

THE DIG-OUT PORT: UNRESOLVED ISSUES CONCERNING DIG-OUT PORT ECONOMIC IMPACT

Review of the economic impact
assessments

OSISA, module 8, lecture 4
Case Study
24th July 2013
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Objectives

- To review the economic case for port expansion based on official documents and macroeconomic trends
- To reflect on the urgent need for employment and development and whether this project is likely to deliver it

Argument

- The dig-out port is widely seen as necessary for national growth and employment creation
- The impact assessments produced by Graham Muller Associates Consortium and UrbanEcon argue this
- Adverse effects on 'project affected persons' and Nature losses then framed as unavoidable
- **But, the economic case for port expansion is still missing key considerations**
- **A further planning review** should be undertaken

1. Assumptions

- ‘There is no alternative to growth and competitiveness’
- Infrastructure projects generate economic demand by new business sales (and indirect multipliers).
Need for construction materials
- Then increase in production and gross geographic production
- And job creation (UrbanEcon):
 - **318 279 temporary jobs created through the port construction process**
 - **63 656 jobs during 30 year construction phase**
 - **Job creation of an additional 27 533 jobs at full operation**

1.1 Taking a look at the documents...

- A huge amount of data was generated.
- Outstanding issues in terms of what the data tells us about development impact in terms of local community, Durban economy and regional economy
- The status quo assessment of the back of port area measures the size of the economic activities already in the back of port area.
- But this economy will largely no longer exist.
- The status quo economic impact analysis does not compare to an analysis of the future of the actual project affected persons.

1.2 Jobs?

- **“ECONOMIC DYNAMICS**
- Development, in the long term, of an area for concentrated logistics activity in the SDB would greatly benefit the port and create opportunities within the broader logistics and distribution industries
- The reconsidering of the SDB’s role allows planners to intelligently prioritise certain activities and provide the correct levels and types of services and infrastructure moving forward into the future” (Graham Muller Associates)

1.3 But for the current affected persons

- **“ECONOMIC DYNAMICS**
- The opportunity cost for logistics development in the BoP area is the displacement of other non port-related activities that will need to be accommodated elsewhere in the metropolitan area if such activities are not to be lost to the municipality
- Resolving the competing alternative roles for the SDB and finding alternative locations within the metropolitan area for those that cannot be accommodated within the study area is challenging (and strictly speaking falls outside of the scope of this project) and yet is a vital success factor for the future performance of the economy of the eThekweni Municipality” (Graham Muller Associates)

1.2 Which will be bigger – jobs created or jobs lost?

- Neither consultants give an assessment of job creation which accounts for the current jobs, businesses and livelihoods lost, that is a full cost benefit analysis
- The top down planning documents of the ‘perfect port’ are thus not put in the context of the local economy in the back of port area

1.3 Economic case: Macroeconomic context

- Are port expansions the answer to growth?
- Where is the evidence that the demand for container ports is really rising? (recent evidence of Durban port volume dropping)
- If it is, is this shortterm (given low competitiveness of local manufacturing)
- Are increased imports of consumer goods necessarily a good thing for South Africa given growing sovereign debt , need for local job creation (7.9 mill effective unemployment) and current account deficits?
- Pro-poor, inclusive growth is bottom up and employs import substitution strategies
- It is the *type of growth* that matters as much as its size.

2 Economic impact assessment: sector analysis

- Where is the analysis of intra-sectoral conflicts? (sector and comparative analysis)
 - And the costs to these sectors of port expansion
 - Top down planning suggests that all is possible (win-win) but the interests of different economic sectors can contradict each other
 - Possible conflicts with leisure, tourism, cultural industries, sports and lifestyle industries, retail and small commercial, light industrial

2.1 Economic impact: counterfactual analysis

- Where is the case that of all the things that are possible in Durban, this is the best one?(counterfactual analysis and visioning)
- A comparative counterfactual analysis would look at the opportunity costs of investing in other economic sectors
- A maritime logistics, security, legal and service hub (rather than hard infrastructure and bulk haulage) might create better clustering effect within local knowledge and leisure based economy. Local beneficiation of light industry and growth in air freight and offshore bunkering facilities/pontoons

2.2 Economic impact: national and intra-regional conflicts

- The national needs and oil demands of Gauteng figure prominently in the impact assessments
- However, the needs of KZN not the same as Gauteng and inequality and unbalanced regional growth in evidence
- Changes profile of Durban and potentially locks it in to dirty industry concentration

2.3 Economic impact: SADC/ regional capacity

- Where will increase of demand for freight services come from?
- Where is the evidence that Durban will get this business given other large port expansions up the coast and in Mozambique? (regional comparative analysis with reference to SADC as a whole)
 - Bolloré Africa and CFM (ports and railway parastatal) building Mozambique's first oil port in the city of Pemba
 - Grindrod, Africa's largest shipping company, and Mozambique's Maputo Port Development plan to invest \$1.7 billion over the next five years to upgrade ports
 - Capacity will be tripled at the Maputo and Matola ports to 50 million tons by 2020 from 15 million tons
 - Angola: Lobito (US\$1.2 billion investment by government), Cabinda, Luanda (over \$350 million)
 - Tanzania: The \$11 billion Bagomoyo port will be bigger than the Dar es Salaam and Mombasa ports, both of which expanding

2.4 Economic impact: port planning by 'best practise'

- **Methodological issue: 'best practise' does not always correspond to best choice in context**
- Does the 'port regionalisation' model which has a 'back of port interface zone' generate the best port for Durban?
 - The 'regionalisation model' of port development suggests 'inland access costs 18% of total logistics costs' targeted for reduction by shipping companies (Graham Muller Associates)
 - The type of development resulting from the model involves corridors, inland terminals and concentration of back of port services to attract freight
 - But Durban differs from case studies chosen in its high 'liquid bulk' throughput and specific bespoke facilities for cars and private terminals for historically embedded industries (sugar, soda ash, molasses and minerals/chemicals by South Africa Sugar Association, Agriport, Rennies & Grindrod)
- Are cost savings for shipping and petrochemical companies privileged in this model over other port users, proximate small business and exporters?

2.5 Economic impact: consideration of externalities

- The externalities of the costs of the dig-out port have not been costed in, including for people (social and economic impact, heritage capital)
- But these externalities exist in relation to RSA legal provisions and the charge to the public sector/tax payer of honouring them

“A report is to be submitted to the Housing Committee that suggests settlements for relocation to Cornubia in terms of a prioritization process. The 12 settlements requested for relocation will be included in that report. b. As the report currently stands there is a need of approximately 30 000 units identified for relocation to Cornubia. If the 764 structures (excluding the possibility of the "backyard shacks" in formal sites that are in the process of been quantified for Clairwood) the demand on Cornubia is further increased. The Cornubia development allows for the construction of approximately 12000 fully subsidized housing structures. Therefore there is an oversubscription of almost 18 000 units.”

[22 May 2012, Head of Housing to ECOD Housing Committee]

2.6 Economic impact: natural capital

- The natural and eco-systems services, estuarine system services (marine nursery for KZN), biodiversity and rare species are not costed
- These create a contribution to GDP through derivative industries and multipliers
- Offsetting and compensation strategies not viable

“Strategic Issues for Back of Port project”

- “A significant area will be displaced, compensation may require remaining areas of coastal grassland such as the racecourse in addition to significant areas outside the area. The loss of habitat associated with port development may not be replaceable in the location. It may be necessary to conserve other areas within the Municipal Area.”

[Graham Muller Associates, CHAPTER 8 Composite Summary & Strategic Issues Final Draft March 2009 *A Local Area Plan and Land Use Management Scheme for the Back of Port Interface Zone*]

3 Financial risk increased by protest and litigation

- 'environmental risk' is defined through disturbance to financial returns
- issues of disruption, appropriations and lawsuits figure heavily in 'sustainability related risks' and will increase the current price of the dig-out port.
- Also, recent cases have expanded concern with reputational risk eg Greenpeace and shell and arctic drilling where Lloyd reinsurers pulled out
- Reputational risk caused by social protest can also encourage institutional investors to pull out

4 Conclusion

- Environmental and social impact assessments often begin when decisions on who, how and where investments will be made, are already determined.
- But there is the question of whether the economic case has been proved and evidence that certain risks to the sustainability of the dig-out port expansion not considered
- If not, this level of disruption to livelihoods, communities and the environment is of a high order moral concern
- The remaining issues could usefully be addressed to manage risk to the local economy and industry
- A national macroeconomic alternative exists: sustainable green economy jobs in an inclusive growth model
- Not a new extractive, petro chemical/oil refining and roads based development in the context of climate change and obligations for carbon emissions reductions

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