OSHO SA CEMENT (PTY) LIMITED

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20 November 2012

The Chairman
Ports Regulator
Private Bag X54322
Durban
4000

Dear Mr Phakade Sicwebu

RE: Comment on the National Ports Authority Tariff Application 2013/2014

Background

OSHO SA Cement (Pty) Limited is part of the Osho Group which has interests in exploration and mining, trading (of coal, chrome ore, manganese, steel scrap), shipping & logistics, reprocessing of waste rubber and cement production.

The Group has a presence in Australia, India, South Africa, Madagascar, Malawi, Turkey, United Arab Emirates and United States of America.

OSHO SA Cement aspires to be a leading force in cement production in Africa. In the first phase the Company has embarked upon setting up two cement grinding units, each having a capacity of 0.5 million tons per annum, in Richards Bay and Coega, at a total investment of R850 million. The grinding units are expected to be commissioned in 2014. The grinding units will use the latest state of the art, energy efficient technology and will assist in the replacement of imported cement (via the ports of Durban, East London and Port Elizabeth) with domestically produced fresh cement.

The total direct employment created by the grinding units would be about 300, together with other indirect employment opportunities. The plant will also promote skills transfer and development of artisanal skills with the local population in the area. These employment figures exclude employment generated during the construction of the plant.

The Osho Cement Projects would thus stimulate the local economy around Port Elizabeth and Richards Bay, respectively, and will have numerous socio-economic benefits for the region, including the employment of a range of skilled, semi-skilled and unskilled labour. In addition, there will also be the transfer of technology associated with installation, operation of equipment and maintenance.

Most of the raw materials used for the grinding units being clinker and Granulated Blast-Furnace Slag (GBFS) will be imported. Beneficiation or processing will take place in South Africa.

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This will assist in the better utilization of the return load of ships coming in on ballast. The cement produced will be distributed in the local area and inland, by using the return load on rail wagons and road trucks (that bring in cargo to the port for export purposes).

This in our assessment will bring down the cost of cement and will have a positive impact on the local economy since cement is a crucial input in construction and infrastructure and is vital for the development of the country. Our project will hence be in line with the Government's Strategic Infrastructure Project Initiative (SIP) and also in terms of promoting manufacturing / industry in South Africa.

Our feasibility study highlights a few areas in which we kindly require assistance from the Ports Regulator.

Tariffs on Clinker

One of the challenges that we have come across during our feasibility study is the extremely high cargo dues currently being charged on imported clinker.

As per the 12th edition of the Port Tariffs issued by the Transnet Ports Authority, the cargo dues on imported cement and clinker, stands at R22.07 per ton. The tariffs proposed for 2013/2014 are even higher.

This is adversely affecting the feasibility of this investment and we hereby accordingly request the Ports Regulator to kindly review the same.

The following is our reasoning and motivating for a reduction in the cargo due for imported clinker:

1. Clinker is a raw material used for the production of cement and being a substantially lower valued product, should in our view not have the same cargo dues as being levied on cement, which is a finished product;

2. There is a vast difference in the physical properties of cement and clinker. Clinker (in the form of particles averaging around 30mm in size) is much easier to handle than cement, which is a fine powder. Clinker in bulk, also does not require specialized infrastructure at the discharge port while cement not only requires specialized offloading equipment, but also silos for storage in bulk.

3. Same pricing of cargo dues on clinker and cement (Clinker: raw material / Cement: finished product) is leading to the import of cement to the coastal regions. This prevents South Africa from "manufacturing" its own cement like our grinding unit and all the benefits that go with it i.e. investment, job creation etc. and is a major stumbling block for a positive feasibility of the grinding plant.

4. Worldwide, setting up of cement grinding plants is incentivized, particularly at coastal areas where availability of suitable grade limestone for cement making is a constraint.

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5. Our grinding units will promote competition in the cement manufacturing space, which during the recent years has been under severe scrutiny in South Africa by The Competition Commission for forming cartels and for maintaining high prices through price manipulation.

Our sincere request to the Ports Regulator is to please kindly review and reduce the cargo due tariff on Clinker as the high tariff has a negative impact on setting up grinding units for a cement manufacture such as ourselves.

Tariffs on Granulated Blast-Furnace Slag (GBFS)

Also with regards to cargo dues for the importation of Granulated Blast-Furnace Slag (GBFS), the same is currently not recognized as a separate product category in the TNPA tariff 12th Edition and hence attracts a tariff of R58.85/t as uncategorized imported bulk cargo. GBFS as you may be aware is a very low value product, 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, Blastfurnace cement, Composite cement). In addition, given modern port facilities, GBFS is easy to offload, being somewhat comparable to sand.

Comparison to some of the currently classified products:

- The most similar item (in terms of chemical composition, form it is transported in, and value per ton) with an existing fee is probably Rock phosphate, with a price per ton of R8.39.

- The off-loading process also similar to sulphur (R5.60 per ton), but sulphur is a dangerous product while slag is not.

We therefore kindly request the Ports Regulator to kindly recognize GBFS as a separate product category and while we understand that tariffs are not directly proportional to value, some accordance should be provided to assign GBFS more appropriate cargo dues, in line with other low value raw materials.

Yours Sincerely

Edward Volek

General Manager – Cement

Osho SA Cement (Pty) Ltd