



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

Ref Number:

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Report of the Standing Committee on Finance, Economic Opportunities and Tourism on its Economic/Energy/Tourism Visit Week to Mossel Bay and George, from 2 to 6 November 2020, as follows:

## Delegation

The delegation consisted of the following members:

Ms D Baartman (DA)(Chairperson)  
Mr C Dugmore (ANC)(Additional)  
Ms M Maseko (DA)(Alternate)  
Mr L Mvimbi (ANC)(Alternate)  
Ms N Nkondlo (ANC)  
Mr A van der Westhuizen (DA)  
Mr M Xego (EFF)(Alternate)

The following staff attended the visit week:

Adams, Z (Procedural Officer); Jones, S (Procedural Officer); Cloete, L (Senior Procedural Officer); Barends, A (Driver: Logistical Services); Ntshibilikwanga, J (Interpreter)

## 1. Introduction

The Economic/Energy/Tourism Visit Week was undertaken in order for the Standing Committee on Finance, Economic Opportunities and Tourism (the Committee) to achieve its constitutional oversight mandate within the Province. The visit week was intended to ensure that Members of the Committee were informed of service delivery issues within the economic, energy and tourism sectors. The Visit Week also provided the Members with the opportunity to undertake oversight visits and interact with communities and institutions in order to assess their needs and challenges they experience.

The Committee undertook a Visit Week to the Mossel Bay and George areas to consult and interact with provincial departments, local government officials and other stakeholders on economic, tourism and energy projects and programmes in the areas. This report highlights the delegation's findings and recommendations stemming from the Visit Week.

## 2. Engagement with Mossel Bay Municipality

### 2.1 Overview and background

The Committee received a briefing from the Mossel Bay Municipality (the Municipality) on its port infrastructure and related tourism opportunities, renewable energy and gas projects, investment opportunities, the Small Scale Energy Generation bylaws, tariffs and readiness for

Independent Power Producers, local employment statistics, the post-COVID Economic Recovery Strategy, the impact of COVID-19 regulations on operations, and the ease-of-doing-business within the Municipality.

The Committee was briefed by Advocate Thys Gilliomee, Municipal Manager; Mr Carel Venter, Director: Planning and Economic Development; Mr Dick Naidoo, Director: Infrastructure Services

## **2.2 Findings and Observations**

### **2.2.1 State of the Mossel Bay Economy – Impact of COVID-19**

- 2.2.1.1 In respect of the impact of COVID-19 on the Mossel Bay economy, Mr Venter indicated that although a primary survey had not been conducted on the area, it was clear that Mossel Bay's economy was negatively affected. The industries most affected that suffered job losses included the tourism sector (accommodation, tour operators and tourism destinations), and the small business sector (specifically those in the food and catering businesses and clothing retail). The closure of George Airport had a major impact on tourism and business travel in Mossel Bay. The export agriculture, wine, berries and flower industries were also negatively impacted, as well as informal businesses.
- 2.2.1.2 There was less impact from the pandemic on the professional firms and construction industries, although in some cases salaries were reduced and creative measures had to be implemented to retain staff. General construction projects picked up when level 4 Regulations were implemented, which had a positive impact on local employment.
- 2.2.1.3 The Municipality predicted that most resorts in the area would be fully booked by the December 2020 holidays. Local tourism already improved over the last month from October 2020, although tourism statistics were not at the level it was the previous year.
- 2.2.1.4 Although many Mossel Bay businesses have survived the pandemic and lockdown so far, there were some accommodation facilities, small businesses and restaurants that continued to struggle, and some that have had to close their doors. Additionally, there was an increase in the number of people searching for employment and who had become homeless. This was another social dilemma that had to be addressed.
- 2.2.1.5 During the pandemic, the Municipality's debt payment level decreased from 98/99% to below 95%, which was predicted. However, the Municipality also managed to reduce its operational expenditure in line with cost containment policies, and its cash position has remained at the same level as prior to the pandemic. The Municipality did not reduce its capital budget and its projects would be carried over to the following year.

### **2.2.2 Mossel Bay Economic Recovery Plan**

The Municipality has developed a recovery plan that focuses on four main strategies. The four strategies are as follows:

(i) Specific Economic Development Initiatives

The initiatives are as follows:

- The Southern Cape Economic Optimisation Initiative was developed to attract Foreign Direct Investment (FDI), which in turn would create employment opportunities and increase the Municipality's buying power. The development has been seen as a type of Special Economic Zone (SEZ) concept, privately driven by Surbana Jurong with the respective

municipalities as partners. The next step is to present this plan to the affected provincial and national departments.

- The Mossel Bay Aquaculture Zone project was initiated to support the fishing Industry, attract FDI, empower local persons, create jobs, and encourage skills development and enterprise development. The National Department of Environmental Affairs has already initiated the Environmental Impact Assessment (EIA) process for this initiative.
- The Municipality is in the process of obtaining approval for a Motorsport Mecca facility located in the Mossdustria area. The Motorsport Mecca facility is aimed at the enthusiast motorsport fans at regional, provincial and national level. The main aim of the Motorsport Mecca facility is to attract fanatic motorsport fans to enjoy different sporting codes such as 4x4, spinning and drifting, drag strip and oval track. The aim is to attract many spectators to the area, thereby boosting the local economy and tourism to the town. The facility will also have approximately 80 double storey workshops with a large turning circle for heavy vehicles, with the opportunity for owners to change their workshop units to suit their needs. This project is at the EIA and land use planning stages.
- Mossel Bay Tourism was given the resources to implement the Tourism Promotion and Development initiative with the Municipality. The projects include upgrading the Arts and Culture Centre, tourist guide training, implementing a tourist route in the Mossel Bay Central Business District (CBD), promoting and assisting Adventure Tourism, developing new attractions such as zip-lining, and implementing a new cruise liner initiative. The Municipality, together with the business sector and Mossel Bay Tourism will work with dedicated marketing companies over the next few months to market a new tourism initiative called “The Great Escape to Mossel Bay”.
- The aim of the International Relations initiative is to attract more tourists to Mossel Bay, increase human capital development, attract FDI, create employment and ultimately grow the economy. The Municipality has a signed tourism agreement with Denpasar in Indonesia, and has been considering entering into a tourism agreement with Immenstaadt in Germany.
- In order to promote creative industries the Municipality has contributed to the establishment of the Garden Route Film Commission. The main aim is to attract film companies to produce films in Mossel Bay, thereby developing the local film industry and encouraging skills development in that sector.
- The Municipality aims to provide the oil and gas industry with support to local businesses to assist with onshore and offshore activities. The Municipality was a co-partner in the establishment of the Oil and Gas Forum along with the Department of Economic Development and Tourism. This initiative was built around the TOTAL SA exploration and hopefully will expand around the recent new developments with PetroSA.
- In relation to the Mossel Bay Integrated Waste Facility the municipality aims to cut costs related to waste dumping, to promote recycling and would like to create employment through value adding projects within this initiative.
- The Port of Mossel Bay is a national port, owned and operated by the Transnet National Ports Authority (TNPA). The TNPA’s port development short term projects included an expansion of the commercial maritime area, an increase in commercial logistics, refurbishment and dredging of certain quays, upgrading the slipway facility, repairing and extending the main breakwater, and developing a desalination package plant, as well as an ocean wave converter/wind farm and dedicated cruise anchorage. TNPA’s medium term projects included deepening the channel and basin, moving the small craft harbour from inside the harbour basin to west of the port and creating a floating pontoon structure for restaurants overlooking the marina. The long term projects included repurposing, acquiring and upgrading certain facilities and equipment.

(ii) Spatial Planning and Land Development Projects

The initiatives are as follows:

- The Mossel Bay Airfield Development where the Municipality planned to develop the airport, diversify the aviation economy in and around the airport, create employment opportunities and attract businesses from other airports that could no longer be accommodated at their current locations.
- The purpose of the De Nova Medical Precinct was to attract more medical practitioners and businesses to Mossel Bay, accommodate more hospital groups or rehabilitation centres, create more employment and promote health tourism.
- The plan for the Louis Fourie South Corridor Project was adopted by Council and various land use opportunities have been made available for the development.
- Medium to high density residential and commercial developments have been planned for the Alwyndal Precinct Development.
- The Mayixhale Corridor development has been adopted by Council and the plan is currently being implemented.
- The Municipality sells or leases land for specific purposes that promote growth and development within the Municipality through private investments. An average of 57 transactions have taken place over a six month period.
- The Municipality has sold various properties of high commercial value in order to promote economic development in Mossel Bay. The aim was to promote business development in Kwanonqaba, Grootbrak River and parts of Mossel Bay by releasing land.
- The Municipality has made three sites available to a social housing company to erect government subsidised housing units.
- The Municipality has exchanged land for projects such as the development of a taxi holding area, development of business and middle income housing and development of a rehabilitation centre.
- The Municipality has subdivided sites into six smaller portions, specifically for educational purposes such as a small private schools and crèche sites. The subdivision of eight more underutilised open spaces in Mossel Bay will create various business and residential opportunities in the area.

(iii) Infrastructure Investment, Maintenance and Service Delivery

The initiatives are as follows:

- Capital Projects creating new infrastructure or improving existing infrastructure. R590 million was allocated to the Municipal Capital Budget for the next three years.
- Government subsidies for housing and related infrastructure projects.
- Annual operational projects and actions that promote confidence in the Municipality for investment.
- Mossel Bay is positioning itself to purchase energy from an Independent Energy Provider.

(iv) Financial Incentives and Local Economic Development Initiatives

The initiatives are as follows:

- The Incentive Policy serves to attract investments, create employment opportunities and grow the economy.

- The Business Hive Expansion Programme provides subsidised business premises to Small Medium and Micro Enterprises (SMMEs), and provision of training with support until SMMEs can afford to pay commercial tariffs.
- The Yes Hub provides a place for the municipality to develop a business and social hub in Kwanonqaba in order to provide business premises and market space to the youth.
- The Small business support initiative has and continues to support small businesses with registration, funding and loan applications, business plan development and training and skills development.
- The Municipality implemented an amnesty period of three months in respect of rent payments when the national government declared the State of National Disaster. For residential customers, this also included no water restrictions, no collection mechanisms, no electricity blocks, and no interest levied on accounts that were in arrears.

### **2.2.3 The Ease-of-Doing-Business Model in Mossel Bay**

- 2.2.3.1 The Municipality has cultivated a development-orientated culture amongst all directorates within the Municipality in order to become more client-focused, and to allow directorates to become more responsive and accountable.
- 2.2.3.2 The Municipality has improved its systems and processes in respect of electronic submissions of various applications for matters such as building plan submissions, land use applications, event applications and film permits etc. The Municipality has also improved on its processing times for these submissions.
- 2.2.3.3 The Municipality has adapted bylaws and policies in order to be more development-orientated and improve upon “ease-of-doing-business”.

### **2.2.4 Renewable Energy and Gas Projects, and Related Investment Opportunities**

- 2.2.4.1 The Municipality has tested the market from the year 1998 to 2020 to ensure that energy is being purchased and used at the lowest cost to the consumers. The Municipality found that although there were steep electricity price increases, the cost of alternative/renewable energy was still too high for consumers. However, the costs of solar and wind energy have decreased considerably.
- 2.2.4.2 The Municipality has been at the forefront of green energy and has already implemented solar power within its own structures, and has taken the electricity department off the energy grid.
- 2.2.4.3 The Municipality realised there was a need to address the gap in renewable energy as wind and solar energy were not always reliable. Hence, the need to focus on Liquefied Natural Gas (LNG) as a solution. There was a need for the TNPA to be involved in the development of pipelines to move the LNG from Mossel Bay to where it was needed. The Municipality has been looking at an LNG facility and Floating Storage and Regassification Units (FSRUs). There is a national ports plan for the facility that extends beyond 2048.
- 2.2.4.4 Over the next five years, PetroSA will spend over R3 billion on plant modifications and upgrades to improve refining capacity and ensure security of energy supply. Most of these initiatives are in the feasibility (front end loading) stages as part of the long term planning for ensuring sustainability of PetroSA’s Gas-to-Liquids (GTL) Refinery. Coupled with these modifications and ongoing refinery upgrades, PetroSA will invest approximately R500 million more in sales and marketing assets within the next year in order to enhance its presence and customer service. Many people were not aware that the GTL Refinery had an LNG storage facility, which could be utilised once gas is offloaded from the FSRU.
- 2.2.4.5 The Municipality aims to become a gas distributor and Mossel Bay is likely to become the first harbour with an FSRU. Given the possibility of the establishment of an electronic car manufacturing facility at Duinzicht in Mossel Bay, an FSRU will be needed for LNG importation.

## **2.2.5 Mossel Bay Municipality Smart Scale Embedded Generation Policy**

- 2.2.5.1 The Municipality's Small Scale Embedded Generation (SSEG) Policy was approved by Council via resolution. The purpose of the SSEG Policy was to provide guidance to customers with regards to the Municipality's requirements and application process for connecting all forms of SSEG, such as Photovoltaic (PV) solar systems, biomass reactors or wind turbines, to the Municipality's network, which included renewable energy and co-generation processes.
- 2.2.5.2 A total of 39 applications were processed and a total of 28 applications were approved as at 2 November 2020. The total capacity of the approved installations amounted to 1297.8 kilovolt-ampere (kVA).
- 2.2.5.3 The majority of these installations were grid-tied systems, which meant they were disconnected from the Municipality's network whenever the utility supply fell away. Although some of the installations did not have battery storage capacity installed, it was primarily for own-use and did not supply back into the Municipality's network when the utility supply was disconnected.
- 2.2.5.4 All customers wishing to participate in the SSEG tariff would be required to have a Mossel Bay Municipality approved bi-directional "smart" metre installed, capable of distinguishing between energy being "imported" from the municipal grid or "exported" from the SSEG into the grid. Customers would be required to modify their electrical installation in such a way that the required metering is accommodated in a meter kiosk in the road reserve, which will ensure unhindered access to the meter reading and maintenance personnel. For instances where no meter kiosk exists or where there is insufficient room in an existing kiosk, a new meter kiosk will be installed in the road reserve at the customer's expense. Such a meter kiosk shall ensure access from the street side and be locked with a standard Mossel Bay Municipal lock.
- 2.2.5.5 The Municipality currently provides a Feed In Tariff (FIT) to domestic and commercial SSEG clients, which consists of a Fixed Network Charge (per month), an energy charge for consumption (R/kWh) and an energy charge for generation (R/kWh).
- 2.2.5.6 The Municipality embarked on a renewable energy project on 2015, installing a rooftop PV system on the roof of its Technical Services Building. This installation was a hybrid type system, with an installed battery storage capacity to supply the load when the grid was not available. This installation was successful as it meant that although the building was still connected to the grid, it could be operated as an islanded (off-grid) system during instances when the utility power was not available.

## **2.3 Resolutions/Actions**

The Committee REQUESTED that the Mossel Bay Municipality provides it with the following:

- 2.3.1 A copy of the Municipality's SSEG Policy;
- 2.3.2 A list of Local Economic Development projects, in respect of the Economic Recovery Plan, that promotes community initiatives; and
- 2.3.3 A brief breakdown of the nature of the tourism jobs that will be created through the Municipality's various tourism initiatives and programmes.

### **3. Engagement with Eskom on the Gourikwa Power Station in Mossel Bay**

#### **3.1 Overview and background**

The Committee was briefed by Eskom on the Gourikwa Power Station and Liquefied Natural Gas (LNG) infrastructure for the power station. The Committee was also given an update on the maintenance of the plant. This briefing was followed by a walkabout of the Gourikwa facilities.

The Committee was met by Mr Avi Singh, General Manager: Peaking; Ms Pamela Mrubata, Plant Manager; Mr Reggie Chippie, Client Office Manager; and Mr Chris Barnard, Operation and Maintenance Manager.

The Gourikwa Power Station was named after an indigenous tribe, Gourikwa, who occupied the land on which the station was built. The first phase for construction of the station started in January 2006 and comprised of three 148 Megawatt (MW) Open Cycle Gas Turbine (OCGT) units, which were completed and handed over for commercial operation in June 2007. The second phase of construction comprised of adding two more 148 MW OCGT units, which were handed over for commercial operation in November 2008. The lifespan of Gourikwa is estimated to be 40 years.

#### **3.2 Findings and Observations**

##### **3.2.1 Gourikwa Power Station**

- 3.2.1.1 The five OCGT units are powered by fuel oil (diesel). These units supply electricity into the National Grid during peak hours and emergency situations. In addition to their generating capabilities, the units are also used to regulate network voltage fluctuations.
- 3.2.1.2 Gourikwa has a 4.2 kilometre (km) pipeline which leads directly from PetroSA to the entity's storage tanks. As a backup, Gourikwa also has five offloading skids that can offload diesel from road tankers at a rate of 1 300 – 1 400 litres per minute.
- 3.2.1.3 The Peaking Operating Units form part of Eskom's Generation group and aims to produce power optimally, and maintain the plant in order to consistently meet the country's electricity demand during peak periods or when required. The term "peaking" refers to the quick response by the Operating Unit to changes in demand for electricity. The Peaking Operating Unit has hydroelectric, hydro-pumped storage and gas turbine power stations. The Operating Unit is made up of nine power stations with an installed capacity of 5 741 MW. Peak demands occur in the early mornings and early evenings between 05h00 and 21h00. The morning peak is a combination of industrial and domestic demand, whereas the evening peak is mainly domestic.
- 3.2.1.4 Gourikwa experienced a rapid increase in utilisation of the plant from 2010 to 2017, indicating the increased usage of the station since it was commissioned. The decrease in utilisation of the plant from 2017 to 2019 was due to the commissioning of the Medupi and Kusile Power Stations.
- 3.2.1.4 Gourikwa's availability to produce energy has remained high indicating the low unplanned energy losses since the station was commissioned. The low unplanned losses from equipment failure or other conditions has indicated that the plant's operating and maintenance practices have been effective.

### 3.2.2 Maintenance Strategy

- 3.2.2.1 Maintenance of the plant is divided between minor inspections and major inspections. Minor inspections are inspections of all components that are directly visible but not removable. These minor inspections take place after every 250 starts, or the equivalent of 4 000 operating hours. Major inspections are the most comprehensive inspections and includes all items in the minor inspections as well as the hot gas path inspection. Major inspections take place after every 1 500 starts or the equivalent of 33 000 operating hours. The last minor inspections of all five units were in 2020, while the last major inspections were in 2016 and 2017.
- 3.2.2.2 Routine plant maintenance is set to take place every year until 2030. During the next few years, until 2030, it is projected that maintenance will also take place in stages on various parts of the plant.

### 3.2.3 Walkabout of the Gourikwa Power Station - Observations

- 3.2.3.1 The Gourikwa Power Station does not only supply Mossel Bay, the rest of the energy produced also feeds in to the national grid to supply the rest of the country.
- 3.2.3.2 The control room at the plant is responsible for monitoring the daily functions of the station. Nothing happens at the station without the knowledge of the control operators and the control managers are not allowed to start the five units without instruction from national control. The control room monitors the pressure, flow and temperatures of the units. If anything goes wrong at the station, the control operators submit a notification to the maintenance department.
- 3.2.3.3 Gourikwa Power Station is an emergency site and is therefore ready to be utilised as soon as is needed. Employees work in shifts so that the plant is ready to be up and running at any hour of the day when there is an urgent call from national control.
- 3.2.3.4 Gourikwa receives approximately one million litres of fuel from PetroSA every five hours. Eskom very rarely experiences issues of throttling. If there is throttling, then the amount of fuel received per hour will be reduced but this does not have a major impact on Eskom.
- 3.2.3.4 It becomes very stressful for Eskom when the fuel tanks at Gourikwa are only filled to 20% capacity, as the spare tank will have to be used. The tank fuel levels cannot decrease to lower than 8% as the pipes and pumps will then start cavitating.
- 3.2.3.5 Although Eskom's gas tanks are filled, the plant does not utilise gas yet.
- 3.2.3.6 Some fuel received from other sources, when there was an emergency, was not good quality fuel, which could lead to unit failures. After every second failure, the unit has to be shut down and restarted. Eskom receives good quality fuel from PetroSA, unfortunately, PetroSA is running out of fuel.

### **3.3 Resolutions/Actions**

The Committee REQUESTED that Eskom provide it with a breakdown of the Gourikwa Power Station's staff complement in respect of demographics.



## **4. Engagement with the Mossel Bay Business Chamber**

### **4.1 Overview and background**

The second meeting for the day was with the Mossel Bay Business Chamber who briefed the Committee on the impact of the COVID-19 regulations on businesses and on the Ease-of-Doing-Business with the Municipality.

The Committee was met by Advocate Thys Giliomee, Municipal Manager Mossel Bay; Mr Carel Venter, Director: Planning and Economic Development; Alderman Dirk Kotze, Executive Deputy Mayor; Mr Albert Wiffen, Board member; Mr Fanus Trutter, Board member; Ms Kelly Fourie Barnard, Board member; Deniese Lloyed, Board member; Rene Malan, Liaison Officer

The Mossel Bay Business Chamber (the Business Chamber) is an independent non-profit and politically neutral organization comprising of business men and women who are working together to facilitate economic growth and development in the greater Mossel Bay, Dana Bay, Klein Brakriver, Groot Brakriver an Herbertsdale regions.

It facilitates and guides relationships between businesses, the local community, government and strategic leaders. The Business Chamber also promotes active participation in economic activities by providing local business and communities with networking opportunities, providing them with information on key strategic initiatives and events as well as business support.

Businesses who form part of the Business Chamber can expect to increase their networking opportunities and take advantage of the many benefits of being a member.

### **4.2 The impact of the COVID-19 regulations on businesses and the ease of doing business within the Municipality**

4.2.1 The COVID-19 lockdown measures brought about a negative impact on the economy, which resulted in the immediate loss of economic activity, and brought about a negative impact on the medium-term and long-term economic effects. Businesses could not trade and were unable to pay their employees. Furthermore, employers were forced to temporarily layoff staff which impacted negatively on employee's livelihood.

4.2.2 Most businesses reported a 25% closure rate due to the forced reduction in production as a result of the national lockdown. Revenue streams were compromised and monthly expenses continued despite the fact that most businesses were not operational.

4.2.3 Approximately 9,7 % of businesses indicated that they applied for COVID-19 Temporary Employer/Employee Relief Scheme (TERS funding). The business/employer could apply for TERS funding by reporting the total or partial closure of the affected business to the Department of Labour. This would then allow the businesses/employers to draw TERS funding during their financial crisis. Businesses advised that the TERS funding was not enough to cover employee and personal salaries. Some of the employees did not have identity documents and could therefore not access the funding. Others were not provided with reasons for not receiving the funding. The Committee was requested to intervene regarding the TERS allocation as the current allocation is not enough to cover the shortfall.

4.2.4 The impact of the lockdown on household demands for goods and, services escalated as employees had to work from home. Everyone had to adapt to a new lifestyle and a new way of

working. Business that could transition to an online work environment had to conform and businesses like the construction industry reported major losses.

4.2.5 The South African exports production and supply chains were disrupted and tourists could not gain access to the area as flights were grounded and ports were closed. Business that rely on tourists to operate e.g. B&B, hotels and local crafters had to focus on the local tourist to continue their trade.

4.2.6 Business owners largely indicated that they would be prepared to assist existing small businesses but had to focus on their own businesses first prior to assisting others. Some law firms advised that their assistance would be in the form of pro-bono work or advice on how to reduce rates on service delivery and financial advice.

### **4.3 Findings and concerns**

#### **4.3.1 Louis Fourie Road in Mossel Bay**

A project to upgrade sections of Louis Fourie Road in Mossel Bay was implemented. The project was placed on hold due to budget cuts and the COVID-19 lockdown. A request was made that the Committee intervene to ensure that the construction of the road be prioritised.

#### **4.3.2 Mossel Bay harbour**

Mossel Bay harbour is the smallest of the commercial ports along the South African coast. It is the only South African port that operates two off-shore mooring points within port limits. Mossel Bay harbor is an active harbor catering mainly for the fishing industry and the developing oil industry which commenced with Mossgas in the late 1980's. The harbour does not have sophisticated infrastructure mainly because it does not deal with commercial cargo. An increasing number of ships for the emerging oil industry dock at Mossel Bay. Due to port limitations, tankers make use of the offshore mooring buoys. Mossel Bay is a common user port for ships that are accommodated on a first-come-first-served basis. No significant activities or commercial growth has transpired in the ensuing years. A request was made to upgrade the harbour to become more commercialised for importing and exporting commodities. Agricultural farmers in the area were invited to discuss business opportunities regarding the export of their produce. Further queries were made regarding the possible implementation of a regional Home Affairs office located at the harbour to assist with port entry.

#### **4.3.3 VAT registration for Small, Medium and Micro Enterprise (SMME's)**

It is mandatory for any business to register for Value Added Tax (VAT) if the income earned in any consecutive twelve month period exceeded or was likely to exceed R1 million. The business may choose to register voluntarily if the income earned per annum exceeded R50 000. However, it must be noted that there are many potential challenges associated with VAT, which includes an increase in costs for business owners throughout the chain of production. Because VAT is calculated at every step of the sales process, bookkeeping alone results in a bigger burden for a company, which then passes on the additional cost to the consumer. To register for VAT, a host of forms must be completed. Completing the forms and submitting the forms are tedious and time consuming. The Committee was requested to assist with the reduction of the VAT registration forms as well as the transition from filling out hard copies to online registration.

#### 4.3.4 Skills development levies

Skills development levies (SDL) are levies imposed to encourage learning and development in South Africa, and is determined by an employer's salary bill. The funds are used to develop and improve the skills of employees. Where an employer expects that the total salaries will be more than R500 000 over a period of 12 months, that employer becomes liable to pay SDL. A 1% of the total amount paid in salaries to employees is deducted for SDL. The amount deducted or withheld by the employer, must be paid to SARS on a monthly basis. COVID-19 brought about many challenges and businesses were requesting an interim exemption from the compulsory SDL to fulfill other obligations with the much needed revenue.

#### 4.3.5 Skills development and job creation

The oil and gas industry is one of the biggest employers in the Mossel Bay region. The region had an abundance of talented young people with the potential to succeed in the oil and gas sector, tourism sector as well as the film industry. Local students could enter the labour market through ambassador programmes, with the correct qualifications and technical skills. A comprehensive student and learner development programme should be designed to equip the next generation of employees with the expertise and experience to excel personally and professionally. Local Technical Schools and FET Colleges should be equipped with the correct learning material and curriculum to address skills shortages in the artisanal, technical and professional fields amongst others. Thereby providing them with an opportunity to receive permanent positions in the oil and gas industry which is currently one of the biggest employers in the region.

#### 4.3.6 Financial support from banks

Banks are more careful about the risk in the investments which they support. Since small businesses are riskier than large businesses, they usually experience challenges acquiring funding through traditional banks. Banks prefer providing loans to larger businesses rather than small businesses since the latter accrue fewer profits than the former. Usually, small businesses are seeking small business loans, and therefore their requests are usually declined since it does not make financial sense for a bank to process a small loan. The Department was urged to find alternative means to assist with small business funding, whereby banks can assist small businesses with the financial aid that is required to grow and improve profit margins.

#### 4.3.7 The Great Escape to Mossel Bay

Mossel Bay Tourism launched a nationwide campaign called "The Great Escape to Mossel Bay" to mobilise local support in promoting Mossel Bay as a preferred tourism destination. "The Great Escape to Mossel Bay" initiative invites visitors/tourists to the Garden Route from, the greater Western and Eastern Cape, as well as national tourists, looking for their post-lockdown escape. The campaign was introduced to members of the local business fraternity at their monthly meeting of the Mossel Bay Business Chamber as part of its aim to boost the Mossel Bay economy and to provide better revenue streams for local businesses.

#### 4.3.8 Business Chamber membership

Membership is open to all business owners engaged in, or carrying on a business or profession associated with trade, commerce or industry. A once off joining fee of R280 is applicable for all new members. The fee is charged according to a sliding scale of which R605 was charged for an employer with a staff complement of five per annum, R792 for an Employer with 6-49 staff members and R979 for an employer with a staff complement of 50 and above. SMME's from townships and rural communities are encouraged to join the Business Chamber as there are numerous perks, upliftment programmes. They are also granted a 50% discount on their joining fee.

#### 4.3.9 Alternative investment in retirement villages

A sound investment opportunity was always appealing to those with financial savvy, and the growing retirement property industry, was currently the fastest growing residential investment segment in the country. Due to the massive demand for top quality retirement accommodation in South Africa, it was typical for this type of property to see an additional 2% to 3% capital appreciation per year. Young professionals who were looking for investments, purchased within a retirement lifestyle estate with the intention of securing not only a long-term investment, but also securing the ideal lifestyle for their parents to enjoy, as well as being assured that all of their health needs would be taken care of. Alternative investments can equip potential buyers with the skills, confidence and strategies to assess potential investment opportunities in private equity and real estate, in particular retirement villages.

#### 4.3.10 Bulk infrastructure

Municipal costs included bulk infrastructure as a long term service provision. The bulk infrastructure system was overburdened by the magnitude of housing projects taking place in George and surrounding areas. The water works and sewage treatment works required upgrading to accommodate the increased demand. Currently, the Municipality did not have the funds to upgrade its bulk infrastructure to accommodate the increased demand.

### **4.4 Recommendations/Actions**

- 4.4.1 The Committee REQUESTED that the Business Chamber provide it with a list of the businesses who did not receive TERS funding, which will be escalated to the Department of Economic Development and Tourism's Red Tape Unit for further processing and action.
- 4.4.2 The Committee RECOMMENDED that the Department of Economic Development and Tourism:
  - 4.4.2.1 Meet with various banks to discuss innovative ways and means of providing financial assistance to small businesses; and
  - 4.4.2.2 Liaise with the South African Revenue Services regarding the reduction of forms required for small business loans.
- 4.4.3 The Committee RESOLVED to request that the Standing Committee on Transport and Public Works investigate the delays pertaining to the upgrading of the Louis Fourie Road in Mossel Bay.

## **5. Engagement with Total South Africa in Mossel Bay**

### **5.1 Overview and background**

Total South Africa (Total SA) briefed the Committee on the Brulpadda project, regulatory challenges experienced and the impact of the COVID-19 regulations on its business. Transnet National Ports Authority (TNPA) and Afrishore also addressed the Committee, and a few members of the public were allowed to voice their concerns and questions to the Total SA Executive as well.

Total SA produces and markets fuel, natural gas and low-carbon electricity. The company employs approximately 100 000 people who are committed to producing better energy that is safer, more affordable, cleaner and more accessible to as many people as possible.

The Committee was briefed by Mr Marek Ranoszek, Asset Manager; and Mr Johan Griek, Health and Safety Manager.

### **5.2 Findings and Observations**

#### **5.2.1 Total SA as a Major Energy Player**

5.2.1.1 Total SA's activities spanned from production of energy (natural gas, solar and wind power, oil and biomass) to transport and transformation of energies into immediate or final goods, and then to storage and distribution of products to meet the needs of individual and business customers.

5.2.1.2 Total SA has been present in South Africa since 1954 and employs approximately 1 000 people across the country. In terms of upstream activities, Total SA has developed oil and gas exploration activities in South Africa with operating interests in five blocks. For midstream activities, Total SA has interests in the Natref refinery in Sasolburg. In respect of downstream activities, Total SA operates approximately 550 service stations throughout the country and is present in various other business segments. In terms of renewables, Total SA has developed solar projects with its affiliate, SunPower. Total SA's Prieska Solar Power Plant in the Northern Cape has been supplying electricity to the equivalent of 70 000 households.

5.2.1.3 In terms of drilling campaigns, Total SA looks at areas where they might find hydrocarbons and embarks on desktop studies that can cost between a few hundred thousand Dollars and a million Dollars, then seismic surveys, which can cost approximately tens of millions of Dollars, and then exploration well drilling. Development can cost billions of Dollars.

#### **5.2.2 The Brulpadda Discovery**

5.2.2.1 Total SA has made a significant gas condensate discovery on the Brulpadda prospects located on Block 11B/12B area in the Outeniqua Basin, located 175 kilometres off the southern coast of South Africa, at 1,430 metres depth.

5.2.2.2 Total SA's first drilling campaign was in 2014 to attempt to drill the Brulpadda well. Technology applied at time did not stand up to the environmental conditions of the area. However, Total SA came back to the area in 2015, better prepared. One of the challenges experienced during the exploration phase was the Agulhas Current, the second strongest current in the world, 100 kilometres wide that flows all year round. This provided Total SA with some unique challenges to conquer, however, due to Total SA's experience with drilling wells in the past, this challenge was overcome.

- 5.2.2.3 The Brulpadda well was completed in 61 days and 57 metres of net gas condensate pay was found in the lower cretaceous reservoirs. Total SA acquired extensive key data in respect of the understanding and prospectivity of the area.
- 5.2.2.4 Total SA warned that the metocean conditions for the Brulpadda site were confirmed as very harsh and equipment was exposed to much stress and high vibrations. The harsh environment was a combination of the strong current, wind and strong waves, with the risk of rogue waves. This was where innovative technology would become important.
- 5.2.2.5 From the discovery of gas, to the first production and development phase, it could easily take up to ten years for the first hydrocarbons to be produced. The first step was to retrieve data from the site, to analyse the data, then see how to produce the gas and decide where to sell the product, and design the facilities that were needed for the process. With Brulpadda, there would be intermediate operations that would take place, such as additional drilling before Total SA could proceed with the production stage. Development of the project would be quiet in the medium term, however, activity would increase in the medium to long term.
- 5.2.2.6 Total SA could not estimate the exact number of jobs that would be created through this discovery of gas at Brulpadda, however, they estimated that local spend could run into tens of millions of Rands. Total SA stated that they could not dictate to their contracted service providers who they should employ. However, from the data provided from these service providers it seemed that most of the local persons employed were from the Mossel Bay region. Total SA stated that this was a project that would not only benefit the region, but the country as well. There would be local supply and developmental benefits and training of local staff. In terms of workforce development, Total SA would focus on recruitment, training and leadership development of qualified nationals in all phases of development and operation, they would invest in technical and business education to support economic, educational and professional development of host communities. As a result, there would be indirect and induced employment arising from a vibrant oil and gas industry. For supplier development, Total SA would look at purchasing local goods and services and developing local companies to form a globally competitive industrial base. In terms of strategic community investments, there would be investments in health, education and infrastructure that will improve the living conditions in host communities and countries.
- 5.2.2.7 In respect of environmental issues, drilling was a high risk activity, however, the potential for oil spills was very low. There were various potential risks in respect of shipping operations. Total SA would look at managing risks so that there is minimal impact on the environment.
- 5.2.2.8 In terms of “above ground” risks, more stability was needed with oil and gas legislation, regulations and policy. Total SA has held regular discussions with the Department of Mineral Resources and Energy and the Department of Trade, Industry and Competition regarding these risks.
- 5.2.2.9 Total SA stated that the Brulpadda and Luiperd gas discoveries would further reconfirm South Africa as an oil and gas exploration destination. This would make a significant contribution to the country’s energy security and revenue, and Gross Domestic Product (GDP), once the projects enter into the development and production phases.
- 5.2.2.10 Transnet National Ports Authority (TNPA) dredged the port entrance channel and inside the port area to its maximum depth before Total SA embarked on its exploration phase of the Brulpadda area, to accommodate Total SA’s vessels. TNPA has expansion plans in place for the development of the Mossel Bay port. The plan caters for short, medium and long term projects. Transnet has an oil and gas strategy in place in order to cater for expansion of the oil and gas industry as a whole. Transnet has plans to undertake EIA studies as well as expansion studies to assess the needs required for a bigger oil and gas industry. Afrishore, on behalf of Total SA, is currently leasing two land sites from Transnet within the port, and Transnet is in the process of acquiring additional land sites as part of the National Port System in order to cater for development in the area.

5.2.2.11 Afrishore is a local company that provides logistics services for Total SA and the oil and gas industry. Afrishore's role in the Total SA project was to ensure that every piece of equipment used on the rigs were transferred safely from onshore to offshore, in compliance with Total SA's standards of safety. This included the movement of employees to where they needed to be. Afrishore has employed 60 local persons to work on its current Total SA project, of which 59 employees reside in Mossel Bay. Afrishore thanked the Mossel Bay Municipality, Western Cape Government and all national government departments for assisting them with any concerns or challenges experienced during the COVID-19 pandemic. Afrishore has tried its best to employ local persons, however, this also came with its own challenges such as the lapsing of certification. The company has supported a number of small- and micro enterprises as well as compliant Broad-Based Black Economic Empowerment Companies (BBBEE), and always tries to source materials and equipment locally, then provincially, then nationally.

#### 5.2.3 Statements from Workers Employed by Afrishore

5.2.3.1 Ms Payton Hanson - Ms Hanson was the only woman in South Africa to qualify and become a Jetty Supervisor, so far. She received a full bursary from Mossel Bay Municipality to study civil engineering at Central Technical College. She accepted the opportunity to interview for the position of Assistant Jetty Supervisor at Afrishore and started work the next day. Ms Hanson is now able to manage the offloading and loading of containers.

5.2.3.2 Ms Ntokozo Ntabela – Ms Ntabela's role is to compile and work with the materials that have to move from onshore to offshore. Afrishore put forward their plan to Total SA to harness oil and gas related skills from the older generation and transfer it to the younger generation. There was also a drive to transfer these skills to women in the industry.

5.2.3.3 Mr Guiliano Jones – Mr Jones was previously employed as an Armed Response Officer, however, this did not fulfil him. He then saved money in order to study courses in Health and Safety Management in order to improve his personal circumstances. He obtained this qualification and started working for Afrishore as a Forklift Spotter or General Worker in May 2020. Afrishore also afforded Mr Jones the ability to complete a number of additional courses and he was promoted to the assistant of the HSE Manager, which has allowed him to gain experience in the health and safety environment.

#### 5.2.4 Statements from Members of the Public

5.2.4.1 This was the first time that they had witnessed the presence of Total SA Executives. If people from Mossel Bay were not going to say or do anything for the community, then they would not have benefited from Total SA's project once the company decides to leave Mossel Bay. The community needed the Total SA offices and workshops to be visible in Mossel Bay and local persons needed to be employed by Total SA. Companies such as Afrishore seemed to be labour brokers employing people in the area. Many local persons went for long periods without employment. Companies working on behalf of Total SA should meet with local persons on a monthly basis. The provincial government should also play its part in creating employment for Mossel Bay residents.

5.2.4.2 Total SA would be winding down its drilling operations in two weeks' time. It was critical that there was transparency with the project going forward. It was also important to have proper preparation for the next phase of the operation as this was a highly skilled environment. It was important to see what skilled and unskilled jobs would be needed so that the local community could benefit from this.

5.2.4.3 The local community needed to meet with Total SA and engage with them in a continuous and structural way. Total SA should also engage directly with the Black Business Chamber, Black Business Forum and other labour forums in order to prevent any further picketing.

## 5.2.5 Responses from Afrishore and Transnet

- 5.2.5.1 Afrishore agreed with and embraced the idea of better communication between the affected companies and the local community so that everyone was on the same page. Afrishore has met with all the labour forums in the area that have asked about the Total SA project, and has appealed to the labour forums to become organised and to register their forums. Afrishore has called for lists of qualified persons in Mossel Bay, but to date, some labour forums have not provided these lists. Some labour forums have sent Curriculum Vitae and four persons were employed on the rig. However, it was impossible to satisfy all the people during a short exploration campaign.
- 5.2.5.2 Unfortunately, the 60 people employed by Afrishore for the Total SA project may not be employed after the exploration phase winds down as there was no oil and gas activity planned for South Africa at the moment. The implication for Afrishore was too severe as well.
- 5.2.5.3 A representative from the Oil and Gas Forum thanked the members of the public for the comments. He reassured the public that an Oil and Gas Forum had recently been initiated. All stakeholders from the oil and gas industry had met at a webinar recently, however, it was still at the beginning of the process. He advised the community structures to become properly constituted and registered so that they could move forward with Maritime Clusters. Afrishore wanted the community to have a voice in this sector.
- 5.2.5.4 Transnet indicated that one of the challenges was that there were not many people qualified for the positions that were available. A learnership programme was initiated to address this problem. Transnet received 600 applications for this programme, of which 20 were supposed to be selected, however, Transnet could not find 20 qualified applications from the 600 that were given, because of the lack of science and mathematics subjects undertaken by learners at school level. Intervention strategies were needed at school level to encourage learners to study mathematics and science subjects. If this does not happen over the next few years then the challenge of not having qualified local persons in Mossel Bay will remain.

## 5.3 **Resolution/Action**

The Committee REQUESTED that:

- 5.3.1 Total SA provide it with a breakdown of the 195 South Africans employed by service providers on behalf of Total SA; and
- 5.3.2 The Department of Economic Development and Tourism assist with the registration of qualified labour organisations in the Mossel Bay area that were not registered yet.

## 6. **Engagement with the National Department of Trade and Industry and Competition and the provincial Department of Economic Development and Tourism**

### 6.1 **Overview and background**

The day was concluded with a briefing by the National Department of Trade and Industry and Competition (DTIC) and the provincial Department of Economic Development and Tourism (DEDAT) on the regulatory processes for the oil and gas industry and any gaps therein.

The Committee was met by Mr Rashid Toefy, Deputy Director-General at the Department of Economic Development and Tourism; Mr Thys Giliomee, Municipal Manager: Mossel Bay; Mr



Carel Venter, Director Planning and Economic Development: Mossel Bay; Alderman Dirk Kotze, Executive Deputy Mayor: Mossel Bay; ward councillors, and relevant stakeholders.

## **6.2 The DTIC presentation on the Regulatory Processes for Oil and Gas**

### **6.2.1 Skills challenges**

Government acknowledges that skills development is imperative to achieve economic growth targets. According to Statistics SA, the unemployment rate among South African youth aged between 15 to 34 was 38,2%. This implies that more than one in every three young people in the labour force were unemployed. The South African Oil and Gas Alliance (SAOGA) in collaboration with the DTIC is managing skills development programmes, specifically aimed at the development of skills for artisans, electricians, plumbers, boilermakers, welders, tool makers, etc. Artisan training and development has been identified as a critical area to address the challenges of economic growth, redress, and provide an avenue to tackle the growing challenge of youth unemployment in South Africa.

The overwhelming majority of the technical workforce in the oil and gas sector is represented by artisans, technician's engineers and technologists. The percentage share of highly skilled individuals is the smallest of the technical workforce in the sector. According to the Manufacturing, Engineering and Related Services Sector Education and Training Authority (MerSETA), the shortage of highly skilled individuals has contributed to the slow adoption of technology, lower productivity and low competitiveness in South Africa. The majority of artisans are unqualified, with 43% of the artisans having less than a Grade 12 qualification and approximately 34,1% of the artisans that do have a Grade 12 qualification. Taking figures into consideration it is evident that South Africa has a severe shortage of artisans with tertiary qualifications.

In South Africa, women represent approximately 52% of the population. The proportion of women employed as technicians increased from 34% in 2002 to 37,4% in 2017, this is regarded as a significant step towards closing the gender gap. TVET colleges are reporting an increase in female students in fitting and turning as well as electrical and motor trades. More women are graduating in engineering (20% in 2017) than men (18% in 2017) in universities of technology. In 2017, women were far less likely than men to be working as artisans and technicians. A higher proportion of women (37,4%) are more likely to be technicians than artisans.

Women graduate from university worldwide, yet women remain a minority in the Science, Technology, Engineering and Mathematics (STEM) fields. These include engineers, scientists, technicians and artisans. The proportion of South African women employed as engineers became less in 2002 and 2017. It was established that women are less likely to enter and more likely to leave STEM careers. The Western Cape Provincial Government has since stopped funding the SAOGA training programmes.

### **6.2.2 SA Regulatory Environment**

Total South Africa announced a major discovery of gas condensate in the Outeniqua Basin (Brulpadda prospect, Block 11B/12B). This deposit reportedly contains approximately one billion barrels of oil equivalent. The South African Government wants to see 30 wells drilled in 10 years, but they are aware that it has to create the enabling environment to provide industry with the means to invest in the capital-intensive business of exploration. Large offshore and

onshore gas reserves discoveries in Mozambique and Tanzania present development opportunities for among others energy generation in South Africa.

A phased gas pipeline network emerged as an infrastructure requirement from Operation Phakisa, originally to exploit mooted offshore gas reserves, but now also for imported liquefied natural gas and possible shale gas in the Karoo. The investment case for importing liquefied natural gas into South Africa will be completed by December 2020. This discovery had two significant consequences. First, it identified South Africa as one of the world's new frontiers for oil and gas exploration. Second, it placed a spotlight on the inadequacy of South Africa's existing regulatory government and the urgent need to develop upstream petroleum legislation.

Following an undertaking by the Department of Mineral Resources and Energy (the DME hereafter) to develop oil and gas legislation, the Minister of Mineral Resources and Energy published the Draft Upstream Petroleum Resources Development Bill (the Bill hereafter). The Bill seeks to ensure that the upstream petroleum sector is regulated not under the Mineral and Petroleum Resources Development Act, 2002 (Act 28 of 2002) (MPRDA) but under a standalone legislation. The desire to separate the legislation dealing with two different sectors is not an uncommon phenomenon in jurisdictions within successful oil and gas sectors. Some of the upstream legislation and policies under development are the Gas Act, 2001 (Act 48 of 2001) the Shale gas fracking regulations and the Gas masterplan which is still in progress.

The prospect of an oil and gas legislation presented an opportunity to create a customised regulatory government. The Bill in many instances replicates existing provisions from the MPRDA. As a result, it retains many of the shortcomings of the existing legislative framework, which was drafted for the mining industry. While many of the Bill's provisions may work for onshore oil and gas purposes, the Bill fails to capitalise on the opportunity to create a genuinely tailored government for the oil and gas sector. Government recognises it must provide clarity and stability in the legislative framework governing offshore oil and gas, ensuring a win-win outcome for government, industry, and society. This will in turn provide investors with an opportunity to consider taking part in offshore exploration.

### 6.2.3 Opportunities for South African Suppliers

South Africa is a preferred destination for repair, maintenance and upgrade of drilling ships, semi-submersibles and jack-up rigs for operations in African waters. The region offers a compelling mix of world-class engineering, deep supply chains, and proximity to key drilling sites. Approximately 80 oil rigs are estimated to be in the range of the Western Cape, offering significant potential for repairs in local ports, as well as land-based operational support. The rapid turnaround times enabled by specific oil and gas skills and experience, together with transparent tariff rates, combine to give a highly competitive overall cost of work. Vessels come from as far as South America to take advantage of the country's engineering skills, capacity and fast turn-around times.

Saldanha Bay, the deepest and largest natural harbour in the Southern hemisphere, has been designated as a dedicated oil and gas servicing hub, and the Transnet National Ports Authority has earmarked a strategic fund of around \$600 million for Saldanha to grow the continent's energy industry. A new, specialised oil and gas maintenance and repair centre is being implemented at Saldanha Bay, to work alongside existing capabilities at Cape Town and Saldanha. It will include a new deep-water berth for rigs and drill ships, and a new construction, repair and maintenance berth. The LNG projects offer a further opportunity for multinational oil and gas field services and related companies to utilise South Africa and the Saldanha Bay

Industrial Development Zone (IDZ) as a base to service these projects. Through these combined investment promotion efforts, R700-million has already been invested in the Atlantis SEZ. It is expected that the zone will attract a further R3.7-billion of investment by manufacturers of wind blades, smart meters, batteries, electric vehicles, wind turbines, solar PV, and by other players in the waste, agri-processing, gas and chemicals value chains. The goal is to create nearly 3 000 direct jobs in the zone by 2030.

The Saldanha IDZ/Special Economic Zone (SEZ) will serve as the primary oil, gas and maritime repair engineering and logistics services complex that will service the needs of the upstream oil exploration industry production services companies operating in the oil and gas fields off South Africa. By concentrating industrial value chains in these areas, collaboration is encouraged and costs are significantly reduced. The LNG projects in the North of Mozambique offer a significant opportunity for South African suppliers across various value chains to supply goods and services to the oil and gas projects.

#### 6.2.4 The Department of Trade Industry and Competition's (DTIC) support for the oil and gas sector

The DTIC supports the oil and gas sector through the SEZ programme, the Export Credit Insurance Corporation (ECIC) credit facility and the Black Industrialist Schemes (BIS) that will foster further development of capable up and midstream supply clusters.

The SEZ programme is supported by a competitive incentive package, which includes, among others, a 15% corporate tax incentive, employment tax incentive, accelerated depreciation allowance, VAT and customs exemption, and infrastructure support.

The ECIC will provide export credit insurance cover for transactions involving capital goods and services outside of South Africa. A 70% stipulation on South African content for loans through the ECIC supported loan will be attained. Projects in the African continent or any other host country or country in Africa will retain a content of 70%, whereas South Africa would retain a 50% content.

The purpose of the Black Industrialists (BI) policy is to leverage the State's capacity to unlock the industrial potential that exists within black-owned and managed businesses that operate within the South African economy through deliberate, targeted and well-defined financial and non-financial interventions as described in the IPAP and other government policies.

The policy seeks to achieve the following objectives:

- Accelerate the quantitative and qualitative increase and participation of Black Industrialists in the national economy, selected industrial sectors and value chains, as reflected by their contribution to growth, investment, exports and employment;
- Create multiple and diverse pathways and instruments for Black Industrialists to enter strategic and targeted industrial sectors and value chains; and
- Promoting industrialisation, sustainable economic growth and transformation through the support of black-owned entities in the manufacturing sector.

## **6.3 DEDAT presentation on the regulatory processes for oil and gas**

### **6.3.1 Upstream petroleum life cycle**

The exploration and production life cycle of an oil field passes through various stages and each stage requires financial and technical commitment to realise the full potential of these projects for development. Listed below are the four stages of the upstream petroleum lifecycle.

#### **6.3.1.1 Data acquisition**

Data acquisition refers to data utilisation that is changing the way knowledge is produced, business is conducted, and governance are enacted. Geoscientists and engineers must have confidence in the underlying data they work with. To that end data sources, auditable workflows, and the efficient flow of information and knowledge between users and technology as determining factors in the success of exploration and drilling.

#### **6.3.1.2 Exploration and drilling**

There are five stages in the exploration and production lifecycle of oil and gas. These stages describes the chronological order in which hydrocarbons are discovered followed by what transpires after an oil or gas field is decommissioned. Oil and gas exploration is a method used by petroleum geologists and geophysicists to search for hydrocarbon deposits (oil and gas) under the earth's surface. The process consists of locating oil and gas reserves using primary technologies particularly seismic surveys and drilling wells. Exploration and drilling wells is a costly and risky operation due to the expenditure associated in locating and sourcing traces of hydrocarbons. The determination on whether petroleum is present are usually valued at millions of dollars and every two out of three wells, on average, contain no traces of hydrocarbons. It therefore require companies to drill many wells in one area before they are able to find an oil or gas discovery. This process may take decades or more years and some explorers may find nothing at all after the exploration exercise.

#### **6.3.1.3 Appraisal drilling**

Once a company is successful with its exploration drilling and made an oil or gas discovery, the appraisal phase of the lifecycle commences. The main purpose of this phase is to reduce the uncertainty or possibility of losses about the size of the oil or gas field and its properties. During appraisal phase, more wells are drilled in addition to the exploration wells to collect more information and samples from the reservoir. Additional seismic surveys is conducted to obtain more information of the reservoir. These activities takes several more years and can become very costly. More seismic surveys and wells assists petroleum geologists, geophysicists and reservoir engineers to comprehend the reservoir better. The studies conducted try to gauge whether rock or fluid properties change further away from the discovery well, how much oil or gas might be in the reservoir and how fast oil or gas will move through the reservoir. After the success of the appraisal, the company decides whether the oil or gas field can be developed.

#### **6.3.1.4 Field development**

During this phase the government contracts and permits may be revised/renewed and the sites are prepared for production. Limited infrastructure and site development will already be in place as part of the exploratory and initial drilling phase, but during the field development phase

activity will dramatically increase and first oil/gas will be produced towards the end of this phase.

Oil/gas reserves are extracted and transported for processing. The development of oil fields are very costly can last for a period of 5 to 10 years depending on the location, size and complexity of the facilities, and the number of wells required. Onshore developments are comparatively much cheaper than offshore developments. Completing the development plan involves drilling engineers who drill the first phase of production wells and project engineers who assists in building the planned facilities. Developments will only happen if the communities or ecosystems affected can be protected.

### 6.3.2 Oil and gas value chain

The oil and gas value chain starts with discovering fields and ends with providing products to end consumers. Production in the oil and gas industry is the last phase during which hydrocarbons are extracted from an oil or gas field. Revenue can only be obtained from selling the oil or gas. When the revenue exceeds the company's initial investment and cost, then profit is calculated. Production in an oil field can last several years, depending on the size of the oil or gas field and how expensive it is to keep the wells and production facilities running. Each year millions of dollars are spent on operating and maintaining the field.

### 6.3.3 Regulatory Framework and Structures

The principal regulatory bodies overseeing oil and gas extraction are the national Department of Minerals and Energy (formerly known as the Department of Mineral Resources) (DMRE) and the Petroleum Agency of South Africa (Soc) Limited (Petroleum Agency). The Department of Environment, Forestry and Fisheries (DEFF) is responsible for the regulation of environmental matters in respect of oil and gas extraction.

The DMRE administers the MPRDA, which at present is the principal statute governing the exploration and production of petroleum resources. The Petroleum Agency has been delegated various first-tier functions under the MPRDA relating to the acceptance and consideration of applications for petroleum rights and permits. Generally, the Petroleum Agency performs an advisory and administrative role that includes receiving, evaluating and making recommendations to the minister on applications for petroleum rights and permits, and monitoring compliance with such permits and rights. It also acts as the custodian of the national petroleum exploration and production database.

The Petroleum Agency of South Africa (PASA) is the upstream oil and gas regulatory authority mandated under the Mineral and Petroleum Resources Development Act, 2002 (Act 28 of 2002) (MPRDA). PASA promotes exploration for onshore and offshore oil and gas resources and their optimal development on behalf of government. The Agency regulates exploration and production activities, and acts as the custodian of the national petroleum exploration and production database.

There are two types of permits and two types of rights which may be issued under the MPRDA namely:

- Technical cooperation permits which are issued in terms of section 77(1) of the MPRDA allows the holder to carry out desktop studies, acquire existing seismic and other data from other sources, including the Agency but does not include any exploration activities.

- Reconnaissance permit which is issued in terms of section 75(1) of the MPRDA allows the holder to undertake only geological, geophysical or photogeological surveys and any remote sensing techniques.
- An Exploration Right issued in terms of section 80 of MPRDA allows the holder to carry out the entire value chain of petroleum exploration such as acquisition and processing of new geological/geophysical data, reprocessing of existing geological/geophysical data and any other related activity to define a trap to be tested by drilling, logging and testing, including well appraisal activities.
- A Production Right issued in terms of section 84 of MPRDA allows the holder to conduct any operation, activity or matter that relates to the exploration, appraisal, development and production of petroleum. The right is valid for a period of 30 years, renewable for further periods each not exceeding 30 years, is transferable and can be encumbered by mortgage.

#### 6.3.4 Key agency role

The key agency role of the Petroleum Agency is to:

- 6.3.4.1 Promote onshore and offshore exploration for and production of petroleum;
- 6.3.4.2 Receive applications for reconnaissance permits, technical cooperation permits, exploration rights and production rights in the prescribed manner;
- 6.3.4.3 Evaluate such applications and make recommendations to the Minister;
- 6.3.4.4 Monitor and report regularly to the Minister in respect of compliance with such permits or rights;
- 6.3.4.5 Receive, maintain, store, interpret, evaluate, add value to, disseminate or deal in all geological or geophysical information relating to petroleum submitted in terms of section 88 of the MPRDA;
- 6.3.4.6 Bring to the notice of the Minister any information in relation to the exploration and production of petroleum which is likely to be of use or benefit to the State;
- 6.3.4.7 Advise and recommend to the Minister on the need to by itself, through contractors or through any other state enterprise carry out on behalf of State reconnaissance operations in connection with petroleum;
- 6.3.4.8 Collect the prescribed fees and considerations in respect of reconnaissance permits, technical co-operation permits, exploration rights and production rights;
- 6.3.4.9 Review and make recommendations to the Minister with regard to the approval of environmental management plans, environmental management programmes, development programmes and amendments thereto; and
- 6.3.4.10 Perform any other function, in respect of petroleum, which the Minister may determine from time to time.

#### 6.3.5 Challenges and opportunities

The major challenges identified by organisations in the oil & gas industry have remained largely unchanged with the top three issues of uncertain regulatory framework, corruption and poor physical infrastructure also identified as the biggest challenges.

##### 6.3.5.1 Limited or lack of infrastructure, equipment and facilities

The inadequacy of basic infrastructure has become a major challenge. Stakeholders are concerned about the lack of infrastructure in developing countries like South Africa and the

negative consequences that this may have for their businesses. Ports should contemplate renting sites and provide leasing rights. The municipality's Small Scale Energy Generation bylaws and tariffs should be reviewed to ensure the ease of doing business.

#### 6.3.5.2 Scarcity of specialised skills

The mandate for local skills development has become a concern for businesses operating in the oil & gas sector. Companies acknowledge the need to skill workers through training and development programmes. Skills development and training would form part of the industry placing local content initiatives on executive-level agendas. Basic skills in welding, mechanical engineering, rigging and solar energy fields should be invested in.

The DEDAT has made provision for R200 million in its budget as part of its skills development dual System Project. The Work and Skills Programme facilitates experiential learning and work placement opportunities for unemployed youth in the Western Cape's high job-yielding, priority economic sectors aligned to the department's strategy, to improve the future employment prospects of participants, between the ages of 18 - 35 years. This 4 to 12 month placement opportunity combines technical and soft skills training in the context of "hands-on" work experience. The Department has formed partnerships with various stakeholders such as Industry, TVET Institutions, NGOs, Sector Development Agencies and Provincial Departments to participate in the Work Skills Programme.

#### 6.3.5.3 Low levels of industrialisation

The Port of Mossel Bay is a National Port owned and operated by the Ports Authority of South Africa. Maritime economic red tape should be reviewed to allow for the provision of port infrastructure and maritime-related services at the Port of Mossel Bay. Optimizing production systems and environmental utilities on currently operating sites is therefore a priority for the oil industry. This maximizes production efficiency, reduces the costs of extraction and refining and thereby offsets the exploration costs.

#### 6.3.5.4 Reliable supply and distribution chains

Changes in technology, markets and customer needs affect the competitiveness of companies, which requires continuous restructuring of the strategy and tactics of positioning the oil business. The main problem facing the oil industry is to minimize the cost of production and supply of finished products to consumers. Effective supply chain management can increase the efficiency and competitiveness of a petrochemical plant and its supply. In a supply-chain, a company is linked to its upstream suppliers and downstream distributors as materials, information, and capital flow through the supply-chain.

- Reducing costs to remain competitive

Producing crude oil and refined products at a lower cost to stay competitive on the market is one of the industry's major challenges. Optimizing production systems and environmental utilities on currently operating sites is therefore a priority for the oil industry. This maximizes production efficiency, reduces the costs of extraction and refining and thereby offsets the exploration costs.

- Improving performance to ensure the valorisation of assets

To sustain the supply of crude oil or gas, oil companies are looking to extend the life of mature sites but are also compelled to seek new sources of oil or gas for which extraction, transport and refining are much more complex and costly. Therefore, oil companies aim to achieve 100% reliability of their plants through no unplanned shutdowns, increased quantity, and secure industrial assets.

#### 6.3.6 Garden Route Oil and Gas Forum

The Garden Route Oil and Gas Forum (The Forum) will support and promote the strategic development of the marine manufacturing and associated services activities in the Garden Route and surrounding areas. The key objectives of the Forum will be to stimulate economic growth, improve regional competitiveness and attract foreign direct investment.

#### 6.3.7 DEDAT key actions

The key actions for the DEDAT is to support the Garden Route Oil and Gas Forum in achieving its objectives. Consultation with private and public stakeholders to roll out support interventions that simplifies conducting business with foreign investors. The Department also assists stakeholders in the value chain to deal with the regulatory frameworks of the sector.

### 6.4 **Findings and concerns**

Concern was raised regarding the following:

- 6.4.1 The deployment of foreign workers accessing South Africa to work in the oil and gas industry as technicians, engineers etc. A recommendation was made that local content should be included in all tender documents to ensure an equal opportunity for both local and foreign workers.
- 6.4.2 The gap in industry specific work, a recommendation was made that TVET Colleges and “Yes for Youth Presidential Project” amongst others be approached to breach the gap and upskill youth in terms of the specific requirements of the region or industry. Corporate specialised investment training should be considered under the banner of the “Yes for Youth Presidential Project” where youth and interested parties can participate in computer and drone training amongst others.
- 6.4.3 The Department advised that red tape provides many challenges for foreign investors. The Municipality in conjunction with the stakeholders can provide a means of overcoming the challenges providing a means to the problems. This could also be a means of providing an incentive for foreign investors to view investment into a specific area more favourably.

### 6.5 **Recommendation/Action**

The Committee REQUESTED that the Department of Economic Development and Tourism:

- 6.5.1 Provide the Committee with the Oil and Gas Master Plan; and
- 6.5.2 Include the relevant stakeholders in the Mossel Bay area in the Western Cape Oil and Gas Forum.



## **7. Engagement with George Municipality**

### **7.1 Overview and background**

The Committee was briefed by the George Municipality (the Municipality) on its Small Scale Energy Generation (SSEG) bylaws and tariffs, its readiness for Independent Power Producers (IPPs), local tourism statistics, its tourism and destination marketing strategy, the impact of COVID-19 regulations on processes, local employment statistics, post-COVID Economic Recovery Strategy, and the ease-of-doing-business within the Municipality.

The Committee was briefed by Cllr Charlotte Clarke, Deputy Mayor; Ms Joan Shaw, Manager: Tourism; Ms Delia Power, Acting Director: Planning and Development; and Mr Steyn van der Merwe, Acting Director: Electrotechnical Services.

### **7.2 Findings and Observations**

#### **7.2.1 Small Scale Energy Generation bylaws and tariffs and the IPP readiness of the Municipality**

7.2.1.1 The Municipality has developed a long term Integrated Resource Plan (Master Plan) with the Council for Scientific and Industrial research (CSIR), which serves as a guide for future price negotiations with IPPs, and provides a detailed analysis of the most economical energy mix. This report was released in 2019. There are various scenarios being considered by the Municipality, which looks at a combination of utilising solar PV, SSEG, wind energy, peaking gas and energy supply from Eskom.

7.2.1.2 The Municipality completed a Cost of Supply Study in 2019 to determine cost-reflective tariffs that are required to provide the supply of energy to the town. The Municipality is also in the process of completing a detailed electricity load flow model and load forecast, which has become a necessity moving forward with applications for grid connectivity and analysis.

7.2.1.3 The Municipality has implemented energy efficiency projects such as the installation of LED lights for most of the roads in the town.

7.2.1.4 The Municipality's Electricity Load Forecast model allows the Municipality to assess what the impact will be of SSEG uptake and other initiatives on the electricity load.

7.2.1.5 In respect of Energy Efficiency and Demand Side Management, quite a lot has been done since 2017. This programme has assisted in the appointment of engineering interns that have enabled the implementation of further renewable energy projects and investigations.

7.2.1.6 The Municipality does not have an SSEG policy yet, nor have relevant changes been made to the Electrical Bylaw to include SSEG. However, the development of this policy is in progress, and the SSEG Guideline will be used in the meantime. So far, the SSEG tariffs have been approved by NERSA. The Municipality's legal department has already developed a draft policy for this, however, the draft policy must still be reviewed by the Electrotechnical Services unit. So far, 81 SSEG applications have been received, which account for 5% of the total demand.

#### **7.2.2 Local Tourism Statistics, and Tourism and Destination Marketing Strategy**

7.2.2.1 The Municipality's tourism offices opened in September 2020 and received calls from potential tourists, however, these numbers were not where it should be due to the pandemic. There has also been a move towards online information sourcing, which has allowed the Municipality to review the method in which they collect their tourism statistics.

7.2.2.2 The Municipality has also attempted to survey its return on investments for festivals and events. Approximately R1 million is spent on festivals and SMMEs are employed to collect the statistics

for these events. One example of this was the George Old Car Show event hosted in 2020. The financial injection received from this event for the local economy and surrounds was approximately R16,5 million. Of this amount, R7,5 million was spent on accommodation. An estimated average of R880 000 was collected on ticket sales.

7.2.2.3 The current strategy for Tourism and Destination Marketing was due to be revised but due to various factors, including the pandemic, the public participation workshops on the Strategy have been pushed to early 2021 and to get the new strategy approved before the start of the new financial year. However, if the strategy is approved but not funded, then it will not serve its purpose.

7.2.2.4 The six strategic objectives for George Tourism (aligned with the Municipality's economic development plan and strategic objectives) are as follows:

- To enhance the national and international image and awareness of George as an outstanding place to visit and live;
- To optimise tourism volumes and yield for George in a sustainable manner;
- To establish good levels of tourism business all-year-round, thereby building resilience into the sector;
- To optimise the distribution of tourism benefits within the greater George region;
- To engage actively with George's tourism businesses to help them become highly competitive, embrace transformation and adopt sustainable business practices; and
- To engage local citizens as a proud community of ambassadors for George.

The Municipality will achieve these objectives through four strategic priorities that are the focus of the Tourism Plan. The strategic priorities include sustainability, marketing through partnerships, improving seasonality, and growing the demand for George as a tourism destination.

7.2.2.5 The Municipality trained two tour guides to take tourists through the Thembalethu community, however, the tour buses were stopped by taxi operators as they entered the premises, who then forced tourists to use their taxis. Initially, there was an agreement with taxi operators that the tour buses would be able to enter the community, but taxi operators changed their minds and there were some incidents where buses were burned. The Municipality realised that it must do what works for the Thembalethu community instead.

7.2.2.6 Additionally, it seemed that government spent much of its focus on marketing Cape Town as a tourist destination, and did not focus its attention on regions surrounding Cape Town.

### 7.2.3 Local Employment Statistics and the Post-COVID Economic Recovery Strategy

7.2.3.1 The decrease in employment in George since 2016 was attributed to low economic performance in the district owing to loadshedding, recessionary conditions in the South African economy, the declining number of international tourists, and the regional drought. The primary sector is the smallest contributor to employment in George. In the secondary sector, manufacturing is the main driver but is estimated to have declined between 2018 and 2019. The top three sectors in George collectively contributed R10,8 billion to the local economy in 2018. These sectors include finance, insurance, real estate business services, wholesale and retail trade, catering and accommodation, and manufacturing.

7.2.3.2 It was predicted that there would be a significant impact on economic growth as a result of COVID-19 and the lockdown regulations. The economy was estimated to contract by 6,5% in 2020, before recovering somewhat by 4,6% in 2021. In George, the majority of those employed were semi-skilled workers, of whom many were absorbed into the construction industry. The impact of the lockdown on the construction industry was not yet known. Additionally, job security in the secondary sector was under threat due to challenges with bulk sewer capacity.

- 7.2.3.3 The Post-COVID Economic Recovery Strategy (the Strategy) involved collaboration with all spheres of government which would result in an alignment of strategy and consolidation of resources that will support efficiency of the Strategy and ensure cohesion and maximum benefit for the town and region as well. One of these initiative was the recently updated Garden Route Growth and Development Strategy that will focus on a water secure future, a circular economy, resilient agriculture, sustainable tourism, supporting wellbeing and resilience, and a connected economy (transport and rural urban integration).
- 7.2.3.4 The Strategy will further consist of pillars for recovery, possible interventions for the immediate, medium and long term, key areas of economic interventions, municipal resilience and responsiveness plans, business retention and economic resilience plans, business growth and development, building a business and stakeholder eco-system, restarting the tourism and creative industries sectors, supporting SMMEs, rural, township and the informal economy, creating a community economic recovery plan, growing construction and public infrastructure, driving resilient agriculture and agri-processing sectors, and skills development.
- 7.2.3.5 The Recovery Plan Interventions include implementing recommendations stemming from the George Central Business District Business Retention and Expansion Programme from 2012, developing an informal trade strategy, expanding on the strategy for support with food security initiatives, revising the economic incentives and strategy, developing incentives to support the construction industry through bulk infrastructure challenges, building capacity for climate change adaptation and aligning the master plans and strategic plans to adapt to and be more conversant with economic impacts.

#### 7.2.4 The Impact of COVID-19 Regulations on the Municipality

- 7.2.4.1 Many employees in the tourism industry have lost their source of income or have been given reduced wages. Many tourism entrepreneurs were reliant on international tourism for business, which was placed on hiatus for a long period.
- 7.2.4.2 There was a need for increased provision of food and basic goods for vulnerable communities, as well as a need for an increased provision of shelter for the homeless.
- 7.2.4.3 There has been a rapid increase in land invasions and the Municipality has experienced an increase in the demand for protection services to safeguard communities and monitor and prevent looting and plundering.
- 7.2.4.4 Emergency funding was needed for the provision of water and sanitation, and there was a severe strain on municipal power supply due to illegal electricity connections.
- 7.2.4.5 The Municipality experienced a reduction in revenue as many citizens were unable to pay their accounts due to job losses and closure of certain sectors. These factors have also resulted in an increase in the number of indigent households in the town.
- 7.2.4.6 It was predicted that the impact of the lockdown would have a long-lasting effect on the local economy and the Municipality's financial planning and ability to perform its core functions. In order to counteract this, the Municipality has considered cost-saving initiatives, new grant opportunities and an increase in the capacity of bulk infrastructure to attract new investment.
- 7.2.4.7 Numerous fully or partially grant funded projects were suspended until the National Treasury could issue the outcome of the 2019/20 rollover applications. These projects were dependent on the grant funding and any reduced or rejected rollover application would result in project cancellations or a reduction in the scope of the projects.

#### 7.2.5 Ease-of-Doing-Business within the Municipality

- 7.2.5.1 The Municipality has been focused on unblocking targeted constraints that have burdened or hindered economic activity, enhancing online submission portals to aid fast-tracking regulatory processes, boosting private sector investment and fast-tracking large scale developments,

supporting vulnerable sectors such as the tourism and investment spaces, and enhancing digital platforms to reduce down times and interruptions in operations, improve efficiency of online systems and upskill the labour force.

- 7.2.5.2 The Municipality has provided regular updates to the public in respect of municipal services during the pandemic. Municipal offices have been closed sporadically when COVID-19 cases have been confirmed. However, telephone numbers, cell numbers and email addresses of municipal officials have been published regularly for the public's knowledge, including emergency numbers where the public may direct their enquiries or complaints.
- 7.2.5.3 In terms of planning and development, the Municipality's electronic application system was not fully efficient and a more suitable system was to be investigated. An online system for submissions and tracking of complaints and applications was identified as a need for the Municipality.

### **7.3 Resolutions/Actions**

- 7.3.1 The Committee RESOLVED that the matter of the electronic application system as described in 7.2.5.3 should be referred to the Department of Environmental Development and Planning and the Department of Economic Development and Tourism.
- 7.3.2 The Committee REQUESTED that:
  - 7.3.2.1 The George Municipality provides the Committee with its Skills Pipeline Strategy, if such a Strategy exists. If not, the Department of Economic Development and Tourism is requested to assist the George Municipality to develop a Skills Pipeline Strategy; and
  - 7.3.2.2 The Western Cape's Department of Local Government and the Red Tape Unit of the Department of Economic Development and Tourism submit a report on whether there were measures in place to identify whether illegal foreigners were gaining employment in the George area and what interventions were in place to address this matter.

## **8. Engagement with MBH Energy African Power**

### **8.1 Overview and background**

The day concluded with a briefing by MBH Energy (MBHE) African Power on the George Biomass to Energy Project regarding energy provided to the grid, business model, local employment statistics and the impact of COVID-19 regulations.

The Committee was met by Mr Karl Siegel, Senior: MBHE African Power; Mr Karl Siegel, Managing Director; Mr Werner van Wyk, Financial Director and Mr Jan Kohary, Chief Engineer.

The MBHE Group is a holistic energy services company founded primarily as a boiler design and manufacturing company. MBHE spent several years acquiring accomplishments in the Southern African sugar and paper sector before they received a project from the Central Energy Fund (CEF SOC) for an 8.4 Megawatt (MW) biomass power plant. This became a turning point in the history of the company as it paved the way for the establishment of sister company, MBHE African Power.

MBHE African Power is a renewable energy project development company, focusing on the design, implementation and ownership of operational energy assets that lead to sustainability

and cleaner production. The MBHE projects portfolio includes technologies in biomass, biogas, waste to energy and solar PV. Today, following a recent consolidation, MBHE Group consists not only of the original boiler Design Company and MBHE African Power for renewables, but also MBHE Operations and Maintenance (OM), which is dedicated to small-scale operations and maintenance of renewable energy assets as well as providing technical and administrative management services on behalf of the shareholders within the various project companies. In addition, MBHE OM offers energy audits, installation of energy monitoring systems, and billing reconciliation for their clients.

Following the presentation a walk-about of the MBHE African Power facilities ensued followed by a walk-about of the MGHE facility.

## **8.2 George Biomass to Energy Project**

In 2014, MBHE African Power successfully submitted a bid and raised finance for a five Megawatt (MW) per hour base load biomass fired power station in George. The total project cost amounted to R300 million under the Small Projects Independent Power Producer's Procurement Programme (SPIPPP), which has been awarded preferred bidder status by the Department of Energy.

Approval was granted in April 2016, after Nersa issued a Generation Licence for the operation of the power station. The Nersa licence was issued after the MBHE had successfully submitted a bid for the project to the Department of Energy (DOE) under their Smalls Independent Power Producer (IPP) programme. Thirty-seven companies in the DOE's various renewable energy programmes experienced delays due to issues between the DOE and Eskom. Project was granted and an Environmental Impact Assessment (EIA) as well as an Environmental Management Plan (EMP) have been approved. The biomass/wood waste fired power plant would provide electricity via a George Municipality substation into Eskom's power grid. The George Biomass Energy plant will use modern technology that complies with all regulations pertaining to emissions in accordance with European standards.

The project is financed through the Industrial Development Corporation of South Africa Ltd (IDC) and mergence will take place in accordance with the Small Renewable Energy Independent Power Procurement Programme (REIPPP). The power purchase agreement between George Biomass Energy Pty LTD (owned by South African consortium including MBHE, Murray & Roberts, Tirisano Green Capital and Built Africa's Coastal Biomass 1) and Eskom along with the IPP Office of the Department of Energy was scheduled for approval.

## **8.3 MBHE business model**

Central Energy Fund (CEF) through their subsidiary company CCE, awarded MBHE with a R96m contract to design, manufacture and erect a 8.3MW biomass power island in George. The contract included for a complete wood fired boiler island that will generate superheated steam at 45 bar and 430°C to supply the steam turbine. To date all pressure parts, gas clean up and water treatment equipment as well as the turbine and generator has been delivered to the site.

The George Biomass Energy Pty Ltd purchased three municipal owned industrial erven in PW Botha Drive to the west of Steinhoff Park through the George Municipality's Local Economic development (LED) Department. Sawdust and wood waste will be obtained from Steinhoff (PG Bison and Woodline), Houttek, AET and Geelhoutvlei in George as well as PSP Timer in Oudtshoorn, which will be used as fuel for the boilers. Through the utilisation of modern

technology that complies with all regulations pertaining to emissions in accordance with European standards green energy will be produced.

The project will focus on the evaluation and monitoring of waste streams with the view of diverting waste from landfills to energy. The Biomass Plant would consume approximately 110 000 tons of Wood Waste per annum and when complete will produce electricity at 7 MW.

Generating power through the use of biomass represents a more cost-effective and clean way to provide renewable electricity in biomass potential regions with high levels of biomass resources and its processing activity. Furthermore, use of this resource helps become more energy independent and use of a locally derived fuel provides employment and direct economic benefit to local communities.

#### **8.4 Local employment statistics, local content and skills development**

All partnerships with MBHE African Power are local partnerships with high local content. MBHE currently employs 83 employees who work as solar panel installers and as fitters. The Company employs mostly males as opposed to females. Most of the equipment purchased by the company is purchased from local manufacturers.

MBHE advised as part of fulfilling the developmental mandate, youth employment and development remains a priority to create opportunities for young people to acquire skills and qualifications that will enable them to participate meaningfully in the economy after completing their respective programs.

#### **8.5 Impact of the COVID-19 Regulations**

All policies, procedures and risk assessments relating to COVID-19 were in place. The COVID-19 Regulations did not impact negatively on the operations of MBHE.

#### **8.6 Findings and concerns**

8.6.1 MBHE (The Company) informed the Committee that the George Biomass Power Station already commenced in 2008, but was delayed with the applications for governmental approvals and agreements. The Company advised that the boiler pressure part as well as the turbine and generator have already been procured and are being stored in an industrial premise in George. Due to construction delays of the project some of the some of the equipment were rusted and others would have to be replaced as it has become outdated.

8.6.2 The Independent Power Producers (IPP) requested a six monthly extension of the Bid validity from MBHE due to issues between the DOE and Eskom. This Company is now reviewing its position and is in the process of looking for alternative sources to sell its energy and fuel. They advised that the Austrian Development Bank and other funding institutions have agreed to finance the project if the Company can provide them with a Term Sheet a binding agreement or contract that conforms to the details drawn up in the Memorandum of Understanding for the purchase of energy and supply of fuel to a facility.

8.6.3 Mossel Bay Municipality engaged with MBHE for the sale of capacity and energy. The Municipality advised that Charges for Available Capacity and Electrical Output has to be charged at a lower tariff from that received from Eskom. This posed financial problems, as it would not be economically viable for the Company to reduce its cost to a lesser tariff than Eskom. The

charging mechanism in the PPA is generally a pass through arrangement. The price charged for the power will consist of a charge (availability charge) to cover the project company's fixed costs (including a return on equity for the project company) plus a variable charge to cover the project company's variable costs. The availability charge relates to the availability of the power plant and the variable charge is calculated according to the quantity of power supplied. The purchaser will want a guaranteed long-term output from the project and so the availability charge is typically the minimum that it will be paid, provided that the plant can be shown to make sure power available.

## **8.7 Resolutions/Actions**

The Committee REQUESTED that the Department of Economic Development and Tourism assist MBH Energy African Power with possible interventions for the concerns raised above.

## **9. Engagement with George Business Chamber**

### **9.1 Overview and background**

The day commenced with a meeting with the George Business Chamber who briefed the Committee on the impact of the COVID-19 regulations on businesses and on the Ease-of-Doing-Business with the Municipality.

The Committee was met by Advocate Thys Giliomee, Municipal Manager Mossel Bay; Mr Carel Venter, Director: Planning and Economic Development; Alderman Dirk Kotze, Executive Deputy Mayor; Ms Elsie Harmse, Executive Committee Member; Mr Theo Adams, Director of the Board; Mr Keith Sharpe, Director of the Board; Ms Nadia Harding, Director of the Board; Ms Ingrid Conje, Chief Executive Officer; Ms Brenda Voster, Chairperson and Mr Henry Grobler, Vice Chairman.

The George Business Chamber (The Chamber) is a non-profit, membership-based organization that collaborates with the other Business Chambers/Organisations in the Garden Route to ensure economic growth, development, and prosperity. The George Business Chamber NPC Southern Cape is lead and governed by a Board, Executive Committee (Exco) and two full-time employees of which one is the CEO. Its portfolio focus is determined by the socio-economic environment. Each portfolio is led by a Board or Exco members and supported by appropriately skilled affiliates.

George Business Chamber was established in 2002 when the George Chamber of Commerce and Industry and the George Sakekamer amalgamated and became the George Business Chamber. In 2015, the George Business Chamber NPC Southern Cape was formally registered as a Non-Profit Company. Chamber has shown impressive growth over the last year, with 249 paid-up individual members, which increased from approximately 150 individuals since last year and a total of 320 businesses.

### **9.2 The impact of the COVID-19 regulations on businesses and the ease of doing business within the municipality**

The Chamber through a recent online survey consisting of 11 questions were conducted with its members indicated the effect of COVID-19 on businesses in the region and surrounds as follows:

- 9.2.1 Most of the participants indicated that their businesses have been adversely affected by the COVID-19 Regulations.
- 9.2.2 Due to the decrease in business activity most business was forced to downsize or shut down completely.
- 9.2.3 Businesses that were impacted by the Regulations indicated a reduction in sales, operations and cash flow. They informed that they were unable to honour financial commitments as revenue streams were limited.
- 9.2.4 Employee morale was adversely affected due to job uncertainty, short pay and retrenchments.
- 9.2.5 Relief options in the form of TERS funding, own savings, financial institutions and self-initiated negotiations provided temporary relief to most business.
- 9.2.6 Approximately 10% of the businesses indicated that they were not affected by the Regulations and advised that they have increased their revenue streams through reengineered business models.
- 9.2.7 Business advised that tax relief as well as concessionary rates from the municipality would assistance with cost savings.

### **9.3 Findings and concerns**

#### **9.3.1 George Food Gardens initiative**

The George Food Gardens initiative was implemented by the Western Cape Department of Agriculture, George municipality and the George Business Chamber. The project aims to create food security and instill a sense of pride within the local communities. The project coordinators are expected to start 10 new gardens per month as part of the project. The previous food gardens will also be re-entered into the project. Gardeners will receive different seeds or seedlings during each planting season. The George municipality can purchase produce from the households for their soup kitchens.

#### **9.3.2 Cold storage at the Airports Company South Africa**

The Business Chamber in collaboration with the Airports Company South Africa (ACSA) plans to expand the cold storage facility to store various products in the Garden Route. The objective of the cold storage facility is to export produce and various other products directly from the George Airport. The aim is to provide a valuable feasible proposition to farmers whereby they can transport their produce directly from George airport.

#### **9.3.3 SMME development in Agriculture**

There was a concern regarding short-term lease agreements of municipal land. In terms of the Municipal Finance Management Act, 2003 (Act 53 of 2003) the Municipality can only grant three-year lease agreements for municipal owned land. Farmers advised that the term for the lease agreements be reviewed and increased to a period of five years and 11 month agreements. Additional concerns were raised regarding the lack of policies for SMME development in agriculture and the issue of water rights on available land.

#### **9.3.4 The Comprehensive Agricultural Support Programme (CASP) Projects**

The aim of the programme is to support provincial departments of agriculture (PDAs) to create a favourable environment for emerging farmers and to expand provision of support services for the development of agriculture. There are three CASP's that are being implemented in the



George area. The programme was implemented to ensure that farmers are empowered to effectively manage their farming enterprises. It was identified that providing land and capital is not enough. Continuous extension services and assistance should rather be provided to farmers to ensure they manage these funding mechanisms.

Concern was raised regarding the following issues:

#### 9.3.4.1 Hadley Meintjies: Livestock farm

Concern was raised regarding contaminated effluent waste in the river that is not suitable for agricultural purposes and which poses as an agricultural growth inhibitor. There was a lack of electricity supply, yet the farm was being billed for electricity on a monthly basis.

#### 9.3.4.2 Zelphy Farm: Agricultural farm

The Agri Worker Housing is deemed to be Agri Tourism Accommodation. They are requesting that the property be rezoned to farm housing as the incorrect zoning is affecting their rates and taxes have been escalated.

#### 9.3.4.3 Herold Meander: Agricultural farm

Concern was raised regarding the two government schools on an agricultural farm in George that still functions as separate entities. Discussions were held regarding the merging of the Herold Primary School and the Franken Intermediate Schools. The Church in Herold advised that it is prepared to sell the land to the Western Cape Department of Education, however the land must still be evaluated and a purchase price agreement must still be reviewed.

A submission was made for the eight housing subsidies from the George Municipality. The Municipality advised that it would not be feasible to supply housing in the Herold area due to bulk services constraints.

The above issues have been raised with the George Municipality to ensure that issues are resolved successfully.

#### 9.3.5 Impact of COVID-19 in the construction industry

The construction industry advised that the COVID-19 Regulations affected their businesses adversely in that major revenue losses have been encountered and additional expenditure had incurred in the form of protective gear, thermometer, sign in gear and sanitizers. Municipal rates were not discounted nor charged at a reduced rate for SMME's despite the fact that no work was taking place during the lockdown period. A request was made that this matter be reviewed and special concessions be made under specific circumstances.

The Committee was informed that the UIF/TERS only provided construction companies with a 20% relief fund, whereas 75% of the employee wages were paid directly from the company. Construction businesses advised that loan agreements had to be entered into to cover the employee salary shortfall and in other aspects holiday funds were utilised as per the stipulations of the Regulations.

Construction companies advised that they were held liable by departments for contractual obligations pertaining to delivery dates and losses due to thefts and vandalism during the

lockdown period. They indicated that they were obligated to verify the loss of assets by obtaining police docket and photographs to prove that the assets have been stolen. This process took a substantial amount of time as various forms had to be completed and submitted to various stakeholders for penalties to be reversed.

A request was made that departments pay SMME's on time as small businesses will not be able to withstand the delays in their revenue streams.

### 9.3.6 Impact of COVID-19 in the Property Market in the Garden Route

The property market was also adversely affected by the COVID-19 Regulations. This was exacerbated by the closures and lengthy delays for registration of transfers by the Deeds Office. The estate agents were unable to obtain rates clearance certificates. This in conjunction with the lockdown affected revenue streams.

Since the relaxation of the lockdown levels the property market was inundated with property sales. This was due to the low interest rate charges and the need for people to relocate to the Garden Route area. The banks have been very lenient with 100% bond loans to potential home owners.

#### 9.3.6.1 Registrations and transfers

The property market reported that less registrations and transfers were processed during 2020 as opposed to 2019. This was attributed to the closure of the Deeds Office during the lockdown period. Sectional title sales have increased in price this impacted on the amount of sales that took place during the 2020 period as opposed to 2019 when approximately 400 more sales were made.

#### 9.3.6.2 Long term view

The Garden Route has become a preferred destination due to its favourable geographical location, standard of infrastructure and gated estates. Statistics have shown an influx of property purchases from people who reside in the Western Cape or Gauteng. Further enquiries into the reasons for the sudden increase in purchases indicated that the area proved to be suitable for early retirees who purchased property in retirement villages. Further hereto it became apparent that due to the cost of living most children migrate home to cohabit to ease their financial burden.

Concern was raised regarding the possible repossession of property in the 2021 period as banks have been very lenient with regards to property owners who have not been able to pay their bonds.

A recommendation was made to market the Garden Route to overseas investors as a possible retirement destination.

### 9.3.7 Impact of COVID-19 on Private Skills Development Service Providers in the Garden Route

Operations ceased completely from 26 March 2020 due to the COVID-19 Regulations. A significant loss of income was reported due to the skills levy holiday and the closure of the SETA who provides the necessary revenue streams. The SETA's work on a no work no pay basis therefore when operations ceased so did the income. The skills development planning and

development cycle was severely disrupted with late submissions of the workplace skills plans and this brought about a delay in the discretionary grant funding opportunities.

Additional cost were incurred due to the need to develop and deliver online learning for appropriate programme elements. Training in rural areas is problematic due to a lack of digital infrastructure and high data costs. Learners do not have access to computers and data and in some instances are unable to self-learn. WhatsApp became the preferred means of online training. This however was not a viable option, as most artisans can only receive theory training online whereas this is not viable for practical training.

Concern was raised regarding the seven year delay in acquiring the land next to the Thembaletu Training Centre. Numerous enquiries into the acquisition of the land has proven to be fruitless. The matter has been escalated to the George Chamber to find a viable solution to the problem. The land is required for an expansion project to accommodate approximately 800 learners.

Private skills development provider advised that they were not assisted financially to acquire Person Protective Equipment (PPE). The cost of the PPE as well as the monthly expenses and salary payments proved to be cumbersome.

Concern was raised regarding lack of tertiary education of most professional players in sport. A request was made to the National Skills Fund to train young rugby and soccer players' in a full three year artisan qualification training programme. The venture was supported by the SETA's, the National Skills Fund, the South African School of Rugby and the unions, but the facilities to train the learners are not available. A request was made to the Department of Education and the Municipality to utilise the workshop venues of the school adjacent to the De Arende Rugby stadium. The Committee is requested to intervene to expedite the matter.

### 9.3.8 The ease of doing business with the George Municipality

#### 9.3.8.1 Waste management

Concern was raised regarding the erratic service delivery of waste removal. Local communities have been prudent in separating waste according glass, cans and cardboard/paper. When the waste management service delivery contract came to an end a replacement service provider was not appointed. Due to a lack of a qualified service providers the community reverted to placing all waste in one black bag as opposed to the separation of waste into green and black bags.

#### 9.3.8.2 Licensing Department

Obtaining a license from the Licensing Department is alleged to be a long and tedious process. The Committee was informed that it takes approximately 5-7 hours to process a license. Dealerships indicated that they are unable to sell their vehicles if they are not able to process the vehicle licenses. Only three submissions are processed by the Licensing Department per day which becomes challenging as dealers at times need to process more licenses. The Municipality indicated that licensing can be sourced online and that community members should be made aware of this in order for them to avoid long queues.

#### 9.3.8.3 The Municipality advised that in a bid to assist businesses they have dropped their debtors collection rate to a 96%. Long term losses could become detrimental to Municipality as the loss

of revenue would impact on other obligations that require financing. The Municipality indicated that the loss of revenue has already spanned over a period of seven months and that these losses could escalate into the New Year. In addition to this the Municipality also funded a soup kitchen to provide the necessary sustenance to a struggling community.

In conclusion, the Municipality advised that through better communication and mutual agreements the businesses and the Municipality could form agreements that would be beneficial to all.

#### **9.4 Resolutions/Actions**

- 9.4.1 The Committee REQUESTED that the George Municipality provide it a report on the turnaround time regarding building plan approvals which conform to specifications.
- 9.4.2 The Committee RESOLVED that:
- 9.4.2.1 The concern regarding short-term lease agreements of municipal land and SMME development in point 9.3.3 be referred to the Provincial Department of Local Government;
  - 9.4.2.2 The concern raised in 9.3.4.1 regarding the Hadley Meintjies Livestock Farm be referred to the Provincial Department of Local Government;
  - 9.4.2.3 The rezoning matter concerning the Zelphy Farm raised in point 9.3.4.2 be referred to the Provincial Departments of Local Government and Human Settlements;
  - 9.4.2.4 The matter raised about the merging of the two government schools on agricultural land in George and the sale of the land be referred to the Western Cape Department of Education;
  - 9.4.2.5 The concerns raised by the construction industry in point 9.3.5 be referred to the Department of Economic Development and Tourism;
  - 9.4.2.6 The concerns raised about deeds registration under “Registrations and Transfers” in point 9.3.6.1 be referred to the Department of Economic Development and Tourism;
  - 9.4.2.7 The request to expedite the use of workshop venues for learner training raised in point 9.3.7 be referred to the Western Cape Department of Education and the Provincial Department of Local Government;
  - 9.4.2.8 Concerns raised by the Municipality regarding the assistance to local businesses and long term losses mentioned in point 9.3.8.3 be referred to the Provincial Department of Local Government; and
  - 9.4.2.9 The request from the Municipality for assistance with Tourism Destination Marketing be referred to the Department of Economic Development and Tourism and Wesgro.

### **10. Engagement with Airports Company South Africa – George Airport**

#### **10.1 Overview and background**

The Airports Company South Africa (ACSA) briefed the Committee on the George Airport tourism and business travel statistics, its solar photovoltaic (PV) plant, and the impact of the COVID-19 regulations on its operations.

The Committee was briefed by Ms Brenda Vorster, Manager: George Airport; and Marklen Stellenberg, George Airport Maintenance Manager.

#### **10.2 Findings and Observations**

## 10.2.1 Impact of COVID-19, Air Passenger and Air Cargo Market Analysis, and Travel Statistics

- 10.2.1.1 George Airport (the Airport) is a ten-time award winning airport that prides itself on customer service and green innovation. The Airport is a 700 000 capacity airport. Before the COVID-19 pandemic, the Airport almost reached the 900 000 capacity mark. It was important for the Airport to assist with growing the local economy.
- 10.2.1.2 The Airport has entered into a Memorandum of Understanding (MOU) with the Garden Route Municipality, which includes George Municipality. The MOU would focus on route development as three destinations for the Airport was not sufficient anymore. The Airport had more routes previously, but the Durban and Bloemfontein routes were lost due to the pandemic. The Airport continues the battle to add more routes to its mandate.
- 10.2.1.3 Passengers have complained about the price of the airfare, however, the airports in the country are in a dire position and cost-cutting measures have to be taken across all areas of expenditure.
- 10.2.1.4 Before the pandemic, ACSA was in the process of developing a master plan for the George Airport to expand the Airport to a 1,5 million passenger airport. Unfortunately, due to the pandemic, plans to upgrade the Airport have been put on hold. Reports have indicated that airports in the country will take approximately five years to recover from the impact of the pandemic.
- 10.2.1.5 During the long weekend in September 2020, Mossel Bay tourism picked up and the Airport was busy. It was a good sign that showed that regional airports were pulling in passengers. ACSA has received a list of airlines that would like to bring in more flights for December 2020.
- 10.2.1.6 The Airport had a three month contract with the Department of Health, which concludes at the end of December 2020. The Airport does not have medical personnel that are qualified to do screenings of passengers. This was of great concern to the Airport.
- 10.2.1.7 In terms of air cargo analysis, there was an industry-wide decrease in cargo tonne-kilometres (CTKs) of 17,6% in June 2020, after already decreasing by 20,1% in May 2020. Cargo demand in June 2020 was softer than would normally be suggested by manufacturing output and new export orders, which were stabilising in most parts of the world in June 2020. That relative underperformance was driven by air freight losing market share of total world trade in recent months, as buyers were turning to cheaper but slower means of transport.
- 10.2.1.8 ACSA has been looking at building an aerotropolis and George Airport has been included in these development plans. This was important for the economy as George Airport services the entire Garden Route.
- 10.2.1.9 The Airport had budgeted for 18 970 aircraft movements for the year, however, the actual amount of aircraft movements so far was 7 154. This was a decrease of 62%. In terms of domestic travel, the Airport had originally budgeted for 3 986 aircraft movements, however, the actual amount of movements for the year was 374, a 91% decrease from what was expected. There were flight training schools that operated at the Airport (unscheduled flights), unfortunately, they have downscaled their operations and would be closing almost 50% of their operations at the Airport. Fancourt has also had to close their operations at the Airport after 20 years of operating on the premises.
- 10.2.1.10 Even though some businesses were closing down, the Airport still received offers from businesses for space to operate at the Airport. However, there was no available space at the Airport, which was a good thing, as it meant that most businesses were still operational. Various airlines have also requested to bring in more flights to the Airport, including its first night stop.
- 10.2.1.11 In terms of passenger numbers for the year so far, the budgeted number was for 415 868 passengers, however, the actual number of passengers was 34 238. At the same time last year, the actual number of passengers was 396 201. This was a 92% decrease in the number of expected passengers due to the pandemic and subsequent lockdown.
- 10.2.1.12 The Airport has considered looking into international status, possibly collaborating with Mossel Bay Airport, who could guarantee the Airport at least one international flight a week. The

challenge may be that there can only be one airport per province with international status, which Cape Town International Airport already has. However, because of the gas found in Mossel Bay, this could be a completely new area for opportunity.

#### 10.2.2 George Airport Solar Plant Project

- 10.2.2.1 George Airport was the first airport in the world with a solar plant. The solar plant project was started in 25 May 2015 and was completed on 18 September 2015, but officially opened on 24 February 2016. The solar plant is a grid-tied connection that produces a maximum power of 765 kilowatts (kw) and reduces the airport energy consumption that the Airport is charged for by the Municipality every month.
- 10.2.2.2 An Environmental Impact Assessment (EIA) was conducted when the solar project was initiated, which stated that the Airport should leave the environment's natural contours as it was, hence no construction on the land.
- 10.2.2.3 The solar plant cost approximately R16 million to implement. Approximately 3 000 Canadian PV panels were used.
- 10.2.2.4 Any surplus electricity production would be beneficial for future growth of the Airport. However, ACSA warned that not all solar production equated to savings. In terms of plant production, whatever is not used by the Airport during the day, is fed back into the municipal grid. On average, since 2014/2015, there has been a 39% yearly saving for the Airport.
- 10.2.2.5 The plant was maintained by the original installation contractor, which proved to be a successful strategy as the person who designed the plant could impose quality levels to ensure that the maintenance expense was kept low. This contract expired in September 2020 and a new contractor would be sourced shortly.
- 10.2.2.6 A request was made to the George Municipality to perform a load study from the inception of the plant in 2015. The study would provide an accurate reading of the amount of electricity that the Airport consumed and how much of the electricity was fed back into the municipal grid. The study would also determine the applicable electrical tariff to select, which in turn will enable buy-back of surplus generation.
- 10.2.2.7 At present, the Airport did not support the installation of battery storage for the additional electricity generated by the plant, as batteries were too expensive and the lifespan of most batteries were approximately 10 years compared to the lifespan of the plant, which was between 25 and 30 years.

#### 10.2.3 Walkabout of the George Airport

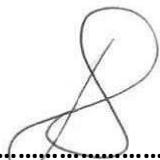
- 10.2.3.1 On arrival at the George Airport, there was an emergency meeting called, as a plane was unable to take off from the Airport's runway. The solution was that the planes that were unable to land would be diverted to Cape Town International Airport, while the firefighters found a solution to carry the plane off the runway.
- 10.2.3.2 It was noted that once full terminals, which usually had queues of customers, were now quite empty. However, even though there was a pandemic, the Airport seemed to be getting busier.
- 10.2.3.3 In 2008, George Airport had 200 000 passengers. In 2019, the Airport had 800 000 passengers. The Airport had the capacity to become an international airport, the status just needed to be made official.
- 10.2.3.4 Although George Airport had medical personnel on the premises, they did not have dedicated Department of Health officials at the Airport because it was not an international airport. Hence, there was a three-month contract in place with the Department of Health to perform COVID screening at the Airport at the time. Since Fancourt has exited the premises, the Fancourt lounge has been used for additional seating to allow for more social distancing for passengers.

### **10.3 Resolutions/Actions**

The Committee REQUESTED that George Airport (ACSA) provides the Committee with a report on what the Airport required to become an international airport and what the cost implications would be.

### **11. Closing Remarks**

The Committee thanked the Mossel Bay Municipality, George Municipality, Mossel Bay Business Chamber, George Business Chamber, Eskom, Total SA, Department of Economic Development and Tourism, the Department of Trade, Industry and Competition, MBHE African Power and Airports Company South Africa for briefing the Committee on matters requested and for the hard work they have been doing during the pandemic.



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**ADV. D BAARTMAN, MPP**

**CHAIRPERSON: STANDING COMMITTEE ON FINANCE, ECONOMIC OPPORTUNITIES AND TOURISM**

**DATE: 10 February 2021**