



Island View Strategy

Port of Durban

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1. Executive Summary

The Island View Strategy (IVS) is presented to the Minister of Public Enterprises to advise the Minister on the process Transnet National Ports Authority (the Authority) will be following with the implementation of the IVS. The IVS is driven by national imperatives including the Authority's obligation for full implementation of the Objects of the National Ports Act, Act No.12 of 2005 (the Act):

- Promote the development of an effective and productive South African ports industry that is capable of contributing to the economic growth and development of our country;
- Establish appropriate institutional arrangements to support the governance of 9 commercial ports;
- Promote and improve efficiency and performance in the management and operation of ports;
- Provision of adequate, affordable and efficient port services and facilities;
- Transformation of port operations - greater participation of historically disadvantaged persons; and
- Security of supply of strategic liquid bulk commodities;

Further, Section 11 of the Act, amongst others, states:

The main function of the Authority is to own, manage, control and administer ports to ensure their efficient and economic functioning and in doing so the Authority must:

- Plan, provide, maintain and improve port infrastructure;
- Prepare and periodically update a port development framework plan for each port, which must reflect the Authority's policy for port development and land use within such port;
- ***Control land use within ports, and has the power to lease land under such conditions as the Authority may determine*** (own emphasis);
- Maintain the sustainability of the ports and their surroundings;
- Ensure that adequate, affordable and efficient port services and facilities are provided;
- Exercise licensing and controlling functions in respect of port services and port facilities;
- Ensure that any person who is required to render any port services and port facilities is able to provide those services and facilities efficiently;
- Promote efficiency, reliability and economy on the part of the licensed operators in accordance with recognised international standards and public demand;
- ***Promote the achievement of equality by measures designed to advance persons or categories of persons historically disadvantaged by unfair discrimination in the operation of facilities in the ports environment*** (own emphasis); and
- Promote greater representivity, in particular to increase the participation in terminal port operations of historically disadvantaged persons.

The majority of the Island View Precinct (IVP) footprint is occupied by International Oil Majors (IOM's) and Chemical companies who have not aggressively implemented transformation to address the imbalances of the past. These companies occupy a large portion of the footprint in the IVP and exclusively control the liquid fuels and chemical supply chain from berth to market.

As a result there is minimal participation in ownership of Historically Disadvantaged Individuals (HDI's)/Black South Africans. The current model allows operators to control the entire value chain within the port, resulting in increased barriers to entry and lack of visibility of excess capacity that could be used by other participants wanting to enter the market.

The dominance of these entities inside port limits at times are clearly contrary to the Objects of the Act and are as a result misaligned with the functions and powers of the Authority as outlined above. It is difficult to introduce new entrants as the IOM's currently own and operate petroleum loading arms and storage infrastructure without transparency of access to new players.

Most leases have expired and there is a need for the Authority to follow a fair and transparent process to appoint new Terminal Operators as provided for in Section 56 of the Act. The Authority developed the IVS which aims to address the current challenges as follows:

- The expired leases (currently extended on a month-month basis) will be extended for an estimated 24 months and the Section 56 process to appoint new Operators will commence in 2018.
- An asset valuation of all leases in the IVP was done and immovable assets will transfer to the Authority, as provided for in lease agreements. Lease extensions will be done on similar terms and conditions as the expired leases, but rentals will be adjusted to be market related.
- The current Island View business model could be unbundled by separating the terminal operations from berth operations.
- Prior to commencement of the Section 56 process, all relevant stakeholders, including current Terminal Operators, will be informed of the implementation of the IVS. The Departments of Public Enterprises, Transport, Environmental Affairs and Energy will be engaged. Transforming the IVP is aimed at promoting sustainability and growth of the South African economy.
- The Authority will embark on a Section 56 process for current and future expired leases and seek minimum level 4 BBBEE and 51% black ownership (the Section 56 criteria will request potential Terminal Operators to include a black, women and youth ownership improvement plan during the concession period), to improve transformation of the IVP over time.

The outcomes of the IVS are:

- Transformation of port operations, aligned with Governments' radical socio-economic transformation objectives;
- Job Creation;
- Investment in ageing infrastructure;
- Capacity Allocation to new entrants in the liquid bulk industry;
- An Operating model that ensures equal access; and
- Enhanced security of supply;

2. Background

In accordance with the Act, the Authority is the landlord Authority of the South African ports and must perform the functions of the Authority. The Authority owns and manages nine (9) commercial ports along the coastline of South Africa handling different commodities, namely Containers, Automotive, Dry Bulk, Break Bulk and Liquid Bulk.

The Port of Durban is the leading port in the South African Development Community region and the premier trade gateway between South-South trade, Far East trade, Europe, USA and East & West Africa regional trade. It is the international commercial gateway to South Africa and is strategically positioned on world shipping routes. In excess of 74% of South Africa's total Liquid Bulk trade is handled at the Port of Durban.

The IVP is a petro-chemical hub in the Port of Durban. The majority of the IVP footprint is occupied by Cargo Owners who act as Terminal Operators responsible for the movement and storage of South Africa's petroleum, diesel, chemicals, oils, lubricants and aviation fuel. The IVP consists of 10 berths and operates on a 24-hour basis. Vessels call at the different berths to off-load liquid bulk products, which are pumped to and stored in tanks within the precinct. Liquid Bulk distribution from storage tanks takes place via pipeline, road and rail tankers. In addition to liquid bulk cargo, dry bulk products (mainly agricultural) are also handled at berth 3 within the IVP.

There are a number of government departments, state agencies and associations that have a keen interest in the IVP. A stakeholder engagement plan has been developed and all stakeholders will be engaged to ensure stakeholder participation during the IVS implementation.



Figure 1: Aerial Photograph of the Island View Precinct

The salient features of the IVP are:

- Total Footprint of 1 545 000m²;
- 12 Terminal Operators and 10 Berths (of which 9 berths are exclusively used for liquid bulk);
- Approximately 24 000 trucks move through IVP on a monthly basis;
- During the 2016/17 financial year, 9,459 million kilolitres of Liquid Bulk was imported/exported through the IVP; and
- Approximately 74% of South Africa's total liquid bulk is imported through the Port of Durban.

The IVP is directly linked to the operation of fuel pipelines¹, as well as nearby oil refineries (Engen and SAPREF). The refineries are linked to the offshore Single Buoy Mooring² (SBM), which is used for the import of approximately 85% of South Africa's crude oil. Refined products are stored within the IVP and then moved inland by means of the Durban Johannesburg Pipeline (DJP) and National Multiproduct Pipeline (NMPP) as well as shipped coastwise to other regions. This is crucial to ensure security of fuel supply to the country.

In addition to refined fuel products, the IVP also houses a number of chemical operators that import, store, blend and package a variety of products that are crucial to chemical industries within the country.

The IVP therefore plays a pivotal role in the supply chain of petroleum and chemical commodities and other downstream businesses that fuel the economy and support local manufacturing industries.

As a landlord, the Authority is charged with the responsibility of oversight within the IVP. The Authority has to:

- Plan the layout and control land use within the IVP;
- Maintain port infrastructure;
- Ensure fair access to port services and facilities;
- Ensure the advancement of previously disadvantaged individuals and their participation in terminal operations; and
- Enter into agreements or license parties to operate or provide services within the IVP.

In fulfilling its role as the Authority and to ensure that adequate, affordable and efficient port services and facilities are provided, (whilst at the same time ensuring greater participation of historically disadvantaged persons in terminal operations), it is necessary for the Authority to proactively take steps to effect transformation within port operations. At the same time, the Authority must also safeguard the security of supply of these strategic liquid bulk commodities to ensure there are no disruptions in the supply chain.

3. Current Status in Island View

The liquid bulk terminals in the IVP undertake the following activities in the precinct:

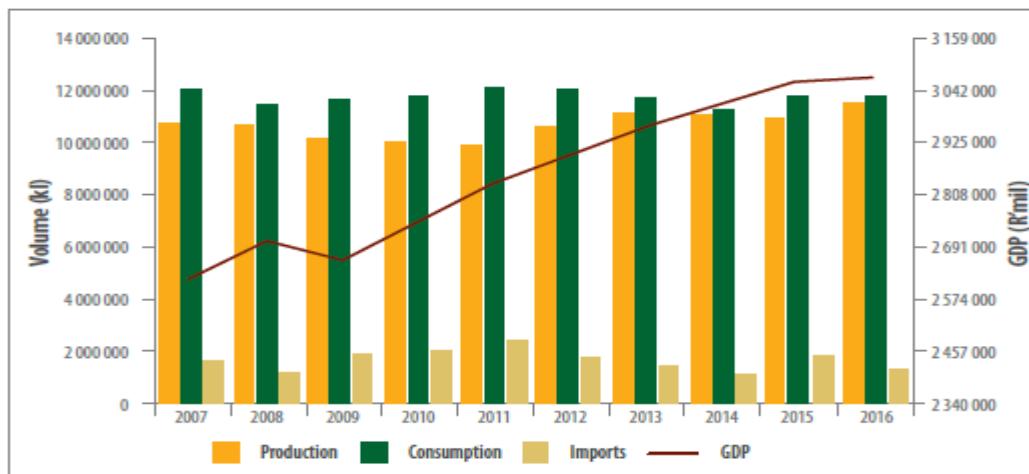
- Import, storage and distribution of fuel and fuel products, chemicals and edible oils; and
- Blending, drumming (or packaging) and manufacturing of oils, lubricants, greases and other chemicals.

¹ Two fuel pipelines linking Durban to Johannesburg originate within IVP. The Durban to Johannesburg (DJP) pipeline was completed in 1965 and is nearing the end of its economically usable life. The New Multi-Product Pipeline (NMPP) will eventually replace the DJP. The NMPP will double capacity between Durban and Johannesburg and provide full multi-product handling capability.

² The SBM, installed in 1972, is anchored 2.6km off Reunion (on the Bluff) in 48m of water. There is a 1.6km exclusion zone around the buoy. Approximately 75-80% of South Africa's crude oil is imported through the SBM, which is owned by a consortium of oil companies. The SBM serves Very Large Crude Carriers (VLCC's) with dimensions of 335m in length, 22m draft and a beam of 65-70m. These vessels cannot be accommodated at the IVP within the Port of Durban.

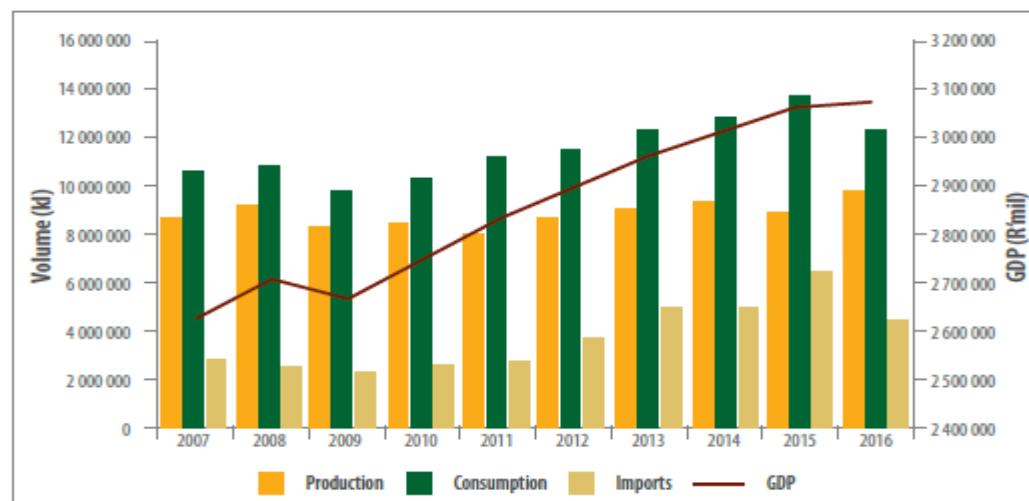
South Africa's demand for liquid fuel products currently outstrips its ability to supply these products. The country is therefore dependent on the output from the local refineries which is supplemented by the import of refined fuels, the majority being imported and stored in the IVP.

The graphs below illustrate the consumption of fuel products in South Africa, compared with local production capabilities.



Source: Supply, demand and imports – DoE, GDP – South African Reserve Bank (SARB)

Figure 2: Supply and Demand of Petrol, 2007-2016



Source: Supply, demand and imports – DoE, GDP – SARB

Figure 3: Supply and Demand of Diesel, 2007-2016³

The graphs below illustrate the national demand forecasts for petroleum products including jet fuel, diesel and petrol and for refined petroleum imports in the Southern Africa region.

³ Figure 2 and Figure 3: Overview of Petrol and Diesel Market in South Africa between 2007 and 2016, published by the Department of Energy

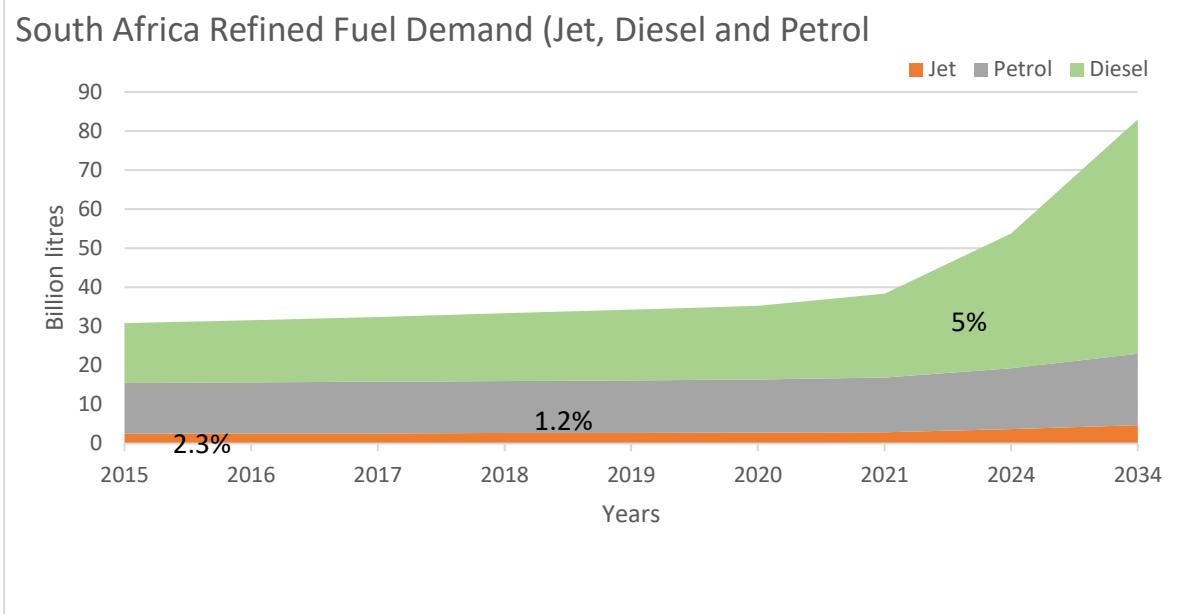


Figure 4: National Demand Forecast for Petroleum Products

Source: Pipeline Development Plan (2016)

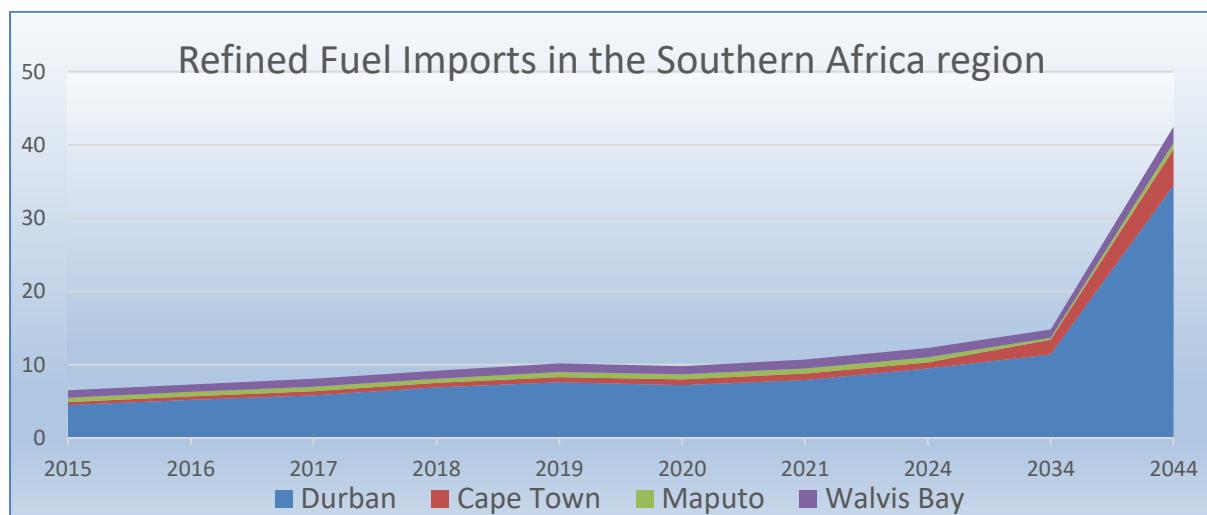


Figure 5: Refined Fuel Import Projections in the Southern Africa Region

Source: Pipeline Development Plan (2016)

Durban is the preferred entry point for bulk liquids due to the available transport infrastructure that connects the IVP to Gauteng, the main economic hub of South Africa. In addition to fuel products, there are a number of chemical products that are imported through the IVP and used by the following industries:

- Mining industry – lubricants, heavy fuels, oils, greases.
- Motor manufacturing – oils, lubricants, engine coolants, brake fluids, additives.
- Tyre industry – polymers.
- Paint industry – bases for paints.
- Other products such as palm oils, vaseline, vegetable oils.

To enable liquid fuel and chemical handling, berths 2, 6, 7, 8 and 9 have loading arms installed, with flexible hoses utilized for product handling at other berths. The current berths and commodities handled are as follows:

Berth number	Commodity	Loading Arms
IV1	Clean Fuels and Chemicals	No
IV2	Clean Fuels and Chemicals	Yes
IV3	Dry Bulk	No
IV4	Chemicals	No
IV5	Clean Fuels and Chemicals	No
IV6	Clean Fuels	Yes
IV7	Clean Fuels	Yes
IV8	Clean Fuels	Yes
IV9	Clean Fuels	Yes
IV10	Bunker fuel	Yes

Figure 6: Overview of Island View Berths

The Authority has made extensive capital investments over the past years to reconstruct and upgrade the condition of berth infrastructure at the IVP. The improvements were aimed at addressing the safety, capacity and infrastructure deficiencies within the precinct. The most recent berth to be reconstructed and upgraded was berth 5 which is intended to handle both chemical and petroleum products. The Authority has plans to upgrade Berth 1 and Berth 4 after 2021/22 (linked to anticipated volume growth), to complete its refurbishment of all liquid bulk berths within the IVP.

Whilst the Authority's investments will ensure that port infrastructure is maintained, there is a need for investment in IVP Terminals to either renew or refurbish storage tanks and handling units (pumps, pipelines, loading arms and related infrastructure) in the IVP.

For Terminals, the seminal catalyst for investment is tenure, but there are currently 14 leases that have expired and are currently continuing on a month-month basis in the IVP. The lease agreements contain provisions regarding the transfer of immovable assets to the Authority. The expiry of the IVP leases will result in land becoming available and an opportunity to appoint new Terminal Operators in the IVP by following a Section 56 process. This will address tenure within the precinct.

According to Section 11(l)⁴ of the Act, the Authority is mandated to promote the achievement of equality by measures designed to advance persons or categories of persons historically disadvantaged by unfair discrimination in the operation of facilities in the ports environment. Additionally, Section 11(r)⁵ mandates the Authority to promote greater representivity, in particular to increase the participation of HDI's in port operations and services.

⁴ Section 11(l) promote the achievement of equality by measures designed to advance persons or categories of persons historically disadvantaged by unfair discrimination in the operation of facilities in the ports environment;

⁵ Section 11(r) promote greater representivity, in particular to increase the participation in terminal port operations of historically disadvantaged persons;

Historically, leaseholders in the IVP secured tenure for periods of 50 years and longer, which has resulted in a slow pace of transformation in the precinct. The precinct is currently occupied mainly by IOM's and chemical operators, with a BBBEE status of between 2 and 8, but with minimal black ownership of businesses in the precinct. The Petroleum and Liquid Fuels Charter outlines a minimum of 25% black participation within the liquid fuel industry and the majority of Terminal Operators have met this criteria. To comply with the Act and to align with Governments' radical socio-economic transformation objectives, there is a requirement to increase black ownership and control within the IVP.

The Authority developed the IVS to set out the process to address transformation and other challenges experienced. The IVS sets out the principles to effect consolidation of current leases, efficient utilization of storage capacity and optimal use of land, security of supply of strategic products, access for new entrants and transformation in the liquid bulk industry.

4. Problem Statement and Solution

The following challenges need to be addressed through the implementation of the IVS:

- Transformation in port operations and increased black ownership in port operations;
- Separation of Cargo Owners and Terminal Operators;
- Follow a Section 56 process as per the Act in order to remedy the month-to-month lease situation;
- Minimal impact on security of supply;
- Security of tenure taking into account the condition of existing facilities and investment plans;
- Common-user principle for access to berths;
- Access to storage capacity within the precinct (for third parties); and
- Considering the separation of berth operations from back of port storage facilities.

To address transformation in port operations, (aligned with Government's objectives of radical socio-economic transformation), the Authority will embark on a Section 56 process for current and future expired leases. Section 56 of the Act promotes a process that is fair, equitable, transparent, competitive and cost effective, which will create opportunities to seek new entrants in liquid bulk port operations and services, including increased participation of HDIs.

As part of the process, expired leases will be extended for an estimated 24 months and the Section 56 process will unfold in 2018. Transfer of immoveable assets will be addressed as provided for in the lease agreements. Lease extensions will be done on similar terms and conditions, but rentals will be market related.

To improve black ownership within the IVP, the Authority will seek a minimum entry requirement of level 4 BBBEE and 51% black ownership⁶, (which includes a compulsory black ownership improvement plan over the concession period), as a qualification criteria.

The IVS will afford the Authority the opportunity to determine which lease sites could be consolidated to ensure optimal utilization of land in the precinct, which activities must remain within the IVP, which activities could be relocated, whether any of the sites need to be decommissioned or rehabilitated as well as to implement a market related rental model.

⁶ Ownership of the company that is awarded the license and/or lease to operate in the Port in whatever capacity (berth, terminal, etc.)

To facilitate this, the Authority will be undertaking a comprehensive condition assessment exercise of IVP sites, which will allow the Authority to obtain detail reports on the condition of facilities, to align with the proposed investment plans from bidders during the Section 56 process. This can then be linked to tenure within the IVP, with future tenure to be capped at 25 years. This will contribute to sustainable security of supply for liquid fuels and chemical products into the future.

Prior to commencement of the Section 56 process, existing operators will be informed of the IVS. Current operators will be given an equal opportunity to participate in the Section 56 process and to address their transformation status to allow them to meet the qualification criteria when the Section 56 process commences.

Even though site ownership in the IVP will likely change during this process, the Authority will work with Industry to effect a smooth transition and to limit the impact on current port operations and the petroleum and chemical value chain. The transition from existing to new Operators will be planned to take into account the risks of site handover, potential decommissioning and product delivery to businesses in the value chain.

The Oil Majors and chemical operators currently have an extensive footprint within the IVP and control a large portion of the liquid bulk supply chain from berth to market, through their investment in infrastructure (equipment at berths and land) that effectively grants them exclusive use of the facilities. The exclusive ownership of almost all tanks at Island View limits access for new/emerging players in the liquid bulk sector, even though NERSA regulations/licences promote access to other parties to uncommitted capacity. As a result, there is minimal room for entry and participation of new role players in the market. This is compounded by the fact that there is no visibility of excess storage capacity that could be used by new players. Lease sites that become available at the IVP, will allow for access to storage capacity and opportunities for ownership for new operators.

The Authority will ensure common user access to all berths, with berth allocation being done, as is currently, through the Port of Durban Berthing Policy. Marine Service requests will be done through the Authority's Integrated Port Management System.

The Authority is also considering the option of an operating model that will separate operations at berth from back of port storage terminals. This is envisaged as follows:

- Berth operations (i.e. Discharge and Loading infrastructure)
 - The operation of existing loading arms/hoses on the berths could be clustered as separate businesses with berth operators⁷ that will have to invest, maintain and operate loading arms and/or flexible hoses both on quayside and landside.
- Terminal Operations (Storage facilities and Terminal infrastructure)
 - Terminal Operators will be expected, as their primary aim, to drive throughput volumes instead of, in some instances, encouraging long term storage and supplementary capacity being used solely by tenants.

The viability of separating berth operations and terminal operations will be determined before the commencement of the Section 56 process.

⁷ Berth Operators will have to be appointed in accordance with the provisions of the Act

To enable the Authority to fulfil its obligation in terms of the Act, i.e. to increase participation/access by HDI's in port operations, the following provisions will be considered for inclusion when the Section 56 process commences:

- The Request for Proposal requirements will stipulate that current operators could form joint ventures/consortiums with new entrants to ensure the transfer of technical skills, provided that transformation requirements are not compromised.
- Cargo ownership of members of joint ventures/consortiums (the Terminal Operating company) will be limited to 49%;
- The minimum qualification requirements for Section 56 will seek Level 4 BBBEE, 51 % Black Ownership including a black ownership improvement plan which includes black youth and women.
- The following provisions of the Petroleum Pipelines Act, Act 60 of 2003, will be included as part of the qualification criteria:
 - Interconnectivity, as contained in Section 20(1) (j)(k)(l)(m); and
 - Uncommitted capacity, as contained in Section 20(1) (n)(o)(p); and
- In addition to the IVP, the Authority will also investigate additional capacity for interim storage and other long term requirements at alternative sites.

The implementation of the IVS is anticipated to roll out over an estimated 24 months. The key deliverables and targeted milestones are:

Date	Activity
April 2018	1. Commence stakeholder engagements. 2. Commence 1-1 tenant engagements to address expired leases. 3. Procurement process to appoint Condition Assessment service provider and liquid bulk transaction advisors.
November 2018	1. Complete condition assessment exercise and prepare final reports. 2. Commence the Section 56 process (Request for Qualification).
April 2019 – March 2020	1. Final shortlist of preferred bidders. 2. Request preferred bidders to submit final proposals (Request for Proposal process). 3. Evaluate proposals and determine preferred bidders. 4. Conclude Agreements with new Operators.
March 2020	1. New Operators commence taking occupancy of IVP sites.

Figure 7: High level timelines and activities to implement the Island View Strategy

5. Conclusion

This strategy outlines the IVP challenges and the process that the Authority will follow to address these challenges. The main objectives are to transform the IVP, increase black ownership, provide opportunities for new entrants to operate liquid bulk facilities and have access to storage within IVP. The Authority wants to create a future IVP that will be a fuel hub for the import of fuels, lubricants, oils and chemicals that support the fuel, chemical, mining industry and local manufacturing sectors.

Transformation will be achieved through the process to appoint new Terminal Operators with improved black ownership and inclusion of HDI's as Terminal Operators within the IVP. This will also facilitate access to storage and the introduction of new entrants within the IVP.

Extending existing leases will allow for a smooth transition within the IVP, which will contribute to minimal disruption of security of supply and operations within the IVP. The IVS is driven by national imperatives and the liquid bulk Industry and other stakeholders are key to its implementation. The Authority will work with Industry to limit the impact on current port operations and the petroleum and chemical product value chain.