



Wes-Kaapse Provinsiale Parlement Western Cape Provincial Parliament IPalamente yePhondo leNtshona Koloni

STANDING COMMITTEE ON FINANCE, ECONOMIC OPPORTUNITIES AND TOURISM

REPORT OF THE STANDING COMMITTEE ON FINANCE, ECONOMIC OPPORTUNITIES AND TOURISM ON AN OVERSIGHT VISIT TO SALDANHA BAY INDUSTRIAL DEVELOPMENT ZONE

The Standing Committee on Finance, Economic Opportunities and Tourism, having engaged with the Saldanha Bay Industrial Development Zone Licencing Company SOC Ltd (SBIDZ - LC) and Transnet on 9 March 2020, reports as follows:

Delegation

The delegation comprised of the following Members:

Baartman, D (DA) (Chairperson)
Makamba-Botya, N (EFF)
Nkondlo, N (ANC)
Van der Westhuizen, A (DA)

Apologies

Mitchell, D (DA)

The Procedural Officer, Ms Z Adams, Senior Procedural Officer, Ms L Cloete, the Service Officer, Mr A Barends, and the interpreter, Mr W Thala, accompanied the delegation.

1. Introduction

The Standing Committee on Finance, Economic Opportunities and Tourism (the Committee) had resolved to engage with the SBIDZ-LC at an oversight visit where the Committee could visit the Saldanha Bay Industrial Development Zone (SBIDZ), which has been under development for the past few years. On 9 March 2020, the SBIDZ-LC gave the Committee an overview of the SBIDZ, an update on the infrastructure progress, a briefing on the Artisan Training Programme, and a brief description of legislative concerns they have experienced in the sector.

The Committee was also taken on a tour of the SBIDZ where Members were shown the port land area, the Access and Security Complex and sites where SBIDZ businesses were under development. The Committee was introduced to business owners whose buildings/facilities were under construction or being renovated.

During the second session of the day, the Committee was briefed by Transnet officials on Liquefied Natural Gas (LNG) infrastructure, LNG collaborations in the Western Cape, and legislative concerns experienced by the entity.

2. Briefing by the Saldanha Bay IDZ Licencing Company SOC Ltd

The SBIDZ-LC informed the Committee that the SBIDZ is the first Southern African Special Economic Zone (SEZ) to include a port, and to secure land from Transnet National Ports Authority (TNPA) consisting of 356 hectares. The SBIDZ would serve as a special hub dedicated to the Oil and Gas Industry and the Marine Repair and Fabrication Cluster. The goal is to shape a vibrant marketplace where investors, local businesses and communities can unlock economic growth. The SBIDZ-LC's vision is to be Africa's premier oil, gas and maritime industrial and services centre, offering a world-class integrated engineering, fabrication, logistics and freeport environment to zone users and tenants.

In order to achieve the above, the SBIDZ-LC must promote, manage and market the zone, acquire and lease land, provide internal infrastructure to support investors in the zone areas, and facilitate the ease of doing business in the zone. The SBIDZ-LC partners with a number of local, provincial and national stakeholders in order to do so.

2.1 Local Positive Market Factors

In terms of marketing to investors and potential businesses, the following factors are noted:

- 2.1.1 South Africa is on one of three global trade routes (Suez, Panama and Africa);
- 2.1.2 The Port of Saldanha is within one day of the Africa global trade route;
- 2.1.3 The Port of Saldanha is the deepest and largest natural port in the Southern Hemisphere;
- 2.1.4 It is close to developed and undeveloped land;
- 2.1.5 30 000 vessels sail through South Africa's waters annually; and
- 2.1.6 89 percent of the total workforce in repair and maintenance are from the Western Cape.

2.2 Importance of the Saldanha Bay Industrial Development Zone for Growth

A joint study was undertaken by the Saldanha Bay Municipality (SBM) and the SBIDZ-LC to understand the impact of the current economic fabric, the SBIDZ and economic "shocks". The study showed that the SBIDZ counters the negative growth and job losses of the metals products and equipment sector. Growth of the SBIDZ will mean growth for the financial, insurance and business services sector, the transport, storage and communications sector, the construction sector, the metals, products and equipment sector, and other sectors comprising of electrical machinery used during construction and transport equipment.

2.3 Strategic Priorities

The SBIDZ-LC has identified four strategic priorities:

- 2.3.1 Commercial sustainability, as being financially fit reduces the public fiscal burden;
- 2.3.2 Investment in catalytic infrastructure and facilities, as companies need infrastructure to build their businesses;
- 2.3.3 Local and industry readiness, which takes time. The SBIDZ-LC is building a Small, Medium and Micro-sized Enterprises (SMMEs) CoLab to assist small businesses; and
- 2.3.4 Building business, government and society partnerships.

The strategic priorities will allow the SBIDZ-LC to build a world-class, seamless zone and port centre, meeting Africa's maritime and industrial needs, and to achieve South Africa's re-industrialisation, growth, jobs and transformation priorities.

The SBIDZ's seamless zone and port experience will be modelled after Singapore's Keppel offshore and marine facility (shipyard) that will include building, repairing and recycling all types of vessels, manufacturing, engineering and repairing all types of components, processing and refining all types of consumable products, a headquarters for logistical services, diverse people offering solutions for all needs, and processes that will reduce red tape and encourage an ease of doing business approach.

2.4 Progress: Infrastructure Projects

The Department of Trade and Industry's (DTI) has funded all of the SBIDZ-LC's capital expenditure to date and will play a pivotal role in assisting the Entity to achieve its priorities over the next five years. So far, over R200 million value has been created for local construction companies.

Additional upgrades include a fully serviced north precinct, construction of a bridge, various upgrades and new builds to municipal infrastructure completed and transferred to SBM, construction of the south east precinct and access complex that is still in progress, and the construction of a top-side facility for a tenant that is still in progress.

2.5 Skills Programme and the Innovation Campus

A total of 2 199 individual training opportunities were created by the SBIDZ-LC since the 2014/15 financial year. This includes 1 695 local Saldanha Bay community members that enrolled in the training programmes, and who were vetted by the Community Skills and Training Committee. A total of 1 495 individuals completed the training, which indicated an 85 percent pass rate. The Skills Programme included training for welding, boiler-making, fitting, electrical work and rigging. Learners who did not meet the requirements for entry into the apprenticeship programmes were accommodated through the SBIDZ-LC's skills programme, which enabled them to meet the minimum requirements for learnerships or apprenticeships.

The SBIDZ-LC's High School Engagement Programme is in partnership with the University of Stellenbosch, Wits University and the Western Cape Education Department. The goal is that the programme will become the bridge that will connect the Saldanha Bay communities to the SBIDZ-LC's Innovation Campus, which will develop the next generation of the workforce needed for the industry, and transform and align the Saldanha Bay community to future possibilities of the Oil, Gas and Metals Industry. The SBIDZ-LC has been targeting six public high schools and three public primary schools across the Saldanha Bay area for implementing a new curriculum in Mathematics and Personal Leadership to strengthen local capabilities for innovation. Phase 1 of the project, which focuses in teacher development (training the teachers to teach the new course) will be rolled out in the near future. Phase 2 will focus on learner development, which will be rolled out for the remainder of the year.

3. Observations made at the Site Visit to the Saldanha Bay Industrial Development Zone

3.1 On the way to the SBIDZ site, the Committee travelled on a provincial road that was upgraded by the Department of Transport and Public Works. The upgrades were financed by various provincial departments. There are a few more upgrades to be completed within the SBIDZ, therefore, the SBIDZ-LC is ensuring that the affected provincial departments are budgeting appropriately.

- 3.2 The port land area of the SBIDZ was from land purchased from the Industrial Development Corporation. Provincial government gave the SBIDZ-LC R100 million to purchase the land. The land is ready for investors to set up their factories.
- 3.3 The first tenant, a company called West Coast Corrosion Protection, is in the process of constructing their facility within the SBIDZ. The businesses is 100 percent black-owned. The owners of the business, Mr Charles Arendse and Mr Nathan van der Westhuizen, are local members of the Saldanha Bay community, who specialise in corrosion protection, mostly on structural steel. Their goal is to add value to the SBIDZ as they are the only business who specialises in corrosion protection within the SBIDZ. Currently, the business employs 25 people; however, once the facility is complete, they will employ an additional 35 local workers from Saldanha Bay. The company will train the employees so that they are able to provide for their families. The owners have leased the property from SBIDZ-LC for 25 years, with an option to lease for another 25 years after the initial lease agreement comes to an end.
- 3.4 The majority of the businesses located within the SBIDZ will be South African-owned businesses, however, there will also be a few international businesses. These businesses will lease the property from the SBIDZ-LC, as the Entity controls the land according to legislation.
- 3.5 The Access Complex, which is still under construction, will be the access point to the zone, and will contain a customs control area. This is where security checks will take place. Additionally, the Access Complex will be a one stop shop for all services that investors will need. The space will also include office space, a clinic and a canteen. Businesses that occupy a space within the Access Complex will enter into a rental agreement with the SBIDZ-LC.
- 3.6 The SBIDZ-LC has been engaging with public entities through the DTI to explain that all relevant national departments and entities should be represented at the Access Complex to ensure ease of doing business for all investors and businesses coming to the SBIDZ.
- 3.7 The SBIDZ-LC's goal is to have 75 percent occupancy at the Access Complex within the next five years. The Entity hopes to complete the construction of the building in mid-April 2020. The Access Complex has been under construction for approximately 18 months because the SBIDZ-LC has tried to localise the work as much as possible, without compromising on quality.
- 3.8 Saldehco, a privately-owned Singaporean and South African company located in the SBIDZ, spans over 20 hectares and was established as a special purpose vehicle focusing on providing a marine service cluster to serve the oil and gas activity off the coast of West Africa in the Port of Saldanha Bay. This service was part of a concession issued by Transnet. The company will provide a vital service for the offshore gas and mining sector; it will serve as the first privately operated offshore supply base in South Africa. Saldehco will occupy offices previously owned by Transnet, however, these offices are in the process of being renovated. The company plans to build additional infrastructure and two warehouses on the land, however, these plans still have to be approved. In the meantime, Saldehco plans to move some of their services offshore until the land is ready for development. The company hopes to complete infrastructure construction by 2022.

4 Challenges identified by the Saldanha Bay Industrial Development Zone Licencing Company SOC Ltd and Tenants of the Saldanha Bay Industrial Development Zone

- 4.1 13 000 vessels dock at South Africa's ports annually; however, only five percent of these vessels are serviced locally.
- 4.2 Although the marine and subsea fabrication and manufacturing sector, as well as the specialised logistics sector, are fairly established sectors, the Province is still in need of a more developed rig, equipment and vessel fabrication and repair sector in order to complete a value chain that will allow the Province to receive the full opportunities offered by the oil and gas industry.
- 4.3 The SBIDZ shares health, safety and security services and facilities with the TNPA. This includes one fire station to service the entire area.
- 4.4 There is a skills gap in the Oil, Gas and Metal Sector due to the large number of imminent retirements, less young talent entering the industry, the changing skills profile and needs due to the Fourth Industrial Revolution, and the chronic shortage of women in the sector.
- 4.5 The SBIDZ-LC's 2019/20 target performance for learner training will be negatively impacted by the closure of ArcelorMittal South Africa (AMSA). AMSA's closure will impact on local engineering companies and training service providers who host students for the workplace experience component of the Entity's training programme. The SBIDZ-LC's performance for its training programme will be impacted further by the delays with the implementation of a new National Skills Development Management System. The Manufacturing, Engineering and Related Services Sector Education and Training Authority (Merseta) system has experienced Information Technology challenges since July 2019, which meant learners were unable to be registered and therefore no payments could be made to training service providers.
- 4.6 There is a lack of regulatory processes in South Africa for the Oil and Gas Industry. Additional concerns within the industry, cited during stakeholder consultations, include corruption, poor physical/supporting infrastructure, and relatively long waiting times for crucial processes for setting up businesses.
- 4.7 As the SBIDZ grows, the town of Saldanha Bay will also grow, which means there will be a need for more transport infrastructure will. There is a concern about what the transport solution will be to address this growth in the future.
- 4.8 According to Mr Arendse and Mr van der Westhuizen, owners of West Coast Corrosion Protection, many businesses coming to the West Coast did not want to support local businesses as they were told they did not have a proper facility and/or enough experience. This was inaccurate, however, many chose to give their business to companies in Cape Town instead. Saldanha Bay businesses were also told to charge less money than businesses in Cape Town but this was not fair to local businesses when the quality of work was the same.
- 4.9 Local Saldanha Bay businesses complained that the Construction Industry Development Board (CIDB) grading was an impediment to entering the sector. The SBIDZ-LC removed the CIDB grading requirement as an experiment, however, this approach was unsuccessful as many businesses still experienced challenges, and it was re-established that CIDB grading should remain a requirement.

5 Briefing by Transnet on its Natural Gas Networks Programme

Transnet informed the Committee about the Transnet Natural Gas Networks (NGN) Programme development of midstream infrastructure for Liquefied Natural Gas (LNG) importation into the Ports of Richards Bay, Ngqura and Saldanha Bay, and the transmission of natural gas to inland markets. Transnet's goal is to lead the design, construction, operation and maintenance of gas-to-market infrastructure, and to enable development of the natural gas economy, lower energy costs and reduce carbon emissions. The target date for landed LNG in South Africa is 2024, with LNG importation and

re-gasification by 2024, as well as enabling gas-to-power generation in line with government's Integrated Resource Plan from 2024. Transnet has been initiating conversations with various private and public stakeholders to find technical solutions to bringing LNG to the country.

Transnet serves a "midstream" role in bringing LNG into the country; they will focus on ports, LNG terminals and gas pipelines, as well as storage of gas, re-gasification and transmission of gas. Transnet and the Department of Economic Development and Tourism (DEDAT) entered into a Memorandum of Cooperation in November 2018, where the parties committed to collaborating in the support of the development of the West Coast LNG Importation Opportunity. The objective was to secure funding from the Infrastructure Investment Programme for South Africa, managed by the Development Bank of South Africa. Recently, Transnet and the Independent Power Producer (IPP) Office concluded a technical study for the Port of Saldanha Bay.

According to Transnet, except for PetroSA in Mossel Bay, most of the current gas market is supplied by Sasol Gas, either from Mozambique or Secunda in Mpumalanga. The rest of the country is using expensive alternative fuels such as diesel, Liquefied Petroleum Gas (LPG) and heavy fuel oil, with no infrastructure. Transnet warned that the gas provided by Mozambique will start declining in the near future. Total has discovered gas offshore from the Western Cape, however, this gas will only be available in approximately five to ten years.

Transnet has started to look at diesel-using power stations that can be converted to gas-using power stations, as diesel is very expensive. It was reported that converting Ankerlig Power Station in the Western Cape from diesel to gas would save the country approximately 600 million US Dollars per annum, however, the full economic benefit will only be realised later. Currently, LNG is the cleanest fossil fuel, which would be environmentally beneficial for the Province.

5.1 LNG Delivery Options and Cost Considerations

Transnet is considering the following two delivery options:

- (i) Importing LNG through LNG iso-containers: This is the quickest delivery option to South Africa. South African ports can receive iso-containers at multipurpose terminals and container terminals. With this option, there are no regulatory impediments to LNG imports, however, the cost of molecules at the destination is high in iso-containers; and
- (ii) Importing through LNG carriers to LNG receiving terminals: This could be done through Floating Storage Units (FSU), land re-gasification, Floating Storage Re-Gasification Units (SFRU) or onshore storage and re-gasification. However, this requires regulatory approvals and demand scale for bankability. LNG loading facilities and re-gasification at the ports will allow for the use of pipelines, rail and road to transport gas to markets.

LNG receiving terminal development requires regulatory approvals, in particular, Section 79 of the National Ports Act, 2005 (Act 12 of 2005), to drive these developments, and Section 54 of the Public Finance Management Act, 1999 (Act 1 of 1999), for Transnet to form joint ventures with other State Owned Companies (SOCs) and the private sector.

The least-cost solution for bringing gas into the country requires inter-port LNG delivery optimisation. Gas is an enabler for industrial and electricity challenges faced by South Africa. In order for the least-cost solution to work, it would require the development of appropriate LNG receiving infrastructure and the coordination amongst SOC's and government to plan the effective roll out of infrastructure.

5.2 Current Challenge

Currently, most of the LNG infrastructure is located on the East Coast of South Africa, primarily because Sasol drove this infrastructure development for their industrial requirements. The challenge, currently, is to ensure LNG infrastructure availability for all gas users and for LNG development as a whole. Transnet wants to ensure that port infrastructure, pipeline infrastructure and accessibility for rail and road transport is made available for all gas users. The West Coast has not had this development over time. An additional challenge is that most of the skills needed for management of gas is highly concentrated in only certain parts of South Africa, particularly around Sasol developments. The Western Cape Government has been looking into skills development in this field, which requires a considerable amount of interaction with technical institutes where people can learn skills related to the gas sector. Locally, this has not been developed yet; however, it provides the Western Cape Government with the opportunity to bring these skills in to the Province.

6. Resolutions

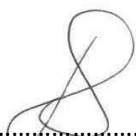
6.1 The Committee RESOLVED to:

- 6.1.1 Request a briefing from the Department of Mineral Resources, the Department of Trade, Industry and Competition and the Department of Economic Development and Tourism on the regulatory processes for the oil and gas industry, and any gaps therein, at a date to be determined by the Committee;
- 6.1.2 In addition to the briefing above, the Committee will also request that the Minister of Mineral Resources and Energy on the recently released draft regulations on energy and Independent Power Producers, that Transnet brief on its regulatory concerns, and that Eskom attend the meeting as well; and
- 6.1.3 Request a joint meeting with the Standing Committee on Transport and Public Works for a briefing by the CIDB on the challenges hindering contractors from participating in complex projects and the application process for construction tenders.

6.2 The Committee also REQUESTED the following:

- 6.2.1 A report from SBIDZ-LC on the support and funding for the development programme led by Mr P Lakabane in the SBIDZ-LC, detailing whether there has been any progress to date in terms of a funding model, also in terms of skills and the transformation function;
- 6.2.2 The joint study that was undertaken by the Saldanha Bay Municipality and the SBIDZ-LC to understand the impact of the current economic fabric, the SBIDZ and economic “shocks”; and
- 6.2.3 The technical study conducted by Transnet and the Independent Power Producer Office on the Port of Saldanha Bay.

The Chairperson thanked the SBIDZ-LC, Transnet and the ward councillors for availing themselves to address the Committee.



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ADV D BAARTMAN, MPP

CHAIRPERSON: STANDING COMMITTEE ON FINANCE, ECONOMIC OPPORTUNITIES AND TOURISM

DATE: 27 MAY 2020