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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 third 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 Cape Town on Tuesday and Wednesday 14-15 October 2013. Participants held intensive deliberations on the tariff application with reference to the anticipated 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 2012/13 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 2013/14

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 2014-2015 was submitted to the PRSA 16 September 2013 with prior approval from PRSA for the extended submission. The initial submission date was 1 August 2013. The PRSA handed its prescribed Tariff Application Manual to the TNPA 13 August 2013.

3.1.2 Following the late Application submission and rushed Tariff Roadshow, very little time was afforded Port users to apply themselves.

NPCC's recommendations

The NPCC strongly recommends that in future the 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 continues to question 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 2014/15 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.

3.2 Contents and Completeness

The NPCC maintains the following position:

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. Prolonging the position where TPT enjoys preferential lease rentals continues to negatively impact the rest of the leaseholders who ultimately subsidises the TPT business. 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 similarly be published.

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:

It is accepted that this is an interim measure only. The TNPA's RAB is at the centre of this calculation and has been upwardly evaluated several times previously. This unrestricted upward evaluation for the same asset base is vehemently opposed. It is understood that this is a widely accepted method of calculation. Consistent with our previous submission, it appears that there are no

restrictions in terms of how NPA justifies a revenue requirement in excess of R10b.

Furthermore the NPCC supports that the TNPA considers its oversight role in a more serious light. Operational inefficiencies as a contributing factor is to be calculated to understand how same has diverted volumes away from SA Ports.

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.

The TNPA oversight role is still to mature together with possible cost benefits for port users that could flow from such oversight.

3.4 Pricing Strategy

Industry is awaiting the Pricing Strategy outcome. The principle of differential strategic pricing is widely supported at a port PCC level and NPCC level. The Port of Ngqura continues to be touted as a transhipment hub, little seems to have emerged in terms of a pricing strategy to support this strategic intent.

As previously recommended the Authority should re-categorised its business into Real Estate and Marine. Same was done however, there 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. There is a lack of detail.

The NPCC maintains that in the previous 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.

The current Application level of granularity remains questionable.

NPCC's Comments:

The NPCC maintains its position as follows:

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 to the hangovers we have already mentioned, consider the proposed pilotage tariffs. Richards Bay and Durban are examples of same. 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 tranship 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.

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. 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:

The NPCC welcomes the ruling that the DIA is excluded from the RAB.

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.

E.g. Durban – Bay head shunting yard is only used by TFR. According to information available does TFR not pay any rental for the area? Reason given: - TNPA as landlord must provide access to their facility. This is not valid as it is only TFR using the rail and is not a multi user principle as with the road act.

TNPA have also requested approval for maintenance work and improvements to be done in this area in the OPEX and CAPEX budget which had questions from the Durban PCC regarding the responsibility of maintaining this area. This was not yet clarified to date and as we cannot find a directive to that should be responsible for the Bayhead shunting yard we request the Port Regulator to make a ruling on this.

This is only but one example that was picked up and there should be many more such areas which inflates the Asset base, increase the OPEX & CAPEX budget and result in TNPA not receiving revenue for property used by a single user as in all other cases where land is leased to single tenants or operators.

NPCC's Recommendations:

RAB

The Regulators ruling on the NPA's RAB opening balance is noted together with its intention to revalue a sample of the TNPA RAB.

The NPCC supports that the RAB reviewed. It is understood that PRSA's approach in revaluating a sample of assets forms part of the process of cleaning up the TNPA RAB. It must be noted that during the period in which TNPA upwardly evaluated its Asset Base most commercial property prices dropped sharply given the macro economic climate at the time and to date. Property prices are still on the road to recovery. Furthermore Port property should not be compared with the for example V&A property prices.

The TNPA asset base has to be scrubbed and separated from other Transnet divisions. All additions in the current RAB impacts positively on the TNPA strengthening its Revenue Required Methodology whilst negatively impacting Port users.

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 50%. 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 2014/15. 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 still under review.

The PRSA previously determined that the WACC should be 5.21%. The NPCC supports same?

3.5.4. **Risk**

The NPCC supports the 6.3% as noted in the previous ROD.

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**

NPCC supports the 2013/14 ROD in this regard.

3.5.6 **Operating Costs**

Labour Costs: Labour costs will need to be explained in more detailed. Particularly differentiating the cost in relation to the other Transnet divisions.

NPCC's comments:

The NPCC supports job creation and employment. However, to date there has been no detailed breakdown to assess duplication of services and to further understand how this will stem the current level of inefficiencies which has added cost to the chain. 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: Very little information is provided.

NPCC's comments:

More information is required. This is to be explained.

Professional Services: This cost needs to be unpacked particularly given the sharp increases over the last two years.

NPCC's comments

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

Rental:

NPCC's Comments:

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 indicated 28% vacancy factor is very high. The Rental breakdown to further explain NPA Buildings etc. that have been standing vacant.

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

The NPCC resolved that increases in group costs remains excessive and previously requested a detailed breakdown of all related costs, as well as how this apportionment compares with the other Transnet Divisions. This view still holds.

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.

Major Projects:

Tugs: The acquisition of 15 new tugs seems excessive. This is to be confirmed.

Richards Bay: Proposed Capex spent is questioned due to both local and Provincial Government being absent at the meeting. Neither party objected to same capex being tabled.

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.

Whilst the question of pricing strategy was raised in our previous submission with no positive results, we need to once again highlight that if TNPA is marketing the port of Ngqura as a transhipment hub servicing sub-Sahara Africa, they seriously need to look at a different tariff module for this port by means of incentivising this port by offering shipping lines a reduction on marine costs.

Transnet's request to the shipping lines to re-route 400000 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 line.

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

2days x 135 tons x USD 700/tons = USD 189000.00

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

The other major threat is that transhipment containers can be lost to other hub ports outside South Africa if Transnet tariff is no longer competitive. Whilst port efficiencies are extremely important the operational costs are as important when appointing a hub port for a shipping line's transhipment containers.

When one considers that according to the recent global port pricing study revealed that S.A ports are 800 percent above global norm and looking at the authority's volumes growth table where tranship volumes comprise 24 percent of the total container volumes this poses a real threat. Everything therefore needs to be done to not only maintain the current transhipment volumes but drive to increase transhipments routed through Ngqura. Remember the loss in revenue is not only the transhipment cargo dues but reduction in number of vessels calling reducing the marine revenue.

The other area of concern with Ngqura being marketed as a transhipment hub where certain Shipping lines only has one port of call in South Africa is the offering of Bunkers. Currently the only means of taking bunkers at Ngqura is for the Shipping lines to shift to a lay-by berth however all additional shifting costs are borne by the Shipping line, not even mentioning the delay in performing this operation.

NPPC recommendation:-

The NPCC recommends that TNPA subsidize these additional expenses incurred, or provide incentives by way of reducing the marine charges in order to compete against other global hubs ports offering similar transhipment facilities as the reduction in cargo dues for transhipment containers has of little significance to the additional costs incurred by the Shipping line.

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.

The NPCC further recommends a 20% discount in Marine charges for the Port of Ngqura for all Transhipment vessels only.

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:	SA competing with the overseas factory who also supply export cars. The automotive industry has just come out of a 5 week strike action.
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.

Container Imports: 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.

Cargo Dues order Cancellation Fees:

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 52% 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.

Labour cost at a NPA level increased with 21% in FY13/14 with a further proposed increase of 9.1% for the FY14/15 as a percentage of total operating costs. In terms of Head count the NPA employee total increased by 825 to a total staff compliment of 4409 for the FY 13/14 as budgeted. NPA proposes to increase the budgeted number with a further 189 employees in FY 2014/15. There seems to be an anomaly in that FY 2013/14 staff cost divided by headcount for 2013/14 suggest that statistically actual cost per head has gone down 1.6%. FY 2014/15 actual cost per head increased with 4.6% with actual headcount increasing by 4.3% as stated.

Furthermore there is a clear indication that TNPA did not fill all its previous vacancies. It is a concern that inefficiencies in the Port system remains costly whilst NPA increases its headcount.

The NPCC previously questioned levels of employment in respect of getting the right skills at the right levels.

The Group's overhead labour cost increased in FY 2012/13 and FY 2013/14 with a further proposed increase in 2014/15. Actual labour cost increased from R83 to R228 to the proposed 250 in 2014/15.

The NPCC expresses its concern with this increase in head count at a group level particularly of NPA's increased need for Professional services and the long decision making process that adds to the cost of doing business in SA.

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. PREVIOUS RECOMMENDATIONS

Overall level of transparency and granularity – NPA to provide a greater level of detail throughout its Application as has been requested several times previously.

I. The TNPA asset base has to be scrubbed and separated from other Transnet divisions. All additions in the current RAB impacts positively on the TNPA strengthening its Revenue Required Methodology whilst negatively impacting Port users.

II. 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. Prolonging the position where TPT enjoys preferential lease rentals continues to negatively impact the rest of the leaseholders who ultimately subsidises the TPT business. 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 similarly be published.

III. Rentals - 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.

IV. 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 i.e. 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.

V. Previous recommendation that a world-wide comparative study be carried out assessing liquid bulk as the Ports Regulator has thus far benchmarked dry bulk items, coal and iron, only.

VI. Cargo Dues order Cancellation Fees: 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.

6. It is recommended that the PRSA:

I. Approves an increase of no greater than 2.5% with the exception of the Port of Ngqura. Budgeted volumes have consistently been incorrect, and the impact of greater volumes that subsequently materialise, has a marked effect on TNPA's returns. The Budgeted volume increase of 3.5% is in our view incredibly low.

II. The 2.5% increase should also be applicable to lease.

III. It is further proposed that TNPA not keep the ETIMC portion as requested in its Application.

IV. The NPCC proposes that Marine charges be discounted by 20% for the Port of Ngqura only. This discount should be applicable to Transhipment vessels only.

V. It is further proposed that all TNPA IT equipment, with the exception of extremely high value items, be bought rather than leased.

Submitted for the Chairman's consideration.