The first certified 'EU equivalent' shipbreaking facility in Africa

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Part of
Ship Recycling
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THE FIRST CERTIFIED 'EU EQUIVALENT' SHIPBREAKING FACILITY IN AFRICA

February 2021

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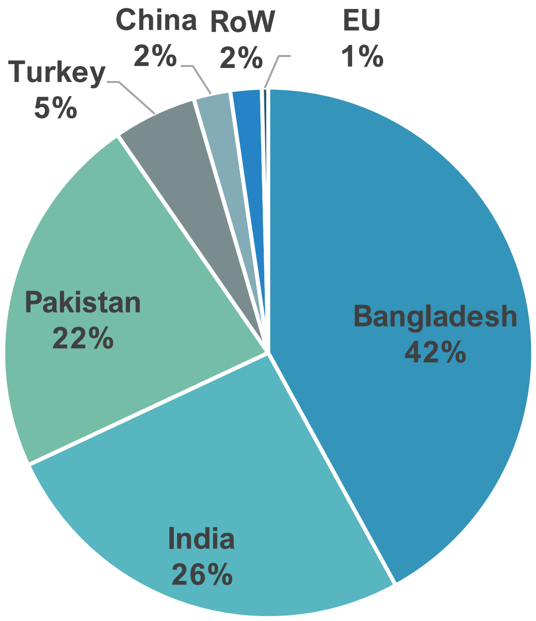
GLOBAL SHIP BREAKING INDUSTRY

The breakdown of scrapping destinations in 2019 reveals that only a fraction of end-of-life ships globally are recycled in a safe and environmentally sustainable way.

- Currently the ship breaking industry in dominated by scrap yards in **India, Bangladesh and Pakistan.**
  - In 2019, **674** commercial ships and offshore units were sold to scrap yards globally.
  - Of these, **469** large tankers, bulkers, floating platforms, cargo- and passenger vessels were dismantled in the beaches of Bangladesh, India and Pakistan.
- These markets have mature and efficient industries with well-established downstream scrap markets, that allow for premium vessel purchase prices.

Scrapping destination of ocean-going commercial vessels: % of gross tonnage scrapped 2019.



*RoW : Rest of World

Source: Frost & Sullivan

LEGISLATIVE GOVERNANCE

Regulators and responsible international shipping companies are trying to address these issues by introducing policies and measures to promote responsible ways of recycling EOL vessels.

Legislation Governing the Global Ship Breaking Industry

Hong Kong Convention

- **Aim**: To ensure ship recycling does not cause any risks to human health or the environment.
- **Not yet ratified** - expected to come into force after 2025.

EU Ship Recycling Regulation

- Incorporates parts of the HKC and includes additional safety and environmental requirements.
- **Objective:** To reduce the negative impacts of recycling ships flying the flag of Union Member States.

Basel Ban Convention

- **Aim:** To protect human health and the environment against the adverse effects of hazardous wastes.
- Covers the rules and regulations involved in the transboundary movement of hazardous waste.

Source: Hong Kong Convention, EU SRR, Basel Convention, Frost & Sullivan

GREENER PRACTICES

Many leading shipping companies have established internal directives on responsible ship recycling and therefore only deal with compliant facilities.

- In additional to the stringent regulations responsible shipping companies have introduced their own environmental policies, adhering to pressures from other stakeholders.
  - Trend is based on a market-driven approach not only from the ship owners, but also the financial stakeholders and cargo owners.
- This changing market dynamic will continue to open opportunities for certified, green ship recycling facilities in key locations.

Largest SRTI shipping companies, 2020

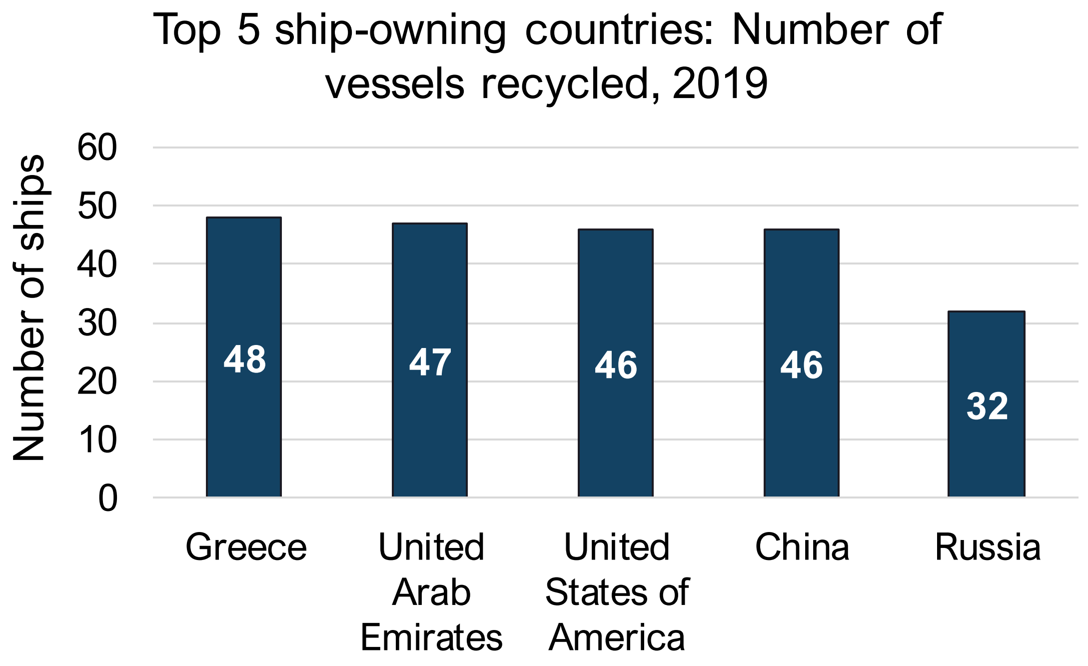
Company	Number of vessels owned	SRTI Signatory
MAERSK	300	✓
Teekay	200	✓
CMA CGM	189	✓
Hapag Lloyd	110	✓
Evergreen Marine	107	✓
Stolt Nielsen	104	✓

Source: SRTI, MAERSK, Frost & Sullivan

WHY AFRICA – GLOBAL CAPACITY

Globally there is a need for green recycling facilities that can accommodate large ships with a length of over 200m.

- **Greece, China and USA** are the **top ship-owning** countries globally.
  - China and Norway lead in the number of vessels sold for recycling in 2019 (37% and 23%, of their vessels were recycled in Asia).
- Asian market accommodates for large vessels, while there are limited facilities globally that can recycle **large ships** in a green and responsible way, creating an opportunity for green compliant facilities.
  - European facilities capable of dealing with smaller vessels.
  - Turkish facilities can accommodate larger vessels but can currently provide a maximum of 530,000 LDT.



Source: MARPROF, Frost & Sullivan

WHY AFRICA – LOCATION AND LAST VOYAGE

Due to the inflated tolls associated with vessels passing through the Suez Canal, large shipping companies have rerouted their vessels to pass through the Cape of Good Hope during Europe to Asia voyages.

- As the final voyage cost affects the decision of decommissioning location, large shipping companies with specific trade routes in Africa could find a compliant ship recycling facility in Southern Africa beneficial.
- Furthermore, ship owners who have vessels that have to sail through the Suez Canal to reach a recycling destination could reroute through the Cape.
  - By sending their ships to South Africa, they bypass the high toll fees of the Suez Canal which would work out cheaper for companies.

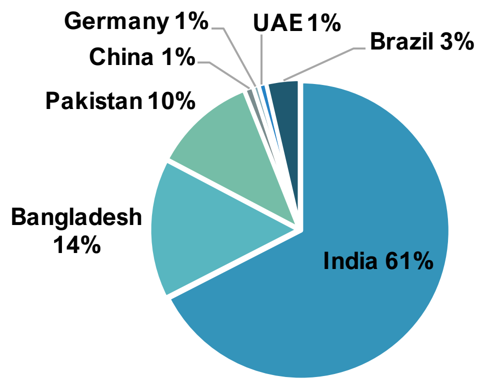
Source: Frost & Sullivan

WHY AFRICA - THE GLOBAL SCRAP METAL MARKET

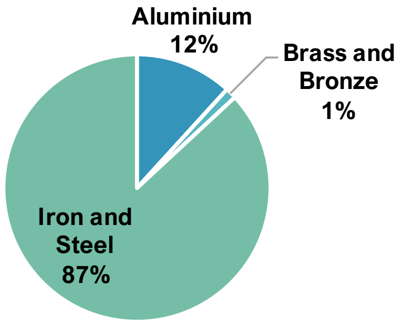
Use of steel scrap has become a significant part of the modern steelmaking industry. South Africa is a net-exporter of scrap metals and high global demand is expected to support this trend.

- Crude steel production is the biggest driver in the global steel scrap market with approximately 25% (470 million tonnes) of new steel being produced from recycled scrap.
- Stricter environmental quality standards that are set for steel industries will cause the demand for steel scrap to increase.
  - This is reflected in the world's largest steel scrap user, China, where steel scrap consumption in steel making in increased by 27% from 2017 to 2018, to 187,8 million tonnes (20% steel scrap is used in the country's steel production).

Scrap metal exports by country, South Africa, 2019



Scrap metal exports by type, South Africa, 2019



Source: World Steel Association, BIR, Frost & Sullivan

THE HISTORY BEHIND 34SOUTH

34South was formed more than 10 years ago in response to the unacceptable ship recycling practices in South East Asia.

The mission of 34South is to develop a Green Ship Recycling Facility which is environmentally acceptable.

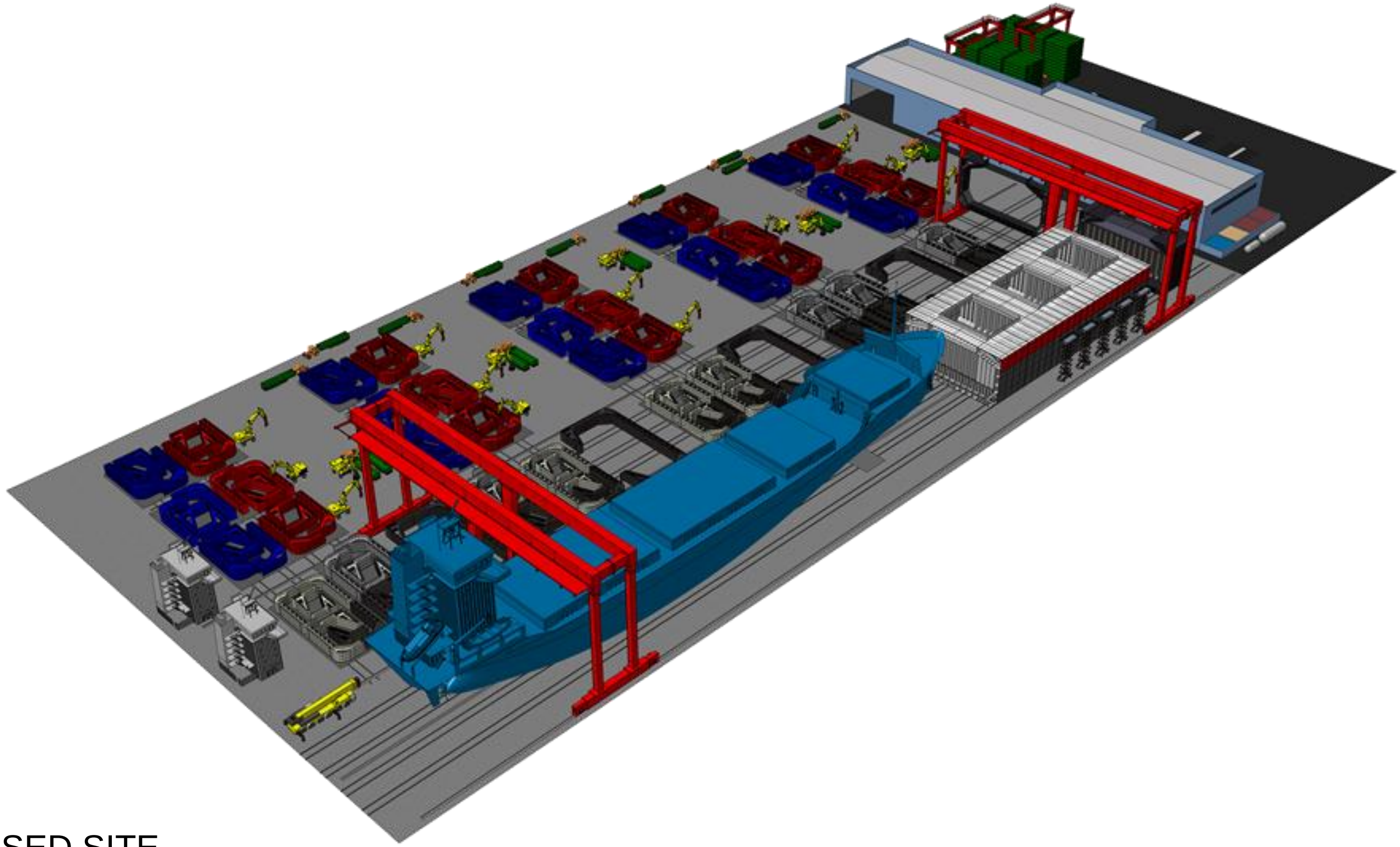
34South has gained substantial traction in the last few years by securing a land option in the SBIDZ to develop an EU accredited facility and by expanding the ownership by including the IDC as the major shareholder.

WHY SALDANHA BAY?

This site is ideal as there will be sea frontage for the shiplift

The Saldanha Bay Industrial Development Zone has provided the 10 ha site for the facility

The SBIDZ is a free trade zone which supports the business case for much needed South African revenue generation and employment



PROPOSED SITE
LAYOUT

SHIPLIFT & TRANSFER SYSTEM

Vessel arrives under its own steam

Selected solution for lifting and transporting vessels to the 34South facility.

240m long, 40m wide

18000LDT capacity

WASTE HANDLING

Fully South African permitted and EU accredited facility for handling waste material including hazardous waste.

Waste material will be separated, stored and packaged for removal from the facility by a specialist contractor

No waste will be processed on site

Selected waste material has value which will contribute to the revenue and employment in the area

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HERMAN HUSSELMANN

THE FIRST CERTIFIED 'EU EQUIVALENT' SHIPBREAKING FACILITY IN AFRICA

INVOLVEMENT OF THE INDUSTRIAL DEVELOPMENT CORPORATION

4 February 2021

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OVERVIEW OF IDC

- **Established:** 1940
- **Type of organisation:** Development Finance Institution (DFI)
- **Ownership:** State owned company, 100% owned by the SA government
- **Total assets:** R110,0 billion (31 March 2020 - Group)
- **Total liabilities:** R49,4 billion (31 March 2020 - Group)
- **Funding status:** Fund operations and growth from investments, pay dividends and income tax
- **Main business area:** Provide funding for entrepreneurs and projects contributing to industrialisation
- **Geographic activities:** South Africa and the Rest of Africa (RoA)
- **Products:** Custom financial products above R1m to suit project's needs including debt, equity, guarantees or a combination
- **Small and Micro enterprise coverage:** Sefa (wholly owned subsidiary)
- **Stage of investment:** Project identification and development, feasibility, commercialisation, expansion, modernisation
- **Number of employees:** 838 (March 2020)

- **Operational Footprint:**
- Head Office - Sandton
- 24 Regional and Satellite offices

THE ROLE OF DFI'S

DFI'S POSITIONING WITHIN THE SOUTH AFRICAN FINANCIAL LANDSCAPE

← Greater importance on social and developmental objectives

Greater importance on financial objectives →

Government / NGOs	DFIs	Commercial Financiers
• Non-commercial focus • Fiscal transfers and grants • Development objectives (social)	• Commercial and development focus • Sharing risk • Internally generated funds, government funds, loans	• High commercial focus • Private sector capital • Financial objectives • Known risks

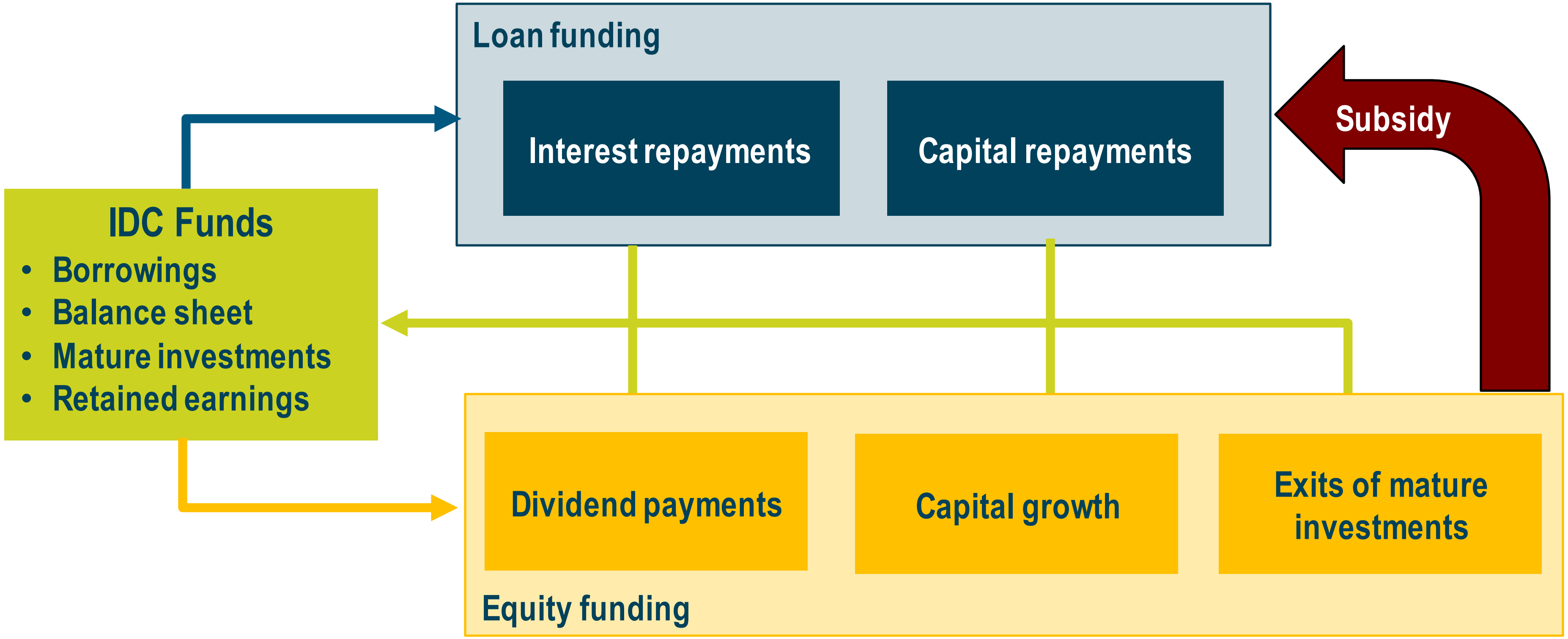
DFI's should not compete with other financial institutions, but should instead encourage cooperation to achieve their goals

SUMMARY OF IDC'S MAIN ACTIVITIES

- IDC's main activity is the provision of industrial finance to businesses throughout the business lifecycle in various sectors aligned with industrial policy priorities as well as developing projects in these industries.
- In addition, it is involved in other activities such as research, policy inputs and fund management for government departments; non-financial support for business; and capacity building for other DFIs.

Activities	Customers	Business lifecycle	Sectoral involvement	Funding products	Regional involvement
• Provision of development finance • Project development • Research and policy inputs • Fund management • Non-financial forms of business support • Capacity building	• Business • Government • Other DFIs	• Conceptual • Pre-feasibility • Feasibility • Product commercialisation • Establishment • Expansion • Mature	• Manufacturing • Agricultural value-add • Mining and mineral beneficiation • Green industries • Industrial infrastructure • Tourism, ICT, cultural industries and other productive services	• General debt • Quasi-equity • Equity • Export finance • Bridging finance • Guarantees	• South Africa • Rest of Africa • Global imports of South African capital equipment

FINANCIAL MODEL



IDC relies on borrowings, internal profitability, capital growth and exits from mature investments to maintain and expand its funding ability

The balance between the corporation's developmental role and financial performance is maintained by relying on proceeds from mature equity investments (both dividends and capital growth) to cross-subsidise higher risk activities and the loan portfolio.

RATIONALE FOR IDC'S SUPPORT

- **The project is aligned with the IDC's mandate to support industrialisation activities within the maritime sector;**
- **Support for a labour intensive project and sector;**
- **IDC supports an active steel sector;**
- **Local demand for good quality scrap steel by local steel producers;**
- **Support for economic activity in Saldanha Bay and the Western Cape Province;**
- **Location of the project within a Special Economic Zone ("SEZ").**

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Thank you

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