South Africa remains high at 5,3% as reported in August 2011.

NPCC's Comments

The NPCC welcomes the initiative of the Authority to increase employment in the port sector, but such an increase must be justified in terms of volume, revenue growth and value-add, and not purely in terms of social responsibility. At the same time, employment policy must ensure that the requisite level of skills and experience be employed. Increase in employment in the port sector should not be a major justification for increasing tariffs.

NPCC's Recommendations:

The NPCC recommends, similarly to the recommendation last year, that a detailed study be carried out as to the number of people employed by all the Authority, Terminal Operators, Shipping lines, Shipping agents, Ship Repair / Building and Port Users across all Ports, so that an integrated picture of employment in the sector can be derived.

5. RECOMMENDATIONS

It is recommended that the PRSA:

5.1 Takes note of the fact that the 2012/13 tariff increase of 2.44% generated adequate revenue for the Authority to invest and maintain infrastructure and superstructure

5.2 Approves no tariff increase, including rentals. Key focus should be on productivity, efficiencies, sound project planning and management, effective decision making and administrative excellence.

5.3 Strategic Tariffing be applied across the Port systems i.e. Port of Ngqura be treated in its tariffing application as a transhipment hub.

5.4 Proposed RAB opening balance for 2013/14 of R52 871bn be accepted, based on the principle enunciated in the previous ROD. This may change downwards once the current ROD has been issued. The process to verify the asset revaluation upwards from R12b be finalised as a matter of urgency, and until it is, no increase should be granted.

5.5 DIA land purchase of R1.85b to be excluded from the 2013/14 Tariff Application.

5.6 NPA to provide full disclosure as to its Revenue Requirements need for R10bn and the application of funds by Transnet.

5.7 Going forward NPA to provide the PCCs' with detailed capital plans for approval at the 2nd quarter PCC meetings to enable the NPCC to receive a comprehensively approved CAPEX plan at the next meeting they convene

5.8 Take note of concerns, abnormalities identified and recommendations made by the NPCC throughout this submission in the tariff application by the Authority.

Submitted for the Chairman's consideration.