



**RATEPAYERS AND RESIDENTS ASSOCIATION
BELASTINGBETALERS EN INWONERSVERENIGING**

The Chief Executive Officer,
WESGRO,
Box 1678,
Cape Town,
8000

e-mail: [info @ wegro.co.za](mailto:info@wegro.co.za)

28 November 2011

Sir,

COMMENT: IDZ FEASIBILITY STUDY REVISION 1

1. The Langebaan Ratepayers' and Residents' Association (LRRA) acknowledges with thanks the distribution of the above report for public comment. The debate on the scope and nature of industrial development in the Saldanha Bay area, and the optimal means to facilitate it has now, for the first time, been elevated beyond uninformed sensationalism and speculation in the public domain. We accept that this report is not to be a mere rite of passage but a **bona fide** assessment of the road ahead for Saldanha Bay in a larger regional context and comment in that spirit.

However, the LRRA wishes formally to place on record that the present report constitutes the first sight it has had of any material generated in this investigation thusfar. We gather from the report that it has already passed through one revision. The claim on page 9 that the Advisory Forum for Saldanha Bay is inclusive of "West Coast Ratepayers" is misleading. Whilst it may have been inclusive of some ratepayers on the West Coast, whoever those may have been, the LRRA, a directly Interested and Affected Party, has not been included in whatever Advisory Forum activities have thusfar taken place.

2. Whilst the report brings welcome structure and measured realism to a hitherto relatively disorderly and highly sensationalised local debate it nevertheless, by its own admission, raises a number of issues and questions that as yet remain in the realm of speculation. The more prominent of these issues are dealt with briefly **seriatim** below:
 - a. The need for appropriate industrial development representing the highest and best national and provincial application of scarce resources in pursuit of the creation of livelihoods is a given and we do not contest it. In achieving this we do not however support the replication of economic stereotypes across the spatial economy at the expense of unique local and regional comparative advantage. The current report is limited in its scope to the extent that it seeks to inform a decision on Saldanha Bay outside of a more inclusive regional perspective, and particularly so a perspective on the optimisation of industrial development throughout the growing Cape Town Metropolitan Functional Region. What is the real issue in the case of Saldanha Bay is the extent to which the application of public resources is justified specifically to leverage and sustain industrial development in this area, always bearing in mind the injunction to achieve "value for money". The South African landscape unfortunately is littered with the residues of similar efforts at spatial economic engineering over many years. Whilst the report generally is commended, nevertheless the reader has a

sense that, as with many such investigations, there remains a confusion of the notions of what **can** happen at Saldanha Bay in terms of (“footloose”) industrial development and what **should** happen there based on relative comparative economic advantage and cost-benefit. The report does not provide particular assistance in this regard. It in fact retains a sharp goal-based focus on development of Saldanha Bay rather than on a measure of comparative analysis that at least is grounded within the Cape Town Metropolitan Functional Region (CTMFR) if not the Western Cape. We have been liberally regaled by local aspirants over the recent past with all the things that could be possible at Saldanha Bay. The reader is however, on the basis of what is provided in the report, left with the largely unanswered question as to whether indeed Saldanha Bay, which by the report’s own admission presents a generally high-cost job creation alternative, at this particular point in time represents the optimal location of “footloose” activities which have a wide choice of possible locations and which do not speak closely to its natural comparative advantage. By the report’s own admission the following represent some of the more glaring negative internalities:

- a.i. High public capital investment required per job created. The report informs us that the total estimated budget per sustained job created lies between an estimated R1,4 million and R 1,7 million to achieve an annual incremental (optimistic) annual growth rate of just over 1% in jobs in the Saldanha area over the next 25 years. It however does not provide us with a comparable figure for the national or provincial average, or even the average within the CTMFR. The question naturally arises as to whether such huge expenditures are preferentially justified in a region such as Saldanha Bay where (official) unemployment is very significantly lower than the national average, the provincial average for the Western Cape and for the City of Cape Town. On page 62 the observation is made that the phenomenon of discouraged work seekers would serve to suggest that the unemployment figure on the West Coast is even higher. This is true but the same observation would apply to all the figures and would arguably not necessarily change the picture that unemployment on the West Coast is significantly relatively lower than that in the rest of the CTMFR or the province and the country. Does the West Coast currently represent the most optimal leverage point for the application of public money in pursuit of industrial jobs and livelihoods? That may be so but it is by no means clear from the report that it does;
- a.ii. A small local skills pool available to enterprises particularly in the shorter term. This again speaks to the character of the industrial development envisaged for Saldanha Bay. The report recognises the inevitability of large scale in-migration into the West Coast associated with an IDZ from other parts of the country where unemployment is much higher. On page 58 it is observed that “...workers will initially be brought in from elsewhere, either on temporary contracts or more permanently...” The socio-economic residue of just such an intention following the establishment of the (then) Saldanha Steel operation in the 1970’s is still evident on the West Coast. In the absence of opportunity in labour-sending areas a significant proportion of induced population movement is permanent and many who move in expectation of employment remain jobless, as do many locals who may not have the requisite skills to compete with economic migrants. Frequently the result is merely the spatial redistribution of the socio-economic problem. The entire issue revolves around the enduring regional development question as to whether, faced with the alternatives, you take jobs closer to people or encourage people to migrate to jobs. It is our contention that the South African reality requires us to adjudicate such a decision on the basis of cost-benefit and the capacity of receiving areas such as the West Coast to sustain the influx of those with expectations of employment in an inevitably sensationalized IDZ but who are unsuccessful. In other areas of the world existing hinterlands on the close periphery of IDZ’s have been able to mitigate and absorb this problem to varying degrees. In the case of Saldanha

Bay there effectively is not as yet, nor will there for some appreciable time apparently be, a close hinterland to perform this function. With an official unemployment rate according to the report of in the order of 22% (4% higher than the West Coast) it is unlikely that Cape Town itself would be able satisfactorily to play such a sustainable socio-economic hinterland role. This aspect receives scant attention in the report which establishes a case for development of Saldanha Bay without a basis for comparison. On page 58 it is observed that “.....Additional housing demands need to be managed carefully by managing the influx of work-seekers through clear information about jobs and skills required long in advance of starting the work....” This is a pipe dream. It is not clear, once an IDZ is publicly established for Saldanha Bay, how this is practically to be achieved. Hence the importance of not rushing to judgment and of ensuring that sound and tangible prospects exist that are capable of delivering in the relatively short term on the inevitable expectations that will arise. Speculative grounds in the circumstances are a risky basis for establishing an IDZ;

- a.iii. Bulk electricity demand associated with the IDZ is intensive and greatly dependent on cost of supply, particularly for the optimistic option. This also speaks to demand generated by the choice of industries upon a national grid that as yet, and for the foreseeable future, remains dependent upon power generation from fossil fuels. South Africa internationally already is a major carbon polluter. It would seem unfortunate to exacerbate the problem through the choice of candidate industries and further to subsidise them with taxpayers' money;
- a.iv. Envisaged bulk water demand associated with an IDZ, and in particular with the optimistic scenario, is intensive, and this on what is in effect a semi-arid coast. Desalination is offered as a solution but without giving the reader an explicit sense of the relative financial and environmental implications of this option which itself is energy intensive. The discharge of further brine into closed systems such as Saldanha Bay remains deeply problematic and this has been consistently resisted by the LRRRA and others;
- a.v. The ability to compete internationally in various markets is raised as a negative externality. This represents one of the biggest problems of all facing the formalization of an IDZ, namely the need to “level the playing field” without “over-leveraging” private sector profitability in inappropriate activities at the expense of the taxpayer. Whilst the report provides relative costs envisaged to be funded by the private and public sectors respectively, there is no analysis provided that assists the reader to ground these costs and to reach a conclusion as to what constitutes a reasonable level of leverage to apply and what not. In this regard the report provides a budget for an IDZ rather than an assessment of it. One thing we do know from experience in South Africa, is that by granting incentives that are generous enough either by way of real infrastructure provision or in terms of financial benefit, one is able to distort the economy and establish just about any kind of footloose industry anywhere one chooses. Clearly this cannot be the intention as there must be a value-for-money ceiling placed on public commitment, but the report does not provide a basis for making the judgment that is necessary particularly where “footloose” industries are concerned. Does the incentivisation of such industries at Saldanha Bay indeed represent the highest and best present use of public resources given all the choices available?

Negative externalities raised on page 23 *et seq* of the report include the following:

- i. Sensitivity of the environment. Many foreign interests are at the moment looking for Third World destinations to re-locate polluting processes that are

not always welcome in their own countries. It would be unfortunate were South Africa to absorb such technologies and subsidise them with taxpayers' money into the bargain. The cement plant canvassed on page 73, though dismissed for different (market-related) reasons would presumably also be seen amongst others to have potentially significant local CO₂ pollutant consequences in the Saldanha Bay area. Whilst project-specific NEMA environmental impact assessments should provide some measure of comfort regarding the protection of the environment, even these measures, which regrettably also at times are regarded as a mere rite of passage, are not watertight. The very concept of sustainable development itself as it is currently practised inevitably places a premium upon development at the cost of the environment. The drive for development of Saldanha Bay has itself since the 1970's been significantly insensitive to the unique environment as is evident from the beach erosion and other problems associated with earlier imperfect development efforts associated amongst others with harbour construction. The LRRRA remains deeply concerned at the prospect of further degradation of the unique environment, and in particular of Kleinbaai, and its neutralisation for other potentially more appropriate and sustainable and less invasive economic applications. The report on page 31 observes without further engagement that ".....There is.....potential conflict between tourism and agricultural priorities and industrial development. This can be managed through appropriate spatial economies wherein certain areas are demarcated for conservation and place protection for tourism and agriculture....." (page 31) On page 33 the report itself observes that "....certainly the relatively flat topography of the area would prompt a concern over visual impacts...." The finer points of such spatial development control have thusfar generally eluded the Saldanha Bay Municipality and this remains a significant cause for concern on the part of the LRRRA that has consistently voiced its objections to what it regards as poor spatial decision making;

- ii. High leakage of economic benefits to FDI. This issue raised in the report again speaks to the importance of establishing some sort of reference base for adjudicating the optimal level of engagement of the South African taxpayer in the further development of Saldanha Bay. It does not necessarily make sense for South Africans to fund the extensive repatriated profits of expatriate participants in an IDZ in Saldanha unless there is ultimate optimal direct and indirect leverage on jobs and livelihoods for local people. Whilst raising the issue, the report does not engage further with it. What indeed are the net returns to the South African tax Rand spent in subsidising industrial development in Saldanha Bay compared to the leveraging of other less invasive economic sectoral activities?
3. Mention is made on page 30 of the classification of the Saldanha Bay IDZ as a catalytic project within the compass of the provincial CIP. It is reassuring that infrastructure development should be seen as strictly demand-led and that (per page 38) the approval of further speculative housing- and other property development on the back of an IDZ in Saldanha will not be countenanced. However, whilst the present intentions are sound they seem impractical. It is difficult to envisage how this will consistently be actioned over any but the shorter term? Upward speculative pressure in the local property markets into the medium term merely on the expectations of an IDZ could be significant, to the potential detriment of current property owners and ratepayers on the West Coast. With only approximately 50% of serviced sites in such towns as Langebaan currently carrying top structure, and many serviced sites having stood vacant for well over a decade, the West Coast has some experience of the consequences of injudicious development controls and premature speculative development;
4. The recommendation that the application process leading to an IDZ in Saldanha Bay be initiated (page 24) remains based upon an as yet tentative and uncertainty-laden case, despite the good work that the compilers of the report have thusfar done. In our view the

recommendation is premature given the uncertainty and speculative nature of current scenarios and prospects and the inevitable consequences for the entire region of the establishment of an IDZ in Saldanha Bay ahead of the capacity tangibly to deliver on it:

- a. On page 80 in relation to ship repair, a core potentially natural comparative advantage of a marine location such as Saldanha Bay, the report states “..... this is not however to say that the magnitude of this opportunity or the likelihood of its success is clear....”. Ship repair developments in major oil producing nations such as Angola and Nigeria, far closer to the oil fields of West Africa than Saldanha enjoy certain locational advantages and provide significant competitive challenges to Saldanha. The option is further in the report qualified subject to the proviso “.... should a private company overcome the challenges....”. The level of speculation as yet remains significant;
 - b. On pages 85 and 87 the HBI project is described as “challenging” both as regards the present potential difficulties in accessing lump-, pelletised- and fine ore as a result of the Kumba-Arcelor Mittal impasse and in terms of the highly energy intensive nature of the process;
 - c. The RMI process the report points out requires further (extensive?) research and development to mitigate the significantly invasive nature of the operation (page 89) and also poses some risk in terms of the Zircon milling component operation that produces very fine dust and radioactive by-products. Small wonder that the World Bank has in the comparatively recent past warned Third World countries in their headlong and often misguided pursuit of jobs and “development” at any price of the dangers inherent in hosting industries and technologies that are harmful and would not be countenanced in their countries of origin. The LRRRA is concerned that the West Coast and Saldanha Bay in particular should not be exposed to such real and perceived risk which could adversely impact amongst others the established local tourism industry that has since 1995 accounted for the lion’s share of tangible economic growth and sustainable employment on the West Coast;
 - d. On page 94 the report makes mention of the solar water heating technology-based manufacturing option and concludes that EWH technology is a possibility since it fits the profile of locally available skills. This, however, is also a footloose industry as presumably also is the manufacture of wind turbine blades. They can be manufactured in Saldanha, certainly, as presumably they could also at other locations, but that again begs the question as to whether Saldanha is the best place for such activities. The report already concedes that the blade manufacturing operation could conceivably be destined for Vredenburg.
5. The question that one inevitably is led to ask is what of any real substance remains of the options canvassed in the report to serve as a basis for an “IDZ” other than marine repair whose prospects are (confusingly) classified on page 80 as “unclear” but in Table 4.4 on page 79 apparently as “high likelihood”; the OSB that on balance appears the single core present (good) prospect; the Ti/Zr facility whose processes are described as “invasive” and as yet subject to the vagaries of feasibility and EIA processes; the wind blade manufacturing operation which could go to Vredenburg anyway (as a footloose operation it probably could have prospects even further afield); and the solar water heater manufacturing operation that appears congruent with local modest skills levels but also is a footloose industry that could locate elsewhere where that skills profile is replicated. Do we really as yet, on the basis of what is contained in the report, have the substance to deliver on the inevitable expectations associated with an IDZ?
6. The report on page 24 recommends “...Initiate IDZ in respect of most certain and probable investments within a 3-5 year view....”. It would in the view of the LRRRA and on the basis of the evidence provided in the report upon which this comment is submitted that there is some current traction for concessionary measures in respect of a limited number of potential industrial operations in the Saldanha Bay area. However, in our view it would be preferable to

deal at this stage with those on a project-by-project basis where possible rather than to rush to judgment on a full-blown IDZ with all the inevitable and unavoidable collateral economic, fiscal and socio-economic implications that could potentially have for the West Coast and the province. After all, areas within greater Cape Town with the natural potential have developed significantly in recent decades without an IDZ although in our view it could make sense at this juncture to expand the horizons of thinking to multiple SEZ sites within the Cape Town Functional Region representing a more cohesive and balanced economic intervention. We believe that singling out Saldanha Bay, which otherwise is an integral part of the CTMFR is contrived and presents some risks given past experience. In our view the report as it stands is as yet limited in its scope and does not engage with the core issues. Its recommendation regarding the initiation of a process toward establishing an IDZ in Saldanha Bay is thus in our view, with due regard of the full implications and the tenuous nature of current development options on the table of which we are aware, premature.

Whilst we welcome its refreshing sense of realism and candour as befits a professional report, we have grave reservations regarding the implementation of many of the intentions precedent expressed in the report. As residents and property owners on the West Coast we have continually to deal with the consequences of past and present injudicious and piecemeal rushes to judgment on development issues that have assumed away the problem and have provided little substance in return for the West Coast and its people. Our concern in regard to the issue of an IDZ at Saldanha is that there should not be a repetition on a grander scale to the ultimate detriment of the optimal sustainable realisation of the unique potential of the West Coast.

Rest assured of our co-operation at all times in supporting clear, viable, sustainable and appropriate development solutions for the West Coast and for Saldanha Bay as an integral part of the greater Cape Town Metropolitan Functional Region.

Yours faithfully,

J.A.J Kotze
Chairman: Langebaan Ratepayers' and Residents' Association