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# **Strategic Significance of Concessioning the Durban Container Terminal in the Port of Durban**

By

**Vishaal Lutchman**

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University of Kwa Zulu Natal, Durban

Supervisor: Prof Elza Thomson

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**CONFIDENTIALITY CLAUSE**

**30 June 2005**

**TO WHOM IT MAY CONCERN**

**RE: CONFIDENTIALITY CLAUSE**

Due to the strategic importance of this research, it would be appreciated if the contents remain confidential and not be circulated for a period of 5 years.

Sincerely

A handwritten signature in black ink, appearing to read 'Vishaal Lutchman', with a stylized, cursive script.

Vishaal Lutchman

DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.



Signed.....

1 NOVEMBER 2005

Date.....

106252

## **ACKNOWLEDGEMENTS**

For greatest assistance:

My supervisor Prof Elza Thomson for her vision, guidance, patience, and understanding on the path to wisdom. My wife for understanding the sacrifice I had to make whilst we were expecting our first child.

## **ABSTRACT**

The study investigates, with an intension to establish, the strategic significance of concessioning of the Durban Container Terminal in the Port of Durban. A strategic perspective firstly considers the concessioning in the successful terminal of the world from a developed to a developing perspective, the reasons for concessioning, the post-concessioned realization advantages and disadvantages, and the effects on the country concerned. The attempts to concession the Durban Container Terminal by the Minister of Public Enterprises has been withdrawn in 2004 for reason of lack of clarity on many issues and lobbying in this regard from the current terminal operator. There are many factors used to determine why and when and how to concession if such host government economic policy is strategic. Discussions include stakeholder risks and concerns of concessioning. Concessioning is managed by the concessioning agreement, which includes a understanding of performance and risks to the concessionaire and the host government, thereby providing opportunity for both parties to mitigate these risks. Some risks are generic to concessioning for example concessionaires performance, equipment performance etc., and some are country specific for example, host government policies, relationship between host government and multinationals trading bloc, labour unions and factors of productions, is reviewed and evaluated in accordance with a with respect to all stakeholders. In the case of developed countries, with large-scale enterprises looking to internationalise through for example concessioning in a developing country may result in a power struggle. From a host country perspective, when a first world multinational corporation purchases a national asset in a developing country, many conditions need be put in place so that the integrity through management of risk is maintained to protect the developing country from exploitation of resources. South Africa is a developing country and is a relatively small player in world trade, which suggests a weak position in world trade. South Africa from a trade volume perspective does not significant influence on current world trade rules as a single country. The World Trade Organization (WTO) provides international requirements on trading rules with the world's richest countries and trading blocs. The World Bank also supports these rules. The external environmental influences will include the WTO, World Bank and the International Labour Organization (ILO). Local country specific influences are promulgated through the constitution of South Africa and supported through guidelines in NEPAD (New Partnerships for Africa's Development), AU (African Union), National Government Economic Policy to balance industry protection perceived as a barrier to market entry by a foreign multinational

corporation. The decision on whether to proceed with concessioning or not will be determined through interpretation of the strategic evaluation of concessioning. This will suggest whether concessioning (privatisation) of state assets or not and will affect the current operator Durban Container Terminal. Concessioning is a real threat to the current operator's survival and depending on the type of concessioning agreement signed may result in the operator ceasing to exist. In evaluating the balance of power of international trade and the country specific requirements respectively, a question arises. It is very complex and can be asked as follows: Do we as South Africans stand tall in developing and implementing our own economic policy or do we open up our markets which may put South African state assets in hands of the large multinationals who will have free reign to possibly monopolize and speculate within our "fragile" economy.

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# 1 Chapter One - Research Proposal

## 1.1 Introduction

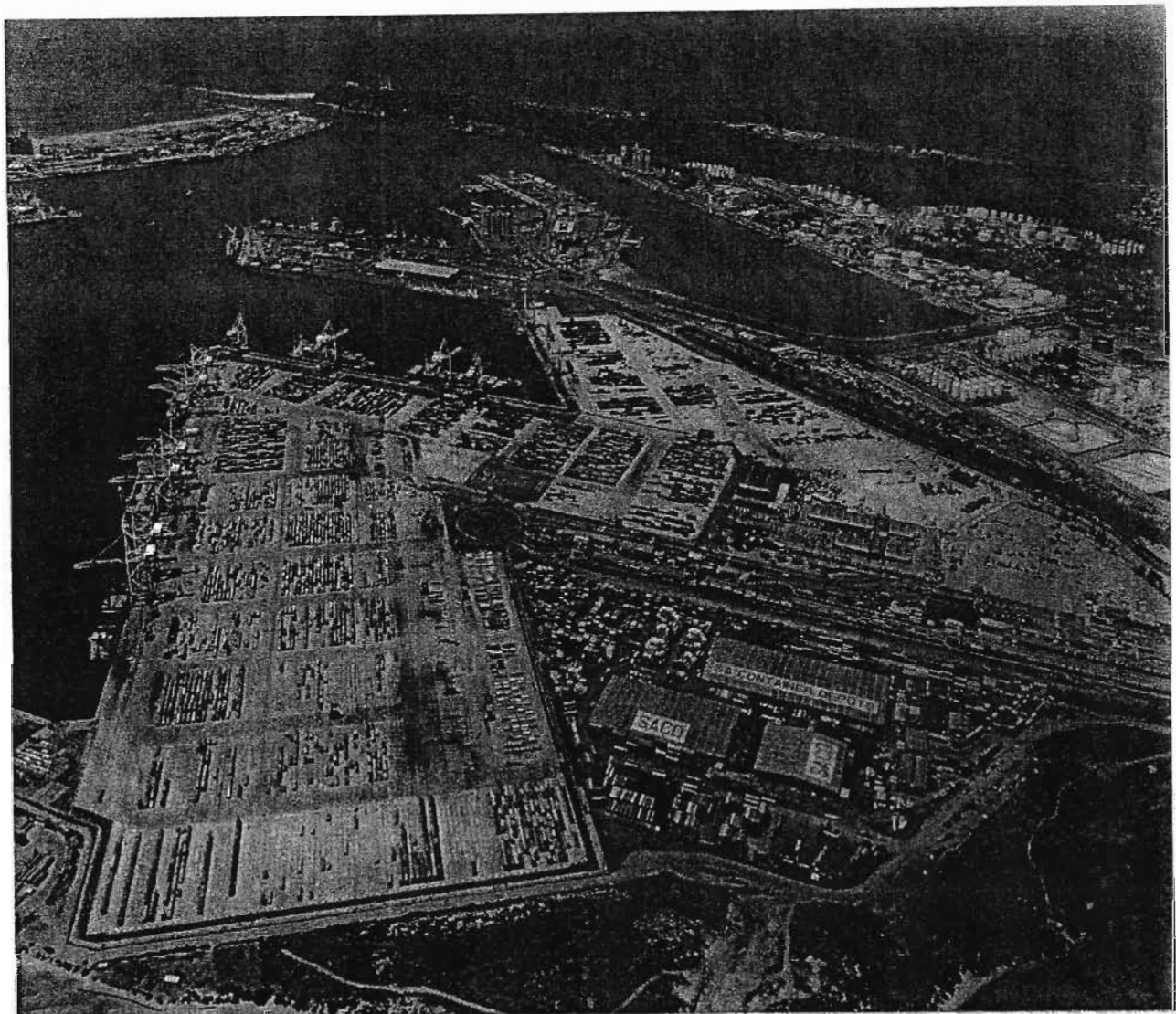


Figure 1.1 Durban’s Container Terminal: Source National Ports Authority Archives

With reference to figure1.1, the area denoted by white concrete surfacing in the form of a "Z", is the area referred to the Durban Container Terminal in the Port of Durban South Africa. Users of port services, especially shipping lines state categorically that terminals operated by the state owned enterprises are usually not competitive enough to offer an efficient throughput of cargo (Internet 12).

With respect to containerised cargo it means the time taken to load and off-load containers is too long by international norms. There are problems with allocating the correct containers to be loaded onto the appropriate ship. According to international norms, the

time that the container then spends in the terminal is too long sometimes even preventing off loading of cargo from other ships. The technology used is often old and modern terminals have far advanced container-tracking technology as an example. Due to inefficiency in the ship turnaround time, container vessels tend to spend longer times at sea waiting for berthing space. This causes increased ship operating costs whilst waiting idle at sea. In the case of Durban the increased costs have been passed onto the operator by way of a surcharge. This penalty to the operator has obviously reduced his income and resulting profitability. Infrastructure in the terminal is not of an excellent standard. Terminal staff is usually not dedicated and lack training in operating equipment in the terminal (Internet 1).

The research will consider the merits of concessioning state owned enterprises and the timing thereof with the Port of Durban Container Terminal (DCT) as a case study. International trade perspective insists all terminals be concessioned to provide for open competition in all markets. Increased international trade provides for much needed economic growth in South Africa and thus improved investor confidence. Increased investor confidence is known to improve foreign direct investment. A country specific perspective is that of labour and the current operator who naturally object to such international philosophy. The main role players in the Durban Container Terminal (DCT) are the authority or the landlord similar to a municipality called the National Ports Authority and the current operator that handles and provides for temporary storage of cargo is called the South African Ports Operations (SAPO), both owned by Transnet. The current operator claims to have resourced many areas of his business, which will improve the efficiency to excellent standards in time.

Discussion contained herein is of the philosophy of concessioning in a South African context. There are publications that provide guidance on port reform, from first world and third world perspectives. The most widely used document in this research is Port Reform Toolkit 6 published by the World Bank (Internet 6). International trade requirements of the host country are reviewed within the framework of the Port Reform Toolkit. Local publications will provide insight into host country stakeholders opinion, i.e. government departments, Transnet business units viz the National Ports Authority and South African Port Operations and Labour Unions. The South African Government will decide on the implementation of the strategy of concessioning. Stakeholders will add insight into the

matter through canvassing of their viewpoints. The South African Government has produced the Port's Bill (B5B-2003).

The concept of concessioning of the Durban Container Terminal is evaluated through the development and use of a model in chapter 2, the evaluation of which is expected to yield recommendations that may provide further insight to drivers of the Port Reform process in South Africa.

## **1.2. Background to Concessioning**

South Africa, as a signatory to the World Trade Organization (WTO) is a developing country. The year 1994 was very significant in the history of South Africa with the proper initiation of the transformation process. The process of transformation to democracy saw far reaching changes in all facets of South Africa, including the way in which South Africa would trade with global market. South Africa through its isolation in the global economy, due mainly to economic sanctions, was unable to develop technology and resources to keep up with world standards in many industries including ports and operations thereof. With democratic transformation, South Africa now finds itself severely lacking in infrastructure, technology and resources, required to be globally competitive. This is true for its operation of terminals. For example, the Port of Durban has very old infrastructure that has outlived its safe design life. The last major port development project happened in 1970. In light of transforming to become globally competitive, concessioning has become an option to rationalize the South African ports system.

As a result of reintegration into the global economy, in the last five years South Africa has signed the GATT agreement and joined the WTO (Schiller: 2000). Concurrently trade with all regions of the world has increased substantially since 1994 and it is true of the SADC region as well. Trade volumes should increase in the years to come (Internet 11).

These factors combined with local production improvements as well as globalization initiatives have changed South Africa's trade patterns and the type of goods being traded. In the past 10 years, the volume of manufactured goods has increased from 5 % to 20% of exports whilst gold and other primary products have fallen from 65% to 45%. Hence, a trend is clear and tending to first world trade characteristics (Internet 11).

Changes in trade and products have great implications on South African transport systems that support the port system. These systems are still significantly in control of the national

government, municipalities and parastatals whilst providing for the transport of goods through to the hinterland.

Discussion will be confined to the South African Ports System; it's alignment to the WTO requirements to Trade and Economics, and the South African economic policy. As a result of concessioning it is expected that South African business will need to become globally competitive through transformation and rationalization. It is expected that removing of trade barriers, facilitated through for example concessioning will place pressure on local producers. Competition from foreign producers will promote foreign investment and economic growth, through promoting competition, higher degrees of product innovation. This realises improved benefits to the consumer with quality products at consistently lower prices or so is professed by the conventional economist.

South African economic policy and the WTO requirements will often be at loggerheads in their respective principles. A balance approach through the implementation of strategy will provide dual benefits. The Ports Authority Bill once enacted will be called the National Ports Authority Act and will legislate the South African port management system. In doing so, it provides opportunity for concessionaires that operate terminals in South African ports. This Act defines the role of the Port Authority in the South African Economy. The Act aims to promote and improve efficiencies in the performance and management of ports in South Africa and in doing so, to strengthen the states capacity.

The Port of Durban in Kwa-Zulu-Natal is the biggest revenue generating port in South Africa. Information is available to be analysed. The discussion focuses on the plans and progress made to cope with global demands and other pressures brought about by the following trends. These trends serve as threats, financial constraints, as well as possible opportunities to South Africa. The National Ports Authority Act is expected to start a process that will rationalise port management systems in order to achieve lower tariffs, liberalization of processes, and deregulation of non-tariff barriers through the improved service value to port users. It will provide for maritime transport competition and search for economies of scale with larger ships and therefore affecting the need for development of port infrastructure to suit provided through public/private partnerships. Port reform will embrace globalisation and high service levels demanded by users. Through private intervention in terminals, there should be a rise of information technology providing for

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immediate access to information. The Ports Bill places great emphasis on safety and environmental awareness. Through competitiveness, an expected influx of foreign direct investment will promote global manufacturing and improved value adding to resources originating in South Africa. Other factors of production will provide for creation of opportunities through the port reform process (Internet 11).

The National Ports Authority Act will allow the Port Authority to enter into a contract or concession agreement with prospective client to operate terminals. "The Authority may enter into ...concession contracts with viable and qualified and licensed operators for the provision of port and cargo handling services through public and transparent tender processes and negotiations under such terms and conditions determined by the Ports Authority including the determination of their performance standards, quality of services provided and its enforcement". (National Ports Bill, B5-2003)

Jeff Radebe as Minister of Public Enterprises said it was decided to concession the Durban Container Terminal as a pilot project "to inform further port reform" as soon as possible. This move is prompted by the fact that "Durban Harbour is now unhappily classified as a congested port by all container shipping lines"(Internet 12). The congestion of the harbour has affected the competitiveness of exports through increased costs and limited speedy access to external markets, and some shipping lines were now deliberately bypassing South Africa, putting further pressure on exporters. The port is not adding value to the users and accused of very often taking value away.

The Ministry of Public enterprises has determined that concessioning of the Container Terminals in South Africa will start with the most lucrative Durban Container Terminal (DCT). It is the way forward in addressing the need to reform in port systems and in doing so improve the global competitiveness of South Africa. The port reform process forms part of the greater South African Governments transport strategy 2020 (Internet 11).

The study serves to understand concessioning in a South African context. It also looks to evaluate the concept of concessioning and its alignment to the South African economic policy, NEPAD guidelines, SADC initiatives, AU and to the requirements of the WTO. Another issue explored in the process of reaching a more deregulated economy, and whether or not the South African producer is ready to accept the challenge of the port

reform process which will drive change and threaten suppliers and producers that were once protected.

### **1.3. Motivation for the research**

The current South African Government aims to deregulate the state run monopolies through concessioning efforts to free up markets. To remain globally competitive and sustainable in a free market will require that the local South African producer put reform measures into place to mitigate governments lifting of trade barriers. Concessioning is not supported by South African labour organisations at present, not to say that it will not be supported in the future, as reform processes with technology usually means job losses; however, there are other labour concerns as well.

South Africa relies heavily on its ports for the movement of exports and imports. Earnings of domestic and foreign ship owners totalled US\$2.3bn in 1999, and revenues earned by South African Port Operations was US\$9.5bn. In 2000, the industry employed 28,500 people. SA Port Operations (SAPO) employs 8,000 people, making it the biggest single employer. Although SAPO operates the container terminal, break bulk, and multipurpose terminals in the Port of Durban, private quayside operators handle 52% of cargo (by weight) in South African ports. SAPO, which handles containerised cargo, is of very high value, making container terminals world wide strategic and lucrative (Internet 13). Although SAPO many handle approximately half of all the cargo in South African ports the income it generates is of a much higher proportion. Hence any inefficiency translates into high losses in revenue to Transnet and thus government. Inefficiencies also translate into high costs of doing business in South Africa and adversely impede the growth potential of South African producer and related industries. Due to the lucrative nature of handling containers, the South African government is constantly under pressure from the private sector firms to allow them entry to these markets. The decision taken by government and considering the spirit of the Ports Bill (B5-2003), it becomes apparent clear why the business of handling containers and other cargo has become a priority. Risk sharing through shared capital funding can also be explored as stated in the Ports Bill (B5-2003). Anticipated growth rates in container traffic is approximately 7 per cent (National Ports Authority figure) is expected to sustain itself at least over the next 10 years will expose the port to be severely lacking in capacity and productivity.



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There has been high growth in exports and imports, since 1994, placing pressure on all ports, but especially on container terminals. In Durban, vessel arrivals almost trebled between 1994 and 2000. With container traffic in and out of Durban Container Terminal (DCT), increasing by seven per cent per annum, the DCT is responsible for handling 66 per cent of South Africa's containerised cargo in South Africa.

Attempts have been made by management and workers alike to cope with the massive volumes. The terminal has started working 12- hour shifts and casual employment has increased. There is the introduction of incentive bonuses, a new computerised cargo planning and control system, improved training and new management appointments. These appear to go relatively unnoticed as volumes continue to outstrip capacity by 26 per cent.

Some of the important challenges are: long lead times for equipment like new straddle carriers to move containers in the terminal; the shipping companies, who do not always give accurate information about ship arrivals; and weaknesses in the marine services (pilotage and so on) provided by the National Ports Authority (Internet 13).

There are challenges posed by import clients who limit available space by not removing their containers from the terminal quickly enough; limits to the physical space available for stacking; and difficulties with the private stevedoring companies who handle on-board cargo.

While congestion and delays characterise the container terminals, and especially DCT, the other terminals operated by SAPO including the car terminal in Durban and the iron ore terminal in Saldanha Bay have reputations for world class service. This would indicate that operational logistics are optimum (Internet 13).

SAPO management and labour agree on what has to be done, to overcome the obstacles in the container terminals. Together they have developed concrete strategies to be implemented as part of an overall port reform plan. In addition, SAPO in conjunction with NPA is currently procuring capital in order of R1.4bn to increase the stacking area for containers. SAPO has made arguments against concessioning to government, which are currently being considered.

It is widely understood and accepted by port stakeholders that terminal operations, whether publicly or privately owned, must provide decent employment, they must help reduce the cost of transporting goods, and they must guarantee efficient service. In the end government, must convince all stakeholders that the choice of the way forward has been thoroughly researched and is not an ideologically driven quick fix to a situation that cannot be resolved internally.

#### **1.4. Value of the project**

It is anticipated the study will contribute to research in port reform in South Africa. Port reform has taken place in many parts of the world. This study on port reform through concessioning will be presented to the CEO of the National Ports Authority. As stated in the Ports Bill the National Ports Authority will be the eventual holder of the concession.

The Port Authority is currently questioning the legitimacy of the concessioning, which is perceived by most stakeholders as inevitable. One has to note the complex nature of risks in taking the decision to introduce reform, aligned to the outcomes of local and global stakeholders. Individuals within the port environment in senior and executive management positions will be able to surmise the variables. The Port Authority needs to consider the timing of the concessioning. South African labour unions say the port is not ready for the challenge yet (Internet 13).

The value of the Project is expected to be appreciated by the stakeholders and customers that are affected by institutional reforms especially when they are drivers of such great advances viz. public/private participation in a third world environment. It is the intention to provide assistance in achieving the process of the port reform in a responsible manner. The study will most importantly provide an opportunity for the researcher to gain an understanding of the process of doing research in attempting to unravel the salient issues contained within the topic of concessioning.

#### **1.5. Problem statement**

In unravelling the complex issue of concessioning, stakeholders have different requirements of the port and the service that it provides. The National Ports Authority with respect to the Port Of Durban cannot aim to please all stakeholders but can do well to manage them. All stakeholders accept that there are problems with the service that the



port offers and have undertaken steps to deliver on issues of efficiency. The Durban Container Terminal is currently a source of income to Transnet and thus government as the only shareholder.

It is therefore questioned, **"Will the concessioneering of the Durban Container Terminal provide a solution to improvement of service delivery to stakeholders in the Port of Durban?"**

In answering the question, the feasibility and suitability of the government's strategy to proceed with concessioneering is determined. Discussion will centre on the reason for concessioneering the DCT first. Whether concessioneering is a quick fix to silence the screams from vociferous powerful international trading blocs will be explored. The focus will be a general to specific one. The objective will also include validating the comments of labour who profess to act in the national interests through their conflict with the Department of Public Enterprises (DPE) and government on issues pertaining to all forms privatisation and thus concessioneering.

In establishing what the more reasonable scenario is, it is the intension to recommend strategies on achieving a sustainable balance acceptable to stakeholders, whilst transforming the port system to be globally competitive and world class. In doing this, it still required to achieve national and the international objectives to create a climate for effective and efficient trade. It is the opinion of the researcher that South Africa has excellent leadership that has been able to determine the way forward on much greater issues. Democratic transformation is but one challenge that has been successful and example to the rest of the world. The answer may not rest with concessioneering but rather with public private partnerships for example.

Therefore the requirements of internal (stakeholders with significantly South African public/producer interests, adopting a mindset of keeping South Africa, African) will be explored and compared to that of the external stakeholders (those that have a global interests with intensions of globalising South Africa through trade for financial benefit), objectives which might not be mutually exclusive and thus suppose compromise. This research will provide insight and understanding of the complex relationship and the South African Government with a need to serve the interests of the public that has to carefully balance and sometimes

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dictate through policy on how these needs are best met. One such attempt at regulation is the Port's Bill, which aims to address amicably the need for South Africa to go through a port reform process.

Another objective of the Port's Bill will be to understand the demands of the industry at large and how the port system plays a fundamental role to the success of South African enterprises. It is also endeavoured to see how international trends and local trends differ which affects the ability of the government to satisfy the different needs of the stakeholders.

The research is designed for Port Authority negotiators of the concessioning agreement applicable to the eventual concessionaire. It serves to provide information that can be used when management addresses labour and port system customers, stakeholders and off course potential partners. It will assist in creating a common understanding of the reform process such that the transformation of the port system can be amicably achieved through the development of the port framework. The research will also provide background information to the following difficulties:

- Ports lack financial autonomy and the often cross-subsidisation is required
- Ports lack an orientation towards service offerings
- Poor resource allocation problems
- Port charges need to be revisited
- Ports experience low productivity
- Strong interrelationship with Transnet (Holding Company)
- Strong interrelationship with the other subsidiaries like Spoornet
- Business units are large bureaucracies
- Lack of integration of the different business units and hence strategy implementation failure.

It is also important to note that the ports cannot compete in a free market without a degree of regulation. This is due to the public nature of basic port infrastructure with common and joint costs, investments and the provision of services such as navigation and pilotage. The need for the port regulator evolves as a result to protect the industry and ensure legitimate stakeholder value.

### **1.6. Objectives of the study**

Objectives are desired end results and will focus on three statements as follows:

- To evaluate the prevailing guidelines pertinent to local and global stakeholders in the Port reform processes. The evaluation will be done in conjunction with the model that is developed in conjunction with the Port reform Toolkit 6 (Internet 6).
- To determine if the process is timeous. It is important that South African producers are up to face the challenge in having understood the risks in going into public/private partnerships. South Africa can use opportunities to learn from many of the other developing countries that have already formed such partnerships. Being a key player in NEPAD and the AU, African countries as signatories have vowed to learn and assist each other in such initiatives and this must be taken full advantage off.
- To establish thoughts and point of views possibly unconventional and rebellious in the recommendations that can be considered by port reform leaders and project managers in the concessioneering process based on inferences made from publications, guidelines and other countries that have or are going through port reform processes. Through providing more scenarios, one is able to identify more risks and therefore increase risk mitigation efforts.

### **1.7. Research methodology**

The methodology is qualitative of nature. It is not intended to prove or test a theory, but to argue the merits and demerits of concessioneering which assists in developing a way forward on the concern of different stakeholders. The theory on different port structures will be discussed as well prevailing and proposed legislation. The current guidelines as provided by the World Bank (Internet 6), on how to implement concessioneering will be evaluated against a real issue currently experienced in the Port of Durban.

A tentative conceptual framework is adopted will enable focussing on the topic of the Concessioneering of the Durban Container Terminal (DCT). The Port of Durban's Container Terminal will be studied with other ports used as reference to elaborate on points made in the study. The researcher will only consider the study of concessioneering of the terminal and not other terminals that handle other types of cargo for example break-bulk and grain. The study will consider global and local impacts on all significant stakeholders.

With reference to Rudestam and Newton (2001), conceptual frameworks are expressed graphically, that are labelled for events, settings, processes and theoretical constructs. The researcher understands the topic and thus is fluent in the study thereof. Therefore, in this study the events leading to concessioning is the "poor" performance of the terminal, set in the Durban Container Terminal (DCT). Processes refers to the current terminal operations and the theoretical constructs will be argued in the South African context, using suggested norms provided the World Bank (Internet 6) and UNCTAD (Internet 14), organizations that are widely accepted globally by ports as authorities on the concessioning guidelines. These choices and distinctions w.r.t concessioning models are theoretical and empirical in nature.

In performing the research, there will be an understanding of the topic of concessioning. There will also be perspectives underlying values, assumptions, and expectations. The data used will be of a secondary source type and consist significantly of detailed descriptions and event, situations, and behaviours as well as an interview with the marketing manager of the National Ports Authority for his experience and beliefs.

Exploration into the concept of concessioning is required because it is a new and vague in many regards. Concessioning is unique to each scenario of business especially large state owned enterprises and is expected to country specific. Important variables are not all known and defined and such a qualitative approach can lead to a formal research design (Schindler and Cooper: 2003).

### **1.8. Limitations of the project**

The project may be limited by the effect that it has on the decision-making powers. When attending to problems it is impossible to address all matters related to the subject. The National Ports Authority has performed a concessioning business case, containing sensitive financial figures, which will not be divulged.

### **1.9. Structure of the study**

Chapter 1 describes the topic, reason for attempting the topic and the method of doing so. It also serves to introduce the topic of concessioning with respect to the Durban Container Terminal. Chapter 2 describes the theory of concessioning and the stakeholders in the process as well as the impact on interested and affected parties. It presents a global

trading perspective as well as local competition and survival perspective. Chapter 2 ends with a model that describes the current state and future state of the terminal. The model describes the method used, suitability and feasibility of the concessioning deliverable and the probability of attaining desired outcomes. Chapter 3 describes the Port of Durban, the strategic significance of the port and the Durban Container Terminal (DCT). It looks at the stakeholders in more detail and the point of view adopted by them. The business of the container terminal is evaluated to give insight into the types of risks that the concessionaire may be subject to in the development of a concession agreement. Chapter 4 evaluates concessioning and Chapter 5 provides concluding remarks and recommendations.

### **1.10. Summary**

Some stakeholders have hailed concessioning of the Durban Container Terminal (DCT) viz. the shipping lines operating in the Port of Durban, as one of the greatest initiatives by the South African government to providing for a deregulated market economy. Although a small step, is regarded by the public sector as bold move and a signal to global trading blocs that South Africa is confident in its ability to deregulate markets previously run by state monopolies. Government intervention is interpreted as a mechanism to protect markets they control and to be able to concession terminals for example is showing the international business community that these businesses are near good enough to be globally competitive.

The study will evaluate the supply system and determine whether such concessioning is suitable and feasible to serve the needs of the greater South Africa or a few capitalists. The terminal in its present day is generating extremely large profits (order of R2.5bn, 2003) for government through Transnet. (Marketing Manager NPA.Mr Sipho Nzuza: 2004)

In determining the "truth" about the terminal operations, it necessary to understand the background of operations as well as the aims and objectives of concessioning. Concessioning has primary and secondary benefits if concession agreements are concluded wisely. Chapter 2 describes the theories of concessioning generally and then specifically the significance in the Port of Durban. Chapter 2 also describes the legislation governing the holder of the administrator of the concessioning agreement.

## **2. Chapter Two - Business of Ports in World Trade**

### **2.1 Introduction**

This chapter in assessing the strategic significance of concessioning will conclude with a model, which after chapter 3's development of the case study will evaluate variables against the model. Chapter 5 then leads to recommendations on concessioning the Port of Durban's Container Terminal. The model shows the events that have lead to stakeholder dissatisfaction in a process that ultimately leads to stakeholder satisfaction either through concessioning or some other means.

The model will first consider at a high level, the world economic climate and South Africa's contributions and obligations with respect to bilateral and multilateral trade agreements and other agreements at the last Doha, guidelines of the World Trade Organization, World Bank, ILO, and IMF. Next, the model considers South Africa's obligation with respect to African commitments, i.e. NEPAD and AU. The model considers the South African government's obligation to its constitution, through the Department of Trade and Industry, Department of Public Enterprises, Department of Transport, trade unions viz. COSATU. These departments are significant stakeholders directly affected by the concessioning of the Durban Container Terminal (DCT). There are significant implications of not business doing business in accordance with the WTO guidelines which pose threats and opportunities to South Africa. Concessioning the DCT is one example that may present an opportunity to improve economic growth in South Africa however, could threaten workforce stability.

Lastly the model considers operations level, i.e. South African Port Operations, the holder of the potential concession (National Ports Authority of South Africa), the potential concessionaire (private bidders), and the related supply system support industries.

Prior to looking at South African context, it may be important to understand the concept of privatisation and concessioning. Privatisation is determined as the open sale of a state asset. It includes processes that turn state functions over to the private sector and the market viz. sale and/or partial sale of state owned assets, introduction of private competitors in and industry previously monopolised by the state, state functions made to operate on a commercial basis, to name a few (Internet 17). Concessioning is a specific

subset of privatisation in a business that is transport related in which government has the desire for private participation in the provision and operation of strategic transport infrastructure and services with maintenance and some form of control of the infrastructure. Government uses the device of a concession or a contract. The effectiveness of the delivery on the contract depends largely on the skill with which the agreement/ contract was designed. In South Africa as part of government economic reform process, private sector partnerships has been promoted with state assets giving rise to the concept of concessioning in the transport sector dominated by the parastatal Transnet at present (Internet 6)

## **2.2 South Africa's External Trading Environment**

Many governments implementing economic reforms in recent years have increased the role of the private sector in the provision of transport infrastructure facilities and services. Instead of eliminating the need for regulation, such reforms have emphasized the need for effective regulation and regulatory institutions for a number of reasons. There exist natural monopolies within state institutions. As a result there are limitations of competition for the market. There is asymmetric information between transport operators and regulators as business is usually fragmented and politically orientated. As is the case with the port of Durban there is a need for private investment in infrastructure facilities. There is a need to assign risks between operators and government.

This chapter examines the implications of economic reforms in port transport and the regulation of infrastructure facilities and services. The external environment to South African port business is reviewed in determining the strategic significance of concessioning. To appreciate concessioning, one needs to understand that there is great competition in port business in South Africa. Concessioning would bring a paradigm shift in way South Africans view the business of ports in the future. There are implications and associated drivers of port reform in the concessioning process, which may not be realised given the government's management of port systems in South Africa. A PEST analysis provides for understanding the external environment to South African port business (Thomson and Strickland: 2003).

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### 2.2.1 Political Impacts

The South African government owns and operates the terminal at present. Government has made business decisions over time that has lead to the port having evolved to its current state. In many cases government, a political institution has not prioritised keeping the port as competitive as possible. The South African government through previous isolation was unable to stimulate trade and economic growth through trade of basic commodities. The same is true for many ports especially in third world countries, which have prioritised political rather than economic growth agendas (Internet 6). South Africa for example, is currently pursuing a democratic transformation and is only 10 years old. Hence, the social, educational, environmental, health, literacy, and employment rate within the country are currently more important to government than privatisation issues, but are becoming a priority as the government gains recognition and becomes confident in managing such issues. Concessioning may show specific trading blocs comprising first world countries of the South African governments' commitment to free trade facilitation. Such foreign confidence will reduce the risks of trading and in doing so may provide for further trade opportunities and related benefits.

### 2.2.2 Economic Impacts

The economic impacts of concessioning could be lucrative to a country as described by World Bank (Internet 6), which through a higher output derived a greater throughput and thus a greater income, hence resulting in an improvement of the economic growth rate. Depending on the type of concession agreement, the risks of the service provided by the operator is low because the operator is not deemed to provide a public service and then risks incurred by the operator can easily be passed onto the consumer through increases in charges.

However, if the regulator deems the concessionaire to be providing a public service then the risks can be high for the operator and thus the operator would increase the cost of the service that he would charge in the tender. The new operator can become a more expensive, less efficient service provider than the previous state operator.

Depending on the agreement, the revenue generated can be unstable if not enough vessels call at the terminal as estimated and this risk can be shared between the regulator



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and the concessionaire. This is one of the assumptions used in motivating the need for a private operator (Internet 6).

The country can change politically and thus affect the volatility of the exchange rate, which will affect revenue profits. There could be changes in laws for transferring of money and or exchanging of money that could affect the concessionaire. Thus, a sound economic policy will obviously support concessioning.

Improving infrastructure will be important to support economic growth and regional integration. The availability of infrastructure services in ports is key to economic growth. In addition, without adequate transport systems linking countries together, trade cannot flourish. Availability of adequate infrastructure is also essential for social cohesion in the region: the possibility to trade is in fact necessary to create a multicultural society which respects and tolerates each other, and appreciates and recognizes cultural differences and values (Internet 6).

However, while infrastructure is important, it alone is not sufficient to promote growth, integration, or social cohesion. Investments without the reforms necessary to strengthen institutions and promote private sector investment and trade will not be sustainable and will not generate their full potential benefits. In addition, investments without political and social leadership which supports tolerance and interaction in a region will not be sufficient to promote social cohesion (Internet 6).

Building large infrastructure without sound policies and institutions for private sector development and social cohesion and inclusion, may mean wasting large amounts of resources without achieving the objective of sustainable economic growth and prosperity for South Africa.

It will be increasingly important to make progress in the commercialization of utilities, and in private involvement in funding infrastructure development, which are currently at very early stages of development in countries especially in Africa. The experience of developing countries shows in fact that it is possible to attract private investment (Internet 7).

Investing in infrastructure has important regional dimensions. First, significant efficiency gains can be made by pursuing infrastructure development regionally rather than on a national level. Given the small size of most third world countries specifically with respect to trade volumes, development of infrastructure investments and policies strictly on a national basis does not allow for the exploitation of economies of scale, which are likely to be important in port development. Second, since the benefits from regional projects are realized beyond national borders, fair mechanisms for financing, and in general burden sharing, of these regional projects will need to be established by government (Internet 7).

### 2.2.3 Social Implications

The social risk arises when operators may have to restructure its workforce and bear the cost of severance payments and retraining. The risks of general strikes or civil disturbances in the host country are frequently classified as cases of force majeure, which means that they are often only partially covered by the protections afforded in the contract. Additional insurance can be obtained to cover residual social risks. Therefore the concessionaire who is ultimately responsible for the optimization of labour must be required as part of the social requirements and obligations take measures to ensure that staff and the respective unions are adequately respected throughout the retrenchment process. Pricing and qualifying this matter in the tender may be to their advantage if principles of government's social investment plans are heeded. The port sector presents special challenges relating to social risk: Dockworkers often enjoy a special status under national law stemming from unique history and work disposition, which may put the operator in the diminished position of merely acting as an employer of hired labour. These special treatment situations are disappearing in some countries, but where they still exist they are a source of risk and excess cost for the operator.

Port or terminal concessions, while requiring the operator to continue employing a portion of the existing personnel, often result in a very substantial reduction in the number of port workers (reductions of the order of 50 to 70% are not unexpected by SAPO) (Internet 2).

Although the Port Authority or government may give the concessionaire free reign to rationalize the port workforce, this alone is not sufficient to eliminate the social risk. The operator must also be assured that the local authorities have the capability to manage the social situation thus generated (e.g. through retraining, early retirement, relocation

allowance, etc.). Otherwise, displaced port labour may seek recourse against the concessionaire. The operator and the Port Authority leads, in practically every case, to sharing of traffic risk, both in terms of responsibility and consequences. The terms of the concession agreement effectively allocate these risks between the two parties. However, even though they are partners in port reform, there is a natural tension between the Port Authority as a custodian of the public interest and the operator (SAPO) as a profit maximizing business. Retrenchments through rationalization of the terminal operations are short-term and in the long term when the predicted growth does take place the opportunity for increased employment through expansion and self employment arise.

In terms of employment creation, the strategy will in itself even create a few jobs in the short term. The consolidation through rationalization of various providers will, in fact, result in net job losses in the short term. However, the impact on competitiveness of the customers of the DCT can be substantial, and thereby the strategy will contribute very directly to the creation of a large number of sustainable jobs in the economy.

There is a strong likelihood that after consolidation the key providers of services will again begin growing their employment bases as they grow with the economy. This is particularly true of the potential contribution of economic development in both domestic and foreign markets. Once the signalling from industry in relation to their needs and those of their targeted customers is clear, the capacity of the transport system to respond quickly to these needs will be dramatically enhanced. Opportunities flowing from the creation of the low cost suppliers in terms of support activities and the sale of assets can be channelled to those who lose employment in the rightsizing of providers.

Irrespective of how labour is handled, the employment creation in low barrier to entry businesses in and around transport will be substantial. Further, as decisions about the road support system improve, the opportunities for labour intensive road building and maintenance will be great on roads in the country. The benefits of increased social integration made possible will be important to achieving the social goals of government (Internet 13).

#### 2.2.4. Technological Impacts

Concessioning is expected to bring along large technological changes in the terminal as well as the peripheral and support industry. The basis of the technological changes is competition. The competitive nature of the terminal will be described by the technology

that is used. There will be innovation and creativity as well as attending to obsolete technology. Breakthroughs will be expected by the new management to make dramatic improvements on the firm's competitive environment. (Pearce, Robinson: 2000). Infrastructure developments to complement technological advances will be expected by the operator in their supply system analysis. Hence, in considering the technological advances, it becomes a joint initiative between all of the supply system stakeholders to make the terminal more competitive. All stakeholders will therefore require return on the investment and be able to fund requirements placed on them. This is not always possible; hence cross subsidization by the state may be required. As a result of concessioning of the terminal, there might be pressure to concession other supply system stakeholders, like Spoornet, also a state owned enterprise that services the terminal by rail.

Terminals are largely dependant on good transport systems and thus improvement of transport infrastructure and logistics will be required from the municipality. In South America leading competitors are making major improvements in their transportation systems. Improvements in the transportation systems in these countries will directly affect the competitiveness of U.S. products in world markets (Internet 8).

Brazil has also privatized rail operations. The privatisation of the railroads in Brazil has improved and will continue to improve the ability of Brazil to export with lower costs.

With most statistics on the success and/or failure of concessioning their often very little mention of the social costs, such job losses for example. If usually there is a benefit to one party then there is also a loss to another. It is complicated and only through compromise that a benefit of a lesser degree can be attributed to both parties.

Another investment in technology is equipment, the current operator (SAPO) has purchased the latest more efficient straddle carriers and reach stackers that are smaller, more manoeuvrable, faster, and can carry a larger mass. This will assist in loading and unloading cargo of a difficult nature quicker. The operator has also purchased 3 large container cranes of much higher specification. The infrastructure costs will be passed onto the concessionaire eventually. This combined expenditure is the order of R800 million (Internet 10).

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With the need for technology in mind, a great opportunity presents itself to South Africa as with the rest of the developing countries in the world and that is to use the latest available technology with the intension to leapfrog many competitors even in first world countries. In this situation subject to good capital planning processes and discipline, as stated above, third world can become threat to the first world producers.

Developing countries in the 1980s were confronted with financial crises that put considerable constraints on the capacity of the state to invest in state owned enterprises. This had negative repercussions at the macroeconomic level those in turn adversely affected firms in both the public and private sectors. Often, reforms were part of structural economic adjustments that emphasized speedy privatisation, not necessarily privatisation that would promote efficiency, equity, and sustainability. Given these sets of circumstances, considerations of efficiency have been less important for many governments than the need to overcome resource constraints. This is one of the issues to be addressed in the case of the DCT and the "apparent" rush of the concessioning process. Recent statistical research on the impact of privatisation on financial and operating performance, labour, fiscal balances and distributional equity largely confirms the view that privatisation can be beneficial for firms operating in a competitive market structure in developing countries. It is difficult to quantify the impact of privatisation in these countries as the evidence points to increased efficiency with only modest reductions in labour (Internet 9).

A thorough understanding of the impact of technology on concessioning would necessitate microeconomic studies that look at the effects of changes in ownership on firm performance and macroeconomic studies that study the overall impact of privatisation programmes. It is obvious that many more studies needed to arrive at firm conclusions regarding the economic consequences of technological impacts on privatisation in developing countries (Internet 9).

### **2.3 The South African Ports Industry and Business Environment**

For the Ports Authority to develop the concession agreement, a good understanding of the ports business and associated peripheral and support business needs to be considered. Hence, industry and relevant competitive forces acting within the industry will be assessed. Before completion of the ports industry analysis, competition determinants are listed so



that the industry analysis is considered with these determinants in mind. The model used to understand competition and the determinants of the intensity of port rivalry is the Porters Five Forces Model (Lynch 2000).

### 2.3.1. Service Provider Bargaining Power

The concessionaire is required to bring expert opinion and experience into the operations of the port. The concessionaire should have unique capabilities that assist him improving the inherited situation, to take the role of a problem solver. The concessionaire will be a stakeholder that would have possibly canvassed the concept of concessioning to government. The concessionaire by definition shall provide the much needed funding to finance in full or in part the asset costs and leases agreements, as well new infrastructure and equipment that he might need. Such financing would provide for substantial income to the South African government. The amount of financing depends on the type of risks, due to factors outside their control. There could exist "choke points" in the port that facilitate slowdowns or stoppages in port operations such as road congestion and access to the port, equipment failure, or lack of dependability on rail service. The service provider can improve efficiency through reducing or absorbing downtime. The service provider or concessionaire may be more flexible in establishing agreements in creating a more efficient supply system, through reduced bureaucracies and stringent service level agreements with suppliers and port users (Internet 2).

### 2.3.2. Determinants of the Threat of New Port Entrants

A port may invest high capital in infrastructure and equipment that could potentially create barriers to entry through high costs resulting in a lack of economic feasibility. Other ports may not invest any capital providing in that case, for ease of entry. It will vary depending on the objectives of concessioning. There could be a shift in distribution patterns such as development of new industrial development zones, which offer incentives to invest. Thus a port may loose customers especially, a phenomenon that small ports will be sensitive to. Leases agreements may prevent other service providers from establishing supply chains like warehousing areas, fuel stops, truck stops, and maintenance shops. A port may not be able to expand and run the risk of becoming saturated and over traded. This suggests peaked capacity in terminals, and surrounding infrastructure. There might be large costs to switch to other ports or service providers operating in different supply systems. Existing service providers may have many advantages with own developed technologies, loyalties

with the existing supply system, which needs to be established by the new concessionaire (Internet 2).

### 2.3.3. Threat of New Entrants

New port facilities in a region may lure prospective investors. The type of investor will depend on the capital and finance cost of infrastructure. Development of new nodes or industrial development zones affect flow of cargoes and thus attract new entrants or remove threats of new entrants. New service providers in the port could attract new entrants. A new entrant could successfully provide for achieving a balance of demand and supply for port services and facilities in the region. New entrants through better business acumen have the ability to segment operations in the port to create competition among service providers thus having a cost reduction impact. New entrants may be able to absorb losses and/ or cross- subsidise operations. Competing ports are able to economically access, the same hinterland markets. Existing operators may be able to control efficiency of port services, particularly customs clearance procedures. There will be a change in the rules and policies on number of competitors and/ or criteria for operating within the port. The potential of new ports or service providers also poses a threat (Internet 2).

The cost of entering to provide a port or terminal is very expensive. Durban has the largest container terminal in South Africa and is hence able to provide users with the advantage of economies of scale. New competitors such as other developing ports need to invest large sums of capital and with South Africa having the highest GDP in Africa, only high levels of foreign direct investment in other African countries can hope to challenge existing infrastructure in South Africa. Hence, for competitors there exist cost and resource disadvantages.

South African and more especially the Durban Container Terminal, proposed as inefficient by users, do have an advantage of a learning curve. Many skills are inherent in the resources used to run the terminal. No other operator will have such an advantage of knowledge of the local conditions as well as the existing supply systems and networks. This learning curve will have negative effects on the income to the concessionaire. If this learning curve takes too long then the process of concessioning can cause great financial losses to the operator and imminent failure may loom. The new user/ operator may have a

technology advantage and some specialised expertise on how to operate a terminal and this may be advantageous in mitigating the learning curve dips (Internet 2).

Another factor is brand preferences. Ports such as Singapore, Rotterdam, Antwerp, and Hong Kong are well-established ports and handle containers very effectively and efficiently. Therefore, the Port of Durban if through some re-organising and re-engineering of processes can establish an African brand; it would pose a greater barrier to entry, when ships just call because of branding especially when supported by AU countries for example.

Besides the need for large capital investment in the port, evaluation of the supply chain may require that transport networks, be constructed and this further increases the costs of infrastructure. In so doing, regulatory and especially environmental policies may render the work not feasible or at least more expensive (Internet 14). Other countries may have different trade restrictions that do not subscribe to WTO guidelines. This may pose compromising standards of trade to users alike.

#### 2.3.4. Determinants of Bargaining Power of Port Users

The larger users for example shipping lines have the greater percentage of traffic in the port. These users through generating larger incomes for the port have privileges such priority berthing spaces. Using large power bases large users can promote and achieve business realignments and alliances among port users that result in more powerful business players and economies of scale. Besides the stakeholders affected by the terminal operations there is also a large proportion of large value adding tenants that the Port Authority wants to retain for their importance to the local economy. Many businesses are successful for having developed this relationship with the port and object to it changing. Large users pose the argument that the services provided by the port can be replicated elsewhere and that they are looking to pursue that avenue. Large users or cartels are able to incur the cost of switching to other ports or service providers; however many are not especially in developing countries where business remains largely fragmented (Internet 2).

Therefore summarising the above there is the bargaining power of service providers or group one in this case, i.e. the contractors, private terminal operators and labour employed



in the port. The bargaining power of port users, i.e. shipping lines, shippers and tenants is the core group of stakeholders. This body of stakeholders have high levels of power, much more than the first group, in that they are able to control negotiations by the threat of curtailing or cancelling services, or size and importance of the port user to the port, and the ability to utilize other ports or other sources of supply if it becomes necessary. Hence, to the Durban Container Terminal in Durban, the current operator is held hostage by the second powerful group of stakeholders, remembering that power is characterised by financial wealth and security.

#### 2.3.5. Rivalry among Competitors

With concessioning it is expected that there will be intense rivalry within and between ports in South Africa and Africa, as operators vie for clients. Large-scale investments will lure potential investors and businesses to consider doing business, often as partnerships agreements. The rivalry is not a major force yet, as most of the ports serve specific markets and although some competition does exist they are different significantly, through location, backup infrastructure, size of vessel, equipment available and trained staff. The demands of the different products in the ports in South Africa is thus not intense, but due to the growing demand in container traffic, ports outside of South Africa see opportunities for handling containers and thus generating huge amounts of income as a result. Because of there being no significant rivalry between ports the costs charged are higher by all the ports and is one of the reasons leading to the perception that the port is unable to boost efficient production. Due to rivalry being poor amongst ports in South Africa, and even poorer operations in the other competing ports, which are fast developing, may provide opportunity for customers to switch ports. The costs to switch are dependent on the product and the differences between the existing and new logistics supply system (Internet 2). As users that incur expense in the Port of Durban reach the threshold of dissatisfaction, it is expected that they would have had impact on their market position and the need for competitive advantage challenge the Port of Durban.

#### 2.3.6. Potential for Global Substitute

The Durban Container Terminal handles goods in containers a world trend in transport of many different types of cargo. It thus competes with other ports, i.e. in Sub Saharan Africa as well as different modes of transport such as air transport, road within the continent as well as other forms of sea transport like bulk ships. Most cargo was historically

transported as bulk and this form always remains a threat due to the flexible and cheaper nature of the operation. Other port specific competition is discussed in rivalry amongst competitors (Internet 2).

It serves to reason that being competitive yields competitive advantage and competitive advantage is enhanced through efficient distribution of products to the markets. The port forms an integral role in this logistics system and thus if efficient (through time and cost advantages) can yield a competitive advantage to the distributor. Such advantages to the distributor ensure an increased market share and reduced prices to the consumer in this case Sub Saharan Africa.

If the port restricts the flow of cargo then one extreme is lack of financial viability to remain in the market concerned. This may result in the producer exiting from such markets and relocating with more favourable factors of production, leading to other assembly sites. The loss of customers is a disaster to the economy of South Africa. Poor efficiencies also serve as barriers to market entry of potential customers, hence leading to poor foreign direct investment (FDI) realisation. Foreign direct investment is one of the most significant reasons for concessioning terminals. Increased foreign direct investment signals greater economic confidence and hence potential for higher economic growth rates within the host country (Pugel and Lindhert: 2000).

## **2.4 Perspectives on the Business of Ports**

Either government manages port business in a developing country directly or indirectly through parastatals. In South Africa, port business is managed by a parastatal called Transnet. Transnet has many divisions, two of which are called the National Ports Authority (Landlord) and South African Port Operations (SAPO). This arrangement was sufficient to do business in a traditional manner when markets did not need to be as globally competitive during the apartheid era as they need to be today in order that they survive. Hence, through traditional lack of business evolution and inward focus caused by many factors stimulated by political isolation, this emerging country South Africa has come to be uncompetitive in the cost of transport. Yet, business still has to be done and the result is that the consumer carries the cost of the inefficiencies, which has the effect of making products imported less competitive, were not for tariffs. Tariffs have led to much frustration of the host country's trading partners and subsequent pressure for the port

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business and especially operations to be concessioned. It is expected that private sector intervention would force competition and thus a reduction in the cost of intermodal transport, with reduced barriers to enter markets in the country and thus tend to a free market economy. Like with the port infrastructure, the support infrastructure also managed by government would also not have evolved and thus require repair to support a private concessionaire. The costs of privatising one aspect of the value system will place financial burdens on other aspects (Internet 14). Concessioning will also create an entrepreneurial environment promoting SMME's in an otherwise regulated port.

The reduction of barriers to entry into different markets will have the effect of forcing competition on other related suppliers and their supplier's which eventually affects the entire local economy. The impact is large because port business is usually the largest in a typical developing country (Internet 14). Government regulation will require that there be a need of legislation changes and amendments. These need parliamentary sanction and this process may take time.

The description of traditional port business has changed in many countries with attempts to become more competitive. Countries like Brazil, Argentina have implemented drastic measures to improve productivity in their ailing economies. China has progressed through leaps and bounds in revolutionising the way business is done and so to it's large capital infrastructure investment soon to become the next trading superpower. In considering changes to port business, the holder of the concession agreement i.e. the National Ports Authority will have to be aware of what ports competition is likely to be in the future and make corresponding strategic provisions in all aspects of the business (Internet 6).

The 21st century will see radical changes in the business base underlying port operations. There will be increased global competition, which will force changes in the way all players in the international logistics chain, which includes ports, do business in the future. Innovative and new technology will change requirements for port infrastructure and as with global businesses, increase the degree of specialization, raise the financial burdens on the regulator and the need for a highly specialized workforce.

There will be a need for realignments and consolidations among port users and port service providers creating a base of players with whom ports do business. There is

expected to be changes in distribution patterns and some historical port related activities may be shifted out of the port environment. Environmental and safety concerns will force on ports the requirement to impose regulations and provide facilities that may have no commercial return on investment for example the NOSA ratings for health and safety and ISO 9001 and 14001 management systems.

Ports in developing countries cannot ignore globalization of production. Globalisation is a concept that expects ways to defuse current port efficiency problems. It is well known that the world economies are becoming increasingly interrelated because of increasing trade and the growing trend toward globalization of production. Over the past half-century, most countries have seen an increase in exports as a share of GDP and there has been an increase in specialization of world trade. Sourcing of raw material has become increasingly globalised and producers in various parts of the world are increasingly forced to compete with one another for the same markets. The basic forces that have triggered the greater interrelation and interdependency of the world economies remain active. These trends are expected to continue (Internet 6).

There has been vertical integration; some use as an expansion strategy and others as a decline stage strategy to survive, which is very capital intensive. These producers would be very sensitive to price especially in transport when evaluating the distribution costs to a specific developing country and hence if high it reduces the producers market and is consistent amongst many ports then it could affect the producer's competitive advantage. Vertical integration in world trade has had significant impact on the global logistics system of many manufacturers. It has added links to global supply chains and increased the transport intensity of production processes. Firms have been increasingly concentrating on exploiting their core competencies and subcontracting a number of non-core manufacturing and assembly activities to outside contractors. Tasks traditionally performed at the start or the end of the production line are increasingly moving away from the main plant to be carried out by manufacturing subcontractors or distribution centres.

There has also been focus on standardizing as manufacturers have been concentrating production capacity in fewer locations, replacing the traditional system of nationally based production with "focused manufacturing." Instead of a factory manufacturing a broad range of products for a local market, the entire production of a particular product for a

continent or, in some cases the world market, is focused at a single location. This has enabled companies to maximize economies of scale in the production operation, it has often made their logistical system more transport intensive and transport-dependent, hence a need for this to be optimised through a concessioning strategy being one of many options (Internet 6).

There is the emergence of a new generation of high value manufactured products, particularly in the electronics industry, and a general reduction in the density of consumer products (i.e., lesser but better known brands) has contributed to an increase in logistics reach. Hewlett-Packard, for example, estimates that the various parts in a computer workstation in a New York office were moved 96,000 kilometres from their points of production in places such as Singapore, Japan, France and the Western United States (Internet 6).

Producers in one area of the world are increasingly competing with producers in other areas for the same international markets. Examples of sourcing alternatives are virtually endless. Wholesalers of fruit and juice in Europe can source from Latin America, Southeast Asia, Australasia, Eastern Mediterranean, Southeast U.S., and Africa. Textile manufacturers can source in Southeast Asia, the Indian sub-continent, Africa, Eastern Europe and a wide variety of other locations. The sourcing decision ultimately is determined by total delivered cost, which in turn can be greatly dependent on the logistics cost to acquire primary and intermediate products and deliver the finished products to market (Internet 6).

Ports forming an integral part of this global logistics chain having to support the way business is changing globalisation of production has sharpened the need for ports to be value adders, not value sub tractors in the supply chain and has given ports a unique opportunity to become value-adding entities. A port is the interface between intercontinental transport and a place in the hinterland being considered for production, assembly, or final distribution. Its capability and efficiency can greatly influence the decision for locating a plant or distribution centre, and often determine whether a local producer can compete globally or regionally with other producers. The challenge is for ports like Durban to relate to the needs of their customers and assist them in improving their competitive positions by providing low cost, efficient port services. It is possible

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through government's subscription to the guidelines on free trade in accordance with the World Trade Organization (Internet 6).

Whilst the South African Government rationalizes its ports sector there are technology changes in the ocean-shipping sector, which places further requirements for port infrastructure and services. The most obvious is the increasing containerisation of global trade, a trend that is widely expected to continue into the future. The DCT is currently being expanded as part of the Port of Durban 2005 development programme (Internet 10).

There is increasing containerisation of sea borne trade. It has dramatically changed requirements for cargo handling and port facilities, raised the financial stakes of investing in these facilities, and radically impacted manpower and labour skills required to handle cargo, creating serious labour redundancy issues, and retraining needs in many ports. In addition, the ocean transport industry is employing increasingly sophisticated information technology to manage logistics; and ports, if they are to remain competitive, must be key players in future IT logistics networks.

More than 60 percent of world general cargo trade moved by sea is carried in containers. On trades between highly industrialized countries the percentage approaches more than 80 percent. This is a remarkable market penetration for a technology that dates only from the mid-1950s, when the first converted ship carrying 58 containers made its initial voyage between New York and Houston. Since then there has been a continual increase in both number and average size of containerships.

The contrast between container and earlier break-bulk operations has reduced the ship's time in port and at berth. Containerisation has reduced personnel requirements for cargo handling, raised berth productivity, and increased the capital intensity of port operations. However more sustainable employment opportunities have been created in the support industries to container terminals such as infrastructure maintenance and road transportation industry. Container operations are critically dependent on port productivity worldwide. Thus improvements in port productivity will alter the container shipping cost environment.

To complement port expansion and management thereof information technology (IT) to support port user requirements is necessary. IT is being increasingly employed throughout the ocean transport sector and has revolutionized the way intermodal traffic is handled. IT systems electronically link port administration, terminal operators, truckers, customs, freight forwarders, ship agents, and other members of the port community. Ports unable or unwilling to keep pace with information technology will be left behind in the competitive ocean transport market (Internet 6).

## **2.5 Port Operating Environment and Major Stakeholders**

Ports represent a mix of public and private goods. They generate direct economic benefits (private goods) through their operations as well as additional indirect benefits (public goods) in the form of trade enhancement, second order increases in production volumes, and collateral increases in trade-related services. These "economic multiplier effects" have been used by many ports to justify direct public sector investment (Internet 6).

Port Economic Multiplier Effects in the Port Of Durban DCT are value added services, repair and maintenance, packing and repacking, telecommunications, customs, and inland transport. Through development policies and the unplanned growth of interrelated industries, many ports become the location for industrial clusters or development zones. Industrial clusters are geographic concentrations of private companies that compete with one another or complement each other as customers and suppliers in specialized areas of production and distribution (Hill: 2003). Industrial clusters represent value chain similar to the latest industrial development zone in the Eastern Cape around the new port of Coega. Interrelated activities in keeping with supply system management are mutually supportive and continuously growing. Clustering of related activities improves the competitive advantage of cluster participants by increasing their productivity, reducing transaction costs among them, driving technological innovation, and stimulating the formation of new business spin-offs (Internet 2).

As a matter of strategic development policy, many ports encourage the co-development of various value added services through franchising, licensing, and incentive leasing. Today, ports aim at attracting enterprises that extend their logistics chains or provide them with specialized capabilities to add value to cargos that are stored and handled in the port.

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General services that many ports attempt to develop include chandelling, ship repair, container maintenance, and marine appraisals (Internet 2).

Many governments are directly or indirectly involved in port development, like the National Ports Authority who will hold the concession and plan and develop basic port infrastructure. Port operations are businesses in their own right and should be managed to achieve optimal utilization of capital. Investments in port assets are affected by risk, by competition for land, for capital or other factors in the competitive business environment. Subsidies and government provided incentives distort the allocation of resources for port development and may result in over or under investment. It is the delicate alignment of public and private interests that determines the structure of port management and port development policy. In South Africa these issues are addressed in the National Ports Authority Bill (Internet 6). The stakeholders that have responsibilities with respect to the Ports Bill are the Ports Authority, the concessionaire and the ministry that drafts and implements the legislation.

#### 2.5.1 The Port Authority

Even through the port is concessioned there is still need for some form of government intervention as public interest is still at stake though the economic multiplier effect and hence the role of Port Authority.

Ports usually have a governing body referred to as the Port Authority, Port Management, or Port Administration. "Port Authority" is used widely to indicate any of these three terms. The term "Port Authority" has been defined in various ways. In 1977 a Commission of the European Union defined a Port Authority as a "state, municipal, public or private body, which is largely responsible for the tasks of construction, administration and sometimes the operation of port facilities and, in certain circumstances, for security. "This definition is sufficiently broad to accommodate the various port management models existing within the European Union and elsewhere.

The UNCTAD Handbook for Port Planners in Developing Countries lists the statutory powers of a National Port Authority as follows (Internet 14). The Port Authority has the power to approve proposals for port investments in amounts above a certain figure. The criterion for approval would be that the proposal was broadly in accordance with a national plan, which the authority would maintain. The authority has financial power to set common



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financial objectives for ports (for example, required return on investment defined on a common basis), with a common policy on what infrastructure will be funded centrally versus locally; advising government on loan applications. The Port Authority can regulate rates and charges as required protecting the public interest. It will be able to set common recruitment standards, a common wage structure and common qualification for promotion; power to approve common labour union procedures. As a regulator the Authority, when appropriate, will have the power to establish principles for licensing of port employees, and agents. The Authority will collect, collates, analyze, and disseminate statistical information on port activity for general use, and to sponsor research into port matters as required. The Authority will have legal power to act as legal advisor to local ports. It will do ship inspections and maintain a register of shipping (oversight of ship safety and manning conditions). The Authority will provide for traffic and environmental safety (safe movement of shipping and protection of the marine environment). Other responsibilities will be to provide maritime education and training (maritime academies, merchant officer's exams, licensing of seafarers), ports (execution of national ports policy), hydro-technical construction (construction of protective works, sea locks, and port entrances. The Authority will provide for Vessel Traffic Systems(VTS), aids to navigation (construction and maintenance) and search and rescue (Internet 14).

Increasingly, central governments implement seaport policies through the allocation of resources rather than through the exercise of wide-ranging regulatory powers. While central governments should pursue macro-economic objectives through an active seaport policy, Port Authority objectives are focused on port finances and operations. It is a widely accepted opinion among port specialists that a Port Authority should have as a principal objective the full recovery of all port-related costs including capital costs plus an adequate return on capital.

In recovering all of the costs the Port Authority must maintain internal cost discipline. It should look to new business development through attraction of outside investment and establish secure long-term cash flows. The Authority can stimulate innovation in the various functional areas to guarantee a long term balance between costs and revenues, especially when faced with innovations by terminal operators, port users, rival ports and hinterland operators. Generation of internal cash flows is needed to replace and expand port infrastructure and superstructure. The Port Authority can compete according to the

rules of the market system, without excessive distortions of competition. It can put limits on cross-subsidization, which may be rational from a marketing point of view (market penetration, traffic attraction) but which can undermine financial performance. Responsibility is required to avoid dissipation of the Port Authority's asset base to satisfy objectives of third parties (e.g. port users demanding the use of land in the port area without regard to the land's most economic use; port and city administrations using Port Authority assets to pursue general city goals). Full cost recovery is viewed as a minimum Port Authority objective; once this objective has been achieved, however, the Port Authority would be better able to pursue other-than-financial objectives considered desirable by the government or by itself.

### 2.5.2 The Port Operator/ Concessionaire

Just as central governments and Port Authorities play key roles in the port communities, so too will the private port operators (such as stevedoring firms, cargo-handling companies, and terminal operators). Port operators typically pursue conventional micro-economic objectives, such as profit maximization, growth, and additional market share. If port operators are free to pursue such objectives, the benefits of a market-oriented system be achieved.

### 2.5.3 Department of Transport and Public Enterprises

In a market-oriented economic system the Ministry of Transport typically performs a variety of functions at a national level. With respect to coastline and port issues, the main tasks and responsibilities of the Ministry is policy making. The Ministry develops transport and port policies related to planning and development of basic maritime infrastructure including coastline defences (shore protection), port entrances, lighthouses, and aids to navigation, navigable sea routes, and canals. The ministry is responsible for planning and development of ports (location, function, type of management), example Port of Coega. The ministry also plans and develops port hinterland connections (roads, railways, waterways, pipelines), example Spoornet in South Africa. The ministries legislative responsibility is to draft and implement transport and port laws, national regulations, and decrees. In South Africa this refers specifically to the Ports Bill. It is responsible for incorporating relevant elements of international conventions (e.g., SOLAS, Law of the Sea, MARPOL) into national legislation. The ministry promotes international relations. Specialized departments of the Ministry represent the country in bilateral and multilateral

port and shipping forums. The Ministry also negotiates agreements with neighbouring countries relating to waterborne or intermodal transit privileges. A ministerial department is responsible for financial and economic affairs, planning, and financing national projects. It should be able to carry out financial and economic analyses and assess the socio-economic and financial feasibility of projects in the context of national policies and priorities (Internet 12)

## **2.6 Functions of the Port**

Within the port system, the following roles are filled:

The port is a landlord for private entities offering a variety of services. It is a regulator of economic activity and operations. The port is involved in planning for future operations and capital investments as well as procurement of funding. It is an operator of nautical services and facilities. The port markets and promotes port services and economic development. It warehouses, handles cargo, and provides other forms of storage. The port also provides ancillary activities (Internet 14).

In view of the strategic significance of port land, port land is rarely sold out right to private parties because of its intrinsic value and scarcity. Therefore, a key role for many port authorities is that of a landlord with the responsibility to manage the real estate within the port area. This management includes the economic exploitation, the long-term development of the land and the upkeep of basic port infrastructure such as fairways, berths, access roads, and tunnels. Port authorities often have broad regulatory powers relating to both shipping and port operations. It is responsible for applying conventions, laws, rules, and regulations. Generally, as a public organ it is responsible for observance of conventions and laws regarding public safety and security, environment, navigation and health care. Port authorities also issue port by-laws, comprising a multitude of rules and regulations with respect to the behaviour of vessels in port and use of port areas. Often, extensive police powers are also part of port authorities' powers; however this is not the case in South Africa.

The planning function of the port authority in co-ordination with the municipality is a complicated affair, especially for large ports located within or near a city as with Durban. The port planner considers the consistency of plans with the general terms of land use that

have been set by the competent authority as well as the impact of port development proposals on the immediate surroundings (environment, traffic, facilities, roads). The port planner also has to take into account the appropriateness of port development proposals in the context of international, national, and regional port competition and the integration of individual master plans may call for changes in some ports' plans. Such plans affect future transport logistics for cargo through the surrounding city.

To conclude, it is wise that national government through the Department of Public Enterprises has established a national port policy that supports national economic objectives and creates a reasonable framework for port development. The development of plans for specific port projects, however, is expected to remain in the hands of port operators.

Oversight of nautical operations should be within a port authority's mandate and is often referred to as the Harbourmaster's function. It generally comprises all legal and operational tasks related to the safety and efficiency of vessel management within the boundaries of the port area. The harbourmaster's office allocates berths and co-ordinates all services necessary to berth and un-berth a vessel. These services include pilotage, towage, mooring and un-mooring, and vessel traffic services (VTS). In view of its general safety aspects, the harbourmaster's function has a public character. In the National Ports Authority of South Africa, the harbourmaster is also charged with a leading role in management of shipping and port-related crises (e.g., collisions, explosions, natural disasters, discharge of pollutants).

The cargo-handling and storage function comprises all activities related to loading and discharging seagoing and inland vessels, including warehousing and intra-port transport. A distinction typically is made between cargo-handling on board of the vessel (stevedoring) and cargo-handling on shore (landside or quay handling). Terminal operators can fulfil both roles.

There are two types of cargo handling and terminal operating firms, that is those that own and maintain all superstructures at a terminal (e.g., offices, sheds warehouses, cranes, forklifts, conveyor belts) and those firms that use superstructure and rolling stock owned by the Port Authority; which only employ stevedores and have virtually no physical assets.

The port marketing and promotion function is a logical extension of the port planning function. Port marketing is aimed at promoting the advantages of the entire port complex both for the Port Authority to attract new clients and for the ports industry to generally promote its business. This type of broad port marketing is distinct from customer-oriented marketing that is aimed at attracting specific clients and cargos for specific terminals or services (Internet 6).

A variety of ancillary functions such as towage and ship-chandelling, fire protection services, linesmen services, port information services, and liner and shipping agencies exist within the port community. Large port authorities sometimes do not provide these services, with the exception of towage. In a number of smaller ports, however, these are part of the port authority operations because of the limited traffic base.

There are a number of factors that influence the way ports are organized, structured, and managed. Factors include the socio-economic structure of a country (e.g., market economy, open borders), historical developments (e.g., former colonial structure), location of the port (e.g., within an urban area, in isolated regions) and the types of cargos handled (e.g., liquid and dry bulk, containers).

Four main categories of ports have emerged over time. They can be classified into four main models i.e. the service port, tool port, landlord port and the fully privatised port (Internet 6).

The Port of Durban and all other ports in South Africa are landlord ports. As a result strategic characteristics of the port commercial management are, public, private or mixed provision of service, local, regional or global orientation, ownership of infrastructure (including port land), ownership of superstructure and equipment (in particular ship-to-shore handling equipment and warehouses) and dock labour management.

Port commercial management is affected by concessioning. It affects the landlord's income depending on whether it develops infrastructure. The reason for the choice of the landlord is explained more extensively explained in the Chapter 3, The Business of Ports.

Landlord ports have a mixed character and aim to strike a balance between public (Port Authority) and private (port industry) interests. The landlord port is characterized by its mixed public-private orientation. Under this model the port authority will act as a regulatory body and as Landlord, while port operations (especially cargo-handling) are carried out by private companies. Examples of landlord ports are Rotterdam, Antwerp, New York and, since 1997, Singapore. Today the landlord port is the dominant port model in larger and medium sized ports. National Ports Authority has developed strategy to steer the ports in South Africa to become landlord ports.

In the landlord port model, infrastructure is leased to private operating companies and/or to industries such as refineries, tank terminals, and chemical plants. The lease to be paid to the Port Authority is usually a fixed sum per square meter per year, typically indexed to some measure of inflation. The level of the lease amount is related to the initial preparation and construction costs (e.g., land reclamation and quay wall construction). The private port operators provide and maintain their own superstructure including buildings (e.g., offices, sheds, warehouses, container freight stations, workshops). They also purchase and install their own equipment on the terminal grounds (e.g., quay cranes, transtainers, conveyor belts) as required by their business. Landlord ports dock labour is employed by private terminal operators, although in some ports part of the labour may be provided through a port-wide labour pool system (Internet 6).

In developing the model for the DCT, a specific container terminal, and cargo in containers, it is necessary to consider globalisation of terminal operations. Port authorities are increasingly confronted with the globalisation of terminal operations. During the 1990s, a number of terminal operators and major shipping lines emerged to invest in and take control of a large number of terminals all over the world. This trend has far reaching consequences for the strategic position of port management. This trend toward globalisation has affected mainly containerised operations. Today, a handful of major carrier alliances and independent terminal operators increasingly dominate the major global container trades. The global carriers have sought to secure their competitive positions by concluding long-term contracts for dedicated container terminals in major, strategically located ports. Their reasoning is that they believe they need to control all stages of the transport chain to remain competitive. These efforts to establish integrated

transport chains pose a challenge for port authorities in their relations with the largest carriers.

## **2.7 Model illustrating process to addressing stakeholder issues in the Durban Container Terminal**

Having briefly described the macro and micro port environment as well as port business, it remains an exercise of the balance of the study to go about the process in fully understanding issues of the various stakeholders in the Durban Container Terminal. Until now a brief environmental analysis of the Durban Container Terminal business has been done and investigation into each party and their business in the Port. Figure 2.1 shows the process with the next step in chapter three focussing on a case study of the Durban Container Terminal. PEST and SWOT analysis will focus on South Africa and the Port (DCT) respectively.

## **2.8 Summary**

To summarise this chapter it was necessary to understand the external and internal environment within which the port operates. It emphasises that South Africa having been isolated for many years before 1994, could be considered uncompetitive. Sanctions and other forms of trade barriers placed on South Africa put an end to the need for global competitiveness during the pre 1994 era. This thought is explored in the PEST analysis. Intense political action in the country resulted in negative economic effects such as economic growth. Had South Africa not pursued such a political policy pre 1994, growth in the country may have lead to terminals already being concessioned in line with first world countries. South Africa has lost valuable time and with the onset of excellent global trading prospects, we are unable to meet the demand.

In order that South Africa now implement strategy at this late stage to meet global demands, the business of ports has been found by the Department of Public Enterprises to be in need of rationalisation, thus giving rise to the Ports Bill. In order that objectives of the Ports Authority Bill are achieved, the status of the ports industry is discussed. This paints a clear picture in the mind of where we are and where we need to be to meet demands placed by consumers. Why is it necessary that we need to meet the demands? After understanding environment within which South Africa trades, it is possible to relate to the competitive forces that the current industry is exposed. Porter's five forces model



assists in providing some insight into competition from a monopoly perspective. The Department of Public Enterprises and Transnet have acknowledged that monopoly of the current port management system is not sustainable. It is very expensive, does not promote free trade, and thus limits economic growth in many industries. Some industries, such as servicing and repair to straddles and reach stackers have not even formed. In this transformation journey, many stakeholders need to engage positively such that strategies can be developed together and then ensure success. There are some views expressed on how this journey should be planned and how stakeholders should be involved. The main stakeholders i.e. the Port Authority, the concessionaire and Government have clear defined roles and responsibilities in accordance with the Ports Bill, however, there are many other stakeholders. The functions of the port will change to be modelled as a Landlord port, which includes for management of a concessionaire. Currently the Port Authority is modelled, as a Landlord port however operations currently performed by SAPO is not. Therefore, in knowing our status, the Port Authority vision is, to explore the merits of concessioning as the vehicle to striving towards the vision of a truly Landlord port. This discussion cannot answer this but can explore the variables. The timing of concessioning is explored for appropriateness in South Africa. Hesitation through uncertainty suggests a need for in depth risk assessment.

In conclusion, this chapter was general to the Port Environment and figure 2.1 will focus on especially on the Port of Durban, more specifically the Durban Container Terminal. The same principles and philosophies, internationally accepted by the World Trade Organisation, World Bank and UNCTAD, is applied to the Durban Container Terminal.



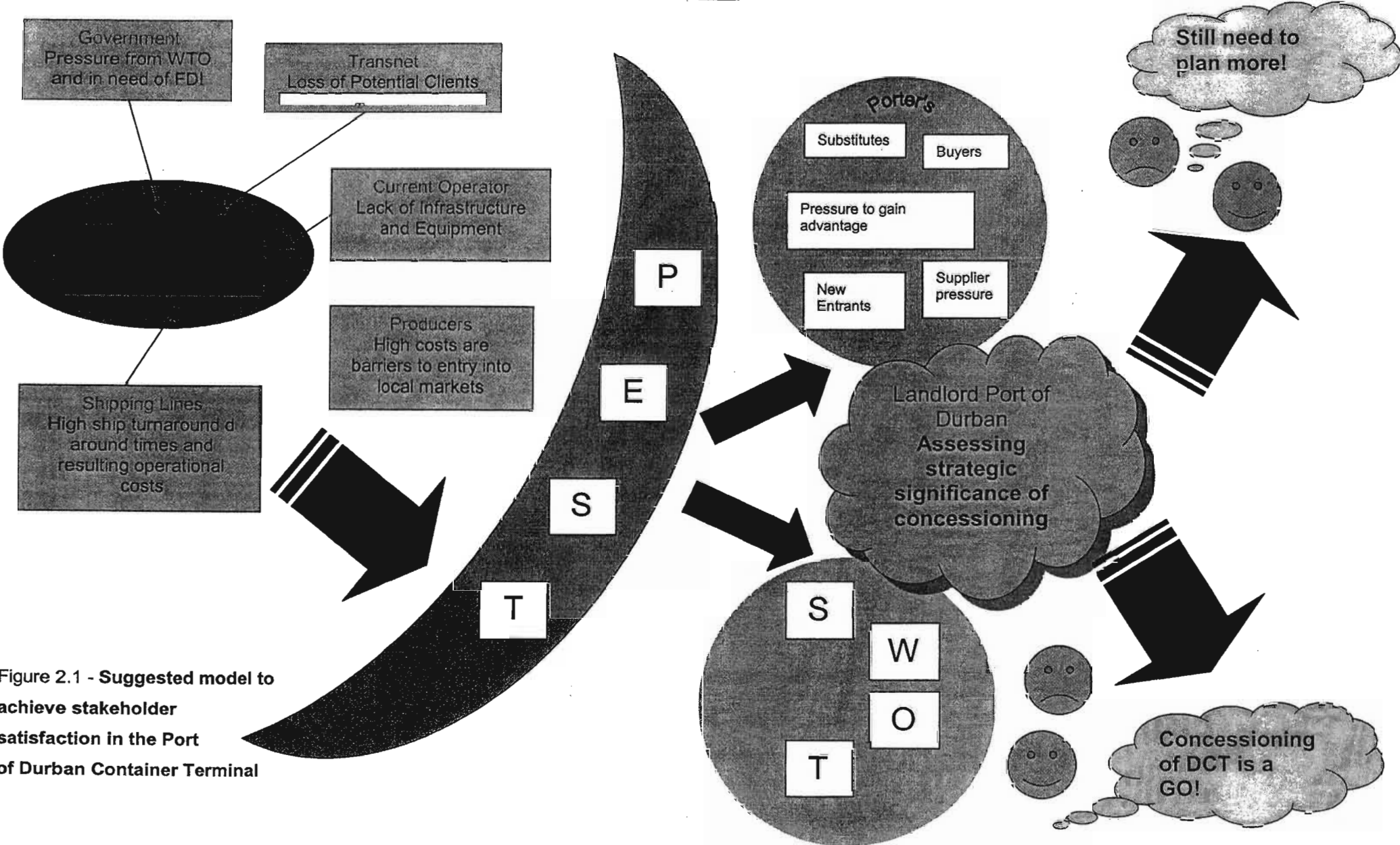


Figure 2.1 - Suggested model to achieve stakeholder satisfaction in the Port of Durban Container Terminal

### **3 Chapter Three - Operations in the Port of Durban**

#### **3.1 Introduction**

The Port of Durban currently has an authority called that the National Ports Authority of South Africa that manages the water and land area within the port's boundary. It was not always like this, as it was once called Portnet. During the time of Portnet the company was also responsible for handling cargo as well, i.e. responsible for terminal operations for most of the port with the exception for some very small private terminal operators which have very specific handling requirements.

In order that terminal operations are privatised the regulator, viz., the National Ports Authority of South Africa (NPA) would have to hold the concession thus necessitating the need for two responsibilities to be split. Unbundling led to the formation of two organizations, viz., NPA and South African Port Operations (SAPO). SAPO would be the organization that would be concessioned (Internet 2).

When the business unit of Transnet was called Portnet, it offered two kinds of services: core and value added services. The core marine services provided are access and protection, pilotage, towage, vessel traffic management, fire protection service and chandelling. Terminal services are vessel tie-up services, container handling and transfers and traditional break-bulk and neo-bulk. Cargo handling services include dry and liquid bulk cargo handling, container stuffing and stripping, bagging and packaging and cargo storage. Repair services include dredging and maintaining channels and basins lift equipment repair, dry dock ship repairs, container, and chassis repairs. There are also other services, which include estate management services and information management services. There are also services that are outsourced to private sector suppliers for example actual repairs to the ships, development of property infrastructure left to private consultants and contractors, and security which is provided by private companies.

#### **3.2 Impacts of concessioning on the port reform process**

Concessioning of the Durban Container Terminal (DCT) will not be accepted by all stakeholders, and is expected to be a controversial process. It may happen also that some expectations may not be fulfilled, as the journey of business transformation has not taken the first step yet. If concessioning does go according to plan then stakeholders

listed below will experience the stated benefits. The negative impacts are also stated where relevant.

### 3.2.1. Government

At the macroeconomic level, improvement of external trade, competitiveness by reducing transport costs, and in particular the cost of port services, and improving port efficiency at the sea/land interface; at the microeconomic level, easing the financial burden on national budgets by transferring part of port investments and operating costs to the private sector, and incidentally, raising revenues from asset divestitures.

If concessionaire does perform then government which is still the accountable to the consumer will not have achieved its objective. There may be many legal disputes without change in the performance of the terminal.

This study will examine some important government policies related to privatisation – the Budget Review 2001, the Department of Public Enterprise (DPE) policy framework, the Department of Trade and Industry (DTI) discussion document on industrial policy, and the 2000 Municipal Systems Act. The ANC position, starting with the Freedom Charter is also explored.

### **The National Treasury**

The National Treasury has adopted a particularly uncritical approach to privatisation. In the Budget Review 2001, it argues that what it calls "restructuring [of] state-owned assets" can "broaden economic participation, re-capitalise public enterprises and reduce state debt." (Internet 17).

The National Treasury is clear in its support of privatisation: to raise funds, which may be deployed to alternative projects. The treasury has its own performance objectives to meet. These targets set limits on taxation, which is said to mostly affect the affluent and government borrowing. The Treasury anticipated that privatisation of the major parastatals would raise capital in the order of R18 billion, in the year 2001/2, however this did not materialise. The National Treasury has also played a leading role in demanding that government agencies bring in private investors in infrastructure. It justifies this push in

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large part by contending that the private sector is inherently more skilled and competent than the public sector.

While public-private partnerships will not necessarily lead to additional capital expenditure, they should lead to greater efficiency as private sector expertise is utilised in the planning process and in the operation and maintenance of buildings and equipment. In addition, a key objective of such partnerships is to shift some of the risks to the private sector (National Treasury 2001, page 137) (Internet 17).

### **The Department of Public Enterprise's (DPE) Policy Framework**

In August 2000, the DPE published a policy framework on restructuring State-Owned Enterprises (SOEs) – *An Accelerated Agenda Towards the Restructuring of State Owned Enterprises: Policy Framework*. The framework commits government to bringing in private interests wherever possible. It suggests that options to "enhance productivity, profitability, investment and innovation will often entail equity sales (full or partial privatisation) in order to access additional funding, technology or markets. Where this is not required, other approaches such as corporatisation, joint ventures, employee participation schemes and community partnerships may be more beneficial". (DPE 2000, page 153)(Internet 17)

This framework favours the sale of assets, arguing that the potential benefits are reduced government debt, improved credit rating, and increased foreign direct investment. While the DPE acknowledges that it cannot privatise all SOEs immediately, it strongly voices the belief that as a rule, competition will improve services for all.

The promotion of competition and competitive markets should be an integral element of any restructuring strategy to ensure that the benefits of restructuring (such as efficiency gains) translate into lower prices, higher quality goods and services, and wider coverage (DPE 2000, pp. 153-4) (Internet 17).

This approach has led the DPE to push for the privatisation of parts of industries that were historically controlled by SOEs (State owned enterprises) – notably electricity, transport, and telecommunications. The DPE generally acknowledges that competitive markets may require some forms of regulation or subsidy. It, however, never explores the implications of South Africa's unusually large inequalities in incomes. Although the DPE provides

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some broader ideological reasons for privatisation, it is clear that, as with the Treasury, a major aim is to raise money.

Unfortunately, the state lacks the immediate resources to address these investment and infrastructure backlogs. There is thus an inescapable demand for new financing through different forms of domestic and foreign partnerships to promote the infusion of new equity capital and technology. Given the limited financial resources, further infrastructure investment can only be achieved through an accelerated programme of the restructuring the SOEs and more extensive use of public-private partnerships (Internet 17).

Importantly, the policy framework admits the need for careful analysis of the impact of "restructuring" on society. It contends, "Such an analysis should address the costs and benefits to society, both direct (e.g. immediate impact on pricing or employment) and indirect (e.g., social costs from non-delivery of certain essential services or the impact of unemployment on specific communities)." It is unfortunate that the DPE has never published such an analysis of its own proposals for the biggest parastatals.

In summary, the DPE argues that privatisation is the best way to achieve efficiency, and that government regulation, shareholder compacts or subsidies will ensure adequate services for the poor. As with the National Treasury, it is clear that despite these commitments raising money off budget, remains the main reason for pushing privatisation.

### **The Department of Trade and Industry's (DTI's) Driving Competitiveness: An Integrated Industrial Strategy**

The DTI published a discussion document, *Driving Competitiveness: An Integrated Industrial Strategy For Sustainable Employment And Growth* (May 2001). This document adopts the DPE's assumption that competition will almost inevitably ensure more efficient and effective service delivery.

Like the DPE, the DTI calls for regulation, without specifying its content or assessing whether the state has the capacity to implement it. In the absence of clear and enforceable rules it runs the risk of capture by the most powerful participants and the undoing of all the positive outcomes associated with an effectively functioning market (DTI 2001, page 8)(Internet 17).

The DTI appears to see state ownership as justified only in the case of natural monopolies that is, in industries where the unit cost is lowest only when one enterprise produces enough to meet the entire market demand.

### **The Municipal Systems Act 2000**

The Act applies only to local government. In accordance with the Act local government assess options for service delivery in terms of sustainability, the ability to provide the service through its own capacity, the impact on employment and development, and the views of local government. Moreover, if the local government contemplates introducing a private service provider, it must first notify the community. Government must also conduct a social cost-benefit analysis, assess the sustainability of the delivery system, and consult with the affected communities and with labour.

It is also required that even if the local government uses a private service provider, it must set the tariffs, ensure adequate services for the poor, and generally ensure that services align with its overall integrated development plan.

It appears that local governments, under pressure to hand service delivery over to private managers and investors, have rarely undertaken the analytical work and consultation required by the Act. They argue that it is too onerous and time consuming to conduct a proper investigation of delivery options and to consult stakeholders (Internet 17).

#### **3.2.2. Transport and Terminal Operators**

More cost-effective port operations and services, allowing for more efficient use of transport assets and better competitive positions in transport markets, and more business opportunities in growing sectors (e.g., container operations).

An oversight of local conditions may render the operator unable to fulfil performance requirements, and thus be liable to penalties. The relationship between the operator and the Port Authority may deteriorate to become poor. The operator's business case may not be realised and could lead to financially unviable venture.

### 3.2.3. Shippers, Exporters/Importers

Shippers, exporters, and importers will experience reduced port costs and, potentially, lower maritime freight rates, allowing lower costs of imported goods and intermediate products, and enhanced competitiveness for exports.

Non performance of the concessionaire could lead to increased costs, making some business financially unviable leading to their demise. Increase in prices affects the consumer and thus the inflation of products. Ultimately this can lead to increased poverty, through un-affordability and retrenchments

### 3.2.4. Consumers

Success would mean lower prices for consumer goods and better access to a wider range of products through improved access and increased competition between suppliers. More products may enter the markets and thus offer the consumer a greater choice. Consumer base could also increase due to greater affordability of products. This could lead to decrease in inflation.

Failure of the concessionaire to perform could mean a complete the reversal in higher inflation, greater job losses, increased poverty, smaller range of choice and lower ability to afford the same products.

## 3.3 **Case to illustrate concessioning of a developing port**

A case in point is that of Colombia port reform processes, labour practices along with the transfer of most port services to the private sector has resulted in large and rapid improvements in productivity, lowers fees for port users, and very attractive returns for the concessionaires see Table 3.1. Similarly, in Argentina, the improvements following the concessioning of terminal operations in Buenos Aires have been dramatic. Port charges and shipping tariffs have declined sharply, labour productivity has nearly quadrupled, and cargo volumes have increased by more than 50%.

**Table 3.1 - Colombia: Operating Container Terminal Performance Before and After Reform**

Indicator Before	1993	1996
Average vessel waiting time (days)	10	No wait ,depending on the port
Working days per year	280	365
Working hours per day	16	24
<b>Tons per vessel per day</b>		
Bulk cargo	500	2,500 min
General cargo	750	1,700
Containers per vessel per hour (gross)	16	25

Source: Puertos (Colombia General Port Superintendent; July 1997). Port Reform Toolkit 6

**3.4 Current Stakeholder opinion on concessioning the Durban Container Terminal**

Thus far, only the three main stakeholders, affected by the Port’s Bill have been discussed in detail. Other stakeholders exist and form an integral part of the value system. It is wise and strategic for main stakeholders to engage the stakeholders that do add value to the system as they also pose a risk of taking value away. Hence, through a stakeholder management system, paramount buy-in to the process in required. The stakeholders listed below have publicly expressed argument on the process of concessioning.

**3.4.1. Government represented by the Minister of Public Enterprises**

The port reform process gathered steam when administered by the then minister Public Enterprises, Minister Jeff Radebe. However, he has chosen not to provide information on the process to date and has since left the portfolio to be headed up by Alec Erwin previous minister of Trade and Industry. Under the helm of the previous minister, the DCT was earmarked as one of the first and most significant of SA Port Operations (SAPO’s) assets proposed to be placed in the hands of private operators on a concession basis.

One of the primary reasons for handing the facility over to private operators would be improved container handling productivity and thus the potential for the greatest economic return and thus the greatest immediate impact to the users of the port. The terminal is frequently lambasted for alleged inefficiencies with comparisons drawn between it and some of the worlds most efficient ports, such as Hong Kong, Rotterdam and Singapore - comparisons which SAPO would argue are unfair and erroneous. Other anticipated advantages of concessioning would be a multi-billion rand windfall for government in return



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for selling the various concessions, and the removal from the state of the responsibility for recapitalising cargo handling facilities at the various ports (Internet 13).

South African Port Operations (SAPO) released performance figures for August 2003 which was 400 TEU's (Twenty foot equivalent Units), higher than it's previous record established in May 2003 of 91054 TEU'S. Improved container handling performance was expected as a result of the installation of new capital equipment such as straddle carriers , implementation of improved handling techniques and improved information systems.

Looking at these figures very closely are the potential partners in the concession. These are Hutchison Whampoa, P&O Ports, ICTSI, Port of Singapore (PSA), AP Moller, CSX World Terminals, and the local empowerment company Grindrod J&J Logistics. They will have the task of improving on SAPO's current production; a bench mark with SAPO improving month after month may not be easily achievable and has to be considered when they prepare their bids (Internet 1).

#### 3.4.2. SAPO

Transnet is SAPO's only shareholder, which is entirely owned by government. The last figures for financial year ending 2004 showed that SAPO was one of the most significant profit centres. SAPO claims that large profits are due to rising imports and exports. SAPO is proud of this, given that it was only established three years ago – as a Cinderella operation faced with major resource challenges - when Portnet was split into two separate companies. SAPO has subsequently undergone major restructuring and manages 13 terminals across at six ports. SAPO achieved a R2.3bn turnover in its year to March and a net operating profit in excess of R300m before an abnormal asset write-down provision of R419m. The DCT is the operator's (SAPO) largest terminal and most profitable by far. SAPO is very fortunate in that it has excellent knowledge of the terminal and of transport logistics in moving containers (Internet 1).

There are 3 modes of transport used at DCT, road, rail, and coastal shipping services. Of the cargo that is handled, 75% moves by road, with 40% in the Durban area and 30% to destinations beyond Durban. The split of cargo by transport modes is 75% road, 22% by rail, with the remaining 3% being shipped via coastal services. DCT handles 65% of the country's container volumes. SAPO supports the view of moving cargo from road to rail

because they strongly maintain that it is easier to load 100 containers onto a single train than onto one hundred individual road vehicles. Their main concern is the extent to which rail is ready to handle the shift. Therefore, the challenges of rail usage need addressing in order to determine the desired shift of containerised freight from road to rail.

Private investors in business units require a reasonable return on investments. Those returns fluctuate according to the type of commodity, i.e. bulk, break-bulk or containers, the investment required, the risk associated with the investments, the expected traffic volumes, and the degree of competition or future competition (Internet 16).

**Table 3.2 The main SAPO business units and Cargo handled through SA ports (2001/02 financial year, Internet 16)**

Port	Main commodities handled at the terminal
<b>Cape Town</b>	
Multi-purpose terminal	Scrap steel, granite, deciduous fruit, cement
<b>Durban</b>	
Combi-terminal	Steel, granite
Bulk metal terminal	Scrap iron
Dry bulk terminal	Grain
<b>East London</b>	
Combi-terminal	Automotive parts and cars
<b>Port Elizabeth</b>	
Dry bulk terminal	Manganese
Breakbulk	Fruit and other
Liquid bulk	Fuel
<b>Richards Bay</b>	
Combi-terminal	Minerals and ores
Bulk metal terminal	Various metals
Dry bulk terminal	Wood and chips
<b>Saldanha Bay</b>	Iron Ore, chemical

SAPO's main business units in South Africa are summarized in Table 3.2 Table 3.2 depicts the split in the types of cargo the split per port (Internet 16).

The constraints facing SAPO include:

At the time of the Union (1910), the ports and railways in South Africa were placed under the control of the national government in the fear that the maritime provinces would use their ports to exploit the inland provinces. The then SAR&H Administration was specifically enjoined by legislation to promote the development of the interior of the country and ensure that each of the existing ports received a fair share of the imports and exports. Rail rates were specifically designed (through tapering) to achieve that purpose. Special rates were also introduced to promote the use of the Ports of East London and Port

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Elizabeth. Although those rates were abolished some twenty years ago, similar rates have been introduced to encourage shippers to use the Port of Port Elizabeth as an alternative port to the Port of Durban in order to relieve congestion. In practice, it is therefore feasible for Spoornet to control port traffic via special rail rates. Such intervention at a national level to redirect traffic would, however, hardly be acceptable to private investors in port operations and the prospect of inter-port competition on any substantial scale is irreconcilable with a system of complementary ports administration in the national interest (Internet 16).

Another challenge is the high rate of copper cable theft that causes train delays and thus affects product delivery times. Transit time by rail takes too long for example, on the Johannesburg / Durban leg is 5 – 7 days and 24 hours by road. There is a shortage of locomotives supplied by Spoornet causing train delays in the marshalling yards. As a result whilst waiting and on route there is theft of cargo. There is also insufficient interface and compatibility of computer systems, which cause delays in transport due to insufficient information being available. SAPO claims that 30% of containers arrive with incorrect information, and 15% of export containers arrive late for the vessel. Rail tariffs are higher than road transport rates. There is a shortage of straddle carriers in the terminal thus increasing handling times. There is a shortage of wharf-side cranes, which increases ship turnaround time. The area to stack containers needs to be increased or additional capacity created to piers and rail terminal is required.

SAPO has thus provided the following suggestions to stakeholders including government in mitigation of the listed challenges:

Turnaround times of trains and transit times need to be improved. This will be done by Spoornet and SAPO interacting more closely to address their current challenges. The intention is to eventually achieve streamlining of supply chain towards a fully integrated seamless transport system. There is also intentions streamline the interface with Customers and Spoornet. SAPO propose repositioning of mobile cranes from Richards Bay and the Combi terminal, thereby adding equipment resources. SAPO have purchased 60 new straddle carriers by the end 2002 to be delivered by end 2004. NPA and SAPO are currently putting together a business case to acquire funds for the proposed extension

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of Pier 1, which includes a new small rail terminal. There will be more visible security alongside rail tracks in order to curb the theft of overhead cables.

Productivity in the ports has declined in recent years because of a decline in handling rates because of under-investment in infrastructure and superstructure, operational inefficiencies, a lack of effective management of some port services, and labour problems. It is thus feasible that, with the existing resources, port productivity can be improved for the time being, but insofar as major capital expenditure is required, reliance will have to be placed on private participation. To the extent that capital expenditure must be incurred on basic infrastructure (e.g. the widening and deepening of entrance channels), which is the responsibility of the National Port Authority, the scope for doing so depends upon whether Portnet's obligation to relieve Transnet's debt problem can be resolved.

The tariff structure as it is composed at the moment, i.e. on a national basis where the same charges applies to all the ports irrespective of the costs, is also not conducive to higher productivity. The realization of economies of scale in operations is thus not passed on to the user. The restructuring of the charges based on costs is therefore essential if private investment and improved operational efficiencies are sought (Internet 16).

#### 3.4.3. Freight Operators

When a Department of Transport delegation met with the freight operators, it was clear that there was insufficient interaction between Spoornet, SAPO, and freight operators. Freight operators alluded to the fact that they support the shift of freight from road to rail but that Spoornet and SAPO need to address the existing challenges that impact on the smooth operation of rail.

The freight operators underlined the following constraints:

There are delays in loading and offloading vessels causing additional costs and often results in a shift of freight onto road. There is a shortage of locomotives and poor utilisation of rail wagons, including a short supply for the rail of empty containers, which results in congestion and delays. Rail tariffs, which are high, promote the use of road rather than rail. There is no synchronisation of operating times between terminals. DCT operates on a 24-hour basis while City Deep a container terminal depot in Gauteng, operates from 06h00 - 17h00. The operational times of these facilities do not support each

other in receiving and dispatching of cargo. The Department of Transport (DOT) and the Department of Public Enterprises (DPE) need to have a common vision regarding the moving of freight from road to rail and collaborate on many. SAPO has a slow turn-around time of vessels. There are service level agreements and these do not seem to work (Internet 16).

#### 3.4.4. World Traders Perspective

Concessioneering raises revenues for the host state, in this case South Africa through asset sales, referring to the Durban Container Terminal. It thus acquires investment capital for host country in invests in other strategic initiatives. It Improves management performance of the operation and the infrastructure sold to improve output. It supports a deregulated competitive market, which charges market-determined prices. There is technology transfer from the new owner to the existing terminal operation.

#### 3.4.5. NEPAD resolution

NEPAD agrees to resist protectionist pressures and stressed commitment to work with other developing countries to ensure the successful conclusion of the Doha Development Agenda by January 1, 2005.

NEPAD also agreed to work at reaffirming the Doha Agenda and the Monterrey Consensus and to work at the upcoming Johannesburg Summit in 2004 to produce meaningful partnerships for sustainable development and measurable results (Internet 15). The Doha Agenda has always indicated an item to discuss the deregulations through the removal of protection of markets in developing countries. It is clear that that there is an intention of NEPAD members to comply with the guidelines of the WTO. In the NEPAD context, South Africa appears to support the WTO requests for deregulation and removal of barriers to market entry remembering that these guidelines are not easily opposed. In supporting this ideology, privatisation strategy would make sense as a means to achieve the goals of the WTO. However, it is easier said than done. Many variables need be considered before measures such as concessioneering can be taken.

NEPAD actively promotes Public-Private Partnerships (PPP's) as a strategy to generate cash as well as sharing of information and transfer of skills. This concept has evolved the last decade as the preferred way to promote development. PPP's is concerns

development in the state enterprises and agencies. PPP's therefore apply to physical infrastructure, such as power, transport, telecommunications, water, and sanitation and thus includes ports. There is a need for greater efficiency and better services In developing countries, there has been a growth in infrastructure as a result of the these partnerships from US\$ 16.6 billion in 1990 to more than US \$95 billion by 1998. However, in Africa, the value of PPP's projects is still limited. Over the 1990-98 period, Africa accounted for about US\$ 14 billion of the total investment of US\$ 496 billion made in PPP projects in developing countries, as compared to US\$ 237 billion for Latin America and Caribbean region.

NEPAD ascribes that in order for more PPP's to emerge in Africa, countries need to improve the business environment. At present serious constraints exist in many countries.

NEPAD encourages governments to undertake needed reforms to improve the business climate. This would include liberalization of investment, trade, and prices, promoting competition, creating deeper and broader financial markets, tax reforms, ensuring that commercial law protects property rights. Furthermore, NEPAD will encourage and assist African governments to create the necessary legal and regulatory framework for PPP's by assessing existing laws affecting PPP's and drafting the law on PPP's and regulation, drafting model PPP's contracts. NEPAD will also encourage and assist countries to establish regulatory bodies in countries where they are absent as well as facilitating networking and sharing of experience among regulatory agencies and other similar organizations. Where required, NEPAD will encourage and assist countries to create PPP technical units staffed with relevant and skilled personnel (legal, financial, economic, procurement and technical expertise) with capabilities to plan and execute PPP programs. In addition, NEPAD will facilitate collaboration and exchange of experience in PPP's between technical units of countries as well as the dissemination of information on good practices (Internet 15).

It is apparent that the theory of having PPP's suggests that concessioneering of state assets may not be the only mechanism to allow private sector involvement in state run operations. Governments may prefer to have a private partner than sell off its asset. PPP's could be another alternative to protectionism. As a result, South Africa, which is a strong supporter of NEPAD, may resolve to opt for PPP's rather than concessioneering. Such a stance

coupled with the improvements made in business environment should be enough to stimulate business interest in South Africa.

#### 3.4.6. Department of Trade and Industry

The concessioneering of the terminal has been on the cards for almost two years but tough negotiations with labour and the development of a framework for the concessionaire have taken longer than expected. The department of public enterprises was due to appoint transaction advisers for the concessioneering. This process is delayed (Internet 16).

#### 3.4.7. COSATU

According to labour, no agreement on concessioneering has been reached and, therefore, the government should not be proceeding with the appointment of government advisers.

SA Transport and Allied Workers' Union and South African Transport and Allied Workers Union (SATAWU) both state categorically that there is no agreement on concessioneering. Labour is also unhappy that they were only involved or consulted in this process after the Minister of Transport had announced that concessions would be made on a pilot level. SATAWU states that it is not fundamentally opposed to concessions, but it feels that a debate should take place to weigh the positive and negative effects of concessioneering before a policy decision is made. They also believe that restructuring is necessary however, privatizing and selling out to big business is not necessary. SATAWU prefers that government take a more active role in the ports, and believes that the ports should remain publicly controlled. SATAWU say the big problems with the ports are lack of suitable equipment and infrastructure. With increased investment, many of South Africa's problems with its ports can possibly be alleviated. A joint committee needs to be convened to consider all stakeholder issues. SATAWU is the union representing most of the Durban Container Terminal work force as well as workforces in other parastatals.

The joint committee's proposed focus will be the government's analysis of the problem and the government's proposed solution. The important question would be if concessions were necessary. In addition, will granting concessions really fix anything?

Trade & Investment South Africa, believe that the DTI has a good line of communication with the industry, and that there really is a crisis when it comes to moving goods. Trade &

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Investment South Africa stated that concessioneering a port is no different from a toll road. A private company runs the road on behalf of the government, but the government still owns the road. In a way, concessioneering offers the best of both worlds: the government regulates and makes policy and the private sector focuses on efficiency. It expressed concern that the government departments were not doing enough to work together.

The Department of Public Enterprise, responded to relevant trade unions criticism of government by asserting that, although different departments may have different opinions, they all confirm with each other in the cabinet. The Department of Public Enterprises will thus devise a single policy. Historically, the Department of Trade and Industry drives policy and the Department of Public Enterprise drives restructuring.

COSATU still doubt whether a single government policy is in existence, and request that government supply a better explanation of the problem. It should include a detailed logistic report and a sharper examination of concessions. The departments need also to look at the history of concessions. COSATU are hesitant in admitting that concessions had truly helped other ports similarly situated to the ports of South Africa (Internet 2).

#### 3.4.8. Conclusion of Stakeholder Views

In conclusion, the representatives from the government departments, organised labour, and Parliament agreed that further engagement on these issues is necessary. It is agreed that a debate on concessions must take place in a public forum. The Joint Committee representing all of the stakeholders and different government departments can look at the pilot project announced by the Minister, and allow the government departments to make further presentations. The parties have agreed to do a better job co-ordinating with each other and, in turn, share more information between departments and concerned stakeholders as well. On understanding the arguments both for and against concessioneering, it is nevertheless required that stakeholders continue to co-operate with each other to facilitate trade. The manner in which we trade has changed from what we as South Africa have been accustomed to, and thus a review of the latest trends and trading requirements affecting stakeholders, is necessary. International Trade and associated requirements form the basis of the reason for concessioneering as well as the concession agreement between the state and the private bidder.



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### **3.5 Theories of International Trade and Trading Requirements**

International trade theory has a significant weighting on trade in South Africa and hence the Durban Container Terminal which provides for intermodal transport of goods largely from and to international destinations, significantly with first world countries. These countries have many expectations of South Africa, as a supplier and consumer of their goods. These expectations will become abundantly clear in the discussion of international trade theory.

Trade between all countries is traditionally regulated through government intervention of some sort and can thus be regarded as not being entirely "free" thus all markets to date are regulated through some form of protection using instruments of trade policy as defined below. There are 7 common instruments (Hill, C.W: 2003) used in international trade viz. tariffs, subsidies, quotas, voluntary export constraints, and anti dumping duties (Pugel and Lindhert: 2000).

Such instruments are often used by countries to protect their markets, usually those not competitive enough and are unable to trade "freely". There are many objectives served by some countries through use of such instruments.

It is more common that developed countries have the need to protect their markets with tariffs. Many countries will not just trade one commodity with its trading partner. Hence, for successful trade to occur much bargaining and the negotiating has to take place first such that it is worthwhile for both countries to trade on a variety of products. This is the preferred process, which eventually results in the drafting of trade agreements. However, it often happens that developed countries are dependent on many large trading blocs for survival more than for simple trading. This is when situations may be lead to manipulation of the smaller host country by the larger trading bloc resulting in a relationship that may not be described as totally symbiotic or even in favour of the host country (Pugel and Lindhert: 2000).

Therefore, many countries, even South Africa, may find itself dictated to with respect to the way in which it trades as well as how and how much it trades. This may be to the benefit of the country in the way it does international trade, as through implementation of newer technologies, trade is more efficient. However, sometimes it may be the beneficial to the

foreign country to have the small country spend large sums of money to reorganize its operations with no benefit at all to the smaller country. Such a re-organization of operations could be the concessioning of the DCT. It is the intension to explore this theory further in this study, i.e. first pressure to transform operations. Stakeholders should be aware of such speculative practice of a larger trading bloc.

Historically such events may lead to trade disputes. The World Trade Organization (WTO) has arbitrated some disputes. Many countries are signatories to the WTO and South Africa is as well. There are benefits, one being a forum to openly discuss trade issues pertaining to and provide for more free trade through less protection of local markets. One of the benefits of such a forum is addressing issues of empty promises in the case where a large trading bloc such as the European Union (EU) or North American Free Trade Agreement (NAFTA) engages small developing countries by making many promises of foreign direct investment (FDI) with little forthcoming. Countries in need of capital development become victims subjected to international trading pressure and allow for very lucrative entry into niche markets by the larger trading blocs. It is ideal that both the host and foreign country benefit from trading with each other.

All countries seek to benefit themselves through making a profit from trading with other countries. In world trade terms, a trade surplus is preferred in the balance of trade. If one does not have a trade surplus then it means that you have imported more than you have exported in monetary terms.

Today, world or international trade is facilitated through signed agreements between countries, two or more resulting in bilateral or multilateral trade agreements respectively, that for many reasons decide to trade based on the rules as set out in the agreements. These agreements therefore serve to regulate the type and amount of trade as well as address tariff structures, exchange rates as applicable.

Most of world trade is transported through ports. Much of the standards evolving worldwide needs to be considered by smaller countries such as South Africa in order that it remains competitive by offering the most efficient service. Competitiveness is explored through Porters 5 forces model; however, there are three trends of forces identified as driving port business (Internet 6). These three broad forces globally are generating

momentum for port reform in developing and industrialized countries alike: These are external forces of competition and technology from the shipping industry, operational benefits of private participation in infrastructure development and service delivery, and the diversification and globalisation of investors and operators in the port industry.

Based on the Port Reform Toolkit (Internet 6), the first force is the need to restructure port operations, which essentially means in the Port of Durban, all terminals need to be concessioned. Development of strategy by national government in accordance with the forces will provide for development of port business in totality, with associated positive influences in the economy of the country. Eventual concessioning of all terminals is the vision of the landlord port authority.

There will be subsequent requirements to make changes in transport technology and will definitely have support infrastructure costs. In Durban, capital will be required to modify the terminal infrastructure as well as the road infrastructure to and from the terminal. The result is that ports through terminals like the DCT, may enable the port to compete on a service quality basis, improve agility and market responsiveness and share economic risk with the private sector partners who need to be carefully evaluated and levels of investment structured taking into the account the entire supply chain.

The second force generating is private sector involvement in the provision for infrastructure. Historically the ports like all government institutions drove the infrastructure capacity and provision, but now competitive forces dictate efficient supply chain management and so, government and private sector partnerships. Sharing information as such can be a powerful advantage to making the terminal and thus the port more competitive. Hence, from an international business perspective the terminal will have to be concessioned through public/private partnership. Conformance also breeds investor and trading confidence. This being true, the Port Authority needs to know when is the right time to concession and surely government needs to mobilise itself first before it can start concessioning operations. As required by the larger trading blocs the time is now and the Port Authority needs mobilise itself as well as understand what variables to measure itself against.

When looking at any ventures it wise to see whether this has been done previously and with what success. One would therefore look at different countries and countries with recent experience of port privatisation include Poland, Germany, Lithuania, Estonia, Latvia, Russia, Japan, Malaysia, China, Thailand, the Philippines, Indonesia, Argentina, Chile, Brazil, Mexico, Colombia, Panama, Mozambique, Tanzania, United Kingdom and Canada. Investment in the sector has increased progressively since 1990. As can be seen in Figure 3.3, the value of private sector involvement has grown significantly, indicating a trend that one can possibly not ignore.

INVESTMENTS IN PORT PROJECTS WITH PRIVATE PARTICIPATION BY YEAR	
Year Investment	(US\$ nominal millions)
1990	1
1991	10
1992	248
1993	337
1994	989
1995	1827
1996	1435
1997	4264
1998	788
1999	2526
Total	\$12,425

Figure 3.3 Source: PPI Database,World Bank

The third force is a market for port development services. There is development of global markets for the third force affecting reform is the development of a global market for port development services, with specialized niches each containing a number of international companies that offer specialized service capabilities. The market today broadly includes four groups of operators i.e. "global stevedores," the first to have expanded their operations internationally from a strong home base; regional operators now entering the international market following the success of their predecessors; shipping line investors in terminals; and niche investors looking more specifically at small to medium scale facilities.

Upon understanding the rules and the preference of international trade by South Africa's major trading partners, focus more specifically to the business of ports provides opportunity to determine how the landlord port in South Africa is structured and operates.

### **3.6 The Business of Ports**

The National Port Authority of South Africa (NPA) owns and manages the seven commercial ports alongside the South African coast. As the national landlord authority, the role and function of the NPA has been captured in the White Paper on National Commercial Ports Policy (6 March 2002).

The National Commercial Ports Policy clearly states that the National Ports Authority will be responsible for the management of the national commercial port system. The Port Authority will therefore be managed as a landlord type of port authority (the owner of all port land), which implies that NPA will not be directly involved in port operations, but indirectly will control and monitor such operations and performance (i.e. terminal operations).

For the time being, NPA will also be the provider of Maritime Services in the ports. In terms of the Ports Policy, the NPA shall be responsible for the landowner, control and other functions within the ports of South Africa (Internet 12).

### **3.7 The Landlord Port**

The landowner functions entail owning, developing and managing the port property portfolio. The landlord advises on, and implements national port policies and development strategies. It provides, and maintains port infrastructure (e.g. breakwaters, seawalls, channels, basins, quay walls and jetties.). The landlord also provides for the support infrastructure such as road and rail access to port facilities. The landlord port provides or arranging services and utilities (water, lights, power, sewerage and telecommunications) to be accessible to terminal operators. It co-ordinates port marketing and promotional activities; and maintains the sustainability of the ports and their environments.

In keeping with the provisions, the landlord also has a control function which entails providing vessel traffic control and navigational aids through lighthouses, for example. It provides for licensing and concessioning of terminal operations and/or related services.

The landlord is concerned with safeguarding port user's interest against port operation and/or service monopolies. The landlord is required to monitor and ensure compliance with applicable laws and regulations. It ensures that the orderly, efficient, and reliable transfer of cargo and passengers between sea and land is provided by operators (stevedoring, and terminal operations). The landlord is the authority and therefore ensures safe, adequate, and secure warehousing. Operators provide storage within the ports on a commercial basis.

Often the landlord will review, organise, and restructure current and future land and port facility usage with the view to the creation of a level competitive and efficient playing field between terminal operators and related services; will need to monitor the performance of terminal operators. To cope with this challenge the National Ports Authority, which is defined in the Ports Bill as the landlord and the authority has mobilised itself to meet the demands placed on it by government (Internet 6).

A management structure and value chain has been setup and defined as follows: Maritime Services and Landlord Services are the two major revenue generating business units within NPA. These are the core businesses. The remaining portfolios, Trade & Logistics, Corporate Services and Ports and Corporate Affairs are support units to these. The sixth portfolio is PORTCON (incorporating the Port Academy), as NPA's international arm which prospects for port business including port operations and advisory services outside South African borders.

NPA strives to be a self-sufficient port authority that facilitates trade within a world-class port system and has set strategic objectives to achieve this goal. In keeping with good management practice strategies have been developed for 2004/2005 as follows:

<b>Financial</b>	Value and wealth creation
<b>Customer &amp; Stakeholder</b>	Ensuring customer and stakeholder satisfaction through service excellence
<b>Internal Business Perspective</b>	Implement value adding best practice processes and initiatives

<b>Learning and Innovation</b>	Conduct research and intelligence to grow business and enhance innovation and creativity through human capital
<b>Behavioural</b>	Inculcate behaviour embracing NPA core values amongst all employees

During 2004/05, NPA will continue to invest in infrastructure provision in the ports, which will create capacity within the SA ports system. Investment is as follows:

Existing Projects: represents an anticipated spending of 1.7 billion rands, the major projects are Port of Ngqura 1Bn rands, Port of Durban Development 2005 235 million rands; Durban Car Terminal 25million rands, Richards Bay coal export berth 63million rands, National Security 61million rands, NPA Portal 25million rands, Saldanha offices and related infrastructure 30million rands, and NPA head office 35million rands). New capital projects identified for 2004/05 represents an estimated total cost to complete of R 2.3Bn which includes bulk liquid berths in Richards Bay 188million rands, deepening of Durban entrance channel 1.25Billion rands and purchasing of two tugs for Durban 120million rands.

The strengthening rand will continue to have an impact on exports and NPA therefore does not anticipate cargo volume growths same that has been experienced over the past years. A 3.5% volume growth is expected. This will place pressure on NPA's revenue, as cargo dues, which constitute 84% of external revenue (latest estimate 2003/04), is directly related to the units of cargo moving through the ports.

Similarly, with the anticipated impact on exports, combined with vessels getting bigger and moving bigger parcels than before, marine revenue will be pressurized. Marine revenue is based on rendering services to the shipping lines and any reduction in vessel activity in the ports has a direct impact on the revenue.

These pressures on revenue and capital, plus the fact that tariff reform has been completed, means that NPA does not predict substantial growths in revenue, overall only an average 3.3% tariff increase is anticipated. It is foreseen that costs will grow by a bigger margin, which means that NPA's financial situation will be under pressure in future.

The future adoption by Parliament of the NPA Ports Bill will continue to bring new management challenges to NPA, including responsibilities that has never been exercised by NPA. The commencement of the port reform process by means of the concessioneering of the Durban Container Terminal will add additional pressures to NPA, who will be expected to manage and execute this process, following which the remaining terminals will be concessioneered in a similar fashion (Marketing Manager NPA.Mr Sipho Nzuza: 2004).

### **3.8 Environmental Analysis**

Following is an environmental analysis of NPA. The scan is significant in that it provides the opportunity to assess the integration if any between the overlap between the same variable set as applied to the industry of port business: an international perspective and the business in the Port of Durban: a local perspective.

#### **3.8.1 Political**

The Ports Bill will affect NPA in its primary business of provision of infrastructure and related income. The appropriate regulatory framework (harbour regulations, IMO) will still need to be implemented in order that trade is facilitated. The Employment Equity Act requires that equity targets are achieved through adequate recruitment strategies. There is need to provide for improved marine infrastructure such as VTS (vehicle tracking system to track ships in an out of port. Labour legislation remains a challenge to employed staff and union engagement through Basic Conditions of Employment (BCEA). Through government, initiatives and strategies of NEPAD and SADC have to be supported. Concessioneering is one of the strategies defined earlier. With the September 911 came a host of requirements especially with respect to security within port operations. These need to be met in order that trade continues with America and Britain. This is an example of how international terrorism affects the ports and South Africa as a whole. Inflation and working conditions coupled with staff reductions affects the labour relations climate. The ports have to support the economic and industrial policies, which are export driven.

#### **3.8.2 Economic**

The market is price sensitive (ability of market to absorb tariff increases) and as there is increased market complaints that the prices are too high for the service provided. There is monopoly with the service provided by marine department. The Port reform process supported by NEPAD and government will affect emerging competition and concessioneering



of certain existing services like terminal operations. There is a growing cost of financing infrastructure, hence government's preference to promote private sector investments. With the strengthening of the Rand, improved exports will realise lower turnovers. The market needs to reduce total logistics costs to cargo owners. There is a potential loss of clients with increasingly improved facilities at neighbouring ports. There is a real cost of HIV/AIDS and related man-hours lost, as a result. Achieving BEE impacts financials negatively through preference given to BEE suppliers although more expensive.

### 3.8.3 Social

There is ever increasing environmental consciousness and scrutiny. NPA is currently going through ISO 14001-accreditation process. As a public service organisation, it has a corporate social responsibility in environmental, health and safety and quality of all its operations. It is required to create sustainable jobs. This obviously conflicts with concessioning, which may entail short-term job losses. NPA has a role to play in the support of people that impacted on by HIV/AIDS through the Employee Assistance Programme (EAP). With world terror issues focus has been on providing safety and security in the port. This also serves to comply with international safety code of practice. There is a scarcity of trained resources and training is ongoing through the Portnet Academy, which offers wide variety of courses to serve most business needs. NPA also tends promote marine as there is a lack of societal awareness of marine career opportunities. Due to ever increasing risk there is an increasing threat of litigation, hence NPA is ably supported by a well-equipped legal department. NPA has as one of its strategies, the desire to shift from labour intensive to technology based careers. Theft and syndicated crime is currently being dealt with through the Corporate Social Investment (CSI) strategy.

### 3.8.4 Technological

The need for adequate technology platforms for example VTS (marine) and AIS (financial) such that worldwide norms and service levels are established and maintained. Thus, it is required that marine technologies for example are maintained to cater for the increasing vessel sizes requiring frequent training of pilots. NPA has decided to implement various IT and knowledge management systems through implementation of SAP. Through investment and training many improvements are anticipated. Staff are trained worldwide

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to get exposure to best practices. National Ports Authority has also improved dredging techniques to provide for lower maintenance costs.

#### 3.8.5 Legal

The port has experienced extreme security demands as of the September 11 and trading partners insist on conformance. There a requirement that to be globally competitive, the port needs to comply with sudden increased international legislation. It needs to be familiar and compliant with recent labour legislation Basic Conditions of Employment Act (BCEA) and Employment Equity Act (EE). It will extend the international monetary organisations regulations on port facilities. It provides port of refuge implications on shiprepair facilities. The port shall comply with applicable acts (Merchant Shipping Act, SOLAS, OHS ACT, Public Access to information, PFMA, SOPEP, MARPOL, IMO, ISM).

#### 3.8.6 Environmental

Government in lieu with world best practices has adopted stringent environmental compliance requirements and these best practices have been adopted as a strategy of the port as well. The port has realised environmental sensitivity. This has lead to the ISO14001 accreditation process currently underway in all the ports in South Africa. There is ever increasing environmental consciousness and security coupled with competent risk management & corporate governance.

### 3.9 **SWOT ANALYSIS**

In performing the SWOT analysis it is possible to relate the organizations mission and objectives with its strategies and associated activities needed to deliver on the strategy. The interdependence of purposes, policies, and action is crucial to strategy and gaining competitive advantage. The SWOT analysis is done of the organisation and sums up the current status of the organisation. The strengths and weakness is more internal resource based, whilst the opportunities and threats explores the environment within which the National Ports Authority operates (Lynch: 2000).

#### 3.9.1 Strengths

NPA has been fortunate in that it has provided good quality infrastructure in terminals that have lasted in many cases double their design life. NPA still does enjoy local and Sub-Saharan African market dominance. The same applies to SAPO, which operates many of

the largest terminals in South Africa. There are currently huge investments in equipment upgrades that will realize improvements in capacity in the terminals. The current operator has a relatively good financial standing. Such financial resources are sourced from Transnet through the approval of a sound business case. NPA has and will continue to implement continuous improvement through innovation and results do show. Innovation design philosophies and construction methods have lead to cheaper cost of infrastructure. There is adequate capital available for current projects and even promised for future projects. NPA has an effective training plan and a strong international network. In working and managing ports, NPA has an advantage of comprehensive industry knowledge and support. The port has a currently sound and extensive asset base through reliable infrastructure. NPA has started to focus on pockets of excellence in the workforce. NPA has a sound financial status and performance with good industry knowledge and expertise. Through the ports bill there is a clear government mandate and defined NPA role in the management of ports in South Africa (Manager, Business Strategy, Mr Sibuy Shandu, National Ports Authority of South Africa, Durban).

### 3.9.2 Weaknesses

NPA has ship repair tariff structures that need to be further refined. It has not met it's employment equity targets as yet. Workforce needs further skilling through training. There is a staff retention problem in the operational and strategic areas. Some areas have poor management and leadership skills evident in wasteful spending and poor corporate governance. Some areas of business have poor innovation record for example the method of dredging has not changed in 25 years. Although NPA has excellent infrastructure there is certain infrastructure with high maintenance costs and high capital replacement costs like the dredging fleet. There is lack of customer service awareness in operational business units. Some times, there is absence of environmental standards. SAPO is a port operator that is not world class, in accordance with NPA's internal customer survey. There are many reasons for this and the problem is more complex than it appears, one being the unstable relationship between labour and operators. There is often poor competitive market intelligence gathering and processing within NPA (Manager, Business Strategy, Mr Sibuy Shandu, National Ports Authority of South Africa, Durban).

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### 3.9.3 Opportunities

NPA has opportunities in E-Commerce with the establishment of the NPA Portal and Customer Service Centres to centralise handling of customer queries. The SAP stabilization and business case realisation are used to derive the best use of implementing such technology. Therefore new opportunities exist in business process reengineering through logistics management improvement doing better, in understanding the customer. There are always new business opportunities and prospects. There are opportunities to implement demographic and social change. Such changes may enhance the relationship between the employer and labour. There are many advantages in accepting political and economic change. This may realise skills retention and the port, which can become a preferred employer. Improvement in labour can lead to improved market growth with increased turnover of ships and improved customer service levels. This has the opportunity of lessening the effect of skills shortage and retention. Concessioning could provide for opportunities in partnership opportunities. The benefits may be far reaching and they have positive primary spin offs. There are expected to be even greater consequential benefits of concessioning to the greater South African economy. There are opportunities to improve asset and resource utilization. There is always room for productivity and efficiency improvement. With working in a dynamic environment, there is a need for business re-engineering supported by continuous improvement initiatives. NPA is able to reconfigure operational relationships, sign service level agreements (SLAs) with clients, and enforce them. NPA can market operational services to a wider customer base. NPA through NEPAD initiatives is providing technological support to other developing countries in Africa. Initially this does not bring income, however, in time these initiatives are expected to yield some financial benefit. NPA has the resources and ability to create stand-alone and self-sustaining businesses within the port environment. NPA can introduce a customer relationship management (CRM) programme. NPA could improve social welfare through implementation of HIV/AIDS programme. NPA could re-negotiate NPA/terminal operator agreements to improve efficiencies (Manager, Business Strategy, Mr Sibu Shandu, National Ports Authority of South Africa, Durban).

### 3.9.4 Threats

Significant power is in hands of unions, which represent most of the terminal workforce. The South African government acknowledges the unions as having a mandate to represent the workforce members. The union is empowered in law. The employer is

always at loggerheads with unions during wage negotiations and is required to reveal the financial statements to unions during this stage. Wages for the upcoming year are negotiated, based on the performance of the terminal. Hence, during times of prosperity, wages may be increased significantly and the concessionaire and the terminal operator are required to budget for high labour costs. The Basic Conditions of Employment prevent flexibility in changing workforce compositions easily. There is a loss of productivity and skills from people sick or through death due to HIV/ AIDS-, and retirement. There are inherent port operational inefficiencies. As of recent years, international terrorism can and has changed cargo flow patterns dramatically depending on the stance of South Africa during times of unrest in other parts of the world. Because of terrorism, international legislation has forced operational re-organisation in the ports. New security measures have come at a significant cost to all the ports in South Africa as well as other ports around the world that trade with the USA and Great Britain. Such costs can be described as a new international barrier to trade. The port is susceptible to crime syndicates hence the need for the purchase of an x-ray scanner used to scan all containers leaving the port. The port and all of its associated processes is restricted by a factor of production viz. the available land within the city limits that is encroaching on the Port of Durban. Ports are always susceptible to litigation (Manager, Business Strategy, Mr Sibu Shandu, National Ports Authority of South Africa, Durban).

### **3.10 NPA Corporate Perspective and Structure**

NPA consists of two businesses, which are primarily responsible for generating revenue. These are the Maritime and Landlord Services. These business units operate through the ports as service delivery platforms. There are three core support portfolios namely Trade and Logistics, Corporate Services and Ports and Corporate Affairs. In addition, NPA has merged PORTCON and the Port Academy (training and development, and foreign support services), their role being to act as NPA's international arm which prospects for port business including port operations and advisory services outside South African borders, as well as to provide port training and training opportunities to those in need.

#### **3.10.1 Landlord Services**

Landlord Services consists of five divisions, Property Management, Planning and Development, Safety, Health and Environment (SHE), Engineering and Security Management.

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### 3.10.2 Trade And Logistics

The Trade & Logistics portfolio represents the strategy and future positioning arm of the NPA and is made up of marketing, business strategy, business development, and policy units. The key focus of Trade and Logistics therefore lies within the implementation of the NPA business and marketing plans, driving business development and new business initiatives and ensuring that business strategy is implemented within NPA through use of the business scorecard card (tool of measurement of strategy implementation) and Compass GPSO (group project support office). This portfolio also provides strong support in the Ports Bill and port concessioning process. Fundamentally, it also helps the CEO to plan and translate the future corporate direction of the NPA to ensure viability and profitability in the long term through appropriate positioning strategies and scenario formulation and monitoring (Manager, Business Strategy, Mr Sibu Shandu, National Ports Authority of South Africa, Durban).

### 3.10.3 Corporate Services

The Corporate Services portfolio is the key internal service delivery platform of NPA consisting of the following units:

The Office of the Chief Information Officer seeks “to deliver to NPA the integration of disparate IT systems” and “islands of business information”; to build a single information view of NPA for user communities; to improve IT service delivery by implementing a new service focused structure and putting in place new best practice policies; procedures and standards that will drive all SLA’s with clients and suppliers” (Manager, Business Strategy, National Ports Authority of South Africa, Durban).

The OCIO is divided into 3 sections, (1) IT&S responsible for infrastructure management, (2) Knowledge Management responsible for coordinating knowledge management and (3) Business Process Improvement which focuses on process analysis and improvement. The following quotes describing the business units are listed on internal bulletins provided by Manager, Business Strategy of the National Ports Authority of South Africa in Durban.

Finance: “Provides NPA business units with sustainable value-adding financial services proactively, that will allow them to realize their business objectives.”

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Legal: “Offers competitive and comprehensive legal guidance to the NPA business by ensuring legislative and regulatory compliance, while mitigating risk in the interests of executing best practice.”

Procurement: Ensures “Support of NPA business units in the procurement of goods and services in a cost effective and efficient way in accordance with best commercial practices, and pursuing supplier development in support of the Company’s BEE objectives”;

Human Resources: “is a strategic business partner through HR architecture (systems; processes; structure and products) in order to maximize company profitability and shareholder value.”

The above-mentioned units function as an integral unit in terms of developing policy and procedures for sound corporate governance and then ensuring compliance with the latter. The core responsibility of the Corporate services portfolio is to focus on supporting the main businesses and ensure appropriate policy compliance, internal control measures and maximisation of assets utilisation as well as driving down the cost of doing business (Manager, Business Strategy, Mr Sibu Shandu, National Ports Authority of South Africa, Durban).

#### 3.10.4 Ports And Corporate Affairs

Ports and Corporate Affairs is a business unit within the office of the CEO which represents the following two units:

Port Management represents the line management structure through which decentralised port business units are managed. Ports are key delivery platforms for NPA’s operational strategies. This division strives for standardised strategic plan implementation and operational compliance across functional portfolios at port level, and represents the key service delivery interface with customers, as well as the revenue platform for the NPA (Manager, Business Strategy, Mr Sibu Shandu, National Ports Authority of South Africa, Durban).

Corporate Affairs is responsible for corporate positioning through a comprehensive promotional, publicity and trade industrial advertising plan, combined with synergised networking amongst key stakeholder groups. This unit focuses on communication, corporate image building and brand management, stakeholder management and corporate

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social investment (Manager, Business Strategy, Mr Sibu Shandu, National Ports Authority of South Africa, Durban).

#### 3.10.5 PORTCON

PORTCON is the international management services and consultancy arm of the NPA, which comprises of a team that advises, consults, and manages by contract on specific projects for the rest of Africa, international maritime trade role-players, and port authorities with a specific focus on Africa in terms of the NEPAD initiative. As a consultancy, it provides business solutions and project management in the fields of port operations and port management. From a business expansion perspective it aims to participate in port and port related downstream value adding opportunities, managing ports/terminals, brokers the supply of port and non-port equipment and infrastructure and forming alliances with local, black economic empowerment and/or foreign business entities for participation in projects (Manager, Business Strategy, Mr Sibu Shandu, National Ports Authority of South Africa, Durban).

#### 3.11 Strategic NPA Objectives

- Value and wealth creation
- Ensuring customer and stakeholder satisfaction through service excellence
- Implement value adding best practice processes and initiatives
- Conduct research and intelligence to grow business and enhance innovation and creativity through human capital
- Inculcate behaviour embracing NPA core values amongst all employees
- (Manager, Business Strategy, Mr Sibu Shandu, National Ports Authority of South Africa, Durban).

#### 3.12 NPA Challenges

NPA will face a number of challenges during 2004/05. There are priorities to be addressed during 2004/05. NPA is striving towards a world-class port system i.e. enhancing the port system to become world class. NPA will continue to providing and maintaining basic port infrastructure, which requires capital investment. In striving to be world class there is need to provide for adequate and necessary port facilities, i.e. the correct facilities at the correct time. Infrastructure is required to timeously provided and of the highest quality. Downstream logistics such as intermodal connectivity, i.e. road and



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rail connections to ports, need to be planned with local authorities and the stakeholders. NPA will have to sign Marine SLA's with shipping lines so to give commitment to the service provided. It also ensures sustainability. NPA will introduce an improved safety system in the ports and in specific ISPS (International code on security in port operations since September 911) code will be addressed in earnest. There will be a new dredging operational model and review of dredging operational methods and techniques to save in such maintenance work.

NPA will have to ensure profitable marine and other operations. There will be review and commercialising of non-market related leases. NPA will develop Port Master plans for all ports. There will be a supply chain strategy. NPA will engage other ports to create strategic port relationships with ports inside and outside the region. One of the more important measurement tools is the development and implementation of a terminal performance-benchmarking model. NPA will identify and pursue new business opportunities that it has identified (Manager, Mr Sibu Shandu, Business Strategy, National Ports Authority of South Africa, Durban).

A commercial ports policy has been drafted by the National Department of Transport and is presently open for final comments by the public. The main thrust of the policy is based on the Transport White Paper of 1999 resulting from the Moving South Africa document. The mission defined in the White Paper is to provide an integrated, well-managed, viable, and sustainable transport infrastructure meeting national and regional goals into the 21st century, in order to establish a coherent base to promote accessibility and the safe, reliable, effective, and efficient movement of people, goods, and services.

Stemming from that, a recommendation was made to draft an independent commercial ports policy. As ports are no longer end-state businesses, but nodes in the total transport chain and are not only chosen because of their natural hinterland, but for being the best value-adding businesses, it is of cardinal importance that a ports policy heeds these changes.

It is generally accepted that the role of a policy is to guide decision-making and strategic planning and so set direction and boundaries to actions. The strategic intentions of the

South African Ports Policy are (Manager, Business Strategy, National Ports Authority of South Africa, Durban):

- i. The national government will retain its regulatory role to ensure the unbiased regulation of safety and quality in accordance with international, regional, national, provincial and local expectations and standards
- ii. National needs, aspirations and requirements shall be of primary consideration
- iii. Port system development, management and enhancement will primarily remain a national function
- iv. User and other stakeholder needs and views will be considered
- v. Regulation should be kept to a minimum, but without compromising national aspirations, safety and efficiency
- vi. Participants in the market should be treated equally and fairly, and
- vii. The principle of user pays or cost recovery from direct users will be applied as a principle as far as possible, and an appropriate rate of return will be added.

The policy also envisages that the National Port Authority will be a state-owned corporate entity, created in terms the National Ports Authority Act, be managed in terms of the Public Finance Management Act of 1999, and operated as a company in terms of the Companies Act, with the state being the only shareholder. The NPA will be positioned outside Transnet. In the meantime a temporary regulator will be established to monitor the business relationship with Transnet to ensure that unfair advantages over other transport companies do not take place, that revenues generated by the port authority are used to the benefit of the authority, its customers and the national economy, and to monitor the business relationship with the operations divisions to ensure that SAPO does not have advantage over other potential bidders.

Although these guidelines are theoretically correct and inspirational, the practical implementation thereof is more complex. The policy in many ways can lead to contradiction, for example, the status of the NPA to act as a company and to pursue its own benefits, those of its client and the best interest of the country. However, it is accepted that a regulator is needed to ensure fair competition and it is important that a net benefit to the community of South Africa is sought. The required expertise and objectivity could not be entrusted to the NPA and ports policy alone, hence the need for an independent regulator (Internet 16).

Another Port challenge is port authorities that have been incorporated and are expected to yield profits or at least break even, the long investment period in basic infrastructure is often a cause of financial difficulty, which may constrain development. Transnet Ltd is an example of an incorporated state undertaking, which has fallen behind in port development because of financial difficulty, although that is largely an outcome of the commitments it acquired when it was established. Transnet's predecessors, namely the South African Railways and Harbours Administration (SAR&H) and the South African Transport Services (SATS), were state departments functioning as monopolistic enterprises with the injunction to earn sufficient revenue to defray the expenses of the services provided. Capital projects were financed from public loans and interest was charged to expenses. Those loans were usually rolled over, with the consequence that the interest burden kept increasing, but that was unimportant as long as output expanded and revenue could be increased, as needed, by raising tariffs. In those circumstances, which existed for some eighty years until 1990, capital funds for the development of the ports were invariably forthcoming.

There is little doubt that the conversion of the SATS to a public company in terms of the Legal Succession Act (LSA) in 1989 was accompanied by a lack of foresight on the part of the government at that time. In the haste then to achieve autonomy for Transnet, not only was the ability of the new company to meet its financial commitments misconceived, but the enabling legislation was also deficient, inter alia by not providing for the State's regulation of the monopoly inherent in the ownership and operation of the ports. Regulation could not have been imposed then, or later, without making provision for the manner in which funds should be raised for the development of the basic port infrastructure. One consequence of not making that provision is that the development of the basic infrastructure of South African ports has been left entirely to Transnet, which has inadequate resources for the purpose. That inadequacy is attributable to the financial commitments Transnet assumed when the LSA was enacted as well as its need to cross-subsidize loss-making divisions. The irony of Transnet's predicament is that the annual surplus currently generated from operating the ports would be sufficient to ensure their development without recourse to external funds, if appropriation of the surplus to meet other commitments was not necessary (Internet 16).

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By virtue of their geography and management by Portnet as a complementary system, South Africa's ports constitute a monopoly and for that reason Portnet and its predecessors have traditionally been more service than profit-oriented. There is consequently a fundamental incompatibility between Portnet and those other business divisions of Transnet, which are profit-seeking in competitive markets. Investments were therefore based on service offerings and not necessarily on returns on investments. Furthermore, in view of the dependence of the South African economy on exports by sea, the incorporation in terms of the LSA of both the ownership and the operation of the ports in the then new company, i.e. Transnet, with the consequential risk of under funding infrastructural development, was reckless expediency.

In May 2001 Portnet was split into the National Port Authority (the NPA) and South African Port Operations (SAPO). The motivation was to ring-fence business units and to prepare port operations for concessioning, although legally both are still a division of Transnet. The incompatibility within Transnet and the jeopardy to the development of the ports still exist.

Another challenge is the interrelationship with the holding company (Transnet). The interaction between income from the port, Transnet's financial requirements, and the management and operations of the ports is depicted below.

With an increase in the operational income of the port to ensure that business units break even and in some cases yield a return on investment, some of the wharfage income has to be foregone if revenue neutrality is sought. This will result in a smaller financial contribution to Transnet's financial needs, in which case infrastructure development could be further neglected to the detriment of port development.

Alternatively, a smaller contribution can be made to the prevailing foreign debt redemption. In any event, the cross-subsidisation of other services should be eliminated in the interest of economic growth and prosperity, unless total port charges are increased. Careful consideration should be given to increases in port charges to avoid losing the international competitiveness of commodities by raising the prices of exports.

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The contribution to Transnet's financial needs is thus a function of the total port revenue minus the operational costs minus the cost of investment in infrastructural needs, measured against the competitive landed price of goods.

The infrastructural needs can partially be met by privatisation in three ways:

- Proceeds derived from the concessioneering of operations and sale of equipment in the form of up-front payments or royalties and rentals.
- Financial burden of green field developments on the private sector through BOT (Build Operate and Transfer) contracts.
- Privatisation of existing port operations in order to facilitate greater operating efficiency through management expertise and investment in modern technology, which will result in the better utilisation of assets and thereby reduce the investments required for future demand.

The challenge of current regulation in leading ports, regulation of the private sector service providers has been minimized by ensuring an adequate level of competition, the use of suitable contract formats, carefully worded contract clauses and the inclusion of relevant and controllable performance measures in leasehold and concessioneering agreements. In the case of South Africa, with its complexities and where port competition is most likely to be based on inter-supply chain competition in certain sectors and combinations of inter- and intra-terminal competition, the role of the regulator will be different to leading ports where contestability is proven. The goals of the regulator are to avoid legal challenges to the reform programme and the transaction following that programme, clearly define the role of the government during and after the reform process, identify any constraints in the law that would limit the ability to transfer services to private providers, or the range of options that might be available for concessioneering and to determine the degree of competition and the need for competition monitoring or economic regulation. Other goals include to consider the potential for restructuring the port sector to make it more conducive to regulation by competitive forces rather than government oversight, determine the range of strategies that might be available to the regulator to induce competition or discourage anti-competitive behaviour, identify the form of interventions that the regulator may take when anti-competitive behaviour occurs, and determine which issues are not specifically addressed in the existing or proposed law, but need to be addressed on a case-by-case basis.

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The pursuit of creating competition through the unbundling of vertically integrated services by a single organisation will contradict inter-supply chain competition. Instead, the regulator should be aware of the benefits of the various supply chains and regulate any anticompetitive behaviour resulting from supply chain conglomerates. Although appeal can be made at the Competition Board against anticompetitive behaviour, the regulator should advise on the local, regional, and national implications of supply chain conglomerates within the development framework of ports. For example, the effect of the building of the Port of Ngqura (for which the concessions to start building have been awarded) and the implications of that on container movements in South Africa will influence the concession agreement for the Durban container terminal which, if not properly conceded, could lead to under-performance by either or both terminal. To secure the success of the container terminal in the Port of Ngqura (which at the outset will be concessioned through a BOT (Build Operate and Transfer) agreement it will be important to provide a seamless supply chain whereby the investment by shipping lines is deemed necessary. The concession agreement for the Durban Container Terminal should therefore be prepared in co-ordination with the concession agreement of the Ngqura terminal to exercise control over the potential monopolization of container terminal, even by conglomerates comprised of shipping lines, as well as the potential white elephant which otherwise could so be created.

The potential to restructure business units to create greater competition as well as the goal of the reform process to enable participation in port services by a broader representation of the demographics of the country, are feasible and challenging. New business structures will be created and regulation is undoubtedly necessary. The traditional areas of regulation could most likely be exercised by the NPA, and include price regulation, investment regulation, performance regulation, and the monitoring of the concession agreement.

It is recommended the following regulatory functions should be added and performed by an independent regulator, also independent from political intervention and includes inter-supply chain regulation, long-term development regulation, and regulation of the NPA while it is still a division of Transnet.

### **3.12 Summary**

Considering stakeholders as interested and affected parties to concessioning, it is clear that concessioning lends itself to a more pure form of capitalistic venture that conforms to the global trade reform processes and trends currently driven by western trade philosophies. In as much as it may be beneficial to South Africa that the process of concessioning be accelerated, as an upcoming democracy still in its infancy, inherent with the deliverables of the constitution it is apparent that South Africa intends not falling short in some areas as consistently happens in western economies. One such shortfall is the relatively high turnover of staff in a developed economy, whereas in South Africa we are still developing. Another is the fragility of the jobs in these economies and constant layoffs and retrenchments heard off. South Africans can ill afford to have such fragility within the employment sector as has been stated previously. South Africa is looking to establish sound footing in economic development and accelerated creation of sustainable employment to one day evolve to be a developed economy that tends to support a free market economy and promotion of free trade.

Another point to be considered when evaluating the strategy of concessioning is the historical evolution of the country, which is always going to impact on the way the average constituent perceives service delivery. It is an opinion that government still has a critical role to play to protect ill-fated South Africans from exploitation of capitalists looking to enrich themselves and a modest group of shareholders, possibly at the expense of the working class resulting in increased unemployment. The South African leadership has the eye of the global political and economic fraternity who embrace the competence and maturity with which current leadership has progressed to date. Links and ideologies have traditionally had large socialistic and communistic influence and as a result may not have lead to any great strides with respect to trade partnerships as such economies have been also been in developmental stages as well. However, currently the situation may be different, as countries such China, which South Africa has excellent links with, and developed to position itself to be a contender a major player in the global trade market. Naturally, South Africa would look to foster greater trade links through agreements, which is what has already been done through a multitude of trade agreements. Globally South Africa looks to establish trade relationships with countries it has traditional links and support. These countries include India, Brazil, Argentina, and Cuba. Hence it is clear to see why these are the countries that trade has been a focus with, as of late. From an

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African perspective there is also a commitment from the South African Government to support all of the initiatives of NEPAD and the African Union of which South Africa was instrumental in their establishment.



## **4 Chapter 4 - Evaluation of Concessioning**

### **4.1 Introduction**

National Ports Authority of South has been discussed and analysed through PEST and SWOT with respect to the Port of Durban. Assimilation of the information once evaluated as a strategy will yield concerns to be addressed in the controversy of concessioning. The challenges of the Port are clear and the key is the authorities intention to become a world-class port.

Hence, the focus of concessioning in the port especially the Durban Container Terminal will be evaluated in terms of world-class port systems. Strategy will be evaluated in accordance with methodology specified in (Johnson and Scholes: 1997). The choice of concessioning of a terminal is a strategic one. It will have short and long-term implications on the port and the National Ports Authority. It will affect the brand name and its competitiveness directly either positively or negatively. If concessioning is implemented it will have to succeed as the consequences of failure are catastrophic.

The reasons for port reform in South Africa are redemption of prevailing debt obligations, improvement of productivity, efficiency, and management capabilities. Reform would also create more business-orientated operations required to keep abreast of the needs that globalisation is imposing on ports, obtainment of private and foreign investment to meet capital requirements, enabling of participation in ports businesses by a broader representation of the demographics of the country, and the introduction of business-based labour agreements.

An outcome of the port reform strategy is concessioning of the port operations. Some of the motivations for concessioning the Durban Container Terminal would be to improve productivity, obtain financial autonomy, rationalize port structures and minimise bureaucratic intervention in decision-making, redeem debt obligations, and diminish the role of government in the operations of ports. Port reform would maintain only the landlord function, become more business-orientated in order to be able to compete in the free market, deregulate the labour market, introduce business-based agreements and to attract private capital.

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Problems experienced to date include lack of financial autonomy, lack of orientation towards service offerings, lack of criteria for resource allocation, inequitable composition of port charges, low productivity, poor interrelationship with the holding company (Transnet), poor interrelationship with the rail operator (Spoornet), problematic size of the business units, and contestability of port business units.

South Africa has embarked on the route of reform resulting in port operations being separated from the port authority functions. National Port Authority of South Africa (the NPA), which is the landlord and provides the services stipulated in the landlord management model including marine services (towage and pilotage). The other division is called South African Port Operations division (SAPO), which operates all the container terminals, 77% of the break-bulk terminals, and 35% of the bulk terminals. Those bulk and break-bulk terminals not being operated by SAPO are leased to private participants on long-term contracts.

In accordance with (Johnson and Scholes: 1997), the 3 types of evaluation criteria will be used viz.

**Suitability:** This broad assessment to whether concessioneering addresses the circumstances in which the National Ports Authority is operating. In this case it is an identified in strategic analysis, which has originated in government and is intended to soon be enacted in parliament through the Ports Bill. The extent of fit of this strategy will be considered and has different contentions depending on the forum. It will be a qualitative assessment concerned with testing out a rationale of the strategy and as such will be useful for screening options.

**Acceptability:** This assessment is concerned with the expected performance outcomes such as the return or risk if the concessioneering was implemented and the extent with which this would be in line with the expectations of the stakeholders as defined in chapter 2.

**Feasibility:** is concerned with whether concessioneering could be made to work in practice. It has been done in other developing countries such as Brazil and Sri Lanka. This is more of a quantitative assessment and data on concessioneering in other ports/countries will be used.

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## 4.2 Suitability

In addressing the suitability of concessioneering, the National Ports Authority would consider the business of ports, i.e. the circumstances that it is operating in or wishes to operate in. In evaluating concessioneering with respect to suitability the approach is general to specific with discussion starting with the trading environment of the port to specific, which considers the customers in the Port of Durban.

### 4.2.1 Establishing the rationale for suitability of concessioneering the Durban Container Terminal

The vision of the National Ports Authority of South Africa (NPA) is to be a distinctly competitive port comparable with other like terminals in the world. Currently there is monopoly in the business of ports with one operator handling the most expensive cargo, viz. South African Ports Operations (SAPO). Smaller operators handle lower value cargo such as grain, fruit, and scrap metal. SAPO's control of the operations business can be easily said to limit competition and growth for the market, characteristic of a monopoly. As a result information on the supply system within the port is not easily available, and serves as a barrier to market entry. There is a need for private investment to encourage growth and competition in the market. Private ownership, accountability, and performance in the port environment provide a climate supporting successful innovation. It is also agreed that there would be a high cost of capital, which government can use in other more needy strategic schemes. As illustrated in the SWOT analysis in chapter 3 the NPA would want to exploit the opportunities and avoid as many of the threats as possible.

With reference to opportunities in the SWOT analysis performed, concessioneering would be an example of a new business opportunity with a different asset utilization model. It is anticipated by NPA that such concessioneering would provide for increased productivity and efficiency thus directly affecting competitiveness in the market for many of the stakeholders and ultimately the consumer of the products.

The threats would be failure of the concessionaire to perform leading to even lower productivity and efficiencies than SAPO. It could lead to businesses and market collapses and withdrawal of trade in the port. No terminal has been concessioned yet and considering the multi billion rand operation, a legitimate risk of failure does exist. Concessioneering could lead to sympathy strikes in other terminals in the Port , thus providing

unreliable operations in the Port. Strikes show signs of political instability and therefore present South Africa as a high risk-trading partner which is self defeating in light of the objectives of concessioning.

Another rationale behind determining suitability of the strategic intent is to decide if the strategy will capitalise on the organisations strengths as well as avoid or remove weaknesses.

Concessioning would not capitalise on organisational strengths in the post concessioned period, as the port authority would merely fulfil a landlord function. The landlord would only consider strategic overview of the operator who will be managed through performance clauses in the concession agreement, which will be closely monitored against the planned deliverables. The concessionaire will have the advantage of purchasing almost new infrastructure in line with world standards. NPA is committed to providing, through upgrading or building new, high quality infrastructure in the Port of Durban. New terminal designs, which allow flexibility of operations, are expected to position the port favourably with users and operators. For example terminal surfacing is designed to accommodate different types of lifting equipment including straddle carriers, 8 wheel rubber tyre gantries and 16 wheel rubber tyre gantries. Crane beams of different gauges may be installed to accommodate the future operators preference.

In concessioning, NPA will have to endure a learning curve. It has not managed ports that have been concessioned previously. NPA would also be responsible for drawing up the concession agreement inclusive of the performance clauses. The document is to large degree an agreement of risk sharing between the two parties responsible for the management and operation of the terminal. Depending on how risk is shared, managed, and mitigated, performance and commitment of each party is imperative to make the new method of doing business work. Through the ports bill there is a clear government mandate and defined NPA role in the management of ports in South Africa.

The last rationale for deciding on suitability is to evaluate if the strategy will address the cultural and political context. The nationality of the concessionaire, if of foreign nationality, determines the political fit with the host country as experiences and prejudices can become significant issue in the execution of the concession agreement. It may happen that they have distinctly different mindsets that affect doing business. Suitability is also dependent on the cultural context. It is complex depending on the type and composition of the multinational. The NPA has no experience in public private partnerships. The trend within government is to force the private partner to have a significant local component by way of Black Economic Empowerment (BEE) ownership. This ensures that cultural issues are addressed in the forging of the mandatory relationship.

The concession bidder is expected to most likely be a foreign multinational terminal operator. The decision on adjudicating the preferred bidder would be subject to the qualifications of the tender. Cultural, demographic, and market conditions vary significantly amongst the countries of the world. Cultures and lifestyles have great impacts on business and are most obvious country-to-country differences.

It is expected that the concessionaire will tender to suit tastes and preferences of the local market as opposed to maintaining a standard methodology worldwide. Customising to local conditions will facilitate integration with the local partner, local labour force and other supply system stakeholders for example the municipality, and transport suppliers (Thompson, Strickland, 2003). The concessionaire will unlikely be allowed to adopt a global strategy because of the following: government would require that products services be procured locally in to develop those markets; marketing and promotion of goods benefit Sub-Saharan Africa and the greater African continent; competitive capabilities be developed in the partner; provision for local investment and local skills transfer.

There are many risks of alliances with foreign partnerships. If such risks do occur, it may lead to the failure of the operation. According to Thompson and Strickland, 2003, there are 6 factors, which are a function of an alliance in a cultural context and are the following. *NPA will have to pick a good partner that shares the vision of the NPA and the South African Government with respect to management of ports. The bidder needs to be sensitive to the cultural differences that exist between the two countries and should have the highest respect for these. Both parties recognise that the alliance needs to benefit*

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*both sides. Both parties need to live up to their commitments. It will be a challenge in deciding and agreeing and quantifying what the commitments will be. There needs to be a structure that supports efficient collaboration and decision-making between the two parties. Most often technology used in gaining the competitive edge is swift and decisions need to be made fast. Strategy has to both prescriptive and emergent to cater for short term and long-term goals. Thus, the learning process will have to be managed such that the concession agreement can be adjusted to suit the lessons learnt by negotiation.*

Therefore in considering SWOT as well as political and cultural issues a test for suitability can be performed as prescribed by Johnson and Scholes (1997).

#### 4.2.2 Test for Suitability

##### 4.2.2.1 Life cycle analysis

The life cycle analysis assess whether the strategy of concessioning is likely to be appropriate given the stage of the industry life cycle. When the product is combined with the industry or market, as in Johnson and Scholes (1997), exhibit 8.3 the competitive position of the industry is classed as very dominant and in a very mature stage of industrial growth. "Dominant" is chosen because of the monopoly that NPA and SAPO currently have in port management. "Mature" is chosen because NPA and SAPO have a monopoly, which is questioned, and they are being asked to defend their position in principle as of late, hence the reason for considering concessioning.

##### 4.2.2.2 Positioning

This is a key test for suitability as it links the chosen strategy with market position. The key resource list in Table 4.1 comprises infrastructure, knowledge, financial, skills, and link to government.

Table 4.1 - Assessing the Suitability of Product/ Market strategy

A	B1	B	C			
Key Resources	Cost Reduction Rating as High, Medium, Low	Added Value in terms of needs perceived by customers	Which will be sustainable/ difficult to imitate (X) where applicable			
			Valued	Rare	Complex	Tacit
Infrastructure	Low	High	X			
Knowledge	High	High			X	X
Financial	Low	High				X
Skills	High	Medium	X	X		
Link to Government	Low	High		X		X

The development of table 4.1 reflects this studies opinion on the competencies and resources of NPA in relation to a typical parastatal in South Africa. NPA and SAPO have learnt a lot about the business of management of ports and know well the processes contained therein. A competitor would dearly want information to understand how to make planned improvements or develop business-engineering strategies. NPA and SAPO also have very close links with government.

4.2.2.3 Value chain Analysis

The value chain analysis describes the activities within and around NPA and SAPO and relates them to competitive strength. It assesses how the proposed strategy may reconfigure the value chain to which improves value for money and the competitive position of the organisation. The competitive advantage would be experienced by government through the parastatals Transnet and then through NPA and SAPO, which are business units of Transnet. Transnet is huge organisation and controls other transport business that support each other, such as Petronet that transport's liquid bulk to the Reef and Spoornet that provides bulk transport of cargo to other parts of South Africa. The municipality is responsible for providing infrastructure outside the Port thus facilitating the road transport. NPA provides marine pilots to control ships in the port as well as berth space. The value chain relative to getting cargo off a ship and transported to its destination is largely dependent on other Transnet businesses and the municipality. The concessionaire has an advantage in that Transnet and the municipality have a good working relationship and in negotiating with NPA, the concessionaire can negotiate with

the Transnet other business units. Service level agreements could be a means of formalising the relationships. Value chain thus resolves to suggest that it is complex but there are main players that control that other links and thus have a stake in the success of the concessionaire.

The South African government has commissioned the development of the Coega Industrial Development Zone to promote economic growth in the Eastern Cape province. Part of the development is a port that can accommodate ships of sizes up to 80 000 dead weight tons. Although a latent demand for bulk and break-bulk cargo in the natural hinterland could not be identified, the potential for footloose industries does exist, for example, Peschiney, a French-based company, is in the process of concluding a contract for the establishment of an aluminium smelter, and the potential exists for a container terminal to be successfully operated. It would be subject to the construction of support infrastructure and supply system incorporating the shipping, rail and sea as well as an inland terminal in an integrated management system. The ideal arrangement would be to consider concessioneering at the new terminal at Coega and the railway line to Gauteng. The infrastructure is lower risk as the operator can have control of the value system and thus reduced risk. Transnet would be the concessioneer holder, which is the owner of the port land on which the terminal will be constructed and of the railway reserve with the existing rail infrastructures. The agreement could be structured in terms of a typical BOT (Build Operate Transfer) agreement to a company in which the major shipping lines serving South Africa for example, hold the shares. The inland terminal should be established where the distribution patterns are optimised and the area can be leased or bought from private enterprises. Such an arrangement will change the traditional hinterland distribution network as well as some of the distribution in the forelands.

This new container supply chain will mainly compete with the container activities at the terminal in the Port of Durban and this may be a better stimulus for the terminal to improve. The investment cost in the railway line should also be taken into account as that forms a major part of the success of that investment. The interest of the NPA, as forced on them by the government, in ensuring the successful operation of the new port and the development of the Port of Durban could raise the need for a stand-alone regulator, independent of government intervention. The important role of railway lines in the initiative also necessitates the regulation of rail operations, but as an integrated mode in the



provision of port services. The potential of relying on the NPA for such a regulatory service is therefore doubtful.

The other container terminals in South Africa are mostly regional ports and the volumes handled during 2001/02 at each port are as follows:

- Cape Town = 496 036 teus
- Port Elizabeth = 261 957 teus
- East London = 68 674 teus
- Richards Bay = 5 083 teus

The scope for successful inter-terminal competition is limited and the degree of regulation will stem from that. Supply chain competition, however, does exist for the automotive industry. Spare parts for BMW in Gauteng are imported through the Port of Cape Town, for Volkswagen and Delta through Port Elizabeth, for Ford and Nissan through the Port of Durban, East London, and Port Elizabeth, and for Daimler Chrysler through the Port of East London. The Port of East London is developing as a car terminal, which could increase competition with the other supply chains. The composition of the successful concessionaires (i.e. consortium of shipping lines, one shipping line per concession, container operating companies, and private/public enterprise) will also influence the degree of inter-supply chain competition.

Inter-supply chain competition in the bulk and break-bulk industries is limited, as they tend to move through their natural hinterlands. Additional transport costs due to longer distances can raise the f.o.b. prices at the risk of international competitiveness, unless the additional cost can be beaten by the economies of scale generated through the better utilization of railway lines (Internet 16).

#### 4.2.2.4 Business Profile Analysis

This analysis shows the extent to which the proposed strategy of concessioning of the Durban Container Terminal matches favourable performance parameters (Johnson and Scholes, 1997). Concessioning is expected to yield improved capacity utilization. It will derive improved income, with effects such as additional growth in industry, and customer satisfaction. It will improve skills and training and create greater empowerment. Concessioning will improve logistics of the container through the terminal with improved terminal management.

#### 4.2.2.5 Portfolio Analysis

The strategy will move the company into a dominant position, as it will have many of the financially empowered stakeholders support. These stakeholders refer to shipping lines, which should mean more ships calling at the terminal. It should have support of the G8 countries as privatisation initiatives show signs of government's market driven intensions. Concessioning is in keeping with guidelines of the WTO and World Bank. A result should be improved foreign direct investment (FDI) in the country.

Concessioning is expected to provide for greater cash reserves for government and Transnet to finance further development projects. Such income will be expected to boost economic growth and serve to reduce unemployment. With such an agreement there will be skills transfer and empowerment through the broad based black economic empowerment plan. Increased employment will occur in the medium to long term although job losses in the short term are expected. Employers social plan will take care of the employees that may be retrenched. In the long term there is expectation of new supplier industries to the concessionaire, which will need to employ staff. In theory concessioning is expected to encourage entrepreneurs through the BEE component.

### 4.3 Acceptability

This analysis covers that acceptability of the strategy to a number of stakeholders. It is concerned with the expected outcomes such as risk or return if the strategy is implemented. There is no information available on the financial modelling of the strategy as it is confidential for purposes of the study. It is assumed that the financials show concessioning to be feasible with a minimum tender value. Considering the advanced state of the process, it is deemed safe to assume financial viability. More emphasis will be on the stakeholder and their perspective with regard to acceptability.

Table 4.2 - Stakeholders acceptability index

Stake Holders	Acceptability Index		
	Acceptable	Subject to Conditions	Unacceptable
Port Authority		1	
Port Operator			1
Concessionaire	1		
Department of Public Enterprises		1	
Shippers, Exporters, Importers	1		
Freight Operators	1		
World Traders	1		
Labour		1	
Total	4	3	1

The data tabulated and rated on assumption of the views of the different parties in table 4.2 show approximately half against, and half almost for concessioning. It is indicative of the current perspective that concessioning is the way forward, however, before then, a few issues need to be resolved, with respect to providing a labour solution, having an approved concessionaire's agreement, enacting the ports bill. The three items mentioned above are items that are critical to the process proceeding and if any one of them does not succeed the process will be stopped. Stopping such a process is done easily, however, to re-commission such an initiative will take longer than a year.

4.4 Feasibility

This analysis is concerned whether the organization has the resources and competencies to deliver on strategy. This refers to the chief executive who will have commit to deliver on the concession agreement as per the Port's Bill. There are adequate funds to upgrade infrastructure and make good some defects as well prepare a concession document. Skills in this regard will be outsourced and the process of preparing the document will in conjunction with Government as the main stakeholder.

A fundamental feature of the use of the basic port infrastructure is that it is not feasible to establish a relationship between a charge for usage and the costs incurred by such usage. Because the exclusion principle, which underlies the concept of private ownership, does not apply, consecutive usage does not result in identifiable marginal costs. Reliance can consequently not be placed on the market-economy to allocate resources to the provision of basic port infrastructure. The investment criteria used by public authorities must thus be sought in the projected net benefits to society or strictly speaking, the net marginal social benefits. When doing so, it is necessary to offset local or regional benefits against national benefits where those do not correspond. That is hardly a task to be entrusted to a company whose success must be rated by the profits earned or, at least, by the increase in its net asset value, without regard to social accounting (Internet 16).

#### **4.5 Summary**

In consideration of the suitability test with respect to lifecycle analysis, positioning, business profile, portfolio analysis, and value chain analysis, the business is mature, well positioned with resources and historical learning haven taken place, with current working knowledge of the port processes serving as a barrier to entry and thus difficult to imitate. The NPA and SAPO do not have good knowledge of the customer value chain and thus do not often enhance the customer's value chain. Customers often have to conform and run their businesses with these logistical constraints in their supply chains. Concessioning will serve to remove these bottlenecks and allow the organisation to concentrate on more strategic focus such as skills transfer, black economic empowerment, and training and development whilst facilitating trade.

With reference to table 4.2 it is marginally, apparent that concessioning will be acceptable,, however, the acceptability index having not been weighted will not prioritise the effect on any one stakeholder. With concessioning these constraints may be eradicated and thus allow the customer to grow and improve business delivery.

Monopolistic constraints will provide for a favourable perspective from that of foreign businesses looking to grow markets through multinational expansion. Such initiatives can provide for large amounts of foreign investment. An example of such interest in South African markets is Barclays Bank of Britain, proposing to purchase a share of the banking group ABSA and is a promising sign of foreign interest in South African business.

The feasibility of concessioning in South Africa, at a strategic level, is expected to have a common set of variables with respect to resources and competencies. Most of the parastatals in South Africa have the same evolution with similar experiences heavily impacted by the political situation in the country during the business lifecycle. Considering that concessioning is not common in South Africa, it is very difficult to determine whether the organisation is competent and has resources able to deliver on the strategy on concessioning. As discussed, an obstacle is that it is not feasible to develop a relationship between the charge for usage and the costs incurred for such usage. This is because market forces do not usually drive infrastructure development because it takes too long, however the greater capacity is hoped to create additional or new markets. Basic infrastructure in a port for example, is created with the intention to develop markets. The infrastructure created will be utilised by a variety of customers and often created with some flexibility. Different customers use the infrastructure differently with different ROI, ROAM models reflected in their business cases. Port charge for such usage will therefore change to suit customers or force customers to reconsider their own feasibility with respect to investment, which will apply to concessioning as well.

Considering the evaluation of the strategy of concessioning with respect to suitability, acceptability, and feasibility, all have thumbs up and/ or thumbs down depending on the variable being considered. Depending on the country specific issues the strategy of Concessioning will emphasise the multitude of variables that show either an advantage or disadvantage to the country and the people of the land. In the conclusion these very same variables of concessioning are prioritised and based on the outcome of the variable when considered against concessioning in South Africa. A way forward will be recommended applicable to circumstances prevailing at present.



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## **5 Chapter 5 - Recommendations and Conclusions**

### **5.1. Introduction**

In choosing the strategies to effect port reform, the choice of the strategy will be enforced by government. NPA and SAPO will be stakeholders in the concessioning process and provide significant input in the development of the concessioning agreement. The variable remaining is the timing in the initiation of the process. The Port Authority is in control of the preparing the concession agreement. The Ports Bill is managed by Transnet and will be tabled by the Department of Public Enterprises. The process has gained momentum but has been temporarily paused. One can only assume that the most logical reason for this was a change in leadership of the portfolio and reassessment of the strategy, in line with the feasibility check, with respect to knowledge of the business and resources, it is recommended that the process of Concessioning needs to be reaffirmed by the Department of Public Enterprises.

The recommendations will provide insight into the more complex details of concessioning and the concessioning agreement. They reflect on a point of view adopted by stakeholders. It is borne in mind that concessioning is an argument for and against, similar to that of any anti-colonial fighters and the colonialists. It is reasonable that true empowerment is effective when there is economic growth.

Alternatives to achieving similar objectives without privatisation may be possible. South Africans being presented with the opportunity at this time are fortunate in that there are other countries to look at and learn from their multitude of failures and successes. Once having Upon learning, we then develop a more workable plan that addresses the needs of the foreign investor as well as of the economy.

### **5.2. The Alternative approach**

To recommend anything plausible, an attempted unbiased approach has been adopted throughout this study. An opportunity has presented now, that allows finding perhaps an alternative means of achieving economic growth through other methodologies. This could entail development through investment in infrastructure and promoting the country in other more creative ways such as winning world sports events like the soccer world cup. Investment in tourism and other means that present South Africa to the rest of the world,

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which has economic spin offs. World class sites, such as the new Ushaka marine world in Durban's upcoming Point waterfront development is another attraction that has already caught the eye of the foreign tourist.

South Africa has improved with a sound economic base through having an economic policy that is working for which there has been praise. Since 1965 to 1972 South Africa did not have such large capital investment initiatives as there are now and an economic boom is looming.

Because of the many other successful initiatives, South Africa has been generating improved incomes, for example revenue collection, that the private state assets for purposes of generating cash may not be as critical as the need to supply a good service. This need to provide a better service can be revisited with traffic diverted through other ports, like the new port of Ngqura, which has a new container terminal currently under construction.

An alternative approach would be to concession a new terminal and have the existing operator compete with the new operator. Such an initiative would not be as controversial as retrenching staff in an existing, yet very profitable terminal. There will not be any union problems as well as funding large retrenchment packages. A constraint would be an appropriately developed support industry, as well as infrastructure such as transport services by road/rail to the reef. There are plans to develop an IDZ in that area and Port Elizabeth can offer support, and thus with government support and encouragement, the container terminal in the new port of Ngqura could be an alternative.

### **5.3. Prioritising Stakeholders approach**

It is recommended that relevant authorities revisit the government strategy and after considering the various strategies that are affected, government as a start can then proceed to prioritise the strategies. Upon completion of this task, stakeholders relevant to say the top three strategies can be allocated and then these can be prioritised as well.

This might be a bold step for government and it will take a lot of convincing in parliament but provides an option on how to get some direction whether or not to proceed with

concessioning or not. It can be used in the decision making process and thus provides some qualification on the matter, rather than being a pure voted decision.

On ascertaining what each of the stakeholders perspectives are a picture starts to form on the way forward. The perspectives and the various standpoints can be verified as reliable and valid before being given due consideration. It could very well be that many of the stakeholders cannot defend their standing on the issue and it would be unwise to proceed on such misinformation.

Depending on how prioritising is done, it will be present different scenarios. It will be based on the leadership of this country. The current leadership is viewed as competent in the management of economic affairs of South Africa. Such competence should be exploited whilst the opportunity presents itself. Credibility of the leadership of the country taking such decisions is paramount to internal and external stakeholders. It may determine the failure or success of the initiative. High credibility of the leadership will ensure good support by stakeholders even though there might be dissension with the ranks.

The leadership could favour a capitalistic perspective or a more socialistic perspective, but confidence in understanding all of the various stakeholders could yield a compromise. This would be a compromise and a way forward in the short term. Government may still see it fit to change the concessioning strategy depending on the lobbying power of stakeholders.

#### **5.4. Choice of a single stakeholder approach**

##### **5.4.1 Socialist Stakeholder**

Stakeholders have been disseminated into internal or external referring to local and global respectively. However, the strategies of these stakeholders are evaluated; they do not give enough weighting to some stakeholders that are represented by government. These might be South African citizens they should have a higher priority than say a overseas multinational. It transcends the capitalistic and socialistic argument.



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It may be questioned if needs are being served. There is still the ideological debate that the World Bank has initiated a political need and its politics must be recognized. The World Bank is accountable only to its shareholders - the G 8 countries and through their Governments of the G 8 countries. Governments representing the G8 are the primary financiers of the World Bank and as result exercise enormous influence.

The Third World countries and their governments do not typically concession public assets for private operation," in order to "raise efficiency, reduce government's fiscal burden, and further social and environmental goals." They do it under compulsion placed on them by the conditionality of the World Bank and the IMF. It has to be recognized that the World Bank, IMF and the WTO today have entered the sovereign space of nations and structural and legislative changes are forced upon nations (Internet 17).

South African labour states that there is no evidence to suggest that privatisation either increases efficiency or profitability or leads to increased foreign direct investment. FDI and its impacts through constraints, including the impacts on the South African people are significant issues and as many of the sister countries in the African Union have found out with difficulty consequences. Some developments and businesses have been staffed only by the large multinational expatriates. There has been poor to no social investment or development through transfer of any skills. The impoverished stay impoverished and the government officials usually very susceptible to bribes result in the enrichment of a few individuals. Countries such as Nigeria and Ethiopia are known to experience problems in this regard. Technology dumping has also been known to be used as a constraint to FDI.

In approaching privatisation, the choice in selecting strategies for economic development and advancement are political and social decisions of nations.

- a) The state can remain as the main shareholder and continue to intervene in order that workers are protected from foreign capital seeking business.
- b) In case government proceeds with concessioning and associated transformation, it can consider subsidising those businesses unable to compete with the new service provider. This expense should be offset against the net benefit of concessioning.

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c) There is no knowledge on how the government will protect even itself from the power of the large multinationals. It is recommended that this be addressed through law and supported by very efficient concession agreements.

As part of recommendations from a social standpoint, it is imperative that government evaluates the social and environmental impact of privatisation & maximizing the social and environmental benefits of privatisation and minimizing the costs.

The fact is that the service is still a public service in that the income generated is used for provision of public goods and services, the public services cannot be isolated from politics merely by change of ownership. The issues relating to public services will have to be resolved at a political level and not at a corporate level even if the sector is privatised. The national government is the only stakeholder responsible for the interests of the public sector in this regard (Internet 17).

South Africa cannot adopt a uniform methodology developed and used in another country whether it be successful or not, to deal with the concessioning to public sector due to the variations in local circumstances. Some variables relevant to concessioning in other countries may have evolved into a successful methodology, containing inherent circumstantial peculiarities that may have provided for success or failure and thus would result in fatal flaws in a concessioning agreement copying parts of successful methodologies.

In western countries like USA, the private sector and government have a different relationship, unlike like that in South Africa. In South Africa, government and labour have a very close historical respect for each other, unlike that in the US. For example in the US labour is fired. There is no hire and fire in South Africa. South Africa like many of the developing countries also provide for retrenchment packages and post retrenchment multi-skilling and empowerment.

There could be hype that about privatisation, which could be essentially a technique of ensuring that assets of countries in developing countries become the property of the countries with multinationals of the North. Developing countries have usually high percentages of the populations characterised as poor. Based on the philosophy of privatisation, it is difficult to see how the privatisation programme can serve and protect the interests of the poor.

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The following is the recommendation of the socialist approach to concessioning, if such transformation determined to be necessary:

- a) There should be a measure of equality between the participants.
- b) There should be no attempt to co-opt those who dissent. Neither of these is possible in the privatisation paradigm.

Besides the looming possibility of concessioning becoming a reality it may also be commanded (Johnson and Scholes: 1997). The decision to concession may eventually be a strategic government decision. All the effort of the stakeholders could be presented for information purposes and the strategy once commanded would have to be made to work. Concessioning is workable in practice and will state government's intention.

Focusing on concessioning in ports, it is understandable that ports cannot compete in a free market without a degree of regulation. This is due to the imperfections stemming from the public nature of basic port infrastructure, the existence of common and joint costs, the indivisibility of investments, and the absence of the exclusion principle in many services such as navigation and the provision of basic port infrastructure. The regulatory function therefore in most cases resides with the port authority, which is a body governed by an act of parliament with the responsibility to pursue the welfare and best interest of the country and its people. Such regulation in ports is still in its infancy.

In South Africa the size of business units does not render free market competition easy, hence the necessity for strict regulation, which could attenuate the free market spirit. The question that arises is whether the reform process in South Africa should not focus on creating competition between various supply chains. That, however, would create the risk for anti-competitive behaviour through the bundling of services.

With port reform worldwide and the endeavour towards free-market enterprise, regulation, to a greater or lesser extent, became prevalent. Port authorities are still receiving their revenue from the port business. It is doubtful whether unbiased decisions could be made, especially where risks are at stake, unless the port authority is subsidized for loss-making entities. It is therefore argued that the port authority should also be regulated. The regulatory role of the port authority should be confined to the day-to-day management, monitoring, and control, whilst the regulator should focus on expert-driven research and

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evaluation. Even in such an event expert knowledge on total supply chains and the regulation thereof is needed. The role of an independent regulator should thus include the regulation of total supply chains.

Port reform processes in most countries are complex and no perfect model exists. Many countries had to walk the path of "trial and error." Likewise, South Africa has to embark on this path, but should learn from the mistakes of those who have erred. Recent port reform in South Africa has seen changes in structures, but not yet ownership. The latter will require legislative changes, and changes in the regulatory structure and ownership will stem from those.

#### 5.4.2 Government

In public, government generally voices some cautions on privatisation, arguing that it will not privatise on a wholesale basis or without regulations. Virtually without exception, government documents avoid the term privatisation, preferring euphemisms such as "restructuring" or "public-private partnerships."

Government views on privatisation are uncertain with it being motioned and then put on hold. They praise market forces, yet at the same time call, without detail, for regulation. Ultimately, they appear to endorse wholesale privatisation, driven by the following assumptions:

- Competition will lead to lower costs and better quality services for all consumers.
- The private sector generally is more competent than the public sector.
- Privatisation will bring in additional resources for government services at no cost to the state or consumers.

South Africa has inherited a particularly unequal distribution of income. Estimates suggest that in this regard, South Africa rank's third worst in the world, following Brazil and Uruguay. The richest 10 % of South Africans get around 45% of the national income, compared to between 30 and 40 % for almost all other middle-income developing countries, and 24 % in South Korea (UNDP 2001).

In part, inequality is rooted in the injustices of apartheid, which denied the majority of non-white South African people formal qualifications and access to basic infrastructure. It has been aggravated by the massive loss of formal jobs in the past decade, fuelled in part by

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downsizing in the state departments. As a result, despite improvements in government services to the poor, income distribution has not improved.

The market will not meet the social and economic requirements of development, since private companies cannot capture the long-term benefits of developmental measures. To understand the implications, we here explore the functions of the developmental state, and analyse why the private sector cannot carry them out.

It is recommended that the organization /s participating in motioning for concessioning be accountable for social protection. All cases of proposed re-structuring should have a social impact study done with the costs quantified. There should be an approved social plan to take care of those parties, which are immediate victims of the process of concessioning. The state must enhance social protection to ensure no South African lives in extreme poverty as a result of concessioning. This is critical to raise productivity, for instance by improving skills, health and security, and to expand the domestic market.

The developmental state must support a strong industrial policy to restructure the economy toward growth. To that end, it needs to direct the development of economic infrastructure to support employment-generating activities. Infrastructure is one of the main ways the government can support economic growth. By concessioning the main infrastructure sectors such as the Durban Container Terminal, the state undermines its own capacity to intervene strategically in the economy. Government therefore reduces its own control over key national assets.

In the context of concessioning any assessment of costs and benefits done, must take the impact on broader national policy aims into account. Privatisation, with a short-sighted target of maximising profits, may well end up imposing large costs on the government and on society.

#### 5.4.3 World Bank

The World Bank considers transport infrastructure to be important drivers of economic development. The Bank has long encouraged change. The primary engines of change are globalisation and marketization. With respect to ports, globalisation means a country's inefficiencies can no longer be absorbed within its borders. If a country is to participate effectively in the world economy, it must be able to move goods rapidly and cheaply. If the country's transport network is inadequate, the export potential will be reduced, and the

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citizens will pay more for imports (or competing local goods) than necessary; either way, the nation's well-being is reduced. If local passenger travel is inefficient, citizens cannot participate effectively in the educational and commercial activity needed to promote their participation in the global economy.

The process of change is not uniform in all countries. The starting point for each country differs and the composition of each economy is unique; there is no single recipe for how the ports business methodology must change. Bearing this in mind, all ports face a set of common issues and challenges. Although the weight and mixture of the issues may vary, most will need to be addressed as each country searches for the port reforms that best suit its unique circumstances.

## **5.5. Conclusion**

With reference to the research question:

**"Will the concessioning of the Durban Container Terminal provide a solution to improvement of service delivery to stakeholders in the Port of Durban?"**

The question requires an answer, which is a yes or no to concessioning. This study is concluded with stating that concessioning should not be considered yet. South Africans are still too young in the democratic process to engage in selling off our most prized assets to first world multinationals. South Africa although a democratic nation has entrenched in it's political system, a high respect for socialist norms established through the struggle for democracy and norms which has made it such a compassionate nation as opposed to many other countries in the world. South Africans have the ability to love past enemies and embrace each other to live in peace and harmony.

South Africa can look to implement other initiatives such as private sector partnerships. The new port of Coega may be a more logical option to concession. However, Government must always have the majority stake in the partnership. Therefore, all stakeholders affected by business partnerships should have their opinions considered. The current operator needs to be given the opportunity to become competitive and the funding can be sort through such partnerships. The supply system of port business needs to be optimised, such as roads and railways, which can also have partnerships for funding

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and in turn be allowed to become for example operators. Such arrangements can be managed through service level agreements.

Notwithstanding the efforts of NEPAD, in efforts to increase port capacity, the private sector has been invited to build and/or manage port operations. Regulation of ports may pose a very difficult task to government because of an inherent inefficiency of South African markets to develop. The ability to reform relates to feasibility of such reform at this time in South Africa. It is clear that all policies on parastatals admit the need for regulation. However when one looks at the progress made in this regard, it appears there to be a lack of seriousness. For the regulation to be effective government needs to first for example, appropriate targets, monitoring and feedback mechanisms, and capacity to enforce regulations. South Africa has inadequate capacity in all these areas. Hence the feasibility of the reform process may be seriously flawed if active steps are taken proceed.

Most policies on privatisation in parastatals like the National Ports Authority are not linked to targets for service delivery, and often the targets are inadequate poorly publicised or even secret.

Regulatory agencies such as the Ports Authority have very little capacity to enforce regulations, as they are often not legislated bodies with powers as such. Enforcement is reliant on the support of government and prevailing legal system. If the terminal is concessioned then government will find itself in a weaker position. It becomes very difficult to say impose sanctions on the concessionaire, since that could in itself disrupt service provision and have the concessionaire default on the performance concession agreement.

There is a weakness in government's ability to police regulations. In first world countries, the authority requirements are not very different from that of the market. It is therefore easier for the private concessionaire or service provider to comply. However, South Africa's developmental targets impose a considerable cost on the private company. These requirements to develop and empower may deter prospective businesses from tendering.

Furthermore, industrialised countries have higher average literacy and skills levels, more skilled resources regulation, and have developed their systems over many decades. In South Africa, regulatory agencies have inadequate resources, and must develop new

systems in the course of a few months or years. It is not surprising that most of them do not function efficiently or effectively. The advantage of this is that South Africa has an opportunity to develop improved systems having learnt from predecessors.

Concessioning is supported by merchant banks and financial institutions, which hope to make fees off the process and will thus promote concessioning. Concessioning should not be a rushed event as the urgency, poor advice, research, and pressure from capital, may push to concession and end up tampering with systems that are working, rather than focusing on problematic areas. A detailed analysis of the state organisation has to be performed and it has to be understood how the potential partner is expected to add value.

A problem lies in that concessioning reduces the capacity and power of the state. In particular, restructuring of the state-owned enterprises has been associated with fragmenting strong, integrated, and flexible systems. It can promote a private sector monopoly.

A second motive for concessioning lies in government's desire to reduce the debt. This cannot justify privatisation of any single asset. It is proposed that concessioning in order to free up government funds for other purposes makes sense only where there is no justification for keeping an asset in state hands. This has been done many instances already in Transnet which is in the process of selling off its non-business units such as Transnet Cellular and Transnet Housing. A high level of focus on the immediate returns from privatisation will lead to short-sighted and costly sales. This appears to be the case with Telkom and the second network operator.

In conclusion, the arguments for concessioning stated above appear deeply flawed. They essentially start by assuming the efficiency of markets and skills of the private sector. It is an assumption that has no basis. Concessioning also assumes that government cannot transform its own operation to be highly productive and the thus compete with private terminals.

The DPE and the Department of Transport have been working on a Port's Bill. It appears that the main thrust of this policy is to introduce concessioning of port operations currently carried out by Portnet. Labour has, however, been excluded from all the deliberations to date. A well-designed and professionally executed concessioning program, it is deemed in theory can work, if all stakeholders are consulted and the adequate provision is made for



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negatively impacted stakeholders to be satisfied in conjunction with the labour unions. Therefore the Bill can create an environment that facilitates delivery, improved company performance, help with economic benefits through attracting foreign investments as is very successfully happening in Middle East where development of assets is almost entirely outsourced. However, these states possess high amounts of capital and host country social inadequacies are virtually non-existent. Governments can mitigate the adverse consequences of labour cuts that may be necessary for concessioning. They can also help provide, through labour legislation, social security reform, and other measures, an environment more conducive to job creation. The net effect of concessioning, in the medium term, may very well be a net increase in employment, with a decrease in the short term.

Concessioning if anticipated must be considered as long-term initiative by South Africa, possibly when more critical social pressures have been relieved to some extent to reach the state when an average person can be easily employed through the skills that he may possess, in larger job market. At this time South Africa needs to be globally competitive and have increased power representation at the World Trade Organization. Then it would be appropriate for government to, through the mechanism of concessioning, increase people's choices, and improve their standard of living. The result of concessioning is higher competition and thus theoretically lowers prices, as a higher number of product providers become available. It is still maintained that public private partnership's is an opportunity to establish a genuine partnership between the public and the private sectors for improving social conditions while creating the conditions for sustainable growth and development, coupled with learning and transfer of skills.

Public private partnerships appear to be the least destructive and risky option to South Africans. Competition and having a competitive edge usually suggests a supreme market dominator, which is highly capitalistic in nature and provides for the enrichment of usually a select group of individuals. Such competition if compared to competition in nature leads to depletion in the resource of food usually and the herd is then expected to move on. However, with the world becoming globally competitive one does not have another earth to go to. The only option is compromise so that life can prevail in happiness without as much competition for longer without there being an absolute winner.

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