



OSHO CEMENT (PTY) LTD

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11 September 2017

The Chairman
Ports Regulator
Private Bag X54322
Durban
4000

Dear Sir

RE: Comments on the National Ports Authority Tariff Application 2018/2019

We are pleased to provide our comments on the captioned subject and will be glad to provide further inputs should it be considered necessary by the Ports Regulator while reviewing our comments.

Background of the upcoming cement project at Coega IDZ, Port Elizabeth

Osho Cement (Pty) Ltd ("Osho Cement" or "the Company") is engaged in the setting up of a Cementitious Grinding Facility in the Coega IDZ, Port Elizabeth, Eastern Cape. The purpose of this facility, being set up at a project cost of R500 million, is to manufacture cementitious products from cement clinker, limestone, gypsum and granulated blast furnace slag, for the local and regional markets. The Coega Project promotes Foreign Direct Investment in South Africa, reducing the dependence on imported cement, creating meaningful job opportunities and stimulating the local economy.

Osho Cement belongs to the Osho Group, and is owned by Osho Ventures Limited (60%) and Heidelberg Cement AG (40%). Heidelberg Cement AG, headquartered in Germany, is the world's second largest cement company. The Osho Group aspires to be a leading force in cement production in Africa and has embarked upon setting up two cement grinding units, at the first place, each having a capacity of 0.7 million tons per annum, in Richards Bay and Coega, at a total investment of One Billion Rand. In addition to cement, Osho Group has interests in coal – trading, beneficiation, mining; recycling; and property development.

Key macro benefits of the proposed cement projects of the Osho Group

Construction of the first of the proposed grinding units of the Osho Group has already commenced at Coega IDZ, Port Elizabeth, and commissioning is slated for Q3, 2018.

The grinding units will use the latest state of the art, energy efficient technology and will assist in supply of domestically produced cement to the local markets.



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Osho Cement intends to import raw materials (mainly, clinker and Granulated Blast Furnace Slag) and process these raw materials to produce cement. A summary of benefits of this approach follows:

1. The beneficiation process ensures that employment opportunities are created in South Africa, and that South Africa receives a good quality, affordable finished product. The plant will also promote skills transfer and the development of artisanal skills within the local population. These projects will stimulate the local economy around Port Elizabeth and Richards Bay.
2. Commercially viable Limestone (the primary component of clinker) deposits are limited in the coastal markets in the country and the import of clinker will allow conservation of natural resources. Osho Cement has thus aligned itself with the government policy for raw material beneficiation as stated in the New Growth Policy.
3. Cement produced at these grinding units, will also be exported to other countries in the region namely Mauritius, Madagascar, Angola, Mozambique, Reunion, Comoros and Seychelles - these countries have been importing in excess of 6 million tons per annum.
4. The import of the raw materials will assist in better utilisation of return load of ships coming in on ballast. The cement produced will be distributed in the local areas and inland by using the return load on rail wagons and trucks (that bring in cargo to the port for export), where possible.
5. Osho Cement aims to produce cement in a cost effective manner, which will have a positive impact on the local economy since cement is a crucial input for construction and infrastructure development activities, and is vital for the development of the country. This is also in line with Government's Strategic Infrastructure Project and will support the promotion of manufacturing industry in South Africa.

Tariffs on Granulated Blast-Furnace Slag (GBFS) and its impact of Osho Cement

We require support from the Ports Regulator given our preliminary assessment of the projects' long term financial feasibility, beginning with the tariffs on GBFS.

GBFS is currently not recognised as a separate product category in the TNPA tariff, 15th Edition, probably because GBFS is currently not handled by South African Ports. A very low value material, GBFS is produced as a by-product from the blast furnace of steel plants and is used in the production of various cement products (Portland Slag Cement, Blast-Furnace Cement as well as Composite Cement).

In the absence of specific cargo dues for GBFS, it may possibly attract the tariff applicable to unclassified imported bulk cargo items. Our rationale in making the request for setting specific cargo dues for GBFS is summarised below:



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- i) The high tariff applicable to uncategorised imported bulk cargo items represents an amount almost equal to the likely value of the imported raw material. The price of GBFS, available on the international market, ranges around US\$5-6 per ton. Therefore Osho Cement believes that the classification of GBFS and pricing of cargo dues as an uncategorised imported bulk cargo will restrict the importation of GBFS altogether, thereby not only affecting the production of cement locally but also leading to a loss of potential revenue for TNPA.
- ii) Given the current port facilities, GBFS is easy to offload, being somewhat comparable to Sulphur (R6.51/t) or even salt (R6.00/t). The ease of handling of GBFS, which does not result in dust formation while handling, should be a positive influencer in it being set specific cargo dues relevant to the commodity.
- iii) Recently the World Trade Organisation went on record to promote the use of GBFS as the greenest extender available on the market. This can be attributed to two facts:
 - a. Firstly, the product would otherwise be occupying land-fills and deteriorating the quality of environment; and
 - b. Secondly, the use of GBFS reduces pressure on local resources as it restricts the use of clinker .Besides the above mentioned benefits result in reductions in carbon emissions and a more sustainable approach to meeting the demand for cement in a growing economy.
- iv) Specific GBFS imports will create additional revenues for TNPA, and as such a separate categorisation will positively impact on the revenue generation of TNPA.

Thus in conclusion, based on the preceding facts, we sincerely request the Ports Regulator to kindly recognize GBFS as a separate product category. Accordingly, due accordance should be provided to assign GBFS more appropriate cargo dues, in line with other low value raw materials. We propose R 1.5 ton as the specific cargo dues tariff for GBFS.

Tariffs on limestone and its effect on Osho Cement

A challenge also affecting us is that limestone is not assigned a category for separate tariff determination. Our rationale in it being assigned a separate tariff, and the basis of that tariff, follows:

- 1 Limestone is used in the clinker production process and as such is a lower value commodity than clinker, and is also much lower in the value chain when compared with cement, given that clinker is used to manufacture cement.



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- 2 No specific tariff is currently assigned to limestone. It potentially results in its classification as an uncategorized dry bulk cargo item, subject to the highest rate of cargo dues. Limestone is available at US\$ 6/t and its cargo dues should not approximate its cost. Further, cargo dues on an input, limestone, should not be more than the rate relatable to its final product, cement.
- 3 Limestone does not require specialized infrastructure at the discharge port while cement not only requires specialized offloading equipment, but also silos for storage in bulk i.e. bulk cement results in a significantly larger reliance on the port infrastructure. Bulk limestone should attract cargo dues lower than cement, due to the low impact on the port infrastructure.
- 4 We propose a separate classification for limestone and tariff of R 1.5/ton, similar to GBFS.

Tariffs on Clinker and gypsum and its effect on Osho Cement

One of the other challenges we face is the high cargo dues currently being charged on imported clinker. As per the 15th edition of the Port Tariffs issued by the Transnet Ports Authority, the cargo dues on imported cement and clinker stand at R25.65 per ton.

This has a material impact on the feasibility of the investment in the Coega project. Therefore we request that the Ports Regulator reviews the tariffs based on below justifications. The following is our reasoning and motivating for a reduction in the rate of cargo dues for imported clinker:

Clinker

- A. Clinker is a raw material used for the production of cement. Clinker is therefore an intermediary in the production of cement. So, it is a substantially lower valued product compared with cement. Hence in our view, it should not have the same cargo dues as being levied on cement, which is the finished product.
- B. The current level of cargo dues on clinker makes up a significant portion of the total delivered cost of the raw material and does not promote local port based beneficiation strategies. Lower cargo dues on clinker relative to cement will promote initiatives like the Osho Cement project in Coega that will be beneficiating the raw materials received including clinker. This beneficiation process will promote social-economic development in the region through the creation of new direct job opportunities, supplier development etc.
- C. Clinker and cement are recognised as two separate products by the South African Revenue Service. Under the SARS tariff schedule of September 2012, cements are classified under section 25.23.2 (Portland Cement) while clinker is classified under section 25.23.10



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(Cement Clinkers). This separate classification has allowed SARS to impose import duties on certain cements where the import and local sale of such has been deemed to be anti-competitive via disallowed dumping practices. Bulk clinker should also have its own category for cargo dues at a more reflective tariff, to enable the differentiation of its tariff from bulk cement.

- D. There is a vast difference in the physical properties of cement and clinker. Bulk clinker (in the form of particles averaging around 30mm in size) is much easier to handle than bulk cement, which is a fine powder. Clinker is easy to offload, being somewhat comparable to Sulphur (R6.51/t) or salt (R6.00/t)
- E. Bulk clinker does not require specialized infrastructure at the discharge port while cement not only requires specialized offloading equipment, but also silos for storage in bulk i.e. bulk cement results in a significantly larger reliance on the port infrastructure. Bulk clinker should attract cargo dues due to the low impact on the port infrastructure.
- F. We propose cargo dues of R 5.13/ton on the import of clinker, similar to the cargo dues on clinker exports.
- G. Clinker imports by cement grinding plants like Osho will create additional revenues for TNPA, and as such will positively impact on the resource base of TNPA

Gypsum

Gypsum is used in the process that grinds clinker to manufacture cement. It is an input in the manufacture of cement and as such should have a lower rate of cargo dues when compared with cement, which is the finished product. Its position in the cement manufacturing value chain, requirements of port infrastructure etc., is similar to clinker and hence we propose cargo dues of R 5.13/ton on the import of gypsum, similar to the cargo dues on clinker exports.

Conclusion

South Africa is a net exporter of bulk raw materials and this results in most dry bulk cargo vessels returning to South Africa empty on ballast. This in turn affects the pricing of shipping as the outgoing cargo needs to carry the cost of both shipping legs, making South African exports less competitive. With Osho aiming to import raw materials for its processing, Osho will promote more efficient use of shipping vessels, bringing down net shipping costs by improving the trade balance.

It also needs to be noted that the raw material import volumes of Osho Cement will result in additional volumes thereby adding incremental revenues to TNPA. We hope that this favourable impact will be taken into consideration in the tariff determination/review request related comments contained in this letter.



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We hereby make a sincere request to the Ports Regulator to assign specific rates for imported GBFS and limestone, while setting lower cargo dues on imported clinker and gypsum, as well as classifying both of them under separate heading, disparate from cement. This action will provide a positive impact on setting up of grinding units for a cement manufacturer such as ourselves.

In summary, we propose that the rates of cargo dues may please be set as per the following table:

Sr No.	Item of import	Current Cargo Dues (R/ton)	Proposed Cargo Dues (R/ton)
1	Granulated Blast Furnace Slag	NA	1.50
2	Clinker	25.65	5.13
3	Limestone	NA	1.5
4	Gypsum	25.65	5.13

NA: No specific rate, potentially subject to highest rate of cargo dues applicable to dry bulk cargo

We are hopeful that our earnest request for a considerate review of the tariff structure of cargo dues, as well as setting of separate rates for uncategorized categories of items will be favourably considered, which will in-turn help us to fulfill our objectives of the proposed investments.

We will be pleased to address any questions or clarification in respect of this letter.

Thank you.

Yours Sincerely,

Edward Volek

General Manager – Cement