



REPUBLIC OF SOUTH AFRICA

OPERATION PHAKISA

**UNLOCKING THE ECONOMIC POTENTIAL OF SOUTH
AFRICA'S OCEANS**

**OCEANS ECONOMY
REVIEW WORKSHOP
OFFSHORE OIL & GAS**

15 OCTOBER 2015

Introduction: Oceans Economy Review Workshops

On 15 October 2014, President Jacob Zuma officially launched Operation Phakisa: Unlocking the Economic Potential of South Africa's Oceans during an Open Day in Durban. One year later, the Department of Performance Monitoring and Evaluation (DPME) and the Department of Environmental Affairs (DEA) convened a review workshop with four main objectives:

- Sharing the progress to date in the initial four focus areas – Marine Transport and Manufacturing (MTM), Offshore Oil and Gas (O&G), Aquaculture (Aqua), and Marine Protection Services and Governance (MPSG) – as well as in Coastal Tourism and Small Harbours
- Identifying constraints to progress, opportunities and specific actions to accelerate impact
- Assessing the effectiveness of the existing institutional arrangements and identifying opportunities for improvement
- Renewing commitment of the participating sectors to move forward together

The Oceans Economy Review Workshop took place in Cape Town on 15 October 2015. Participants included Directors General of several national departments, as well as a wide range of former lab participants and stakeholders who are closely linked to the implementation of the plans developed through Operation Phakisa.

This report summarises the outcomes of the Oceans Economy Review Workshop, including:

- An overview of the progress to date and the challenges presented by the six focus areas
- Recommendations to accelerate progress in each focus area
- Cross-sector recommendations to accelerate the speed of implementation and enhance impact for the Oceans Economy

The accompanying documentation to this report includes the agenda and presentations shared during the workshop.

- the past year, will provide the opportunity to escalate issues and reduce the time to identify and solve roadblocks

Recommendations and commitments from the MTM focus area

At the closure of the session, all participants were asked to summarize their personal commitments going forward, and their personal recommendations to be escalated. A summary of these commitments is listed below.

Commitments. The industry renewed its full commitment to the MTM plans, with some companies offering direct personal support.

Recommendations. The recommendations are aligned with the discussions held during the session, and are particularly focused on communication, institutional arrangements, and involvement by the private sector and procuring entities. Specific recommendations included:

- **Communication.** The group recommended more transparent and frequent communication of progress with the industry and procuring entities. Without this, it will difficult for the industry and procuring entities to translate their commitment into action
- **Institutional arrangements.** The group recommended that dedicated resources and budget are allocated for Operation Phakisa; that the Steering Committee becomes operational; that monitoring activities start; and that issues are discussed frequently. The group also recommended that activity of Operation Phakisa should be linked to performance agreements, thus increasing accountability
- **Involvement by private sector and procuring entities involvement.** Beyond better communication and more frequent engagement, the group recommended several specific steps:
 - The DTI should identify all relevant projects in African countries and inform interested South African companies about these projects
 - TNPA should shift from a “business as usual” mindset to a “Phakisa” mindset, characterised by a sense of urgency, in their approval processes
 - The private sector and procuring entities should take on greater involvement in skills development

Offshore Oil & Gas

The offshore oil and gas sessions gathered 37 participants from the private and public sector involved in the Labs or involved in the implementation of the Labs' initiatives. Among the attending organizations were PASA, OPASA, SAOGA, DMR, DEA, DPME, SAMSA, i-gas, Total, Shell and Sasol, among others.

This group engaged in a facilitated discussion which covered (i) the progress of the first year, (ii) the challenges that are blocking progress or that may block future progress, (iii) the identification of opportunities to overcome these challenges and accelerate impact, and (iv) the commitments and recommendations of the focus area.

SUMMARY OF PROGRESS FOR OFFSHORE OIL AND GAS

The head of the Delivery Unit of the oil and gas focus area, Mr. Mpumzi Bonga, presented the progress made to date along the 12 initiatives identified during the Lab phase. The main achievements are set out below.

A1. Develop phased gas pipeline network:

- Indicative pipeline costs have been established
- The securing of servitudes/reserves for the pipeline is in progress. The Council for Scientific and Industrial Research (CSIR) has been appointed as the service provider for Strategic Environmental Assessment (SEA), the timeframes of which have been aligned to the initiative's timeline

B1. Conduct joint industry/ government emergency response drills:

- The formalization of participation by International Oil Companies (IOCs) is complete
- Gap analysis of existing capacity, stakeholders and entities is complete
- The definition of the purpose and scope of the oil spill response team is in progress
- Pre-emergency planning is complete

B2. Operationalise International Oil Pollution Compensation (IOPC) Fund

- Agreement on disputed payment of arrears is complete
- A fully operational IOPC Fund is 95% complete

B3. Exploit broader research opportunities presented by offshore oil and gas exploration

- Project design and stakeholder analysis is complete
- The establishment of a multi-stakeholder project management team is complete
- A workshop has been held to kick-start the Research Exploration Forum
- Research opportunity exploitation reports and agreements are almost complete
- An agreement on data management structures and systems is in progress

C1. Develop/implement local content roadmap

- Financial analysis of procurement has been conducted and is complete
- The setting of targets for minimum local production and supply, in proportion to total domestic upstream oil and gas value spend, is in progress

D1. Develop/implement skills strategy roadmap

- The formation of skills development workgroup is complete
- The development of a skills strategy roadmap is at an advanced stage and is due for completion in December 2015

D2. Develop capability for sub-surface research and data gathering

- Technical capability-building programmes for subsurface information activities have been identified
- The review and assessment of a mechanism to formalize reservoir technical capability is 92% complete
- The development of hard infrastructure for subsurface information acquisition is 50% complete
- The confirmation of utilization arrangements is in progress

E1. Build end-to-end institutional structure

- A final decision on an optimal institutional structure is complete. Execution of the decision is 50% completed
- The migration of the Petroleum Agency South Africa (PASA) from the Central Energy Fund (CEF) to the DMR is in progress, but at a much slower pace than previously anticipated

E2. Enhance environmental governance capacity of oil and gas regulator

- A multi-stakeholder working group has been established
- A skills need analysis is complete

- Service providers have been appointed
- International benchmarking of environmental governance is complete
- Performance monitoring and reporting is in progress

E3. Promote awareness of oil and gas industry

- Design of the outreach component of the regulator is 70% complete, and is due for completion in December 2015

F1. Provide legislative clarity and stability

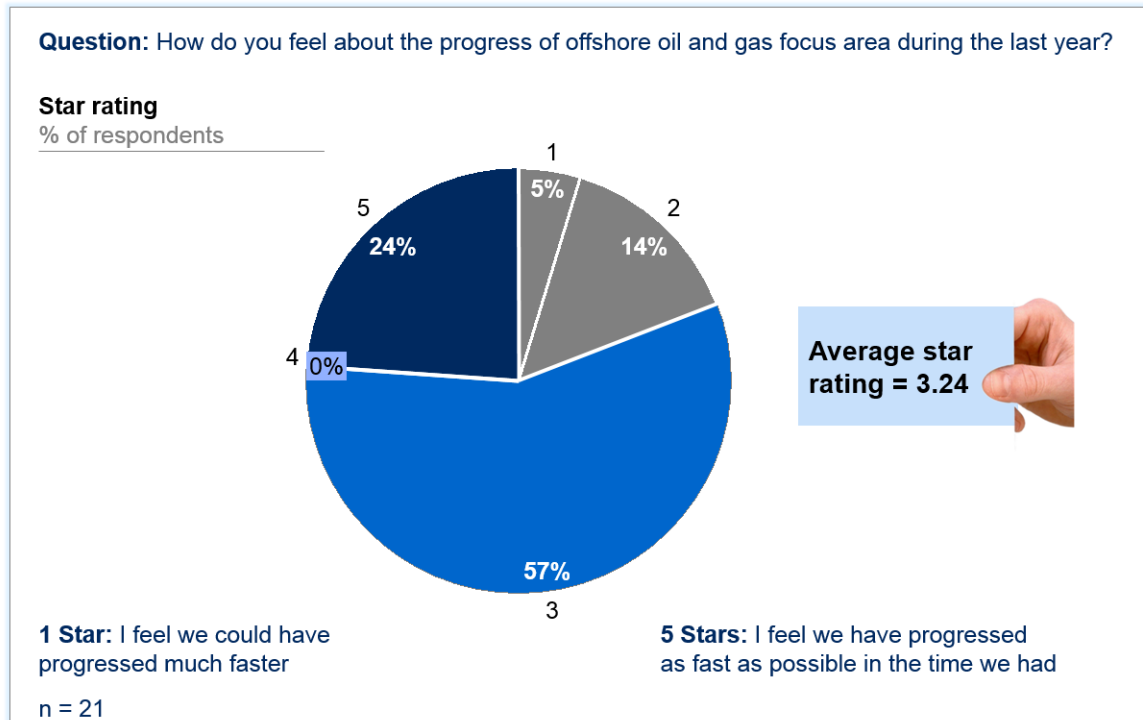
- The Mineral and Petroleum Resources Development Act (MPRDA) Amendment Bill has been referred back to Parliament for review after consultation
- A multi-stakeholder working group has been established
- Discussions between DMR, PASA and OPASA have yielded convergence on major issues identified

SUMMARY OF PROGRESS AS ASSESSED BY PARTICIPANTS

Overall, the group assessed the progress of the oil and gas workstream as average, with a rating of 3.24 on a scale 1 (low) to 5 (high), as set out in Exhibit 3.

Exhibit 3:

57% of the participants gave an average score to the progress of offshore oil and gas focus area during the last year



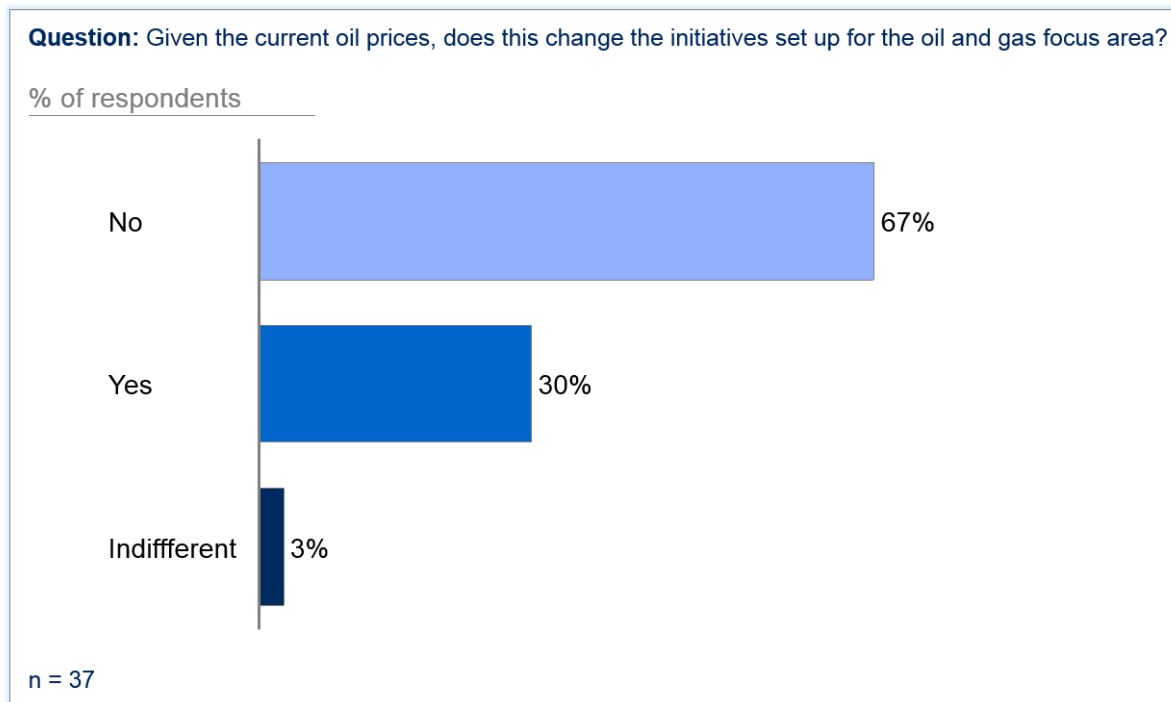
IMPACT OF GLOBAL PETROLEUM PRICES ON THE INITIATIVES SET UP FOR THE OIL AND GAS FOCUS AREA

Given the significant reduction in oil prices in the year since the Labs were completed, the facilitator gave a brief overview of the history of the petroleum prices and the impact this has had in the oil and gas industry. It was to be expected that the slowdown in oil and gas investment worldwide would affect South Africa. While there was no reason to believe that the projected volumes of available oil and gas were different from those projected a year ago, it was likely that potential activity would be slower.

The participants discussed the impact the current market conditions might have on the initiatives set out one year ago. The result was that majority of the group felt that the initiatives identified in the Lab should not change (Exhibit 4).

Exhibit 4:

Majority of the participants feel that the initiatives set out 1 year ago should not change given the current slump in oil prices



KEY CHALLENGES IDENTIFIED IN THE OIL AND GAS FOCUS AREAS

The room was divided into the larger initiative themes and the initiative leaders held discussions with the participants. Afterwards, the leaders presented a summary of challenges to the larger group. These were as follows:

A. Infrastructure:

- Slow approval process within institutions

B. Environment:

- Lack of ownership of “3 foot” plans
- Non-participation of some stakeholders, especially PASA and National Disaster Management

- Following the downturn in market prices for petroleum, private sector engagement has slowed

C. Localisation of Supply Chain

- Private sector organisations have not provided full disclosure of information around supply chain to the Delivery Unit as it tries to understand their operations
- “3 foot” plans did not provide sufficient detail

D. Capability Development

- The establishment of university chairs takes too long
- There is no vessel available to undertake capability research; and ownership of such a vessel is contentious
- Cost-benefit analysis of capability development is difficult as stakeholders deem such information as proprietary

E. Institutions

- Not all industry stakeholders are represented
- Communication between ministers is lacking

F. Legislative

- Bills in Parliament are beyond the Delivery Unit’s control
- Some stakeholders feel excluded, as not all work is not done within the work group
- A “3 foot” plan is lacking
- There are questions about the credibility of work presented as progress, resulting from engagements between DMR and OPASA

Cross-cutting issues

- There is a lack of sufficient surveillance on the achievement of initiatives from senior government leadership
- For all initiatives, there is a lack of committed resources – particularly finances and HR

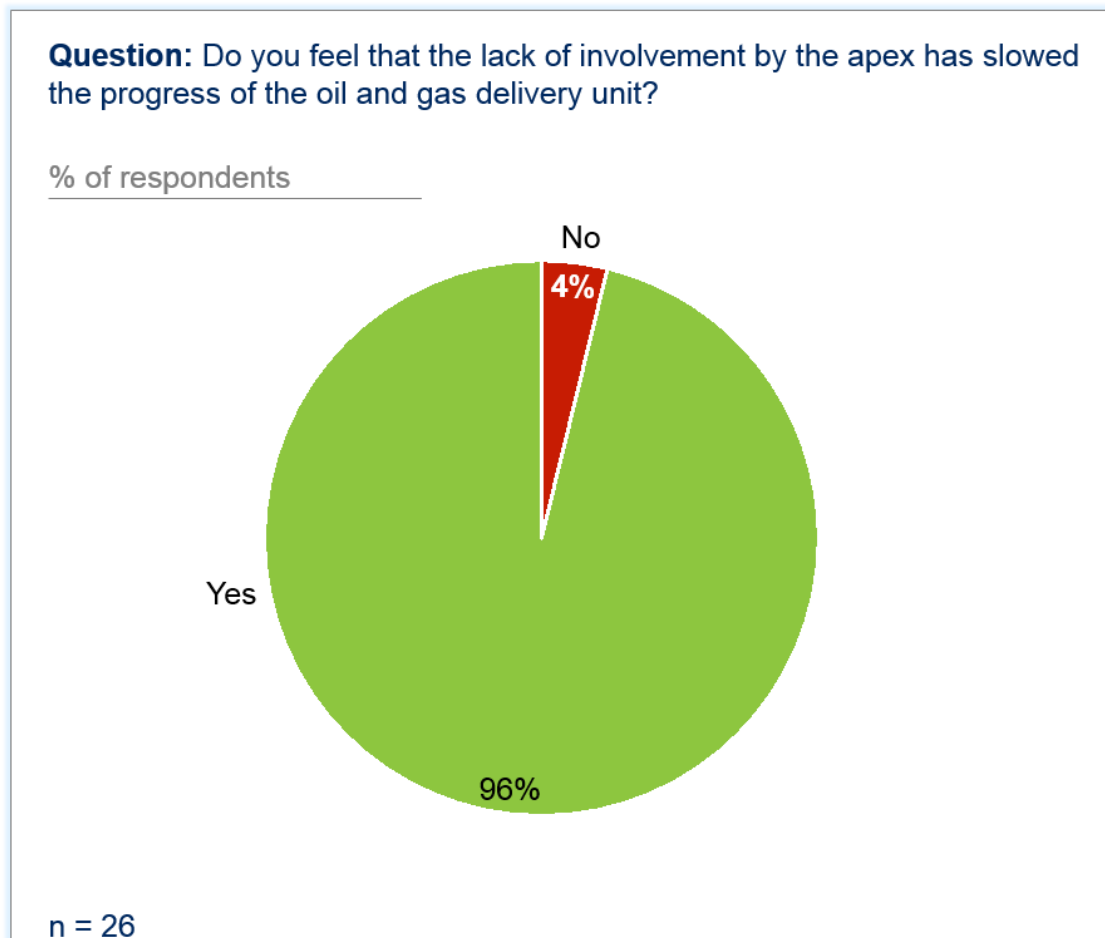
HIGHLIGHT OF THE IMPACT INSTITUTIONAL SET-UP, SPECIFICALLY INVOLVEMENT OF THE APEX HAS HAD ON PROGRESS OF THE DELIVERY UNIT

A lengthy debate was facilitated by the Delivery Unit head on impact of the lack of involvement of the apex, (the President and Deputy President). It was agreed that a lot of progress has been made at the level of the implementing teams, but decision-making typically takes too long at the Ministerial level.

A vote was taken on whether the active involvement of apex will result in faster progress. The result was a resounding “Yes” (Exhibit 5).

Exhibit 5:

Majority of the participant feel the lack of involvement of the apex has slowed progress of the DU



IDEAS TO ACCELERATE PROGRESS OF THE OIL AND GAS FOCUS AREA

After identification of the challenges, discussion focused on opportunities to overcome these challenges, with the group agreeing on the following:

Involvement of the apex to break institutional deadlocks:

The Ministers sitting in the IMC are all peers. Directives amongst the Ministers are not always enforced and there are no consequences for non-execution. The Delivery Unit has asked the Presidency and the Deputy President to play a more active “apex” role in Operation Phakisa to break through such deadlocks.

Eliminate working in silos and make Phakisa a priority for stakeholders:

Successful implementation of Phakisa requires that stakeholders are open with each other and work together to achieve delivery of the initiatives. The public sector has to understand the needs of private sector and make offerings that appeal to private companies. The companies, in turn, need to provide support when called upon by the public sector in terms of time, information and investments required in the initiatives. To achieve success, all stakeholders need to commit to and prioritize the activities outlined.

Dedicated resources for the Delivery Unit:

The Departments are requested to provide finances and dedicated human resources to run the Delivery Unit and implement the initiatives agreed upon.

Skills and capacity within the oil and gas industry:

An open platform is needed between the private and public sectors to identify the skills required within the industry. Learning institutions such as universities should be open to embrace the teaching of these skills and develop a competent faculty that can deliver the relevant trainings.

RECOMMENDATIONS AND COMMITMENTS FROM THE OIL AND GAS FOCUS AREA

At the closure of the session, all attendees were asked to summarize their personal commitments going forward, and their personal recommendations to be escalated on a post it note and put them up on a poster. A summary is listed below.

Commitments: Commitment from the participants in the room was renewed.

- *Do my best to deliver on time*
- *Do all I can to ensure my institution meets its obligations*
- *Do all possible to assist other institutions*
- *Commitment to attend and participate in the working groups it is involved in*
- *Give feedback to relevant stakeholders*

Recommendations: These are aligned with the discussions held in the session.

- *Overall accountability to rest with the President or Deputy President*
- *Commitment from certain stakeholders is required*
- *Need for the Government to engage continuously with all stakeholders prior to any implementation*
- *Set up appropriate budget*
- *Make working group leaders more accountable for delivery*
- *Clear funding mechanisms for implementation of Phakisa*
- *Training required for technical people as they are part of the Delivery Unit*