

Operation Phakisa



Marine transport and manufacturing

Realising the Economic Potential of South Africa's Oceans

3 August 2014

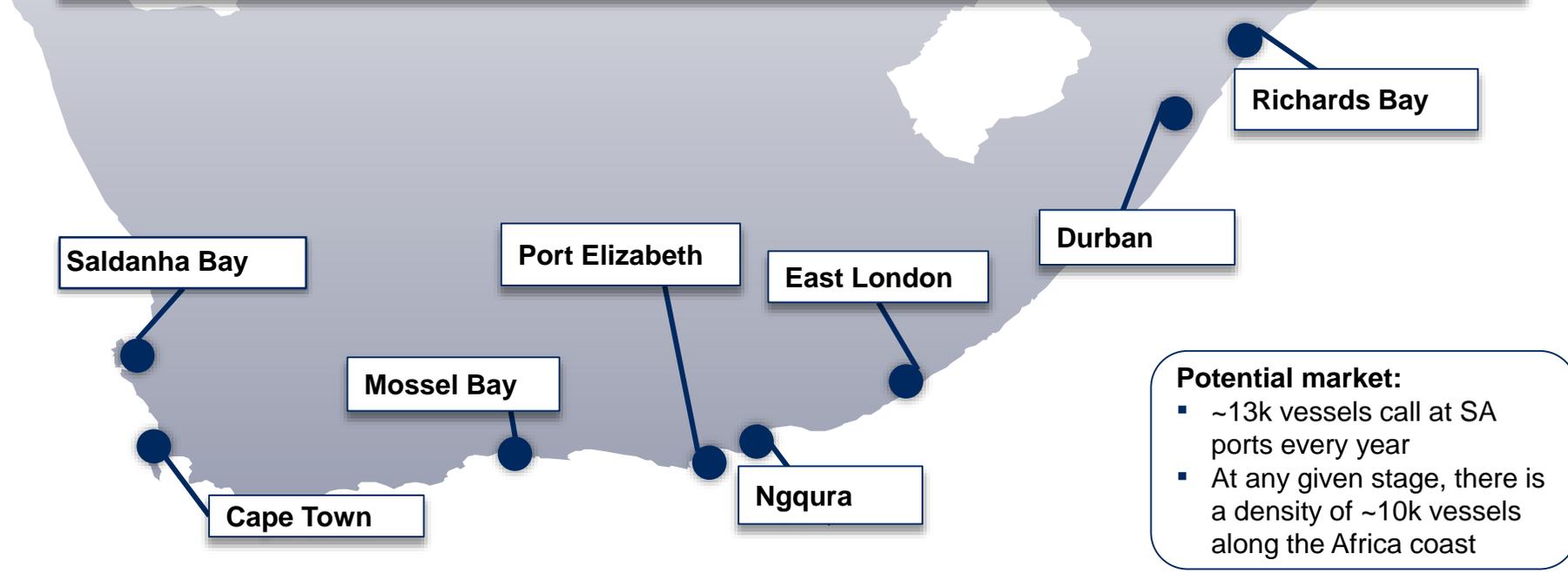


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- Vision for the MTM sector
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South Africa has an opportunity build on its SOC-managed and controlled port system to develop the marine transport and manufacturing (MTM) industry

Marine transport	Marine manufacturing
Transport and handling of import and export cargo Including: <ul style="list-style-type: none">▪ Cargo handling▪ National registry and flag	Building, repairing and servicing vessels Including: <ul style="list-style-type: none">▪ Rig & Ship repair▪ Maritime vessels building▪ Offshore O&G services



South Africa has an existing capability to build and repair various types of vessels up to 140 metres

PATROL VESSELS



FERRIES



TUG BOATS



BUNKER BARGES



NAVY VESSELS



RESEARCH VESSELS



FPSOs



South Africa's market potential has a pan-African focus



TARGET MARKETS

- South Africa
- Nigeria
- Angola
- Ghana
- Namibia
- Kenya
- Tanzania
- Mozambique

VALUE PROPOSITION

- Maritime Development Funding (ECIC)
- Ship building & repair, offshore vessel building & repair
- Planned Maintenance Package
- Training

KEY ENABLERS

- Targeted Buying Missions with the President using trade agreements
- Public procurement and localisation programme for the sector
- Dedicated building and repair facilities
- Skills Development

Within this industry, marine manufacturing and a national ship registry are well positioned to contribute to GDP and job creation

Key drivers

Marine transport

- **National registry** for local ownership of shipping vessels is an area of significant growth
- **While Cargo growth** is projected to continue to drive growth, it is a mature market and therefore not a priority

Marine manufacturing

- There is significant potential to make use of our **location, competitive cost of labour and existing skill base**
- We can grow the **repair and refurbishment** sector as well as **ship/boat-building** (including yachts)

Our unified vision is to accelerate the current GDP contribution and job creation potential of the maritime transport and manufacturing sector

	Lab vision	Baseline (2010)	Target for interventions
 <p>GDP Contribution</p>	<ul style="list-style-type: none"> Accelerate the GDP contribution of the sector 	<ul style="list-style-type: none"> ~R15bn 	<ul style="list-style-type: none"> Increase the contribution to GDP by R14-23bn by 2019
 <p>Job Creation</p>	<ul style="list-style-type: none"> Increase total employment 	<ul style="list-style-type: none"> ~15,000 jobs 	<ul style="list-style-type: none"> Increase the number of total jobs created by 40,000-50,000 jobs by 2019

The MTM industry faces three major infrastructure constraints to adequate infrastructure provision at affordable cost

- **The current Ship Repair / Rig Repair Facilities are in a state of disrepair**

- Outdated infrastructure built during World War 2.
- Maintenance and upgrades have been neglected for an extended period. This compromises efficiency and safety
- Ability to capture only 5% of the available market in ship repair. South Africa has had to turn away business



- **High perceived rental / tariff cost of marine manufacturing in South Africa**

- High rental charges of port land / facilities and dry docking charges / tariffs as well as overstated asset values are at risk of pricing the industry out of the market. Cape Town is one of the most expensive dry docks in the world (e.g. Port Land in Namibia & Mozambique is 1/3 of the rental costs of Durban)

- **There is inadequate port operational infrastructure to support the marine manufacturing industry in capturing a rapidly growing market**

- Lack of dedicated and purpose built infrastructure to serve needs of the Industry – new areas to be made available for industry growth, new entrants and transformation

The MTM industry faces regulatory constraints that hinder growth

- **Onerous Immigration Regulations**

- In line with the IMO Regulations, the Department of Home Affairs has in the past interpreted an Oil Rig as a marine vessel. The Department of Home Affairs now regards an **Oil Rig as a refinery**. This requires crew to be in possession of a VISA to disembark or transfer to another destination.



- **Delays in insertion of the Rebate Item in the Customs and Excise Act to remove VAT and Excise duty in marine manufacturing**

- Amendment to the current Customs and Excise Act to allow **goods imported or cleared for new manufacture** from bonded Customs and Excise Warehouse for the exploration and / or production of petroleum as certified by the DG Mineral Resources needs to be VAT and duty exempt (partially resolved). Does not cover refurbishments of equipment for export

Regulation
Gazetted on 17
April 2014

The MTM industry faces constraints to ensuring adequate skills

- **Insufficient workplace-based training taking place, especially for Trades:**

- An 18-month workplace-based learning programme is a mandatory requirement in terms of Artisan 7-step Development Model.
- Over-rigorous SETA/Sectoral workplace accreditation & approval system dissuades companies from offering training to TVET College graduates prior to them being Trade Tested.
- Current status of the learner in a workplace (Section 200A of LRA & Section 18(2) of SDA) dis-incentivises industry as the graduate is not certified nor experienced to undertake tasks (independently) and requires monitoring by a Mentor.



- **Current training institutions not positioned to supply skills for growth:**

- Under-emphasis on occupational-specific practical learning as part of standardised curriculum produces graduates with limited knowledge of a practical environment.
- Under-investment in specialised facilities (workshops, equipment, materials & Lecturers) limits opportunities for focussed interventions to address skill set needed & existing base (RPL)

Current demand for semi- and skilled labour on rig repair projects causes importation of labour: If Cape Town, Saldanha Bay and Ngqura are full, there is insufficient SA staff to fulfil labour demands and foreigners are required.

The MTM industry faces constraints to growing its market

- **No integrated strategy for procurement of public sector maritime fleet to develop local industry:**

- The dti has issued a designation in respect of maritime vessel building which was signed off by their national minister some time ago.
- The designation suggestion currently sits with the National Treasury for their endorsement. The challenge is that in order to grow our maritime vessel building, ship repair and rig repair sectors, we require that government departments and entities should prioritise their procurement of local content.
- This delay is impacting on access to local market (government business of ~1000 public vessels) which could potentially provide sustainable work for the industry



- **No mandatory local content requirements for private companies to get licensing (e.g., private fishing fleet, PASA)**

- **No SA-flagged ships executing international cargo shipping or coastal operations:**

- UNCTAD¹ allows for 40% of cargo to be shipped by SA flagged ships, but currently 0% is done
- Coastal cargos carried by foreign flagged ships, does not support transshipment / short-sea shipping

- **Lack of institutional support for market growth:**

- No integrated value proposition for strategic market penetration
- Inadequate use of existing bilateral / multi-lateral instruments to promote inter Africa trade in the sector
- Lack of funding to grow and sustain the industry

The Lab recommends the following 18 initiatives for marine transport and manufacturing

■ Priority topics for discussion

A Infrastructure & Operations

1. Create supportive funding and revenue model
2. Establish purpose-built oil and gas port infrastructure by appointing Facility Operators - Saldanha Bay
3. Align on Implementation of Government Policy
4. Prioritise Transnet and TNPA funding allocation towards marine manufacturing
5. Maintain and refurbish existing facilities
6. Unlock investment in new and existing port facilities
7. Implement Strategic Prioritised Project - Richards Bay
8. Implement Strategic Prioritised Projects - East London

B Skills & Capacity Building

9. Train 1128 TVET College graduates on an 18-mnth Workplace-based Learner Programme (in scarce & critical Trades for MTM)
10. Create dedicated Occupational Teams for MTM Sector (Professional, Trades (Artisans), Operators & Seafarers)
11. Establish Trade RPL/Centres of Specialisation in Saldanha Bay and Richards Bay
12. Train 7332 learners as Artisans and 3600 seafarers over the next 5 years
13. Increase usage of ESSA system as a high value recruitment tool for MTM
14. Position MTM sector as an attractive job market for learners (targeting Grd 9 – TVETs , Grd 12 – Universities)

C Market Growth

15. Create and implement a public procurement and localisation programme
16. Develop a strategic marketing campaign and value proposition for target markets
17. Propose inclusion of preferential procurement clause in the African Maritime Charter
18. Support local registry of vessels through incentives and encouragement of using SA-flagged ships for cargo and coastal operations (based on United Nations Conference on Trade and Development and African Maritime Charter guidelines)

Initiative 1: Create supportive funding and revenue model

In order for the marine manufacturing industry to establish, grow and compete, enabling infrastructure needs to be urgently provided at a price that is globally competitive. This model is designed to achieve this goal without undermining Transnet's financial sustainability.

Initiative concept/details/highlights:

- Growth in industrial sectors is key to building a sustainable economy, providing stable job opportunities for skilled people and diversifying the export basket.
- The SOC's have both a financial sustainability and developmental mandate. However, in the context of SOC's self-funding ambitious investment programmes, there is no concrete mechanism to secure investments to unlock the growth of immature industrial sectors.
- To close this gap, levers include the shareholder compact (e.g. return on assets), DTI incentives, Treasury subsidy, asset valuation methodologies for purposes of tariff setting, total operational costs.

Infrastructure investment mechanisms to unlock growth in the marine manufacturing industry

Implementing agency:

- DTI

Key stakeholders identified:

- | | |
|-------------------|------------|
| ▪ DPE | ▪ National |
| ▪ TNPA | ▪ Treasury |
| ▪ Ports Regulator | ▪ SEZ's |
| ▪ DFIs | |

Required resources

Dedicated DPE/DTI/TNPA Project Team with expert support

Implementation timeframe

- | | |
|---------------|-------------|
| ▪ Start date: | 1 Sep 2014 |
| ▪ End Date: | 31 Mar 2015 |

Key Performance Indicators

- ...

Initiative 2: Establish purpose-built oil and gas port infrastructure by appointing Facility Operators – Saldanha Bay

It is necessary to urgently establish a flagship oil and gas services hub to strongly position South Africa in the rapidly growing regional oil and gas market.

Initiative concept/details/highlights:

- In 2012 South Africa serviced 4 rigs out of a possible market of 80 rigs passing our shores. The contribution to GDP from these 4 rigs was R 1.2 bn.
- The proposed infrastructure investments at Saldanha will enable the repair of 12 rigs per annum starting from 2018 as well as the provision of additional supporting services through the SEZ.
- From now, berth capacity not available to service rigs until 2018
- Once the enabling infrastructure is in place, our model indicates that 11 500 new jobs will be created

- Levers:
 - Develop a rig repair facility and a jetty to service supply vessels;
 - Operators (industry / users) are provided with incentivised access to port facilities in exchange for developmental commitments (e.g. investment, job creation, skills development, supplier development).

Accelerated GDP growth and job creation through investment in the oil and gas services sector.

Implementing agency:

- TNPA

Key stakeholders identified:

- Manufacturing and Services Industry
- DTI
- DPE
- Development Funding Agencies

Required resources

Investment R12bn (public and private)

Implementation timeframe

- Start date: 1 Sep 2014
- End Date: 30 Nov 2018

Key Performance Indicators

- ...

Initiative 7: Implement Strategic Prioritised Projects – Richards Bay

A flexible and exploratory approach needs to be taken to Richards Bay in order to allow the private sector to grow the market.

Initiative concept/details/highlights:

- Quantify and unlock opportunities in oil & gas, ship / rig repair and maritime vessels building in line with market requirements in Richards Bay
- Levers:
 - Allow the market to implement a low risk, flexible capacity for ship / rig repair at Richards Bay.
 - Implement facilities for maritime vessels building in Richards Bay
 - Explore the feasibility of Richards Bay establishing a Liquid Natural Gas cluster.
 - Consider facilities for aquaculture in Richards Bay
 - Preferential access to IDZ land in support of boat building

Pragmatically unlocking the development of marine manufacturing clusters in Richards Bay through the port.

Implementing agency:

- TNPA and Industry

Key stakeholders identified:

- Industry
- RCB IDZ
- Transnet
- DTI
- Development Funding Agencies

Required resources

Investment: R 500m (public), R300m (private)

Implementation timeframe

- Start date: 2015
- End Date: 2017

Key milestones

- 2016: ...
- 2017: ...

Initiative 8: Implement Strategic Prioritised Projects – East London

Unlocking boat building in East London will have significant synergies with the existing motor industry cluster.

Initiative concept/details/highlights:

- Develop, support and grow the maritime vessel industry at the Port of East London
- Levers:
 - TNPA refurbishes existing slipway facility and industry makes necessary investments
 - Boat / ship building Industry is provided with incentives in exchange for developmental commitments (e.g. investment, job creation, skills development, supplier development)
 - Preferential access to IDZ land in support of boat / ship building

Unlocking the development of the boat / shipbuilding industry in East London through the port.

Implementing agency:

- TNPA

Key stakeholders identified:

- Industry
- DTI
- Development Funding Agencies

Required resources

Investment (R200mn):

Implementation timeframe

- Start date:
- End Date:

Key milestones

- 2016:
- 2017:

Initiative 9: Train 1128 TVET College graduates on an 18-mnth Workplace-based Learner Programme (in scarce & critical Trades for MTM)

Ensure graduates will be taken up easily by industry when demand increases by focussing on the provision of acceptable and relevant working practical experience & programmes.

Initiative concept/details/highlights:

- Work-place based training is a compulsory requirement before undertaking a “Trade Test” and a crucial increasing employability milestone, but SA still experiences high attrition (in programmes) and high failure rates in the Trade Test.
- In addition, Industry has historically been under-committing in taking on graduates due to constrained economy & regulatory framework.
- Levers available:
 - Replace the SETA/Sectoral approach with a system of “workplace monitoring“ as a developmental process for employers to operate within.
 - Accelerate the approval and implementation of the drafted Workplace-Based Learning Programme Agreement (WPBLPA) Regulations between DOL & DHET.
 - Focus on the target of 1128 to access Pivotal Learner Grants to fund programme & pilot systemic changes needed.

Improving competence will increase employability and deliver on GDP and Job creation targets

Implementing agency:

- DHET Indlela & NADSC

Key stakeholders identified:

- MTM OT's
- SETAsⁱ & NSF
- SAOGA & MIAASAⁱⁱ, Industry
- Provincial Gov. Departments

Required resources:

Investment: R157mil (SETAs, NSF, DHET)

Implementation timeframe

- Start date: 1 Sep 2014
- End Date: 19 Nov 2018

Key Performance Indicators

- % Trade Test pass percentage
- % Qualified Artisans employed in MTM sector

i. SETAs are MERSETA, TETA & CHIETA

ii. SAOGA & MIAASA are Industry Association bodies

Developing this industry will require a range of maritime skills at the professional, tactical and operational level



Professional Skills

- Naval Architects
- Marine Engineers
- Information Technologist



Tactical Skills

- Planning
- Project Management
- Draughtsman
- Accountants
- Supervisors
- Safety and security officers



Artisanal skills

- Welders
- Boilermakers
- Riggers
- Crane drivers
- Fitters
- Painters
- Turners
- Administration
- Seafarers



Initiative 15: Create a public procurement and localisation programme

Develop a procurement programme for Government departments and entities, which prioritises local content in order to grow the South African market.

Initiative concept/details/highlights/milestones:

- Set a 5 year target for local procurement (based on a demand and supply side analysis) and feed these into the DTI designation process.
 - ❑ Design and implementation of a series of supply side support measures (tariff regime/ infrastructure/ skills/finance) – DTI / DPE - due in March 2016)
- Develop a support programme for the roll out of the maritime designation for boat building.
- Develop a centralised procurement planning agency for government to ensure sustainability of the industry.
- Investigate how fishing licenses and a fishing fleet renewal programme can feed into the local development strategy.

Prioritise local content in public procurement programme to grow the SA market.

Implementing agency:

- DOT

Key stakeholders identified:

- SAPS; SANDF; SARS
- Transnet; Petro SA
- DWAS; DAFF; SARS; DEA; DTI,

Required resources

Investment (R 5.2mn):

Implementation timeframe

- Start date: *upon adoption of lab results by government*
- End Date: 29.03.2019

Key Performance Indicators

- 2016: Complete 5 year target
- 2016: Complete designation implementation plan

Initiative 18: Support local registry of vessels through incentives and encouragement of using SA-flagged ships

SA is allowed to carry at least 40% of its trade to market. This amounts to at least 60 vessels. At 72 crew per vessel this amounts to 4,320 direct seafarer jobs.

Initiative concept/details/highlights:

Ensure that cargo carrying requirement at least 40% allocated to SA flagged ships

- Add a new requirement to ship SA during the process of mining license application
- Link the Mining BEE Charter to the Transport BEE Charter
- Ensure that all coastal vessels as well as vessels supporting the marine operations on the EEZ fly SA flag and are manned by SA seafarers
- Invoke cabotage requirements on all coastwise cargo including the supply and operation of offshore support vessels including the regional and continental waters
 - Finalize the Cabotage Policy

40% of SA Minerals allocated to SA flagged ships
All Coastal operations on SA flagged vessels manned by SA seafarers

Implementing agency:

- PetroSA, DMR

Key stakeholders identified:

- DOT
- DTI
- Treasury
- Chamber of Mines/ Mining Houses

Required resources

Investment (R mn): Nil

Implementation timeframe

- Start date: Sept 2014
- End Date: Sept 2017

Key Performance Indicator

- 2016: 5% of minerals on SA Ships, 100% of coastal operations by SA
- 2017:

MTM discussed a range of issues and raised valid points in the DG syndication

Issue/Points raised	Resolution	Next steps
Use of berth 204 in Saldanha Bay	<ul style="list-style-type: none"> ▪ Transnet agreed to a temporary platform to repair O&G rigs at 205 if business case robust ▪ Coega IDZ to be used for Manganese in 2018 releasing Berth 204 	<ul style="list-style-type: none"> ▪ DOT to discuss issuing Section 79 for Coega on 4 August 2014 ▪ DEA to fast-track EIA for Coega and Saldanha by xx August 2015 ▪ Secure industry commitment of Take or Pay on temp berth (verbal given)
Lease terms currently too short for industry	<ul style="list-style-type: none"> ▪ Transnet and DoT will lead discussion on finalising longer-term lease and terms and conditions (e.g., price) 	<ul style="list-style-type: none"> ▪ Transnet representatives and Lab participants to meet on 4 August 2014 to discuss legislative requirements
Designation for public procurement not approved by Treasury	<ul style="list-style-type: none"> ▪ Treasury to approve designation ▪ Current RfP for naval vessel to be revised to include local content 	<ul style="list-style-type: none"> ▪ Treasury DDG to follow up and provide feedback on designation status on 4 August 2014 ▪ DoD to review RfP for naval vessel immediately
SA ships flagging (e.g., for short-sea shipping)	<ul style="list-style-type: none"> ▪ Lab to include in the presentation 	<ul style="list-style-type: none"> ▪ Included and ready for discussion

The Ask

Recommendation

- Agree to an **appropriate funding model within Transnet** that will support port investment in marine manufacturing, so that industry can operate in a much more stable business environment to attract new business and grow and develop the industry
- **Mandate that all vessels** procured by government departments and their agencies ***MUST*** be built or assembled in South Africa
 - Approve the existing designation submission from the DTI
 - Review current open tenders for vessels to ensure they specify local content
- **Adjust policy** so that:
 - All sea ports recognised as “Ports of Entry”,
 - Oil Rigs classified as Sea-going vessels (not Refineries)
 - Reduce delays in processing Visa requirement regulations for foreign Rig Operators and Crew
- Ensure that the draft **DOL-DHET Workplace-Based Learning Programme Agreement** (WPBLPA) regulations recognises workplaces as Host Companies rather than Employers to spur placement.
- **Note interlinkages at governmental level** (e.g., between DMR and DoT) regarding matching cargo and transportation

Owner

- DPE
- DTI
- Finance
- DoD
- Home Affairs
- DHET
- DOL
- DMR
- DOT
- Treasury

Minister sign off

I hereby affirm my support for the current initiatives developed by the **Marine Transport and Manufacturing** Lab under Operation Phakisa (conducted between 8th July to 15 August 2014)

<Name of core Minister>

Comments: