Saldanha Bay IDZ: Feasibility Study

Key Findings & the Process Going Forward

Venue: Dial Rock Community Hall, Saldanha Bay
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Project Sponsors:
Programme

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- Characteristics of an IDZ
- Background
- Study Process
- Governance Structures
- The Development Scenarios
- Key Findings:
  - Economic Returns & Financial Demands
  - Education & Training Effects
  - Infrastructure Demands
  - Environmental Effects
- Process Going Forward – Requirements of an IDZ Application
- Closing Remarks
IDZs as a development tool

• An IDZ\(^1\) is a special type of **economic zone** (SEZ) generally defined as:

  A *purpose-built industrial estate, linked to an international airport or seaport, that leverages both domestic and foreign fixed direct investments in value-added and export-oriented manufacturing industries and services, to increase competiveness and the development of linkages between domestic and zone-based industries.*

• **Key Points:**
  – An IDZ is planned, designed and built around the activities to be located in it.
  – It must be linked to an international port for the import and export of goods & services.
  – It aims to increase competiveness & attract investment via incentives and concessions.
  – It is a tool of regional industrial growth and development.
  – It focuses on the export of value-added exports of goods and services.
  – An IDZ requires domestic goods and services to support the industries located in it.

*Note 1: The Manufacturing Development Act (No. 187 of 1993) provides for IDZs to promote and support regional industrial growth and development as a challenge to globalisation.*
Characteristics of an IDZ (I)

- **A Customs Controlled Area (CCA)** with dedicated SARS officials to provide support with customs and VAT requirements to those enterprises located within it.
  - A CCA offers duty rebates and VAT exemptions on imports of production-related raw materials, incl. machinery & assets, to be used in production with the aim of exporting the finished products.
  - VAT suspension under specific conditions for supplies procured in South Africa.
  - Efficient and expedited Customs administration.

- **An Industries and Services Area (ISA)** within the borders of the IDZ but outside of the CCA, where supportive manufacturing & services industries are located.
  - The industries may not be importers or exporters.
  - The ISA enterprises support the CCA enterprises and general IDZ development, e.g. logistical services, transportation services, distribution service, training centres, etc.
Characteristics of an IDZ (2)

- An IDZ does not have to be one mass of land, pockets of land can be developed near to each other to house a CCA & ISA.
- There can be more than one CCA and ISA which houses different industries and all can access the Port.
- The boundary of the IDZ does not have to be “touching” the Port boundary – the Port can be “outside” of the IDZ.
Background

• 2008: Western Cape DEDT, via Wesgro initiated a Pre-Feasibility Study to identify & assess opportunities available in the industrial and business market & ascertain whether there are any binding constraints to establishing an IDZ programme at Saldanha Bay.

• 2009: Pre-Feasibility Study concluded & identified potential in 3 clusters:
  – A Renewable Energy production & manufacturing cluster
  – An Oil supply base/hub for the Oil and Gas cluster and a Maritime Ship-building and repair cluster
  – A Steel and Minerals production & manufacturing cluster

• Constraints in water, energy, environment & land identified.

• 2010: Provincial & national funding sought for a comprehensive Feasibility Study.

• Feasibility Study must work closely & integrate with DTI, the DEADP SB EMF and SBM SDF processes & policies of the various departments involved.

• Multi-Disciplinary team procured & investigation started September 2010.
Study Process (I)

- Internal Review of processes & findings within Project Team
- External Review by CHEC Peer Group
- Continuous Stakeholder consultation
- Continuous Management & Oversight by Ops Com

Phase 1 Studies:
- Land Analysis, Environmental Impacts, Emission & Water Quality Impacts
  - Enterprise Gross Turnover
  - Enterprise Operational Expenses
  - Enterprise Capital Costs
  - Bulk Infrastructure Costs & Phasing
  - Potential Sources of Funding

Phase 2 Studies:
- Options Analysis

Financial Modelling:
- Options Analysis
  - 25 Year Forecast
  - Current Sec 12 / Incentives applied
  - Various assumptions applied

Economic Impact Modelling:
- 25 Year Forecast
  - StatsSA WC SAM
  - Current productivity of land uses included

Cumulative Impacts on Production, GDP, Employment, Household Income, Public Sector services demand (Housing, Healthcare, Education):
- Per Scenario;
- Per Enterprise;
- Per Phase (Construction vs Operation);
- Per Economic Sector

Further Cumulative Impacts & Costs:
- For the Enterprises;
- For the Land, Environment; Air Quality, Water Quality;
- For the Public Sector
- For key Challenges & Solutions

Submission of Report to Steering Committee & public for 30 day comment period
Study Process (2)

• Phase 1 Studies
  – Project Commercial Feasibility Assessment (*Frost & Sullivan*)
  – Land Assessment (*Urban Dynamics Western Cape*)
  – Strategic Environmental Review (*MEGA*)
    • Air Emission Modelling & Analysis (*Airshed Planning Professionals*)
    • Biodiversity Analysis (*Nick Helme Botanical Surveys*)
  – Technical Infrastructure Analysis (*BKS*)

• Phase 2 Studies
  – Financial Analysis (*Grant Thornton*)
  – Economic Impact Assessment (*Urban-Econ Western Cape*)
  – Workforce Assessment (*UWC: School of Business & Finance*)
Governance Structures

**Steering Committee**
- the dti: Deputy Director-General of TEO
- Wesgro: Chief Executive Officer
- DEDT: Head of Department
- DEA&DP: Head of Department
- Provincial Treasury: Head of Department
- SBM: Municipal Manager

**Operations Committee**
- the dti Representative
- Economic Development Department Representative
- Wesgro Representative
- DEDT Representative
- SBM Representative
- External Strategic Advisor
- Project Managers

**Government & Advisory Panel**
- PROVINCIAL DEPARTMENTS: DEDT, DEA&DP, DPW&T, Provincial Treasury, Office of the Premier
- LOCAL DEPARTMENTS: Saldanha Bay Municipality, City of Cape Town, West Coast District Municipality
- OTHER: DBSA, Eskom, Transnet (NPA, SAPO, Pipelines, HO), IDC, Wesgro

**Advisory Forum of Saldanha Bay**
- Which is inclusive of, but not limited to
  - Arcelor Mittal, Cape Regional Chamber of Commerce, COSATU, DEDT, Eskom, Exxaro Namakwa Sands, Military Academy, Port of Saldanha, Saldanha Bay Municipality, Saldanha Bay Tourism, Sea Harvest, the dti, Transnet, Wesgro, West Coast District Municipality, West Coast Ratepayers
The Development Scenarios (1)

- Three long-term scenarios developed to illustrate total potential, needs and opportunities of an IDZ in Saldanha Bay.
- Scenarios developed from results of a multi-criteria filtering process.
## The Development Scenarios (2)

<table>
<thead>
<tr>
<th>Project</th>
<th>Brief description of project</th>
<th>Likelihood of project in short- to medium-term</th>
<th>Public sector support requirements</th>
<th>Sources of funding</th>
</tr>
</thead>
</table>
- Land lease arrangement with TNPA  
- IPP 12-I tax deductions applicable                                                             | 100% private sector funding available.                  |
| Offshore Supply Base (OSB)             | Port infrastructure development of a supply quay & laydown area for supply of goods to offshore O&G sector. | High                                           | - A “free port”  
- Land lease arrangement with TNPA                                                              | 100% private sector funding available.                  |
| Hot Briquetted Iron (HBI) manufacturing | 50,000tpa via a Finesmelt-type plant.                                                         | Low – long-term project                         | - Competitiveness of SA steel industry key factor (access to iron ore at competitive prices)  
- CCA incentives are required                                                                   | A joint venture between private sector and public sector. |
| Titanium and Zircon (Ti/Zr) Complex    | 15,000tpa of titanium metal + 2,000tpa of zirconium metals + 3,000tpa of solar grade silicon + 5,000tpa of high grade silicon. | High – Bankable feasibility to be completed end 2012 | - CCA incentives are required  
- Critical Infrastructure Programme grants from DTI                                                  | A joint venture between private and public sector.      |
| Wind Blade manufacturing                | 100 sets of wind turbine blades per annum.                                                   | High                                           | - NERSA Refit incentives                                                                         | 100% private funding available.                         |
| Renewable Energy Industry              | 2,000 Solar Water Heater units per month.                                                    | High                                           | - National Building Regs & Building Standards Act  
- 12i Tax Allowance applicable  
- Manufacturing Investment Programme from DTI                                                      | 100% private funding available.                         |
Pessimistic Scenario

- **Offshore Supply Base and Marine Repair industry**
  - The indicative growth rate of this industry is 3.3%

- **Renewable Energy industry**
  - The indicative growth rate of this industry is 3.9%

- **Blade manufacturing facility**
  - Year 10, and to expand in Year 20

- **Titanium and Zircon Complex**
  - Year 12 & no further expansion

- **CCA & ISA** to support IDZ programme
Base Scenario

- **Offshore Supply Base and Marine Repair industry**
  - The indicative growth rate of this industry is 4.3%
- **Renewable Energy industry (SWH)**
  - The indicative growth rate of this industry is 4.9%
- **Blade manufacturing facility**
  - Year 7, and to expand in Year 14 and again in Year 21
- **Titanium and Zircon Complex**
  - Year 10 and to expand in Year 20
- **Hot Briquetting Iron (HBI) Plant**
  - Year 20 and no further expansion
- **CCA & ISA to support IDZ programme**
Optimistic Scenario

- **Offshore Supply Base and Marine Repair industry**
  - The indicative growth rate of this industry is 5.3%
  - A **Graving Dry Dock** to become operational in Year 25 only

- **Renewable Energy industry (SWH)**
  - The indicative growth rate of this industry is 5.9%

- **Blade manufacturing facility**
  - Year 4 & to expand every 4 years until Year 20

- **Titanium and Zircon Complex:**
  - Year 6 & to expand in Year 12 & again in Year 18

- **Hot Briquetting Iron (HBI) Plant:**
  - Year 10 and no further expansion

- **CCA & ISA to support IDZ programme**
Key Findings (1)

• Economic Returns
  – Increase in GGP relative to current SBM GGP *(ave. pa over 25 years)* = 86%-233%
  – Imported Capital Goods = 54%-57%
  – Government : Private Funding ratio *(Capex)* = 1:4
  – % Foreign of Private Sector *(Capex)* = 54%-31%
  – Recovery due to Taxation *(Capex)* = 33%-29%
Key Findings (2)

• Economic Returns
  – Sustainable Direct Jobs* Created = 4,240-8,930
  – Sustainable Total Jobs* Created = 11,975-29,020
  – Cost to Government, per Job* Created = R0.427-R0.483 million
  – Total** jobs* created (ave. pa over 25 years) = 10,000-25,910
  – Increase in jobs relative to current SBM employment = 16%-34%

*A job is defined as one person working for one year

**Total incl. Construction & Operations phases
Key Findings (3)

- Financial Demands (Capex)
  - Government Funding = R5.12-R14.01 billion
  - Private Sector Funding = R17.25-R90.82 billion
  - SBM = R516-R975 million
  - WCDM = R198 million
  - WCPG = R2.37-R6.60 billion
  - National Government = R2.23-R6.23 billion
  - Parastatal = R8.07-R23.76 billion
Key Findings (4)

• Workforce Supply & Demand Effects
  – Large requirement for maintenance personnel in chemical, mechanical, electrical and control engineering, from highly to semi-skilled.
  – Public & private training for artisans must improve.
  – Regional linkages will be required to meet demand.
  – In-company training will occur for specialist tasks.
  – Construction numbers fluctuate in all 3 scenarios & can result in short-term contracts & in-contracting.
Key Findings (5)

• Environmental Effects
  – Increased shipping will require a rigorous approach to policy on entering & exiting the Bay.
  – Energy & water-intensive projects will require optimal systems in their design.
  – Potential for co-generation/treatment for these resources
  – Water & Industrial wastes (air, liquid & solid) systems will require rigorous monitoring and enforcement.
  – “No-go” strategy in CBAs adopted.
  – Costs for Environmental Management have been included in study.
Key Findings (6)

• Land & Infrastructure Demands
  – Land availability is 1440ha & land demand is 650ha (Optimistic).
  – Water-intensive projects must treat & re-use water.
  – 1st phase of planned WCDM 8,500k/d Seawater Desalination plant is required in Optimistic Scenario.
  – New WWTW required, between 2,000kl/d-7,500kl/d.
  – Stormwater management system to prevent groundwater contamination of liquid effluents.
  – Regional Waste Transfer Station (WTS) & Material Recovery Facility (MRF) recommended.
  – Electricity demand = 240,000 kVA-770,000 kVA,
    • Upgrading of Aurora-Blouwater Power Line to 400kV.
  – Regional road links will require upgrades over long-term.
Closing Remarks

• Initiate IDZ in respect of most certain and probable investments within a 3-5 year view.
• Link with Transnet National Ports Authority’s strategic master plan for Saldanha Port.
• Focus support on improvement of current training facilities.
• Accredit prior learning & experience to add to pool of skills.
• Better phasing of construction activities will limit short-term contracts & in-contracting.
• Retain the governance structures
  – for good inter-governmental planning & budgeting
  – to fully engage with the private sector on a formal platform.
Requirements of an IDZ Application

• Necessary statutory information for the SB IDZ application process, includes:
  – Rationale behind application for IDZ designation & permit
  – Broad economic analysis of the province
  – Statutory documentation of IDZ Operator
  – Physical master plan of the IDZ
  – Infrastructure development plan with time frames incl. construction plan
  – Financial analysis & projections for 5 years incl. Budget for the first 3 yrs
  – Estimated employment opportunities
  – Outline of marketing plan
  – Overall action plan for the IDZ
Process going forward

• Comments on Feasibility Study: 30 Nov 2011
• Completion of Feasibility Study: Dec 2011
• Finalisation of Business Plan: March 2012
• SBM Council & WCPG Cabinet deliberation: March 2012
• If positive – application to DTI: April 2012
• DTI MDB meet & if approved: Gazetted May 2012
• 60-day public hearings & comment period: July 2012
• MDB submission for final deliberation: Aug 2012
• Recommendation by DTI to National Cabinet: Aug – Sep 2012
• Designation & License Awarded: Sep 2012
Thank You

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