

The Chairperson  
Ports Regulator  
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## Re: Commentary on the National Ports Authority Tariff Application for Financial Year 2020/21

Columbus Stainless is a major key player in the global stainless market, and contributes greatly to the South African export of value added goods. During the current economic conditions in relations to the trade war and competitive pricing strategies in the market, there is added pressure on Columbus to investigate alternative cost effective supply chain solutions. The following cooperation is required from the NPA;

- Globally competitive port costs
- Options and solutions to reduce port congestion in Durban
- Create synergies between rail and port operations (Customer centric)
- Create synergies with TPT for reduced handling costs and improved efficiencies
- Transparency of revenue stream and operating costs
- Enhance South African Port stakeholder satisfaction before opting to invest in Port initiatives in the rest of Africa

The NPA has requested a 4.80% for the FY 2020/2021; the following concerns are raised for the upcoming financial year;

### Weighted Efficiency Gains from Operations (WEGO)

The purpose of the WEGO is to drive incentives for the NPA through improved efficiency. The NPA stated at the PRSA public hearing on 5 August 2019 in Johannesburg, that they have received a 40% satisfaction through a survey conducted with stakeholders, this outcome needs to be reflected or taken into consideration as part of the NPA's KPI's. This is a soft issue but indirectly is the result of operations focused; however customer satisfaction is an important factor in measuring the performance of the NPA. It is evident that stakeholders are unhappy with service delivery. The NPA stated that they plan to increase

customer satisfaction to 80% in the next year. This appears to be a stretched target but performance must be measured and improved.

### **Methodology for valuation of port assets**

It was established by the Ports Regulator on 29 March 2018 that all assets in existence before 1990 will be treated on historical cost (HC) and assets posts 1990 will be treated on Trended Original Cost (TOC). With the NPA opposing this approach and the Regulator using FY 2019/2020 to further obtain information from the NPA and finalise the approach for the RAB valuation in the next multiyear tariff, Columbus takes note of the hybrid approach in distinguishing between assets prior to 1990 as a more accurate approach in determining a fair RAB.

### **Capital Investment Programs**

The capital investment program for FY 2020/2021 amounts to R3 872m. The projects planned for the next 3 years in the Port of Durban do not indicate any improvements to enhance port productivity on the land side, addressing only the berthing side will not improve general efficiency of port operations. It is also not clear if Capex requested by the NPA will be allocated to the NPA, it is perceived that it could potentially be 'lost' into the greater Transnet requirements. The poor efficiency in the Port results in inland cargo owners using the Port of Maputo as an alternative time saving and efficiency solution. The NPA is requested to prioritise capital investments in order of importance to solve real issues that stakeholders face, and include landside investments in the Port of Durban.

### **Port Congestion**

Port congestion has remained a critical time and cost constraint for Columbus. The Port of Durban and the Port of Richards Bay is the closest South African Ports to Columbus. Columbus is a fast paced manufacturing plant that places emphasis on delivering quality stainless steel products to customers as quick as possible. Columbus has lead time as a key performance measure that is monitored closely.

The capital investment plans for the Port of Durban in the next three years includes the berth deepening of DCT. This will ensure larger vessels with more carrying capacity will be available, which in essence means more cargo and congestion at the Port. There is no investment to develop landside efficiencies or match the expected growth in cargo to be moved.

Due to Port congestion not improving, Columbus has had to investigate alternative options in order to meet stack dates by opening a Johannesburg warehouse and railing cargo to the Port of Durban. This option

came with added warehouse and rail costs. Rail costs in South Africa are substantially more expensive than transporting cargo by road, and Columbus has had to negotiate as well as use 3<sup>rd</sup> party logistics companies with economies of scale in order to sustain logistics costs. The NPA and TFR are both a division of Transnet, there are opportunities to create synergies and optimise and propose a rail and port supply chain solution for all stakeholders. The importance of this initiative should be emphasised as part of improving port efficiencies. The rail to port supply chain should be made competitive.

### **Regulation of TPT**

It is requested for the Ports Regulator of South Africa to assist in determining the feasibility of regulating Port Terminal Operator TPT's port fees. Stakeholders have received above inflation increases and in essence subsidise the inefficiencies of the terminal operator. Columbus makes use of private terminal operators that offer CPI related increases as an alternative cost saving strategy, but is still required to make use of TPT for vessels calling their berth. It is proposed for TPT to submit transparent calculations of their tariff increase to stakeholders as well as apply the WEGO philosophy. It should be highlighted that we need to improve and regulate the overall port operations function including terminal handling operations

TPT Rates 01 Apr 2015/ 31 Mar 2016	TPT Rates 01 Apr 2016/ 31 Mar 2017	TPT Rates 01 Apr 2017/ 31 Mar 2018	TPT Rates 01 Apr 2018/ 31 Mar 2019	TPT Rates 01 Apr 2019/ 31 Mar 2020
9.00%	7.50%	6.50%	6.50%	6.80%

### **Real Estate**

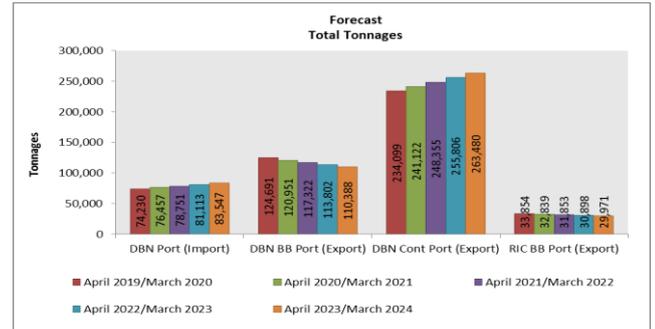
The information submitted about the Authority's real estate is very vague, all factors remain constant, it is not clear as to how the forecast revenue growth is determined. Does the NPA exclude Port Nolloth in its calculations?

### **Operating Costs**

The NPA has stated that they require operating costs of R5 668m and an allocation of R481m for group overhead costs. These overhead costs need to be broken down and transparent. The cost categories are vague and do not explain the operating costs sufficiently.

## Columbus Stainless Snapshot (Volumes)

Columbus Stainless imports on average 74 674 tons per year from various countries around the world which consists of raw materials such as Nickel, Ferro Nickel and Chrome as well as commodities such as Electrodes, refractories and interleaving paper. Imports are shipped through the Port of Durban in the form of 20ft and 40ft containers. Columbus has also shipped imports through the Port of Ngqura in Q2 2019.



Columbus Stainless exports 75% or 350 010 tons per year of its total production in the form of break bulk and containers. Products include stainless steel sheets, coils, slits, plate and hot rolled coils. Export break bulk is shipped out of the Port of Richards Bay and Durban with Export 20ft and 40ft containers shipped out of the Port of Durban.

Import and Export regions include North America, South America, Africa, Middle East, Far East and Oceania. The global stainless steel market

## Conclusion

The NPA acknowledged that they are not delivering on their promises and presented on their strategies going forward. The presentation given by the NPA for FY 2020/2021 did not have **actions** set out which the NPA will embark on to address the challenges and improve service delivery and reduce costs to contribute to the economic growth of SA. In conclusion, the following key points are required to be addressed;

- The hybrid approach in distinguishing between assets prior to 1990 is a more accurate approach in determining a fair RAB and should be implemented.
- NPA is devising an African Port initiative plan. With emphasis on companies opting to ship out of Maputo and Walvis Bay there is increased competition, however the NPA needs to focus on initiatives to improve South African port efficiencies.

- Capital investments for the next three years need to be prioritised in order of current pressing issues that will improve stakeholder efficiencies. The NPA needs to focus on both land and sea side improvements and allow for both to complement each other.
  - TPT is not regulated and their increases are substantially above inflation. There is currently Procurement practice issues at TPT, there are no contracts in place which results in delays in terminal handling operations. The NPA has oversight into TPT and has to put pressure on TPT. It is also requested for the regulation of TPT rates to be investigated by NPA vs. private leases.
  - Port congestion is a constant issue that is not being resolved. This needs to be emphasised and addressed. A plan of action needs to be put in place and all stakeholders involved in the development.
  - Real Estate - Annual lease costs must take the Competitions Act into account and avoid being uncompetitive compared to international benchmarks.
  - The NPA needs to provide transparent and detailed information with regards to utilisation of their revenue and operating costs. There is a lack of explanation on different tariffs for different commodities. The NPA needs to clarify this to assist cargo owners in understanding their port costs
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