



USAID
FROM THE AMERICAN PEOPLE

INCEPTION REPORT ECONOMIC IMPACT AND PORT ASSET PACKAGING STUDY

This publication was produced for review by the United States Agency for International Development.



INCEPTION REPORT

ECONOMIC IMPACT AND PORT ASSET PACKAGING STUDY

Prepared for:
Department of Public Enterprises, Government of South Africa
U.S Agency for International Development
U.K. Department for International Development

Prepared by:
CPCS Transcom
In association with

The Cornell Group
Shipping and Transport College/Dynamar Consultancy
Expedito Management Services
Phathani Consulting (Pty) Ltd

Under contract to:
Emerging Markets Group, Ltd.
(f/k/a Deloitte Touche Tohmatsu Emerging Markets, Ltd.)

Submitted to:
USAID

DISCLAIMER

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



INCEPTION REPORT

Economic Impact and Port Asset Packaging Study

prepared for:

**Department of Public Enterprises, Government of South Africa
U.S. Agency for International Development
U.K. Department for International Development**

under contract to

Deloitte Touche Tohmatsu Emerging Markets Limited

prepared by:

CPCS Transcom

in association with

*The Cornell Group
Shipping and Transport College/Dynamar Consultancy
Expedito Management Services
Phathani Consulting (Pty) Ltd*

15 November 2002

TABLE OF CONTENTS

1	Background.....	2
1.1	Definition of the Study	2
1.2	Organization of the Inception Report	3
2	Current Situation	4
2.1	Current Institutional Situation.....	4
2.2	Current Port Activities in South Africa.....	5
3	Issues to be Addressed	11
	Transportation Cost Savings	19
	Recommendation.....	22
3.3	The Draft NPA Act	22
	Introduction	22
	Section by Section Commentary	22
	Government Control of NPA	24
	The Oversight Regulator	25
	Mandate of the New NPA	26
	General Comment.....	26
3.4	Implications of the Development of the Port of Ngqura	27
3.5	Implications of the Renegotiation and Consolidation of Existing NPA Leases	30
3.6	Our Approach to the Definition of Terminal Concessions Packages	32
	Introduction	32
	Principles for Rationalizing Cargo Terminals	32
	Principles for Packaging and Sequencing Cargo Terminal Concessions	34
4	Work Program	37
4.1	Description of Tasks and Outputs	37
4.2	Schedule.....	47
	Detailed Schedule.....	47
	Summary Schedule.....	47
4.3	Summary of Planned Deliverables	49
	Appendixes	53

1 Background

1.1 Definition of the Study

The Government of South Africa has set out a new policy framework to restructure the South African port system. The *Department of Public Enterprises* (DPE) is leading the government team to implement the restructuring objectives set down in the National Commercial Ports Policy. The restructuring process involving Transnet, NPA (National Port Authority, presently a division of Transnet) and SAPO (South Africa Port Operations, a division of Transnet). After an open tender and competitive process, DPE has retained the services of a consortium led by CPCS Transcom to provide technical support to develop strategies for the packaging and the sequencing of the various facilities to be concessioned and to assess the implications of the concessioning options on NPA and its port branches. Ports that are under NPA authority but do not presently include commercial operations are not included, since they do not provide any immediate potential for concessioning of commercial port activities. This study will therefore apply to terminals within existing and planned South African national ports under, NPA, except for Port Nolloth and Mossel Bay. It thus include: Richards Bay, Durban, East London, Port Elizabeth, Cape Town, Saldanha Bay plus the planned port at Ngqura (Coega).

"In a move to fast-track the concessioning of the Durban container terminal by 2004, public enterprises minister Jeff Radebe recently appointed Canadian firm CPCS Transcom to advise the government "on the most effective mechanism for private sector involvement in port operations"
November 4 2002

This Phase 1 Study includes the following components:

- Review and apply the DPE's concessioning architecture as the framework for the balance of the tasks in this assignment;
- Develop a range of strategies that could be deployed to induce competition for specific cargo types taking into account national, regional and international trends;
- Review the implication of the existing fragmented private sector participation in ports operations for the intended program of reform;
- Develop employment reduction mitigation strategies for the first wave of concessioning and assess their financial implications relative to the transactions cost and benefit from port reform;
- Review the long term traffic demand forecasts developed by the NPA for each cargo type (container, bulk, breakbulk) at each of the ports;
- Conduct an Economic Impact Study ("EIS");
- Conduct Operational and engineering review of facilities to support the generation of plans detailed in task h); and

- Formulate a concession financial model, including pro forma income and cashflow statements and financing plans for the first wave of assets proposed for transfer to the private sector.

1.2 Organization of the Inception Report

This Inception Report includes:

- A summary of the present level of activity – cargo handling and revenue – at each of the six existing national ports under consideration;
- Preliminary comments on a number of key issues to be addressed during the present study, highlighting areas where guidance, decisions or actions from the *Port Restructuring Steering Committee* are needed; and
- A detailed workplan, including Report schedule and meeting schedule. This takes into account the *Ports Restructuring Steering Committee Workplan*, circulated by DPE at our initial meeting with that Committee on October 24 2002.

We note that the schedule circulated by DPE includes a meeting on 1 April where the main agenda item is "RFP for DCT". Preparation of this RFP is not within the present mandate of the CPCS Consortium.

2 Current Situation

2.1 Current Institutional Situation

Within the process defined by the Policy Framework for an Accelerated Agenda for the Restructuring of State Owned Enterprises (Ministry of Public Enterprises: August 2000), the White Paper on National Commercial Policy (National Department of transport: gazetted August 2002) and Public-Private Partnerships: A Manual for South Africa's National and Provincial Government Departments (National Treasury: May 2001) the Department of Public Enterprises is preparing to launch a program of port restructuring, which will involve the concessioning of the operation of many or all of the 13 'terminals' presently operated by SAPO. The National Port Authority is presently the 'landlord' of the port assets and the manager of the ports, responsible for ensuring effective use of the state assets, whether by SAPA, existing private leaseholders, or new concessionaires. The role of NPA will be substantially unchanged under the proposed new structure.

A final draft of the *Concessioning Architecture*¹ has been agreed to and is presently under review by the higher levels of the Departments involved. A bill to formally separate NPA from Transnet and to create a port regulator has also been drafted. The draft is under discussion among members of the *Ports Restructuring Steering Committee*.

Key components of the concessioning architecture that directly affect the strategy and process of concessioning include the following:

- DPE through the NPA is fully responsible for the execution of the concessioning.
- SAPO neither participates in the bidding process for port facilities and services, nor will it enter into a strategic partnership to this end.
- The fixed port assets of Transnet will be transferred to the NPA and that the mobile assets, presently given in usufruct to SAPO, can be sold or rented out to the new concessionaires. Certain fixed assets originally transferred to SAPO are in the process of being returned to NPA.
- SAPO's eventual role as a port operator has to be limited to activities where SAPO is competitive.
- NPA will be responsible for arranging for one or more operators of last resort to ensure the continuity of public services in cargo handling, by negotiating and signing proper sub-contracts with individual private operators for well-defined activities and contract durations.
- For each concessioning transaction a comprehensive document will set out the 'rules of the game'.
- Preference in awarding concessions will be given either to proposals from terminal operating companies or joint ventures of shipping lines with one or more terminal operating companies over proposals from individual shipping lines.

¹ Based on advice provided to DPE by Drs. G. de Monie.

- Joint ventures or other partnerships with BEE companies will be encouraged and the technical evaluation criteria will be set accordingly. BEE companies will also be allowed to put in their own bid.
- Existing concessions will need to be re-negotiated to bring them in line with current operational and market conditions.

This *Concessioning Architecture* deals with concessioning of existing terminals. These are to be awarded “through a transparent competitive bidding process; in principle this will be conducted on an international level, except for smaller facilities and residual services for which local competitive bidding may be more appropriate”. The architecture does not deal explicitly with new terminals within a port such as Ngqura, nor does it deal with ‘new’ terminals being created through a process of consolidation of existing leases by current leaseholders within the NPA ports. These two “special cases” are discussed further in Section 3 below.

2.2 Current Port Activities in South Africa

NPA is responsible for overseeing all national ports in South Africa. In addition, NPA manages more than 400 ongoing lease arrangements, covering both activities related to terminal operations and other commercial activities within port limits. SAPO provides commercial port services (cargo handling) at the facilities where Portnet formerly provided this service.

Figure 2.1 summarizes cargo-handling activity at all NPA ports. Although Mossel Bay is a major fishing port and a staging point for offshore exploration, it handles very limited volumes of commercial traffic. Mossel Bay will not be considered further in this Study.

Richards Bay is by far the busiest terminal in terms of cargo volume, accounting for over 50% of national tonnage. Saldanha is the next most important port in terms of tonnage, also dominated by bulk mineral movement. Durban dominates all other cargo types, with 65% of containerised cargo and 42% of break-bulk.

Figure 2.2 summarizes NPA operating revenue (external turnover) from these ports for the same period. Durban accounts for 51% of NPA revenue, while Richards Bay accounts for only 15%. Most of NPA’s revenue came historically from ‘wharfage’, an ad valorem charge. Revenue has escalated in recent years, particularly at Durban, because of an increase in the dollar value of imports, combined with a decline in the value of the Rand. This tariff item has recently been changed to ‘cargo dues’, charged on a unit basis, and thus not subject to automatic escalation as a result of currency devaluation. While a major tariff adjustment programme has been undertaken within NPA, rebalancing is difficult within a structure where well over 50% of revenue comes from this cargo-related charge. Cargo dues from Durban account for 44% of NPA’s total external revenue.

Figure 2.3 summarizes the revenue of SAPO from these same ports. SAPO divides the 6 ports into 13 ‘terminals’, some of which include a number of individual facilities. For ready comparison these have been aggregated up to port level in the present table.

Figure 2.4 illustrates the location of the ports in the context of the national rail network. It must be noted that NPA and SAPO do not record the destination of imports or the origin within south Africa of exports, nor is information available from NPA or SAPO on the ultimate destination of goods passing through South African ports that transit South Africa by land en route to or from a third country. Data from Transnet indicates that in 2001-02 some 32% of the containerised export cargo using the inland terminal in Gauteng utilized rail transport to Durban. Rail lines, classified as heavy haul, main corridor, or strategic, link serve all six existing ports.

Figure 2.1: Cargo Handled and Invoiced at the Harbours of South Africa: 2001-2002

	RICHARDS BAY	DURBAN	EAST LONDON	PORT ELIZABETH	MOSSEL BAY	CAPE TOWN	SALDANHA	TOTAL
CONTAINERISED CARGO HANDLED								
LANDED								
IMPORTS	11,782	7,301,748	479,932	1,680,422	-	1,876,440	-	11,350,323
COASTWISE	-	131,864	26,015	10,946	-	258,209	-	427,035
TOTAL CONTAINERISED LANDED	11,782	7,433,612	505,947	1,691,368	-	2,134,649	-	11,777,358
SHIPPED								
EXPORTS	61,547	6,255,396	621,876	1,024,234	-	2,023,508	-	9,986,560
COASTWISE	-	320,074	810	6,005	-	157,452	-	484,341
TOTAL CONTAINERISED SHIPPED	61,547	6,575,470	622,685	1,030,238	-	2,180,960	-	10,470,901
TRANSHIPMENT CARGO	-	2,253,615	41,179	86,314	-	542,440	-	2,923,547
TOTAL CONTAINERISED HANDLED	73,329	16,262,697	1,169,811	2,807,921	-	4,858,049	-	25,171,806
BULK CARGO HANDLED								
LANDED								
IMPORTS	4,844,826	2,674,553	1,000	-	-	134,444	-	7,654,823
COASTWISE	-	-	-	-	-	7,172	-	7,172
TOTAL BULK LANDED	4,844,826	2,674,553	1,000	-	-	141,616	-	7,661,995
SHIPPED								
EXPORTS	80,920,036	4,980,570	103,572	1,283,348	-	9,412	23,234,548	110,531,487
COASTWISE	-	-	-	-	-	1,303	-	1,303
TOTAL BULK SHIPPED	80,920,036	4,980,570	103,572	1,283,348	-	10,715	23,234,548	110,532,789
TRANSHIPMENT CARGO	-	-	-	-	-	-	-	-
TOTAL BULK HANDLED	85,764,862	7,655,124	104,572	1,283,348	-	152,331	23,234,548	118,194,784
BREAKBULK CARGO HANDLED								
LANDED								
IMPORTS	121,951	2,678,687	206,242	199,403	-	1,180,337	676,805	5,063,425
COASTWISE	-	923	-	1,563	2,555	6,997	-	12,039
TOTAL BREAKBULK LANDED	121,951	2,679,610	206,242	200,966	2,555	1,187,334	676,805	5,075,463
SHIPPED								
EXPORTS	4,715,853	5,101,651	154,622	335,738	-	1,403,594	1,747,732	13,459,189
COASTWISE	-	13,749	-	9,730	31,831	1,713	-	57,023
TOTAL BREAKBULK SHIPPED	4,715,853	5,115,399	154,622	345,467	31,831	1,405,307	1,747,732	13,516,212
TRANSHIPMENT CARGO	-	29,715	-	-	-	43,525	-	73,240
TOTAL BREAKBULK HANDLED	4,837,804	7,824,724	360,864	546,433	34,386	2,636,166	2,424,537	18,664,915
TOTAL CARGO HANDLED								
LANDED								
IMPORTS	4,978,559	12,654,988	687,174	1,879,825	-	3,191,220	676,805	24,068,571
COASTWISE	-	132,787	26,015	12,510	2,555	272,378	-	446,245
TOTAL CARGO LANDED	4,978,559	12,787,775	713,189	1,892,334	2,555	3,463,599	676,805	24,514,816
SHIPPED								
EXPORTS	85,697,436	16,337,617	880,069	2,643,319	-	3,436,514	24,982,280	133,977,236
COASTWISE	-	333,823	810	15,734	31,831	160,468	-	542,666
TOTAL CARGO SHIPPED	85,697,436	16,671,439	880,879	2,659,053	31,831	3,596,982	24,982,280	134,519,902
TRANSHIPMENT CARGO	-	2,283,330	41,179	86,314	-	585,964	-	2,996,787
TOTAL CARGO HANDLED	90,675,995	31,742,544	1,635,247	4,637,702	34,386	7,646,545	25,659,085	162,031,505

Source: NPA

Figure 2.2: NPA External Revenue at the Harbours of South Africa: 2001-2002

	RICHARDS BAY	DURBAN	EAST LONDON	PORT ELIZABETH	CAPE TOWN	SALDANHA	TOTAL PORTS
WHARFAGE							
IMPORT	77,213,467	1,079,420,130	58,329,927	225,721,918	260,862,985	70,368,264	1,771,916,690
EXPORT	314,654,002	429,265,334	22,226,188	73,173,340	125,243,139	68,648,112	1,033,210,115
COASTWISE SHIPPED	53	16,157,335	2,374	10,181,644	2,233,181	-	28,574,586
COASTWISE LANDED	1,852,982	3,005,549	7,638,098	6,864,913	8,173,140	-	27,534,682
TRANSHIPMENT	12,568	7,629,199	515,323	1,189,200	5,072,644	-	14,418,934
TOTAL WHARFAGE	393,733,071	1,535,477,546	88,711,910	317,131,015	401,585,089	139,016,376	2,875,655,007
PORT AUTHORITY							
PORT DUES	46,625,209	61,409,912	4,100,224	14,419,314	34,813,256	18,152,339	179,520,254
BERTH DUES	360,142	2,422,672	74,324	425,965	4,152,917	81,222	7,517,243
ROYALTIES	-	5,265,600	886	-	3,206,800	-	8,473,286
PILOTAGE SERVICES	-	-	-	-	-	-	-
LICENCES, REGISTRATION & SUNDRY SERVICES	904	948,071	19,760	426,409	747,985	32,753	2,175,882
TOTAL PORT AUTHORITY	47,895,756	81,288,841	5,038,430	16,673,892	46,548,519	18,677,284	216,122,723
MARINE SERVICES							
PILOTAGE	11,914,002	25,842,822	1,730,206	7,567,519	13,763,818	3,095,424	63,913,791
BERTHING SERVICES	6,098,091	12,123,160	1,275,550	3,463,308	9,064,696	2,075,793	34,100,598
FLOATING CRAFT	46,460,827	91,980,286	7,839,317	17,229,199	45,652,788	14,915,453	224,077,870
SUNDRY MARINE SERVICES	492,132	1,451,141	19,802	163,207	878,090	50,754	3,055,125
TOTAL MARINE SERVICES	64,965,052	131,397,409	10,864,876	28,423,232	69,359,392	20,137,424	325,147,384
SHIP REPAIR FACILITIES							
DUES	-	13,247,103	1,540,663	31,871	15,708,366	-	30,528,004
SUNDRY SHIP REPAIR SERVIC	-	1,236,318	247,670	533,790	2,614,569	-	4,632,347
TOTAL SHIP REPAIR FACILIT	-	14,483,421	1,788,333	565,661	18,322,935	-	35,160,351
LIGHTHOUSES							
LIGHT DUES	-	-	-	-	-	45,577	45,577
SUNDRY LIGHTHOUSES SERVIC	-	-	-	-	-	-	-
TOTAL LIGHTHOUSES	-	-	-	-	-	45,577	45,577
CARGO HANDLING SERVICES							
CARGO LANDED	-	-	-	-	-	-	-
CARGO SHIPPED	-	-	-	-	-	-	-
CARGO TRANSHIPPED	-	-	-	-	-	-	-
CARGO STORAGE	-	-	-	60,364	-	-	60,364
CARGO DELIVERY/COLLECTION	-	-	-	-	(6,608)	-	(6,608)
HIRE OF CRANES	-	6,087,618	406,997	-	3,486,106	-	9,980,720
LABOUR STANDBY & GANG	200	37,188	-	567,870	130,765	-	736,023
DEMURRAGE	-	-	-	-	-	-	-
HANDLING CHARGE	-	559,061	0	-	-	-	559,061
HAULAGE	-	-	-	-	(230)	-	(230)
SITE RENT	-	-	-	-	-	-	-
SORTING, MEASURING & MARK DOCUMENTATION	-	-	1,469	-	-	-	1,469
LICENCES & PERMITS	23,578	-	37,560	30,920	589,911	189,158	871,127
SUNDRY CARGO SERVICE	7,100	1,175,015	10,748	57,639	149,743	2,070	1,402,315
SHIFT WORKING GANG	-	-	-	-	-	-	-
TOTAL CARGO HANDLING SERV	30,878	7,858,883	456,774	716,793	4,349,686	191,228	13,604,242
TOTAL EXTERNAL TURNOVER	506,624,757	1,770,506,100	106,860,323	363,510,593	540,165,622	178,067,890	3,465,735,284

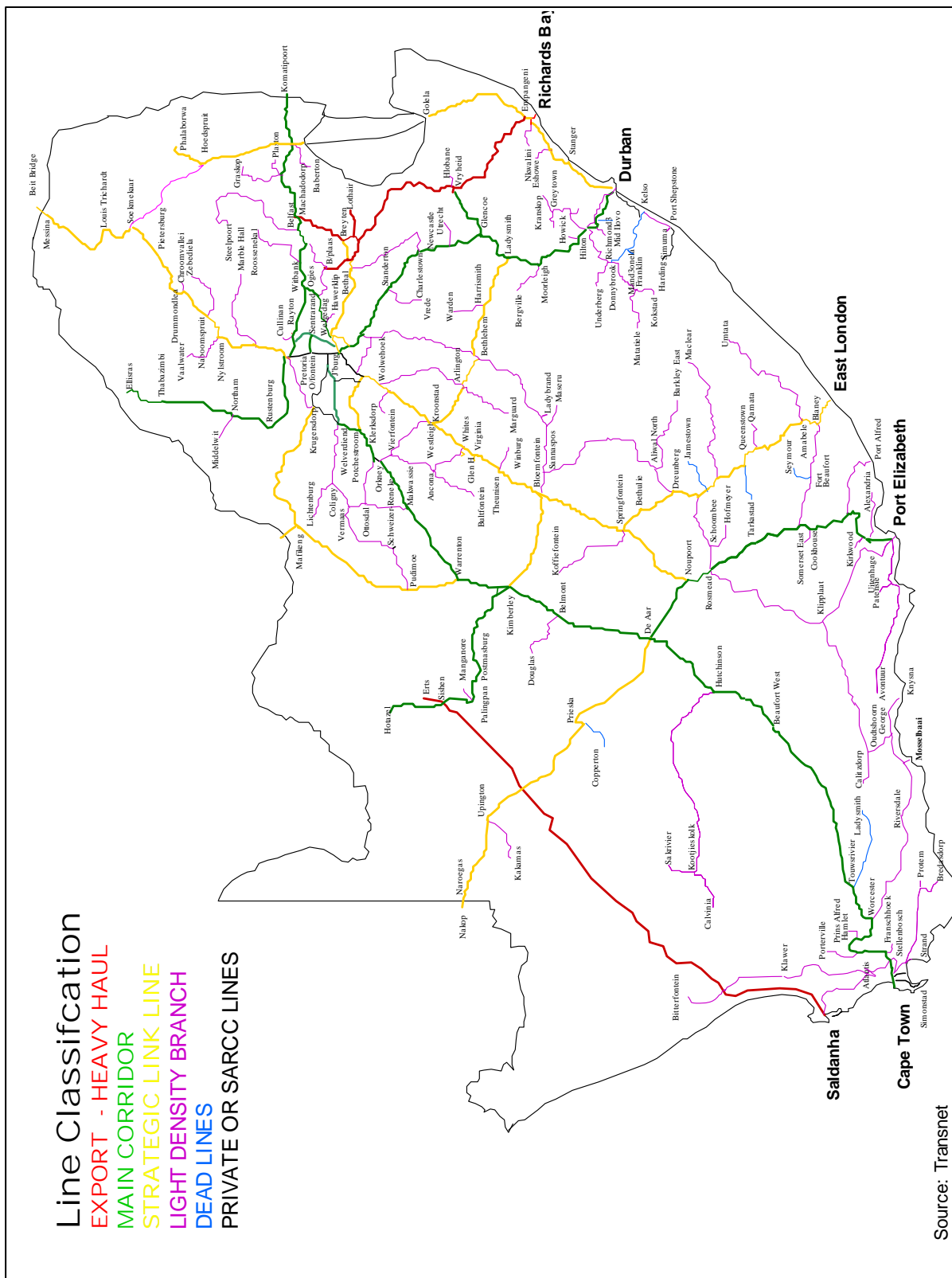
Source: NPA

Figure 2.3: SAPO Revenue and Expenses by Port: 2001-2002

	RICHARDS BAY	DURBAN	EAST LONDON	PORT ELIZABETH	CAPE TOWN	SALDANHA	CORPORATE OFFICE	SAPO TOTAL
INCOME	385.531	718.630	66.999	210.517	304.372	264.067	2.760	1,950.116
External Income	385.193	716.493	66.893	210.462	302.899	264.012	0.114	1,945.952
Total Turnover	384.094	716.653	66.840	210.919	300.004	263.808	0.000	1,942.319
External Turnover	384.132	716.653	66.840	207.500	300.004	263.808	0.000	1,938.938
Internal Turnover	(0.038)	0.000	0.000	3.420	0.000	0.000	0.000	3.382
Other Turnover	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Miscellaneous Income	1.099	(0.161)	0.053	(0.457)	2.895	0.204	0.114	3.633
Internal Income	0.336	3.681	0.106	8.689	1.593	0.055	2.646	14.460
Inter Transnet recoveries	0.000	0.593	0.032	0.286	0.268	0.055	2.646	1.235
Inter Divisional Recoveries	0.339	0.000	0.074	0.224	1.085	0.000	0.000	1.721
Intra POD Net Recoveries/(Costs)	(0.002)	1.544	(0.000)	(0.454)	0.120	0.000	0.000	1.208
OPERATING EXPENSES	350.807	659.266	38.121	158.107	260.415	133.500	107.363	1,600.216
Total labour costs	157.372	318.499	13.081	75.593	131.225	41.890	58.971	737.660
Energy	13.561	24.623	1.143	5.732	11.535	5.252	0.691	61.846
Material	20.859	48.546	0.625	5.973	9.001	19.089	0.006	104.093
Depreciation	62.648	55.335	9.300	25.070	31.473	28.882	0.770	212.708
Other operating exp.	96.367	212.263	13.972	45.738	77.181	38.387	46.926	483.909
OPERATING PROFIT/(LOSS)	34.724	59.364	28.879	52.410	43.956	130.567	(104.603)	349.901

Source: SAPO

Figure 2.4: Location of Ports and Rail Corridors



3 Issues to be Addressed

In this section we provide preliminary comments on a number of key issues to be dealt in the design of the packaging and sequencing of terminals for concessioning. Most of these were explicitly identified in the Terms of Reference. We have concentrated on issues where we require early guidance from the *Port Restructuring Steering Committee* or DPE.

3.1 Labour Mitigation Issues

The labour section of the report provides four components:

- A review of the macro environment related to port labour issues
- A statistical review of employment at the Durban Container Terminal
- A high-level statistical review of employment at other terminals
- The idea of options for treatment of current SAPO staff

The Macro Environment

The broader environment which influences the industrial and employee relations issues of the port restructuring initiative of the South African government is wider and is not limited to the typical issues of the employer/ employee relationship.

In February 1996, the Government, represented by the Ministry for Public Enterprises, which is the co-ordinating Ministry of the restructuring process, and Labour, comprising the Congress of South African Trade Unions (COSATU), the Federation of South African Labour Unions (FEDSAL) and the National Council of Trade Unions, entered into an agreement in the form of the National Framework Agreement (NFA) to regulate the dealings of the two parties in addressing the planned process of restructuring certain of the state-owned assets. The Government had come into power in 1994 confronted with a range of problems, one of the most alarming being high unemployment. Many saw state institutions as vehicles that could be used to promote employment.

The parties to the NFA embarked on a process of consultation to find strategic and practical ways to drive and implement the eight objectives of the NFA:

- Increase economic growth and development
- Meet basic needs — through provision of affordable services
- Re-deploy assets for growth
- Develop infrastructure by mobilizing and redirecting private sector capital
- Reduce state debt
- Enhance competitiveness and efficiency of state enterprises
- Finance growth and requirements for competitiveness
- Develop human resources

The majority union at SAPO, the South African Transport and Allied Workers Union (SATAWU), is an affiliate of COSATU, the latter being a member of the ruling Tri-partite Alliance of the African National Congress (ANC), COSATU and the South African Communist Party (SACP). COSATU unions have recently embarked on an anti-privatisation campaign against the restructuring of state-owned assets.

The government, having engaged the unions over a protracted period, deems it imperative that it now moves decisively to restructure identified state assets. The current inadequate performance and low productivity situation at South African ports in general, and in particular at Durban port and the Durban Container Terminal (DCT) , the hub of South Africa's exports/imports activity, has also affected Government strategy.

SAPO currently has 5,616 employees. The break down of these staff by the thirteen terminals operated by SAPO is summarized in Figure 3.1.

Figure 3.1: SAPO Employment by Terminal

Terminal	No. of Staff
Capetown (container terminal)	510
Capetown (multi-purpose terminal)	420
Durban (car)	24
Durban (DCT)	1,020
Durban (multi-purpose terminal)	1,194
Durban (Maydon Wharf)	249
East London	130
Port Elizabeth (container terminal)	327
Port Elizabeth (multi-purpose terminal)	217
Richard Bay (bulk)	526
Richards Bay (multi-purpose terminal)	562
Saldanha	245
Saldanha (multi-purpose terminal)	86
Headquarters	106
TOTAL	5,616

Statistical Review of Employment at the Durban Container Terminal

Total number of people currently employed at the DCT is 1,020. Figure 3.2 shows the benefits, average age and years of service by employment category.

Figure 3.2: Current DCT Employment Demography and Benefits Paid

Category	No.	Tot Basic Pay (P.A.)	Value Of 13th Cheque (P.A.)	Other Benefits	Cost Of Other Benefits: (Co. Contr. P.A.)	Aver. Age	Aver. Length of Service
Junior Officers	1 008	R65 651 652 Or R65 325 a ^y . Per person	R5 470 971 p.a. Or R5 444 a ^y . Per person	UIF	R710 904	45	16
				Pension Fund	R7 331 484		
				Medical Aid	R3 168 192		
				Housing Assistance	R7 680 (p.p.)		
				Leave			
				Travel Concessions			
				Govt. Employee Levy	R198 744		
Middle Managers	21	R5 164 088 Or R234 731a ^y . Per person	Nil	UIF	R21 384	43	21
				Pension Fund	R377 736		
				Leave			
				Travel Concessions			
				Car Benefit			
Managers	1						

Figure 3.3 provides detail on the distribution of employees by each department and cost centre within the DCT.

Figure 3.3: Distribution of Employees b^y Cost Centre

Division	Number of Employees
Administration and Finance	
Accounts Payable	7
Billing and Accounts Receivable	15
Administration	12
Subtotal	33
Operations	
Container Operations	16
Landside other	146
Out of gauge	30
Rail Operations	37
Reefer	12
Wharfside Support	38
Shipping Planning	30
Haulers Landside	22
Landside straddles	273
Planning Support	8
Rail Planning	6
Terminal Support	135
Yard planning	4
Subtotal	757

Engineering	
Cranes Mechanical	16
Technical Staff	11
Cranes Electrical	27
Maintenance Staff	73
Technical Support	47
Subtotal	174
Safety, Health and Environmental	6
Human Resources	17
Marketing	2
Information Technology	2
Middle Management	17
Management	1
TOTAL	1,020

Implication for Employees of the Restructuring Process

Broadly speaking, the planned restructuring and productivity improvement process will have the following employee-related outcome:

- Currently DCT moves approximately 14 to 16 containers per hour, against a target of 18, and the world-class benchmark for comparable ports is in the mid-20's. The implication, with improved working methods and systems and proper staff training, is that productivity should raise to a world class standard and that in the short run before traffic increases – employment will fall.
- A lesser number of employees than the current should be able to deliver significantly higher levels of productivity.
- Multi-skilling and worker versatility should result in enhanced employee skills and an improved level of competence, which should also enhance productivity and performance improvement.

Unions oppose the pending change on the basis of their beliefs and perceptions that:

- Having a private operator of the port will not on itself necessarily result in improved operational performance;
- they propose that labour and management should sit down to diagnose the causes of poor performance and discuss how to address these;
- They anticipate job-losses that will have dire consequences for their membership.

Labour Regulating Machinery impacting on the Restructuring Process

For the pending process of restructuring to be deemed legal, fair, inclusive and participative, it should meet and/or consider the following provisions.

Legal machinery:

- The Basic Conditions of Employment Act
- The Labour Relations Act
- The Employment Equity Act
- The Occupational Health and Safety Act
- The Skills development Act
- The Unemployment Insurance Act

Government/In-house Industrial Relations Impacting Regulations:

- The National Framework Agreement (NFA)
- The Social Plan Agreement (dealing with employee redundancy and retrenchment)
- The Constitution of the Transnet Bargaining Council
- Recognition Agreements Between The Port Operations Division of Transnet and: South African Transport Workers Union (SATAWU), UTATU, SALSTAFF, MANWU (the management union)

In-house Regulations/Benefit Impacting Regulations:

- The Transnet Pension Fund Act
- Transmed Rules (Medical Aid)
- The Transnet Leave Policy

International Experience Relating to Labour Issues

Union perceptions around the world on the issue of port restructuring around the world include the following:

- Privatisation and decentralisation may weaken the power of the unions; the experience of the British Dock Workers Scheme of 1989 is sometimes referred to as an example
- Collective working conditions may be replaced by individualised arrangements
- Introduction of management independent from the state authorities
- Mass reduction of employment in the short term
- Worsening working conditions
- Casualisation of labour
- Increased level of sub-contracting activity
- Destruction of trade unions

Global experience, however, is also teaching the unions the hard reality that the move to restructure and privatise ports is irreversible. Pragmatic unions therefore, while publicly opposing the move, try to find ways of proactively influencing and being part of the change process. In South Africa, as has been seen in other economic sectors, this may include exploring opportunities to take equity positions with new operators.

Possible Options

Broadly there are only two options for the treatment of labour although there are many variations within these two options.

Staff Reduction prior to restructuring

- High retrenchment costs to Transnet/SAPO;
- Retirement fund provision costs to Transnet/SAPO;
- Industrial relations conflict and employee polarisation very likely to occur;
- In the bigger scheme of things and in getting the port operations performing to world-class standards and norms, this may have to be seen as the price to pay.

Continuous Employment and Staff Reduction after the restructuring

- This is seen almost as a 'postpone the inevitable' option;
- It may buy the time enabling a smoother change and allowing for better transitional planning;
- Transfer the cost and industrial relations 'headache' to the new operator;
- Pushes up the cost of the acquisition to the operator and reduces the net value of the concession;
- Delays or minimises realisation of performance improvement by the new operator;
- Labour law implications.
- Need for careful cost and actuarial provisions;
- The issue of numbers of employment will need to be addressed: is it continuous employment on presently existing staffing levels, or is it on new, optimum ones?

Communication

A need for a vibrant and ongoing communication process is a fundamental requirement if the internal workings of the restructuring process are going to be a success and take the company employees on board. Some considerations and do's for such a communication process:

- It should not take the place of or be confused with the ongoing Government and Labour broad engagement process.
- It should also not take the place of SAPO management and representative labour engagement process.

- This is a management/employee communication process.
- It is not a negotiating or bargaining platform.
- Its primary goal is to inform, keep employees abreast of developments (deemed timely to communicate at a particular point in time) and to receive and listen to their comments.
- It ensures that employees do not learn, for the first time, about SAPO restructuring developments that affect them from the media.
- It recognises that not all the employees are represented by the trade unions; and that even those who are trade union members are company employees first.

Change Management

As can be expected on undergoing a profound and significant change of this magnitude, a lot of employees, including members of management, develop a substantial level of anxiety and uncertainty regarding the pending process and its implications to themselves as individuals. Primarily this is a feeling of insecurity about one's job prospects for the future and has a wider family and general well-being and personal stability implications. Also, people will need to know, from an operational and process perspective, what changes are unfolding and how they can enable and support such changes.

As such, these anxieties should be separated from the broader union ideological resistance or opposition to the restructuring process. They need to be dealt with in a proactive, pragmatic, humane and empathetic manner.

A number of staff, of course, will be part of the new, post restructuring order at the ports. Others will not, but their co-operation and commitment is also of critical importance during the transitional journey. A well thought-out and focused change management programme and process will assist greatly.

At a minimum, it is essential that those directly responsible for the implementation of port terminal concessions (particularly DPE, Transnet, NPA and SAPO) have the same vision of the process and its outcome, and present that vision in a consistent manner.

Issues for the Ports Restructuring Steering Committee

A number of issues need to be considered in order for the Consortium to move ahead in this area:

- How might the Durban job assurance proposal impact on the restructuring work at other ports?
- The challenge and implications of possible retrenchments:
- Should it be left for a later stage to be dealt with by a new concessionaire?
- Should financial calculations and provisions be made in advance and availed to the successful new operator?

3.2 Economic Impact Methodologies

Introduction

There are at least three generally accepted approaches to evaluating the economic impact of port reform and resulting investments and defining the key indicators of economic return from restructuring of a terminal within a port, an entire port, or a system of ports. While some of the approaches are directly applicable to the evaluation of an overall programme of port restructuring, others can be used to measure the impact of a particular port restructuring of even a particular terminal concession. The three most common approaches are discussed here:

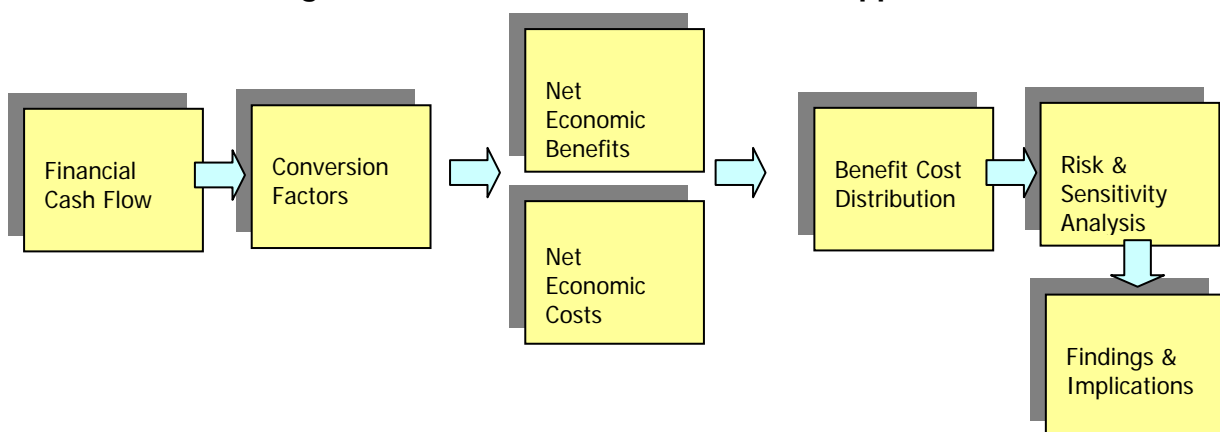
- Net Economic Benefit.
- Transportation Cost Savings.
- Employment and Regional Economic Impact.

While these are not necessarily mutually exclusive, generally not all are required for evaluating the economic impact of a specific port project. The particular approach and methodology used for a port project is driven by the purpose for which the results are likely to be used. These approaches and their typical uses are discussed in the following paragraphs.

Net Economic Benefit

The Net Economic Benefit Approach is commonly used by multilateral funding institutions and donor agencies to support their organization's board-level decisions to provide loans and grant funds for large infrastructure development projects, primarily in developing countries. The analysis for this approach is project-specific, and requires that the net economic benefits of the project be compared "with" and "without" the project. This approach is presented in Figure 3.5 and discussed below.

Figure 3.5: The Net Economic Benefit Approach



The starting point for this approach is the cash flow analysis of the project. Revenues and Costs of the project from the Financial Cash Flow model are converted to Net Economic Benefits and Costs, using derived Conversion Factors, resulting in a Benefit/Cost ratio that provides a measure for a "go-no-go decision for the project. The specific investment responsibilities of the public sector and the private investors are predetermined and

delineated based on the government's requirements for Private Sector Participation. While common practice suggests that all investments in the access infrastructure, breakwater, channel dredging and preparatory work for the berths are made by the public sector, and the investment in construction of the berths, backup areas and superstructure is done by private terminal operators, there are instances when private investors have shared the investment in infrastructure with the public sector. The analysis determines the Net Economic Values of the specific terminal or port development project using the following approach:

- Categorizes annual financial revenues, costs and investments, and classifies them as financial benefits and costs. Determines Financial Net Present Value.
- Using information on border prices, currency exchange rates, taxes, and the opportunity cost of labour, calculates the Conversion Factors to change the financial revenue and cost items to annual economic values.
- Determines Economic Net Present Value, Economic Internal Rate of Return and Benefit Cost ratio.
- Subtracts financial value line items from the economic values, to determine the Net Economic Present Value of the project.
- Distributes the Net Benefits and Costs between the various beneficiaries in the beneficiary country's economy.
- Conducts risk and sensitivity analysis for critical factors, such as delays in project implementation, changes in traffic projections, tariffs, currency exchange rates, labour costs, and fuel prices etc., which may significantly affect the economic viability of the project.

The key outputs of this approach are the Economic Internal Rate of Return, Benefit/Cost ratio, and a distribution of the net economic benefits to the government treasury, labour and consumers.

Transportation Cost Savings

Transportation cost savings resulting from economies of scale, faster vessel turn-around time, improvements in productivity and efficiency may be used to justify port reform and private sector investments in port projects. This approach is most effectively applied to containerised cargo. By improving port productivity and efficiency, private sector participation can reduce transportation costs and have a significant economic impact due to:

- Economies of scale of larger vessels calling at a deeper draft port. For example, reduced slot costs for containers on larger vessels will reduce the ocean freight charges for cargo.
- Reduced port time and congestion due to modernization of facilities and equipment, and increased capacity. A faster vessel turn-around time reduces both the vessel capital and operating costs allocated to cargo, resulting in lower freight costs. Increased cargo handling productivity will also reduce the per-unit cost of handling cargo at a port.
- Reduction in port tariffs due to better cost controls and increased competition.

The economic impact of reduced transportation costs will include:

- Reduced costs of imports, which will free up additional funds for industrial and commercial investment in the country.
- Reduced costs and therefore increased competitiveness of the country's exports, resulting in increased economic activity in the export-driven industrial sector in the country.
- Reduced cost of consumer goods. It is expected that the savings in transportation costs which will initially and directly affect shipping lines, cargo terminal operators, importers and manufacturers, will eventually flow down the supply chain and be shared with the general population in the form of cheaper consumer goods in stores.

The results of this analysis are generally presented in terms of the transportation cost savings per container and the Net Present Value of total savings for the projected cargo handled over the life of the investment.

Employment and Regional Economic Impact

Ports in North and South America commonly use this approach to define the economic impact their cargo activities have on their community and region. In the USA some ports conduct this analysis every three to five years, while others use it only for specific development projects, and the results are used to achieve diverse objectives, including the following:

- To get public and political consensus and support for investment in unpopular port development projects, especially those that may appear to have adverse environmental impacts.
- To get the legal approval to issue bonds for port development projects that are likely to be controversial, through a bond referendum.
- To regularly inform the regional community and politicians of the significant employment and revenue impact that the port's activities have on the region's economy, and build goodwill as a good corporate citizen.

In developing countries, the results of this methodology may be used to develop public and political support for port reform and restructuring.

Our approach to defining the employment and revenue impact at ports has been to conduct a primary survey of the entire private and public sector activities related to various categories of cargo, determine the direct, indirect and induced revenue, taxes and employment generated per TEU or ton of cargo, and apply these to future cargo projections. The methodology is applied as follows:

- Conduct a primary survey of direct and indirect port users to obtain their employment, payroll and revenue information, attributed to each category of cargo. We developed a questionnaire for inclusion in an in-depth survey of major port users that has been commissioned by NPA.²

² The survey will involve approximately 40 in-depth interviews, to be conducted by an independent survey firm. Results are expected to be available at the end of November, 2002.

- Analyse the data to determine the direct revenue, employment and tax impacts for each category of cargo.
- Use the regional input-output economic model, or if not available, benchmarks from US ports adjusted to account for the local economic conditions, to determine the multipliers for revenue and employment.
- Combine the direct impacts with the multiplier effect to obtain total revenue, employment and tax impact.

The results that most capture the public attention are the direct and indirect employment impacts. During the development phase of a project, significant employment may be generated in the construction or modernization of a cargo terminal facility. Later on, as cargo activity increases, the primary driver of employment will be the volume of cargo handled at the port. Even though in the initial years productivity and efficiency gains may reduce employment or keep it stagnant, increase in cargo volume over the years generally lead to net gains in employment.

Surveys at US ports have shown that the handling of containers at a port generates a large number of "Direct" Full Time Equivalent (FTE) jobs (from 300 to 650 FTE jobs per million tons of cargo handled), although automobiles and some forest products can generate significantly greater number of jobs (from 1000 to 1400. "Direct" jobs are defined as activities directly related to:

- Cargo handling and transportation at cargo terminals,
- Maritime services including ship agents, ship chandelling, bunkering, supply of water, personal services to seamen,
- Railways, trucking and other transportation services,
- Port industries including shipbuilding and repair, container repair etc.
- Customs and other government services directly related to port activity.

In addition to these "Direct" Jobs, research has shown that about 70% additional indirect and induced jobs are also created at ports that are mechanized and significantly more productive than the ports in South Africa today. Generally, in developing countries like South Africa, an equivalent amount of cargo would create more jobs than at ports in more industrialized countries.

There are a number of caveats in applying this methodology, particularly in developing countries:

- Economic and input-output information is not up to date, accurate or available.
- Survey respondents may be reluctant to provide data or may provide incorrect data, due to income tax implications.
- Ports and port users may not be able to provide cargo-specific financial or employment information.

However, if applied appropriately, this approach will provide the economic impact generated by each major cargo type for the economic region affected by the port, in terms of revenue generated, employment generated, and taxes to the government.

Recommendation

Given our perception of the needs of the *Ports Restructuring Steering Committee* and the constraints on data availability, we believe that third option will be the most useful approach for the present Study. We propose to develop multipliers relative to Durban – specifically Durban Container Terminal – and then to apply the resulting multipliers to other ports and terminals within ports. However it must be kept in mind that this approach will not in itself provide a tool for deciding on optimal timing and packaging of concessions based on differential impacts.

3.3 The Draft NPA Act

Introduction

The terms of reference for this Economic Impact and Port Asset Packaging Study state that we should be aware of the current government policies and directions: *“Consultants will be working within the policy framework laid down in the National Commercial Ports Policy and will be required to take into account the drafting of legislation a new Ports Bill and Independent Port Regulator Bill currently in progress.”* Our terms of reference do not envisage that we should be involved in the development of these policies or of the new NPA Act. In reviewing the Draft Act to familiarize ourselves with the contents and potential impact on the concessioning process we have noted a number of apparent anomalies. These are included below as preliminary comments for the possible interest of the government. The government may wish to recruit specialists to provide a more thorough analysis, to ensure that the Act will provide the framework for the long-term development of the commercial ports as anticipated in the National Commercial Ports Policy. This assistance could include both international experience in drafting of port-related legislation within a restructuring programme, and South African expertise in legislative drafting. The following comments include detailed notes on specific sections, followed by some broader issues raised by the current draft.

Section by Section Commentary

Section 11. (2)(f). It is unclear how, why or what is the “sustainability” of the port that the NPA is required to maintain.

Section 11. (2)(g)(iii). Regulating and controlling cargo and passenger operations appears to be inconsistent with the Government’s vision of a landlord NPA.

Section 11. (2)(g)(vii). Port security may be better managed by the private sector.

Section 11. (2)(m). Appropriate competition should ensure “efficiency”, not regulation.

Section 11. (2)(p). To the greatest extent possible, tugs and other port services such as pilotage should eventually be privatised.

Section 12. Chapter 3 of Act No. 108 of 1996 of the Constitution should be adequate to define the principles of co-operative governance and inter-governmental relations. Sections 12. (2) and (3) may impose an onerous burden and restrictive provisions on the decision-

making process of the NPA, and may provide both the private sector and other public sector departments a potent tool to delay or block any of NPA's actions that may be in the best commercial and strategic interests of the port.

Section 13. (1)(c). The Government's standard for "adequate rate of return" should be specified. This is commonly based on the cost of issuing Government debt by the agency in question. If NPA has no history of issuing debt, it may be based on Return on Capital Investments acceptable by the Government.

Section 32. (7). Unless clearly delineated, the authority of the Regulator to curb anti-competitive behaviour and that of the Competition Commission may cause confusion and conflict. This clause needs to be specific and defined in detail.

Section 32. (12). It may be advisable to allow the Regulator to have direct access to the Parliament, when in conflict with the Minister. This has a precedent in other port reform initiatives worldwide.

Section 33. (1). Members of the Regulator could be appointed directly by the Parliament. Another international model suggests that the Regulator does not require a board, and can function with only a Chair Person appointed by the Parliament or the President, and a core staff of experts selected by the Chairman to advise on regulatory issues. The Regulator should be as independent as allowed within the legal framework of the country. The Competition Commission provides a model appropriate to the South African context.

Section 36. (2). The terms of contracts, leases and concessions with the private sector should be clearly specified in legally binding contracts, and the NPA should limit itself to ensuring that the terms of the contracts are complied with. Additional performance monitoring is likely to adversely affect private sector efficiency and productivity. This should not limit the NPA's authority to conduct inspections if there is clear evidence of abuse of contract terms.

Section 42. (2)(a)(i) & (iii). It is unclear what kind of information the licensed operator can provide to report its quality of service and steps taken to eliminate anti-competitive behaviour. It is preferable that these requirements be specified in individual contracts on a case-by-case basis, rather than in the Bill. Putting the onus of promoting anti-competitive behaviour on the operator is difficult to enforce and may be meaningless.

Section 45. (1) & (6). The Bill should ensure that the provisions in this section do not unduly impact on the "market attractiveness" of "concession packages" at any of the ports, when the DPE invites tenders for private sector participation. If existing contracts with current port tenants need to be terminated to make a concession "doable", a relocation or compensation scheme will need to be worked out. Section 47, broadened to include all existing leases, provides guidance on these issues.

Section 51. This limits the use of funds and assets of the authority to "the performance of the Authority's functions or the exercise of its powers under the Act". How and to whom does the NPA transfer revenues in excess of its operating budget? The Act makes no reference to the desire of Transnet that NPA earn a positive net income in order to make

funds available to Transnet for continued subsidy of other sectors³. This issue should be addressed directly in the final legislation.

Section 52. (4). Section 62 creates a port consultative committee, 3 of whose 11 members represent “organizations, bodies or persons representative of the local port users”. This committee must be consulted prior to “substantial or structural alteration in the Authority’s tariffs”. A majority of the members are representatives of Government Departments. It is not clear why it is necessary or desirable for Government to dominate this Committee, particularly if there is also to be a regulator that can “issue directives”.

Section 53. (1)(a). It should be clear that NPA will not compete with its tenants in cargo operations or levying dues related to those activities. The current tariff structure of NPA, with well over 50% of NPA revenue based on “cargo dues” is contrary to international practise. NPA has no responsibility for handling of cargo and is supposed to be moving toward “cost based” pricing, so revenue related to volume of cargo would normally revert to the agency responsible for cargo handling, whether SAPO or a private sector terminal operator.

Government Control of NPA

Sections 61 and 62 highlight the potential for conflict of authority over the NPA between the Minister and Shareholding Minister. The authority of the “Minister” and “Shareholder Minister” over the NPA may at best be overlapping and at worst in conflict. While the DPE directs and governs the functions, powers, fiduciary responsibilities of the NPA, the Department of Transport also has the authority to impose regulations on the NPA concerning the sound economic and strategic management of the ports either directly, or through the Regulator and the Consultative Committees at each port. Section 60 in particular gives the Minister extensive powers to regulate the NPA under the umbrella of “safeguarding the national security” and “promoting national, strategic, or economic interests of the Republic”. While in themselves these objectives are sound, it would lessen the potential for administrative and legal conflicts if DPE were the fiduciary and regulatory “master” of NPA. In any event the reporting and regulatory boundaries of NPA need to be more clearly spelled out. The authorities of the Minister and Shareholding Minister are compared in Figure 3.6.

Figure 3.6: Comparison of Government Department Controls over NPA

Minister of Transport	Shareholding Minister
<p>Declares which ports are under NPA jurisdiction</p> <p>Administers NPA’s co-operative MOU’s with other departments</p> <p>Creates an “independent” Regulator within the DOT administration, and directs its functions and activities</p> <p>Is the only formal conduit of communication between the Regulator</p>	<p>Creates the “new” legal entity – NPA</p> <p>Determines which provisions of the Companies Act do not apply to NPA</p> <p>Defines functions & assets of NPA</p> <p>Appoints, chairs and governs NPA board, and executive management</p> <p>As the sole shareholder, has fiduciary and legal responsibility for NPA activities and consequences</p>

³ This fiscal constraint on the timing of corporatization of NPA was discussed explicitly by Transnet at the Stakeholders Conference organized in Durban by SAPO on 29 October 2002.

<p>and the Parliament May direct NPA to perform acts "for promoting economic interests of the Republic", but only after it "consults" with NPA and Shareholding Minister May regulate the powers of NPA to control or allow access to a port, and other activities in NPA's jurisdiction Regulates port user appeals and grievance procedures against NPA Creates a Port Consultative Committee at each port, which must be consulted by NPA for any capital investment, tariff changes and other matters as determined by Minister NPA may make regulations for good management of the ports, but must get Minister's approval</p>	
--	--

The Oversight Regulator

The Preamble to the new Act refers to "an appropriate regulatory framework that is also flexible and responsive to market forces".

The *White Paper on National Commercial Ports Policy* (Section 4) envisages a need for regulatory oversight during the interim period while NPA remains under Transnet. That is, its role is to arbitrate between two functional entities of the State, one of which is in fact an operating division of the other. However it is equally clear that: *"Once the National Ports Authority is established outside Transnet, the role of the specialized Port Regulatory Body will be disbanded"*.

The Draft Bill (Chapter 6), on the other hand, creates an authority with nine explicit tasks, only one of which relates to the interim period. These include:

- *"... ensure impartiality and equity of access to the ports and to the provision of port services" (para. 1);*
- *"... ensure that the access to ports and port facilities are provided in a non-discriminatory, fair and transparent manner" (para. 3);*
- *Issue directives to NPA (para. 4);*
- *Act as an avenue for recourse in the case of anti-competitive behaviour (para. 8).*

The draft Act (Section 32) states that the Regulator shall "seek to negotiate and conclude an agreement with the Competition Commission to coordinate and harmonize the exercise of jurisdiction". It does not make clear why in the presence of a strongly independent Competition Commission it is necessary or desirable for the Regulator to have any role in the

area of anti-competitive behaviour, or what principles should be used for apportioning responsibility between the two regulatory entities.⁴

Mandate of the New NPA

Section 11 of the Draft Act describes 32 functions of the authority, 2 of which relate to private sector involvement in the port:

(h) encourage and facilitate private sector investment and participation in the provision of port services and facilities:

(i) enter into concessions and public private partnerships in terms of the Act.

The Draft Act creates NPA, whose role is “owning, managing, controlling and administering the ports on behalf of the State”. The new NPA is to be incorporated as a public company with a share capital, to be managed in terms of PFMA. It will be important to confirm that these two characteristics do not conflict.

Section 45 provides for continuance of authority to provide a port service or operate a port facility when the Act comes into force, but requires the existing operator to apply for a new license within 6 months. The existing license shall remain in effect until a ruling is made on the new application. This provision applies equally to port facilities operated by the SAPO Division of Transnet, by Spoornet, or by the private sector.

Section 53 provides for the Authority to levy and collect fees and charges related to land rentals, port dues, cargo dues, and berth dues. Not all of these relate to charges levied for services or assets provided by the Authority. Cargo dues are typically collected by the provider of cargo handling service, while for new-built terminal facilities, berth dues would also normally be for the account of the provider of the berth. It is not clear from the wording of this section whether the tariff book described is intended to apply only to tariffs charged by the Authority to port users, lessees, or concessionaires, or also to tariffs charged by (for example) a concessionaire to a port user. (DPA says it will only fix maximum rate, which must be published).

Section 2 (1)(c) defines one of the objects of the Act to be “to separate operations from the landlord functions within the port”. Section 11(3) (a), referring to the Authority as an “operator of last resort”, appears to be inconsistent with this object. It probably should simply require NPA to develop mechanisms to ensure that all required services are provided, but should not refer to NPA as operator or provider of these services.

General Comment

As a general comment, the draft Act concentrates more on the relationship between the NPA and the regulator than on the role of the NPA (or the Regulator) in terms of monitoring the performance of concession agreements, or of the regulator in adjudicating disputes between NPA and concessionaires or other port users.

⁴ The 1998 Competition Act exempts industries or sectors of industries under a regulator from the jurisdiction of the Commission. Revisions to the Act in 2000 replaced this clause with “???”

In preliminary discussion with NPA it has not been clear whether or not NPA fully accepts the concept of the distinction between “managing the concession(s)” (or concessionaire(s)) and “managing the concession contract(s)”. Except for the setting of tariff ceilings etc. NPA’s day-to-day interaction with terminal operators holding long-term concessions will in fact be limited to the reporting specified in the concession contract. Operators whose performance in terms of specified indicators fully meets their contracted targets will in effect be protected by their concession agreement from demands for additional information etc. from NPA.

One is left with the impression that a mechanism is being created to ensure that NPA will continue to take guidance, or even be subject to ‘directives’ from Government on a variety of fronts, although formally corporatized. Except for the Preamble, there is little reference to market forces in this draft, and much discussion of mechanisms for providing Government guidance. The potential national benefits to corporatization of NPA risk being severely compromised by this approach.

3.4 Implications of the Development of the Port of Ngqura

The Port of Ngqura Establishment Act 77 of 1998 specifies that *Transnet Limited* shall have the power to:

“construct, equip, control, manage possess and maintain approach, entrance and navigational channels and turning basins with accompanying buoying, wharves, docks, basins, jetties, piers, signal stations, navigational aids, breakwaters, yards, railway lines, sidings, road and services, storage areas, buildings, and other facilities or appurtenances or additional works necessary for or incidental to the proper working of the port”. (Article 2(4))

The Act also specifies that:

“The costs of construction, equipping, control, operation, management, possession and maintenance of the port shall be financed by the Company”. (Article 5)

The COEGA website (coega.com) provides the following description of the process to date, under the authority of the Coega Development Corporation (CDC):

“The CDC embarked on an international solicitation to identify a private partner for the Coega Project. Following a transparent bidding process, a recommendation is made to Government to appoint P&O Nedlloyd/TCI Infrastructure, as a preferred private partner.

Transportation parastatal Transnet confirmed that Portnet (now the National Ports Authority) will develop the common infrastructure for the port of Coega/Ngqura and that P & O Nedlloyd/TCI Infrastructure would negotiate a concession to develop and operate a container terminal in the new port.”

Transnet announced in August 2002 that construction contracts valued at R2.2 billion have been signed, covering:

- the development of marine infrastructure for the new port including the provision of breakwaters and quays;
- sand bypass schemes to prevent beach erosion where the construction of the port has disturbed the natural movement of sand in the surf zone;
- dredging to ensure adequate harbour depth.

A CDC press release dated 23 October 2002, concerning the ongoing negotiations for development of an aluminium smelter by Pechiney, confirmed that:

“If Pechiney does commit to Coega, there are plans to fast track the development of at least one terminal at the port so that the smelter can come on stream before all the work on the port has been completed”.

Finally, a CDC press related dated 31 October 2002 confirmed that terminal facilities development for the aluminium smelter would proceed in advance of signing of a contract with Pechiney:

“Positive signs from Pechiney about building a \$1,6bn aluminium smelter at Coega have seen the National Ports Authority kick into a new gear on the construction of a deep-water port in Eastern Cape. Pechiney has yet to make a final decision on whether it will sink its investment into Coega, but the ports authority is confident enough to begin building custom-made infrastructure for the group. It now expects to begin construction work on the R2.6 billion Port of Ngqura at Coega in the coming weeks.

National Ports Authority CEO Siyabonga Gama said excellent progress was made during the meeting, and an agreement on the way forward for the planned aluminium smelter should be signed within weeks. 'Pechiney is only likely to make a final decision on the smelter next year, but we need to start negotiating their needs upfront,' he said.

Gama said there was certain infrastructure that had to be purpose-built for Pechiney and this needed to be decided on before the authority began work on the new port. Contractors had already moved on site in preparation for the construction of the port. There were risks involved in moving ahead with purpose-built infrastructure before Pechiney had made a final decision on its aluminium smelter at the adjacent industrial development zone, but there were positive signs that the company would invest in SA.”

Two factors emerge from this:

- It is proposed that P&O Nedlloyd/TCI Infrastructure develop and operate a container terminal, although the concession agreement has not yet been finalized. This concession is being negotiated directly between NPA and P&O Nedlloyd/TCI Infrastructure. The process began well ahead of the drafting of the concession architecture, and thus to date has not been governed by it.
- NPA will immediately construct at least one purpose-built terminal within the port, designed to serve a single user.

Under the “established principles” of the *Concession Architecture*, it is clear that SAPO will not be allowed to bid to operate these or other new facilities, either on its own or from within a strategic partnership. However it is not clear whether the initial purpose-built terminal will be operated directly by the user (Pechiney) or by a port concessionaire, to be selected under the port restructuring process. Since P&O Nedlloyd/TCI Infrastructure is not in fact a terminal operator, it is not clear who will actually operate the container terminal under the concession presently being negotiated. While Ngqura is designated as a national port under NPA, it is also not clear whether, once the Phase 1 marine infrastructure has been finished, additional terminals are to be developed and financed by the private sector or by NPA.⁵

The following issues require consideration by DPE and the *Ports Restructuring Steering Committee*:

1. Will additional berths/terminals at Coega be developed directly by NPA, or by private sector port operators under some form of BOT agreement?
2. If additional berths/terminals are developed by NPA, how will the operators be selected?
3. If additional berths/terminals are developed under one or more BOT agreements, how will these concessions be awarded?

While detailed information has not yet been made available to the CPCS Consortium Team, press reports and other sources indicate that during negotiations P&O Nedlloyd/TCI infrastructure has tabled the following conditions:

- Rail tariff equalization for Gauteng-Ngqura and Gauteng-Durban, despite the substantially greater distance to Ngqura, implying an ongoing direct or indirect subsidy to all cargo using this corridor;
- A commitment to add rail capacity as required, and to eventually develop a new and more direct rail corridor between Gauteng and Ngqura;
- Integration of Port Elizabeth into the Ngqura container terminal concession, with a plan to phase out container operations at Port Elizabeth;
- Restrictions on capacity expansion at other container terminals in South Africa, to ensure that the container terminal at Ngqura is full utilized before additional capacity is added elsewhere.

It must be kept in mind that the container terminal concession presently being negotiated arises from an unsolicited bid received by CDC from P&O Nedlloyd/TCI Infrastructure. Because NPA has a statutory responsibility for the planning and construction of all port infrastructure, negotiation of the terminal concession within the port being developed by NPA passed from CDC to NPA. However the above conditions would not appear to be entirely consistent with either the *National Commercial Ports Policy (White Paper)*, the draft *Concessioning Architecture* or the guidelines for dealing with unsolicited proposals, included in the *Public-Private Partnerships Manual* issued by National Treasury in May 2001. The latter states that:

⁵ Phase 1 of the NPA port plan involves 5 berths, including 2 for containers, 2 for dry bulk cargo, and one for liquid bulk.

"Proposals should conform with governmental aims, be in the public interest, **avoid the creation of monopolistic practices, not seek to place onerous conditions upon Government**, and reflect environmental, social and **economic sustainability**" (Section I, p. 3. Emphasis added)

The *National Commercial Ports Policy* states that:

"Greater private sector involvement in operations will be sought through leases and concessions;

The allocation of leases or concessions will be open to **competitive bidding**; and

The bidding process will be **transparent and based on a set of clearly stated objectives/targets.**" (Section 3.1. Emphasis added.)

Granting of a concession which included all of the requests on the above list would of course impact significantly negatively on the "concessionability" of all other container handling terminals in South Africa. Acceptance of these conditions would not only be inconsistent with the two policy documents cited above, and preclude the concessioning of Port Elizabeth, but would also limit the ability of NPA, SAPO or a new concessionaire to add container handling capacity at Durban or elsewhere. There is no provision for such conditions, a number of which would involve agencies of Government other than NPA, within the current *pro forma* NPA lease, discussed further in the following section

We recommend that as soon as the *Concessioning Architecture* framework has received final endorsement from the Departments and Ministries involved in the *Ports Restructuring Steering Committee*, steps be taken to ensure that further negotiations regarding the container terminal at Ngqura proceed under that framework. While this may lead to some delay in finalizing that agreement (the reported target date for signature is early 2003) failure to do so is likely to seriously prejudice the implementation of an open and transparent process for the concessioning of other terminals within the South African port system, including Durban Container Terminal.

3.5 Implications of the Renegotiation and Consolidation of Existing NPA Leases

The draft *Concessioning Architecture* deals directly with the issue of outstanding leases and concessions within the NPA ports:

"Existing concessions will need to be re-negotiated to bring them in line with current operational and market conditions; the operational conditions and contractual obligations of S.A. port concession contracts should ultimately be harmonised".

NPA currently manages more than 400 leases, including 108 on the Maydon wharf. Most are long term, with an average remaining life of more than 30 years. Some of these, dating from the early 20th century, do not provide for price escalation over time, and few include a "no sub-lease" clause. One of the existing leases is perpetual, with no termination date. An active secondary market in these leases has emerged.

NPA is already proceeding with renegotiation of these leases, on two fronts.⁶ In the absence of specific funding that would permit the 'buy-out' of existing leases, NPA is seeking to negotiate new leases one by one, based on a modern market-oriented *pro forma* agreement. While a small number of such leases have been renegotiated, these have been limited to cases where NPA is in a position to provide a 'carrot', such as deeper water alongside the key or better landside access. One effort to unilaterally change the terms of an existing lease has already been challenged in the Courts, where a decision is pending. The new standard-form lease agreement includes a number of key elements to address historic problems:

- Twenty year life, with renewal during the final 2 years of the lease subject to mutual agreement;
- Annual escalation of lease payments, related to market conditions;
- A 'no sub-let' clause;
- A clause permitting NPA to give notice of intent to terminate the lease for reasons of port planning. NPA would be obliged to provide suitable alternate space and to pay the cost of leasehold improvements that cannot be moved. In the event of disagreement a mediation process is foreseen, but the entire process is expected to provide NPA with access to land occupied under a revised lease within 24 months.

Since NPA has not been provided with the financial resources to buy out leases directly or to consolidate existing leases through the secondary market, it is actively encouraging existing leaseholders to do so. While the number of outstanding leases will be unchanged after consolidation through the secondary market, the number of leaseholders will be substantially reduced. NPA has prepared a plan for a 'rationalized' Maydon wharf, involving six terminals. NPA believes that consolidation by existing leaseholders will significantly simplify both the process of re-negotiation and the ongoing work of property management, since a number of existing leases, under different terms, will be consolidated into a single new lease.

In at least one case, an existing operator who is consolidating existing leases within the NPA plan for the Maydon wharf is reported to have given notice that it intends to apply to NPA for approval to operate a new container terminal under the consolidated lease. While not expressly precluded (or foreseen) by the *Concessions Architecture* framework, this consolidation process is of course open only to those who are aware of its existence, effectively to those who are presently leaseholders. As with the proposed container terminal at Ngqura, it is essential that all such "concession" proposals be evaluated and awarded within the *Concessions Architecture* framework, to avoid giving potential bidders for other facilities, including Durban Container Terminal, the impression that there is more than one set of rules for the granting of terminal concessions.

⁶ An analysis of the existing leases will be provided in Working Paper #1: Existing Private Sector Participation. The discussion here is based on a preliminary discussion with senior NPA staff responsible for the programme. Copies of the latest 'pro forma' lease and recently concluded negotiations utilizing this model have been provided by NPA, as well as the communications strategy document setting out the policy framework and an analysis of risks involved. In the proceeds. NPA has also undertaken to provide an annotated list of existing leases, classifying them in terms of a small number of 'standard lease' agreements, and to facilitate access to existing leases, which are kept at the individual ports.

3.6 Our Approach to the Definition of Terminal Concessioning Packages

Introduction

Cargo handling facilities and terminals at South African ports are currently operated either by a single state-owned terminal operator, SAPO, or by private operators, who in many instances are also the “owners” of the cargo. With some exceptions, the National Ports Authority (NPA), also a division of Transnet, owns the land, waterside assets and fixed infrastructure.

This division of cargo operations between the public and private sector evolved over time as a matter of expediency, effectively creating both public and private monopolies at certain ports. This structure may not encourage the most efficient, economical and productive use of the country’s port assets. The ultimate objective of DPE is to create “packages” of terminal operating businesses that will be financially and strategically attractive to qualified private investors, while at the same time achieving the overall economic and social objectives of the government. The issue for container terminals is whether there exists the possibility of subdividing the existing container terminal in Durban or elsewhere. This depends on both the size of the market and the physical constraints of the existing terminals. It will therefore be addressed further after Working Paper #3 (*Traffic Forecasts*) and Working Paper #4 (*Container Terminal Operations and Facilities*) are available.

Principles for Rationalizing Cargo Terminals

The current thinking of stakeholders in South African ports and policy-makers appears to be that terminals can be parcelled into competing concessionable transactions just large enough to utilize one berth to capacity, in order to maximize competition between terminals. By this logic if a port has a throughput of 1.2 million TEU, up to four separate concessions could be granted to the private sector operators. This reasoning suggests that bulk and breakbulk terminals should also be split up into the smallest “economic” units that are financially viable. We believe this approach is overly simplistic and risks being operationally counter-productive, since the gains from competition may well be less than the losses in operational efficiency. If applied simplistically, such an approach is unlikely to attract world-class terminal operators for the concessions.

Based on our experience, we would like to suggest a few principles that may be successfully applied when packaging the various cargo activities at South Africa’s ports into economically viable and attractive transactions. These include:

- Volume of cargo controlled by one or more large shippers.
- Cargo handling method;
- Cargo storage layout and method;
- Existing tenant contracts and alliances;
- Physical layout of the port and terminals.

Cargo Control

Regardless of the “minimum economic volume” that can be handled at a single berth, the volume of total cargo of a particular type handled by one or more large shippers will determine the number of competing operators for any cargo at one port. For example if Maersk is responsible for 70% of the container volume of 1.2 million TEU’s at a port, the maximum number of competing container terminal concessions that can be created will be limited to two. Similarly, regardless of the volume of bulk cargo, if the majority of the cargo is for one or two dedicated shippers, it is likely that only one terminal concession is feasible for this cargo.

Method of Handling Cargo:

This would apply primarily to bulk cargo. If the cargo requires capital intensive cargo handling equipment dedicated to handling a single type of cargo or a single commodity, for example as ferro-alloy exports, then it is operationally infeasible to have more than a single terminal operator.

Method of Cargo Storage

This also applies primarily to bulk and “neo-bulk” cargo. As an example, if a port handles nominal volumes of (a) a “dirty” bulk cargo that can be stored on a pad on the terminal without any protection from the elements and (b) neo-bulk cargo such as steel beams that require warehouse storage, it may be feasible to split the port operations into two concessions, where each concessions is effectively a monopoly for those particular types of cargo that require “open” or “enclosed” storage.

Existing Tenant Contracts

While the Draft National Ports Authority Bill does provide for existing tenant contracts to terminate in the event that the Government determines that a port facilities occupied by an existing tenant must be concessioned out through a competitive tendering process, it may not always be in the best interests of the port to split a terminal into smaller “economically viable’ units, simply for the sake of creating competition. If a single operator, for example of a large break-bulk facility that can, in economic theory, be split up into two competing but marginal terminals, it may be a more practical and sound strategy to require that the existing operator invite a world-class operator as a significant partner and shareholder in the business. This would attract new technology and world-class operating practices, and achieve the same objectives of improving transportation efficiency without jeopardizing the existing cargo operations.

Physical Layout of Port and Terminals

A particular physical layout or logistics flow at a port may suggest splitting up certain cargo operations into competing units may be operationally infeasible and detrimental to port efficiency, regardless of the size of the terminal or cargo volume handled by one operator. In this event, other policy measures to prevent detrimental monopoly practices are likely to be more effective than a physical split in the cargo terminal operations.

Clearly, in order to apply these principles to separating or rationalizing cargo terminals in business units that can compete, or monopolies that can be effectively regulated, requires a

physical inspection of the facilities of each port, observation of cargo operations, and discussions with terminal operators regarding both operational constraints and shipper buying power. At this stage, our aim is to outline the key principals for rationalizing ports, and the framework within which we will review the methodologies for separating the terminals into competing units. In the following section we discuss a framework for creating strategic cargo business units that will be attractive to potential investors.

Principles for Packaging and Sequencing Cargo Terminal Concessions

In this section, we outline an approach to the optimal packaging and sequencing of non-container cargo terminal concessions. This addresses the sometimes-conflicting objectives of the government and the potential private sector investors. The packaging of container terminals at the existing ports that handle containers is less complex, and will be addressed at a later stage of the study. The approach outlined here will apply only to the “concessionable” properties that are not already under the management of the private sector operators, since NPA intends to consolidate the existing leases with current tenants at the ports.

Our approach is presented in Figures 3.7 and 3.8 below. Figure 3.7 summarizes the objectives that the government would like to achieve in concessioning the port terminals, or its “wish-list”, and compares them to the criteria that investors look for when investing in port facilities worldwide. We will systematically evaluate each port and cargo handling facility against these criteria, and position them on the Attractiveness/Wish-list matrix shown in Figure 3.8.

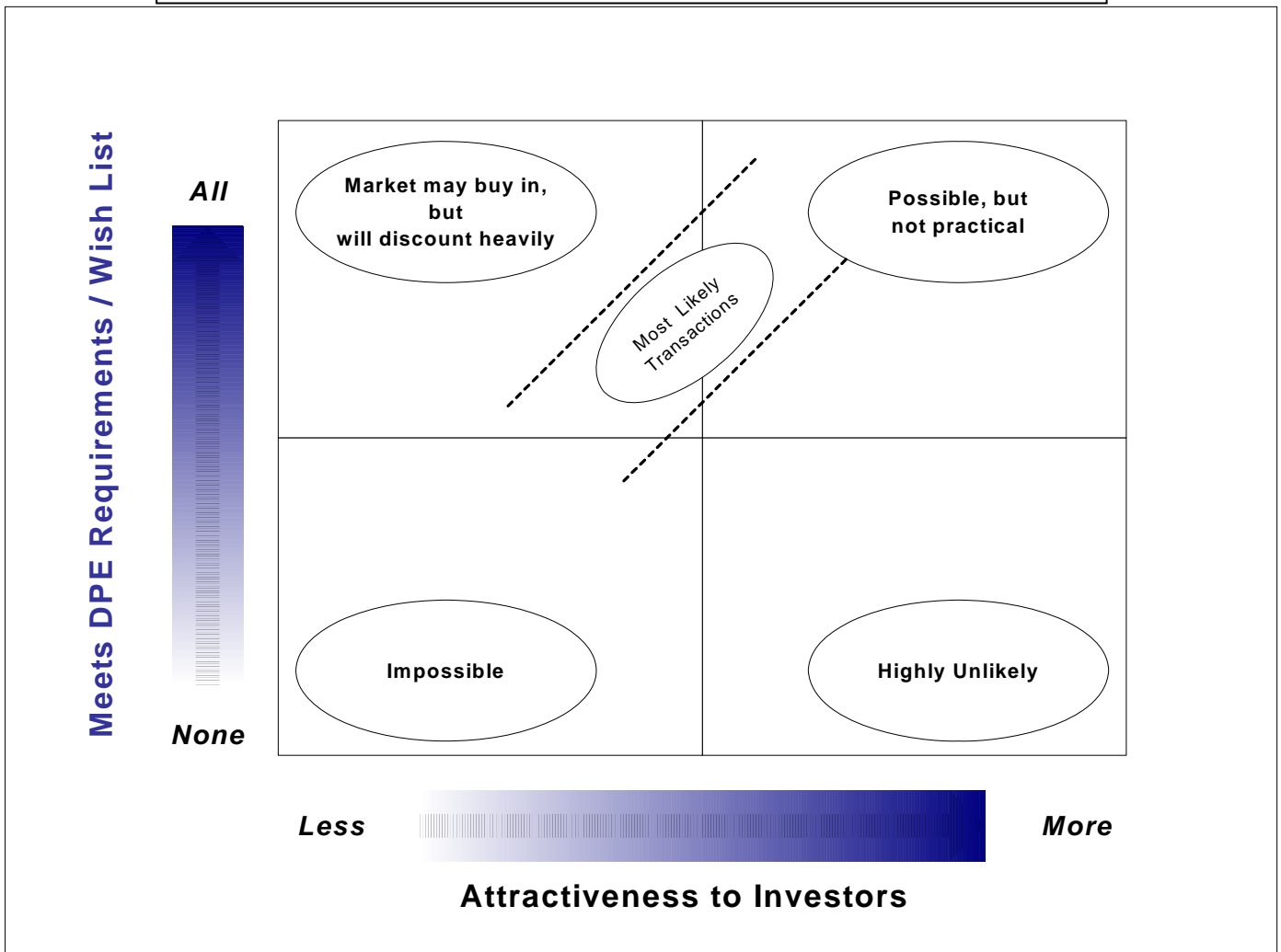
Figure 3.7: Government and Private Sector “Wish Lists”

Meets Government Requirements / Wish-list	Attractiveness to Investors
<ul style="list-style-type: none"> • <i>Reduces transportation costs – exports</i> • <i>Increases System productivity</i> • <i>Maintains/ Increases Employment</i> • <i>Timing – earlier is better</i> • <i>Complexity – Legal; Layout; Labour – simpler is better</i> • <i>Competition – more is better</i> • <i>Minimum/ No Govt. Investment</i> • <i>Minimum Govt. Commitments / Guarantees</i> • <i>Maximize cash to Treasury</i> 	<ul style="list-style-type: none"> • Size – larger is (generally) better • Competition – None is better/ None within same port/ Tolerable at other ports • Growth potential – High (near term) • Tariff – no regulation • Capital Investment – minimum • Payback – early – 3 to 5 years • Environmental mitigation – none • Layout – Consolidated is better • Access to inland infrastructure - unrestricted • IRR >20% • Labour – free to hire/fire/redeploy • Risk Minimum – Political; Government infrastructure commitments; Repatriation of profits;

This will allow us to position each concessionable terminal in one of the quadrants shown in Figure 3.8. Clearly, a terminal that does not meet any of the DPE requirements or investor criteria is not concessionable, and is in the lowest left hand quadrant of the matrix. Similarly those that meet only investor criteria will not be acceptable to government.

Investors may accept a terminal concession that meets all or most of the DPE requirements, but the value will be heavily discounted to account for investor risks. The best of all possible situations, where all the criteria of all parties are satisfied, is highly unlikely, and impractical. Our experience is that the most likely concessionable transactions will be those that meet a majority but not all of the government requirements, and satisfy about 50% of the investor criteria. The area between the parallel dotted lines in Figure 3.8 shows this region.

Figure 3.8: Matrix for Sizing of Non-Container Terminals



There are a number of issues and caveats in interpreting the results of this evaluation process:

- A number of government requirements are in conflict with the investor criteria.
- Several of the criteria are not quantifiable, and will depend on the subjective evaluation of our experts who have concessioned ports worldwide.
- To be most effective, DPE will need to prioritise its "wish-list" and may even need to compromise with the private sector on some criteria to make the transactions successful. Some of these compromises may not be politically palatable.
- Existing lease agreements with port tenants that cannot be renegotiated, if the adversely affect the operating layout and operational efficiency of a new operator, may make certain transactions 'un-doable'.

4 Work Program

4.1 Description of Tasks and Outputs

The section that follows outlines the details of the individual tasks that are required to answer the requirements of the terms of reference.

For ease of reference we have maintained the original numbering of the nine tasks, (a) to (h), as per the Terms of Reference. Due to the need to prepare an early restructuring plan for the Durban Container Terminal (DCT) we have divided two of the major tasks: TASK G: Operational and Engineering Review of Facilities and TASK H: Develop Concessioning Plan to Transfer Services to the Private Sector, into two tasks each: one to examine the container handling business units and the other to examine all other terminals.

We have added two additional separate tasks, one to prepare the final reports and the second to assist DPE in building support and capacity for port reform. This results in a total of eleven tasks, each of which is described in detail below. The schedule for the tasks is shown at the end of this section.

TASK A: Review and Apply DPE's Concession Architecture Responsibility

The work on this task will be lead by Dr. John McPherson, Team Leader.

Activities

Review Concession Architecture, National Commercial Port Policy and Proposed NPA Act. We will review these important policy guidelines and note any inconsistencies or aspects that may affect the assignment.

Review Economic Impact Study Models. We will review a number of possible models for the economic impact study in order to come to a common agreement with DPE on the most useful approach given the intended use of the results.

Examine Labour Options. Labour will be a major issue in the successful restructuring of the ports. We will undertake a preliminary review of the situation and present a summary of the major options to assist government.

Review and Revise Workplan as Necessary. Based on our preliminary review of the availability of data and the major issues, we will revise the workplan and develop a detailed schedule for all tasks and deliverables.

Prepare Inception Report. We will prepare the Inception Report and then meet with the Steering Committee to review the report and revise it if necessary.

Outputs

Inception Report including sections on the following:

- A summary of the SAPO terminals subject to likely restructuring and the PSP models available.

- A review of major issues including: options for treatment of any excess labour, discussion of economic impact study models and options, impact of the NPA Act and National Commercial Port Policy on the concessioning exercise, and review of the proposed regulatory framework.
- A detailed work program including a definition of the tasks, indicative contents of deliverables, task schedule, staff schedule, and schedule for production and review of deliverables.

TASK B: Develop A Range of Strategies by Cargo Type

Responsibility

The work on this task will be lead by Mr. Pamy Arora, Port Concessioning Specialist.

Activities

Separate/Group Business Units Based on Effective Economic Size. Given the strong focus of the NEP on competition, it will be sensible to divide the terminals into the smallest economically efficient units that are physically and operationally viable. The key criteria for this separation should be: competition, commercial viability and operational viability. We will review this closely with the operations and engineering specialists and also review the latest traffic forecasts before making a recommendation.

Develop Concessioning Rules to Ensure Competition. Based on the list of terminals, we will look at the types of rules that will be needed to guide the concessioning process. For instance, if the DCT were to be divided into more than one terminal, then it would not be in the interest of competition to allow one company to buy all terminals. One rule therefore could be that each company would only be allowed to buy one terminal of any type in any one port. If we find that there are potentially six separate container terminals in the RSA port system, then a possible rule could be that any company could not own more than two of those properties.

Prepare Concession Strategy Report. We will prepare the Concession Strategy Report and review it with the Steering Committee.

Outputs

Concession Strategy Report containing the following information:

- Efficiency based strategies to guide separation and clustering of businesses.
- Framework for evaluating alternative strategic options and policy scenarios including criteria for packaging the facilities and businesses together into clusters of business opportunities for concessioning.
- A revised list of business units suitable for private sector participation.
- A set of rules to control the process of concessioning, including the logic of how many and where any one purchaser can buy and operate facilities and businesses.

TASK C: Review Implications of Existing PSP

Responsibility

The work on this task will be lead by Dr. Douglas Hindson, Regional Development Specialist.

Activities

Obtain List of Existing Private Operators. With the assistance of NPA we will obtain a list of all existing private port operators operating in South Africa.

Examine Potential Impacts. We will examine the impact of the current terminals on the concessioning process and visa versa. At the expiry of the current arrangements, some existing PSP terminals may become candidates for competitive bidding themselves. Existing privately operated terminals will impact the strategies for division of existing business units and the bidding process. For example, if a concession rule limits ownership of facilities to one only by commodity type in one port, then the existing owners may be precluded from bidding for any other terminals in their ports.

Outputs

Working Paper No. 1: Existing Private Sector Participation containing the following information:

- An annotated list of all privately operated or owned terminals in all RSA ports, including the name, ownership, and location of the private operator.
- A brief assessment of the condition of the business (size, market share, market focus, nature of the arrangement – lease, privately-owned, etc., and the date of termination of the current arrangement if any).
- An assessment of the impact of concessioning of other terminals on the private operators and visa versa.

TASK D: Examine Employment Mitigation Strategies

Responsibility

The work on this task will be lead by Mr. Joshua Mbengu, Human Resource Specialist

Activities

Prepare Statistical Review of Employment at the Durban Container Terminal. We will review existing data from SAPO with the objective of identifying employment demographics such as position, location, age, length of service, skills, and present remuneration and associated benefits such as housing and health care. The work will be supported by direct discussions with port management and union representatives.

In conjunction with the port operations staff, we will estimate the optimum number of staff likely to be desired by a private operator.

Prepare Statistical Review of Employment at Other Terminals. We will review existing high-level data from SAPO on the number and grade of staff. We will compare these figures with our estimates of the optimum number of staff likely to be desired by a private operator.

Develop Options for Treatment of SAPO Staff. We will examine the stated policy, legal framework and precedents in employment restructuring or rationalisation within South Africa. We will also review and provide examples of the treatment of staff from other countries including aspects such as the transfer of pensions.

Determine Direct and Indirect Cost Implications of Various Options. Using the detailed information from the DCT, we will estimate severance costs, together with costs associated with implementing counselling services at the time of severance and any retraining or job search programs that are considered necessary to assist employees into economically productive employment or self employment. We will estimate the indirect cost to the government in terms of the reduction in the value of the concessions if the obligations for excess staff are passed on to the concessionaires.

Outputs

Working Paper No. 2: Human Resources Issues containing the following information:

- A detailed profile of employment for the Durban Container Terminal.
- A high level profile of employment for all other terminals including current and optimal staffing patterns.
- An examination of policies and precedents in South Africa.
- A review of strategies used in similar exercises elsewhere in the world.
- A list of possible employment mitigation strategies.
- An assessment of the costs and benefits of each option.

TASK E: Review NPA's Traffic Forecasts Responsibility

The work on this task will be lead by Dr. John McPherson, Team Leader.

Activities

Summarise and Apply Traffic Data Provided by NPA. We will review the historical and projected traffic data provided by NPA. We will compare and support this data with other readily available sources. We will review the long-term forecasts. We will pay particular attention to traffic that can economically be diverted to other ports. This will help to determine the levels of competition among the ports. The NPA forecasts are provided for the major commodities only and are only partially done at the port or terminal level.

Develop and Expand Traffic Data with Selected Reviews of Carriers. We will meet with the representative carriers serving the RSA ports. We will collect traffic data as available from the carriers and where possible, determine the carrier's plans for expansion of service or shifting of service to the ports. We will also review with each carrier the decision criteria used to determine service levels and timing of service to ports and terminals, such as: dwell time, cost, loss or damage / insurance, port services, access / egress, demurrage, and traffic levels.

In cooperation with NPA we will carry out a short survey of major shipping lines to obtain their assessment of growth of traffic as well as to determine the decision criteria they use in choosing to serve one port over another.

Outputs

Working Paper No. 3: Traffic Forecast containing the following information:

- Historical and projected traffic organised by cargo type (container, bulk, break-bulk or commodity level) for each terminal. The figures will be based on the status quo option and will be modified later as the comparative advantage of the various terminals changes following PSP.
- Analysis of the market served by each facility.
- A modified future demand matrix taking into account the perceptions and tendencies of the major shipping lines and freight forwarding community. This demand matrix will then be used as the basis for the impact analysis of PSP options.
- A weighting scale for provision of service criteria to indicate what features of port operations and location are most critical in determining service levels from shipping lines.

TASK F: Conduct Economic Impact Study

The Economic Impact task will produce a clear measure of the overall impact of the recommended concessioning program but it will also be used as a major tool to support the development of the concessioning strategy itself (Task H.)

Responsibility

The work on this task will be lead by Dr. Douglas Hindson, Regional Development Specialist.

Activities

Develop Strategic Options and Policy Scenarios. Based on the work in Tasks B and G, we will list the various strategic options and scenarios throughout the system for analysis.

Conduct Parametric Analysis of Competitive Factors and Implications. Using the model and other sources we will examine financial and economic impact of the options. We will also examine the financial attractiveness of each package to potential bidders and identify any business units that may not be financially viable as independent concessions. We will examine the main strategic elements related to:

- possible separation of terminals into smaller business units,
- possible grouping of terminals into larger business units,
- the form of private sector participation (concession, BOT, ..)
- timing and sequencing of concessioning of the identified business units, and
- the concession rules governing eligibility and competition.

Identify the Optimum Concession Strategy. We will support Task H to identify the division of business units, the grouping of business units, timing and the concession rules that produce the maximum net benefit to the economy and social structure of South Africa.

Assess the Overall Impact of the Recommended Concession Strategy. We will carry out an overall impact assessment of the selected optimum strategy.

Outputs

Economic Impact and Cost Benefit Analysis of Best Case Scenarios Report including the following information:

- A summary of strategic options and policy scenarios.
- A statement of how port reform benefits the parties involved in port related business and users of the transport system.
- Specific information in socio-economic terms on factors such as value added, employment, empowerment of Historically Disadvantaged Individuals, backflow to Government and spending impact of different strategic options.
- Cost benefit analysis of the best-case scenario flowing from the National Commercial Ports Policy and NPA's policy.
- Dynamic impact analysis to determine how policy scenarios affect individual terminal concession options.

TASK G: Conduct Operational and Engineering Review of Facilities

The operation and engineering review of facilities is an important input into many of the other key aspects of this review. The task will be divided into two tasks to examine and report separately first on the container terminals and then on the other terminals. The methodology and activities for each of these two activities is the same.

Responsibility

The work on this task will be lead by Mr. John Joint, Port Operations Specialist.

Activities

Carry Out Engineering Review of All Ports and Facilities. We will assess the major engineering considerations that will impact the concessioning process and provide the information necessary for the Base Information Packages. The data will be quantified where possible and where quantified numbers are not available, the data will be qualitative but with engineering judgement applied. If equipment is critical to the operation of the terminal/facility we will determine whether the equipment is new – in good condition, serviceable, requiring major repair or replacement, at the end of its useful life or totally unserviceable. Broad estimates of the cost of equipment replacement or purchase of new equipment sufficient to maintain operation of the terminal and serve the growth in demand will be included as input to the financial model.

Carry Out Operational Review of All Ports and Facilities. We will carry out a review of the operations at each terminal to assess the likely capacity under private operation and the need for new investment to meet the projected traffic demand. We will examine the operational considerations for separation or grouping of currently defined terminals.

Outputs

Draft Base Information Packages on all Terminals containing the following information:

- General physical limits of each facility;

- Capacity relative to projected demand based on berth and storage capacity estimates provided;
- Equipment and equipment condition on a normative scale;
- Linkages to the inland and coastal marine transport systems;
- Proximity to urban development and impacts of future development plans of each city on port expansion;
- Physical limits to growth or expansion; and
- Basic condition of built facilities on a normative scale.

Working Paper No. 4: Container Terminal - Operations and Facilities containing the following confidential or judgemental information above and beyond the factual information contained in the Base Information Package:

- A review of operational measures to enhance capacity;
- An identification of investments in infrastructure or major equipment that will be required to meet the traffic demand forecast;
- An assessment of the value or added value resulting from division or linkage of businesses or facilities; and
- Impacts of new capacity on existing facilities.

Working Paper No. 5: Bulk and General Purpose Terminals – Operations and Facilities containing the same information as above.

TASK H: Develop Concessioning Plan to Transfer Services to the Private Sector

Operationally this task will be split into two tasks: one for the container terminals and the other for all other terminals. The activities for the tasks are similar but given the need to prepare a specific plan for the restructuring of the Durban Container Terminal the outputs are different. Both are presented here as if they were a single task.

Responsibility

The work on this task will be lead by Mr. Pamy Arora, Port Concession Specialist.

Activities

Determine the Concession Strategy for Each Terminal. Based on the operational, financial and economic analysis, we will review the options and select an optimum strategy. We will consider the mode of PSP including Concessioning, Management Contracts, and Leasing. Since we are dealing exclusively with the existing terminals the Build Operate Transfer (BOT) or Build Own Operate Transfer (BOOT) models will not apply initially.

Determine the Most Beneficial Grouping and Timing Strategy. We noted earlier the need for rules for the bidders. For instance, if one option includes two strongly profitable businesses, then grouping those businesses with a weaker business may allow the Government to off load the weaker business. This may not maximise the revenue to the Government, but it may maximise the economic benefits of the transaction.

The timing of the transactions is also important. Generally we argue for as little time as possible between the transactions. This minimises the market distortion of differing

ownership structures and differing investment patterns; maximises the likelihood of aggressive competition and normally produces the maximum economic benefit. However, we will also consider other factors such as maintaining political support and the need to maintain an orderly concession process that will maximize competition and the value received for the concessions.

Identify Preparation Activity. We will list and highlight any important preliminary activities needed including those from other Government bodies as part of the concessioning action plan.

Develop an Implementation Plan. We will develop a time bound timetable and schedule for the sequencing of the concessioning program. This will be based on the objectives of the Government in terms of revenue expectation, social and economic impacts, competition – both domestic and international - and the financial attractiveness of the individual concessions.

Finalize the Base Information Package for Each Terminal. The first version of the information package for each terminal will have been prepared during the Engineering and Operational Review (Task G.) We will update the packages to reflect the concession strategy adopted and bring in other elements such as the traffic demand and employment factors as appropriate.

Prepare Reports. Due to the importance and urgency of the first wave, the first required output of this task is the DCT Concession Plan but the DCT Plan has to be set within an integrated plan for the treatment of all container facilities. We will prepare the overall container terminal concession plan and then the Durban Container Terminal Concession Plan. We will then review the DCT Concession Plan with the Steering Committee. Subsequently we will prepare the transaction strategy report for the bulk and general cargo terminals and then complete the base information packages for all businesses to be concessioned.

Outputs

Transaction Strategy and Sequencing Report for Container Terminals containing the following information:

- The recommended strategy for the concessioning of all container handling terminals including a definition of the packages to be concessioned, the mode of PSP, and the concessioning rules.
- Proposed treatment for facilities that cannot easily be transferred to the private sector.
- An implementation schedule.
- Employment mitigations and human resource strategy.
- A list of required steps to be taken by DPE and other government agencies.

DCT Concession Plan containing the following information:

- A summary of the concession strategy as it applies to the DCT,
- Financial statements, and
- Estimated value of the concession

Transaction Strategy and Sequencing for Bulk and General Terminals containing the following information:

- The recommended strategy for the concessioning of all container handling terminals including a definition of the packages to be concessioned, the mode of PSP, and the concessioning rules.
- Proposed treatment for facilities that cannot easily be transferred to the private sector.
- An implementation schedule.
- Employment mitigations and human resource strategy.
- A list of required steps to be taken by DPE and other government agencies.

Base Information Packages standardised and containing the following information in approximately 5 to 10 pages for each terminal or business unit:

- Historical and projected traffic data as developed in task E;
- Physical description of the business/facility and a list of major equipment included in the package;
- A general business case based on the estimates of competitiveness and the benefits that may accrue from clustering or shifting traffic;
- Estimates of investment required – either in terms of the facility or in terms of the equipment; and
- Employment Statistics.

TASK I: Formulate Economic and Financial Model Responsibility

The work on this task will be lead by Mr. Laurent Thorrance, Financial Analyst

Activities

Develop Financial Analysis Model. We will develop a spreadsheet model that provides standard financial analysis as per the structure of the Port Reform Toolkit. The model will provide a separate analysis of each business unit that can potentially be concessioned. The model will be driven by the traffic projections and will use a combination of historical and pro-forma factors to generate the financial statements. It will incorporate required investments identified in the engineering and operational reviews (Task G). All factors and parameters will be visible in the model for transparency and sensitivity analysis.

Where possible the model will show the impact of PSP decisions at one terminal on the traffic and financial results of related terminals.

Expand Model to Include Economic Impacts. We will expand the model to include the economic factors and impacts as agreed with DPE. With the assistance of DPE we will assign weights to the various economic factors to allow for the production of a single total net economic impact.

Conduct Financial Analysis of Durban CT. We will add the traffic demand data calculated in Task E. We will then use the model to carry out a financial analysis of the DCT and to establish its potential “value” to a potential bidder.

Outputs

Working Paper No. 6: Financial and Economic Impact Model containing:

- A description of the model, and
- A list of the major variables and parameters

Working Paper No. 7: DCT Financial Analysis containing:

- Pro-forma financial statements, cash flow statements, net present value, and internal rate of return on any investment required.
- An estimate of the “value” of the concession to a potential operator based on various assumptions including the treatment of labour, regulation of tariffs, etc.

TASK J: Prepare Final Report Responsibility

The work on this task will be lead by Dr. John McPherson, Team Leader.

Activities

Prepare Draft Final Report. We will prepare and deliver the Draft Final Report to DPE.

Review Final Report with the Steering Committee. We will meet with the Steering Committee to review the Draft Final Report. After the meeting we will make any necessary changes and deliver the Final Report.

Outputs

Final Report containing the following information:

- Summary of all the activities of the assignment including a list of deliverables provided to DPE.
- Implementation schedule with definition of the next steps.
- List of Contacts.
- Bibliography of all source material reviewed and provided to DPE.
- Summary of the major findings and recommendations of the assignment.

**TASK K: Assist DPE to Build Capacity and Support for Port Reform
Responsibility**

The work on this task will be lead by Dr. John McPherson, Team Leader.

Activities

Deliver Two Port Seminars on Port Reform. We will assist DPE to organize two seminars. Individual experts on the team and expert panel will prepare and deliver presentations on topics of interest related to port reform.

Brief Senior Government Officials. DPE will coordinate a series of meetings with senior government officials and individual members of the expert panel to maximize awareness of the issues and to build political support for the port reform program.

4.2 Schedule

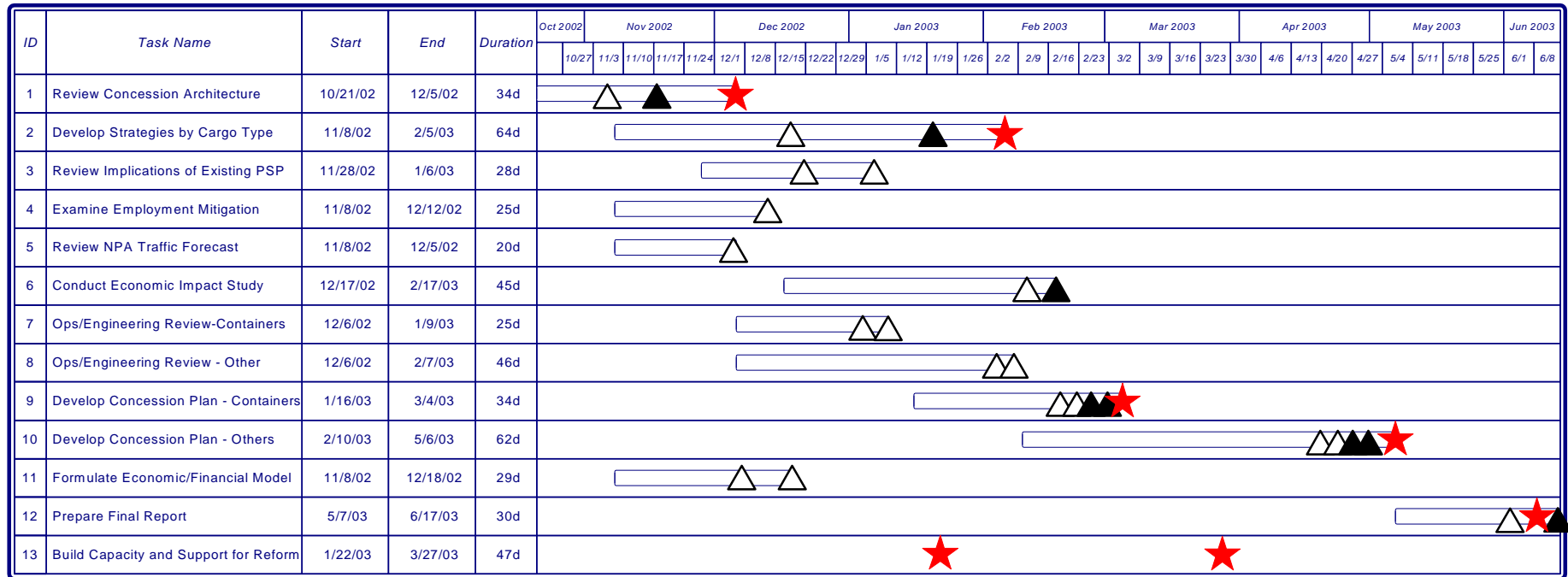
Detailed Schedule

The detailed schedule has been prepared using *MS Project* software. The full schedule for all tasks and subtasks with all linkages is provided as Appendix D. During our next mission we will install MS Project on the project computer at the DPE offices.

Summary Schedule

The summary schedule is shown on Figure 4.1 on the following page.

Figure 4.1: Schedule of Tasks and Deliverables



- △ Draft Report or Working Paper
- ▲ Final Report
- ★ Steering Committee Meeting

4.3 Summary of Planned Deliverables

Figure 4.2 shows a summary of the major outputs by task.

Figure 4.2: Summary of Outputs by Task

TASK	Output
TASK A: Review and Apply DPE's Concession Architecture	Inception Report
TASK B: Develop A Range of Strategies by Cargo Type	Concession Strategy Report
TASK C: Review Implications of Existing PSP	Working Paper No. 1: Existing Private Sector Participation
TASK D: Examine Employment Mitigation Strategies	Working Paper No. 2: Human Resources Issues
TASK E: Review NPA's Traffic Forecasts	Working Paper No. 3: Traffic Forecast
TASK F: Conduct Economic Impact Study	Economic Impact and Cost Benefit Analysis of Best Case Scenarios Report
TASK G: Conduct Operational and Engineering Review of Facilities	Draft Base Information Packages on all Terminals
	Working Paper No. 4: Container Terminal - Operations and Facilities
	Working Paper No. 5: Bulk and General Purpose Terminals – Operations and Facilities
TASK H: Develop Concessioning Plan to Transfer Services to the Private Sector	Transaction Strategy and Sequencing for Container Terminals
	DCT Concession Plan
	Transaction Strategy and Sequencing for Bulk and General Terminals
	Base Information Packages
TASK I: Formulate Economic and Financial Model	Working Paper No. 6: Financial and Economic Impact Model
	Working Paper No. 7: DCT Financial Analysis
TASK J: Prepare Final Report	Final Report
TASK K: Assist DPE to Build Capacity and Support for Port Reform	Two Seminars

Figure 4.3 compares the “specified outputs” listed in the Scope of Work to the content of the planned reports and working papers.

Figure 4.3: Correlation of Required Outputs to Planned Deliverables

Output specified in TOR	Working Paper	Formal Report
A framework for evaluating alternative strategies and policy scenarios		Concession Strategy Report
How port reform benefits the parties involved in port related business and users of the transport system		Economic Impact and Cost Benefit Analysis Report
A list of installations or terminals that are qualified for concession		Concession Strategy Report
A description of the possible strategic options and policy alternatives		Concession Strategy Report
		Economic Impact and Cost Benefit Analysis Report
A set of criteria for the constitution of concessioning packages		Concession Strategy Report
A report quantifying in socio-economic terms such factors as value added, employment, empowerment of Historically Disadvantaged Individuals, backflow to government and spending impact of the different strategic options		Economic Impact and Cost Benefit Analysis Report
A detailed analysis of the market served by each of the facilities to be concessioned	WP No 3: Traffic Forecasts	Base Information Packages
Strategies that could be used to induce intra and inter port competition in line with improved operational efficiency		Concession Strategy Report
Employment mitigation strategies for each of the packages to be concessioned in the various waves	WP No. 2: Human Resource Issues	Transaction Strategy and Sequencing Reports
Proposal on how to deal with the services/facilities that cannot be concessioned/licensed easily		Transaction Strategy and Sequencing Reports
Base information for each terminals/activities/services to be transferred to the private sector		Base Information Packages
A robust strategy for transferring of port services to the private sector		Transaction Strategy and Sequencing Reports
Concessioning financial models for the first wave of assets proposed for transfer to the private sector with an indicative value of the various facilities.	WP No. 7: DCT Financial Analysis	DCT Concession Plan

Figure 4.4 provides the current schedule for all draft reports, working papers and final reports. The schedules of the draft reports may vary somewhat due to the availability of consultants.

Figure 4.4: Schedule for Draft Reports, Working Papers and Reports

Output	Responsible Consultant	Target Completion Date	Review with Steering Committee
Inception Report	McPherson	Nov 15/02	Dec 6/02
Draft Concession Strategy Report	Arora	Dec 10/02	
Concession Strategy Report	McPherson	Jan 15/03	Feb 4/03
Draft Working Paper No. 1: Existing Private Sector Participation	Hindson	Dec 16/02	
Working Paper No. 1: Existing Private Sector Participation	Hindson	Jan 4/03	
Working Paper No. 2: Human Resources Issues	Bhengu	Dec 12/02	
Working Paper No. 3: Traffic Forecast	McPherson	Dec 5/02	
Draft Economic Impact and Cost Benefit Analysis of Best Case Scenarios Report	Hindson	Feb 17/03	
Economic Impact and Cost Benefit Analysis of Best Case Scenarios Report	Hindson	Feb 27/03	
Draft Base Information Packages on all Container Terminals	Joint	Jan 2/03	
Draft Base Information Packages on all Other Terminals	Joint	Jan 31/03	
Working Paper No. 4: Container Terminal - Operations and Facilities	Joint	Jan 9/03	
Working Paper No. 5: Bulk and General Purpose Terminals – Operations and Facilities	Joint	Jan 27/03	
Base Information Packages for Container Terminals	Arora	Jan 30/03	
Draft Transaction Strategy and Sequencing for Container Terminals	Arora	Feb 2/02	
Transaction Strategy and Sequencing for Container Terminals	Arora	Feb 12/03	
Draft DCT Concession Plan	Arora	Feb 19/02	
DCT Concession Plan	Arora	Feb 28/03	Mar 4/03
Transaction Strategy and Sequencing for Bulk and General Terminals	Arora	Apr 11/03	
Transaction Strategy and Sequencing for Bulk and General Terminals	Arora	Apr 17/03	May 6/03
Draft Base Information Packages	Arora	Apr 11/03	
Base Information Packages for All Terminals	Arora	Apr 16/03	May 6/03
Working Paper No. 6: Financial and Economic Impact Model	Thorrance	Dec 4/02	

Working Paper No. 7: DCT Financial Analysis	Thorrance	Dec 18/02	
Draft Final Report	McPherson	May 20/03	Jun 3/03
Final Report	McPherson	Jun 17/03	

Appendixes

A - Terms of Reference

B - List of Contacts

C - Bibliography and References

D - MS Project Schedule (A3 paper size)

Appendix A
Terms of Reference
Scope of Work

The proposed study to be undertaken by the consultants would likely be conducted in two phases. The first phase would focus on the development and analysis of impact of a range of strategies for the concessioning process. The present RFP is concerned **only** with examining proposals related to Phase 1. Depending on the satisfaction of DPE on the delivery of the first phase, the consultant could be requested to support DPE and NPA in the execution of the first wave of concessioning. Strategies to be identified by the consultant should take cognisance of the objectives of the National Commercial Ports Policy, the strategy of the National Port Authority, the preparatory work undertaken by the DPE to date, notably a framework concessioning architecture and definitions of the end-state of the port system of South Africa. Consultants will be working within the policy framework laid down in the National Commercial Ports Policy and will be required to take into account the drafting of legislation a new Ports Bill and Independent Port Regulator Bill currently in progress. For the purposes of proposal preparation, bidders are provided the following background materials situated in Annex IV of the RFP:

White Paper on National Commercial Ports Policy
Key Principles of the South African Ports Concessioning Architecture.

Phase 1 Scope of Work

In Phase 1, the consultants will be required to undertake the following:

Review and apply the DPE's concessioning architecture as the framework for the relevant tasks in this assignment. The concessioning architecture consists of the following documentation:

- Guiding principles underlying the port concessioning architecture
- A general description of the end state of the port system in South Africa after concessioning
- A discussion paper on alternative concessioning models and alternative scenarios
- A standard notice for pre-qualification
- Criteria for pre-qualifying bidders
- Criteria for evaluating technical bids
- Criteria for evaluating financial bids
- A standard information package to be distributed to potential bidders
- A standard information package to be distributed to pre-qualified bidders
- An outline of a model concession agreement

Develop a range of strategies that could be deployed to induce competition for specific cargo types taking into account national, regional and international trends.

The consultants are required to conduct competitive assessments for each cargo type at each port and discern the operational strategy that could be used to enhance competition whilst improving the operational efficiency of the overall port system and the individual terminals.

Review the implication of the existing fragmented private sector participation in ports operations as affected by the intended program of reform.

Proceeding from Government's declared position that certain protections will be afforded to current employees affected by concessions, develop various possible employment reduction mitigation strategies for the first wave of concessioning and assess their financial implications relative to the transactions cost and benefit from port reform.

Review the long term traffic demand forecasts to be provided by the NPA for each cargo type (container, bulk, breakbulk) at each of the ports.

Conduct an Economic Impact Study ("EIS"). The EIS is expected to comprise the following:
Analysis of the economic impact on the ports sector and concessions to be established following from National Commercial Ports Policy and NPA's policy;
A dynamic impact analysis in which terminal level responses to alternative policy scenarios are investigated;
Scenario building with regard to the strategic options and policy alternatives; and
Selection of the optimal scenario and evaluation of the results.

The consultants must propose a methodology that combines socio-economic analysis with process analysis for a smooth and successful implementation of the recommendations. The methodology must allow for quantifying and specifying the economic and social effects of the strategic options and policy alternatives to be determined beforehand.

The consultant will draw up possible strategic options and policy alternatives. With respect to the concessioning, the alternative scenarios or concessioning packages must be based on a set of criteria listed by the consultant. Further, the minimal criteria that should be met for concessioning of seaport facilities must be defined.

Operational and engineering review of facilities to support the generation of plans detailed in task h) below:

assess capacity relative to projected demand based on berth and storage capacity estimates provided;
identify operational measures to enhance capacity;
determine how each port/terminal can be "parceled" for a restructuring transaction without compromising operational efficiency;
assess general facility conditions and identify investment requirements for repair and expansion in accord with capacity needs; and
assess the impact of developing new capacity on existing facilities in existing or new ports.

Develop an appropriate plan for transfer of port service responsibility to the private sector, to include:

A base information package for each of the terminals/activities/services to be transferred to the private sector that will form part of the bid documents;

A transaction strategy that includes, inter alia, the form of an optimal contract (e.g. regular concession, Build Operate Transfer concession and concession variants, operating agreement, lease, management contract) for each of the terminals/activities/services to be transferred to the private sector;

Identification of major preparatory or accompanying activities to be undertaken with assignment of responsibility to appropriate government entity; and Sequencing and implementation schedule for each transaction.

Formulation of a concession financial model, including pro forma income and cashflow statements and financing plans for the first wave of assets proposed for transfer to the private sector.

Output sequencing

Government has announced its intention to commence the port reform programme by 'fast tracking' a transaction for the Durban Container Terminal ("DCT"). This means DCT has been selected as the first of the many terminals/activities/services to be identified by the consultant for concessioning and does not imply any exceptions are to be made to application of the policy framework for port reform. The consultant is therefore required to sequence their work to produce results for the DCT first.

Outputs

The final product is a set of recommendation that will address all of the factors listed below and be presented in a set of distinct reports described next. Factors include, inter alia:

- A framework for evaluating alternative strategies and policy scenarios
- How port reform benefits the parties involved in port related business and users of the transport system
- A list of installations or terminals that are qualified for concession
- A description of the possible strategic options and policy alternatives
- A set of criteria for the constitution of concessioning packages
- A report quantifying in socio-economic terms such factors as value added, employment, empowerment of Historically Disadvantaged Individuals, backflow to government and spending impact of the different strategic options
- A detailed analysis of the market served by each of the facilities to be concessioned
- Strategies that could be used to induce intra and inter port competition in line with improved operational efficiency
- Employment mitigation strategies for each of the packages to be concessioned in the various waves
- Proposal on how to deal with the services/facilities that cannot be concessioned/licensed easily
- Base information for each terminals/activities/services to be transferred to the private sector

- A robust strategy for transferring of port services to the private sector
- Concessioning financial models for the first wave of assets proposed for transfer to the private sector with an indicative value of the various facilities.

Reports

The study outputs would be set forth in the following major reports:

1. Durban Container Terminal Concession Plan, situated within an analysis of the overall container market.
2. Economic Impact and Cost Benefit Analysis of Best Case Scenarios
3. Part 1: Transaction Strategy and Sequencing Report for Port Concessioning
Part 2: Base Information Package for each of the Terminals/ Activities/ Services investigated.

In addition, the consultant would provide the following two progress reports:

4. Inception Report— to be provided one month after commencement
5. Final Report— to be provided in month 8, summarizing overall progress and recommended next steps. Consultants must accommodate a period of review and feedback by the Technical Steering Committee before issuing the final report.

The Durban Container Terminal Concession plan is to be delivered within four months of commencing the assignment. The consultant is further requested to identify the timing and describe the content of the other two study output reports within their technical proposal.

Appendix B
List of Contacts

Appendix C
Bibliography and References

TITLE	AUTHOR	DATE
White Paper on National Commercial Ports Policy	National Department of Transport	March 2002
Public-Private Partnerships: A Manual for south Africa's national and provincial government departments	National Treasury	May 2001
A summary of the Policy Framework for an Accelerated Agenda for the Restructuring of State Owned Enterprises	Ministry of Public enterprises	August 2000

Appendix D
MS Project Schedule (as of 30 October 2002)