

# **Crony Capitalism, Climate Crisis and Coega: The Minerals-Energy Complex Queues for Corporate Welfare**

By Patrick Bond

‘Brent Hegger, new CEO of Alcan’s smelter project at Coega, clearly believes what many others don’t – that an aluminum smelter will actually be built at Coega.’

The Third Umpire, *Business Day*, 13 June 2007

Desperate to prove critics wrong, the South African government has been shoveling Africa’s largest-ever industrial subsidies into the Coega industrial zone complex and port, located in the Nelson Mandela Bay Municipality (NMBM) about 30 kilometers north of Port Elizabeth. Government proponents say Coega represents sound industrial and development policy, but many others consider the project a ‘corporate welfare’ giveaway replete with eco-destructive and socially insensitive features, especially during a period of renewed attention to climate change.

In his end-of-year 2006 email message, President Thabo Mbeki himself highlighted Coega as a prime example of ‘milestones during the Age of Hope!’:

FNB Chief Economist, Cees Bruggemans, also drew attention to the infrastructure deficit that had arisen as a result of our general failure to foresee the strong economic growth that our country has experienced and would continue to experience. However, he expressed his approval with regard to how the nation had responded to this national mistake. In this context he said:

Just because we were slow in taking off shouldn’t be taken as confirmation that we can’t and won’t re-establish a much higher public capital spend as a matter of course. The ball is rolling, projects are being approved, the construction industry and material supply industries are gearing up, foreign contractors are streaming on board, and the great effort of engineering this structural shift is very much proceeding. Therefore, stand by with stopwatch and measuring instruments to monitor our progress as we gradually re-establish our abilities in this crucial area of our general development effort. Don’t just assume we can only fail. Far too much is going on for that to be inevitably the case.

Reflecting this same confidence in our country, the leading aluminium company, Alcan, entered into an agreement about the supply of electricity that would make it possible for it to construct a huge aluminium smelter at the new Port of Ngqura/Coega. This was indeed another important piece of good news during 2006, given the sustained campaign that some in our country had conducted to present the new Port of Ngqura/Coega as the outstanding symbol of the failure and folly of our democratic government, led by our movement!

Coega is not *the* outstanding symbol, but is one of several excellent examples of post-apartheid failure and folly – in addition to a variety of other white elephant projects, ineffectual neoliberal macroeconomics, micro-neoliberal development disasters, rising unemployment and inequality, ‘genocidal’ AIDS policy (according to many experts), worsened environmental degradation, unprecedented debt-financed consumer

materialism, widespread political corruption, real estate and stock market speculation, alliances with imperial powers (e.g. on arms sales to the invaders of Iraq), armed sales to repressive regimes, failed multilateral trade and financial reforms, aspirant subimperialism (through the New Partnership for Africa's Development), the government's stifling of democracy in Zimbabwe, Swaziland and Burma, and rising state repression at home, to name a few.

When delivering this chapter as a paper first at Rhodes Institute for Social and Economic Research in November 2006 and again as the Harold Wolpe Lecture in Port Elizabeth's City Hall in March 2007, I was somewhat surprised that no one in either audience offered a single word of disagreement. Coega represented a nexus of crony capitalism and climate change, I argued, and the enormous state subsidies flowing into the smelter and to other corporate beneficiaries would better be directed to meeting vast unmet social needs in the Eastern Cape.

### **'The best infrastructure she has seen throughout the world'**

There was evidently no one from the state at those two events, or they were quiet lurkers. However, inbetween, replying in late 2006 to a critique I had written for the Durban newspaper *The Mercury*, Coega Development Corporation (CDC) chief executive Ongama Mtimka (2006) unwittingly supported the main line of criticism: 'Cynthia Carroll's comment that Coega has the best infrastructure she has seen throughout the world affirms the competitiveness of the Coega Industrial Development Zone relative to its global counterparts.'

A few weeks earlier, Carroll had negotiated a cut-price electricity deal for an aluminium smelter on behalf of Alcan, the vast Canadian metals firm. She was soon thereafter made Chief Executive Officer of Anglo American, showing that the infamous 'Minerals Energy Complex' (Fine and Rustomjee 1996) – linking South African mining capital, the parastatal Eskom and the Department of Trade and Industry - has internationalized and dropped its purely patriarchal face.

Meanwhile *Business Day* newspaper, which speaks for national 'capital-in-general', has repeatedly offered critiques of Coega, such as that by columnist Rob Rose in June 2007:

If Coega is the local equivalent of a ghost town, it is one with a peculiar twist: government built it for R7,5bn with no inhabitants, threw open the doors and not even a car guard pitched up.

Thankfully, some small firms have ridden into the vast open halls at Coega of late and set up shop, but it is government's nail-biting efforts to woo an 'anchor tenant' that have filled the zone's silent halls with the sweat of quiet desperation.

After six frustrating years, things began to look up when Canadian aluminium producer Alcan said it would fill the vacancy and build a R20bn smelter. But in recent days, there have been some pretty dewy foreheads in government as a number of beastly firms are stalking Alcan for a takeover.

Alcoa, for one, plans to make a \$27,7bn bid, and now it seems Norsk Hydro ASA and Rio Tinto are considering rival bids. Alcoa, at least, said it 'stands ready

to carry Alcan's projects forward' - hardly surprising when you consider the generous deal Alcan has.

But given the energy needs for the smelter, it might be the best thing if it were scrapped.

After all, Alcan is being cut a special deal for the massive 1350MW of power it needs, through a bargain price with Eskom under the (bizarrely titled) 'development electricity pricing programme'.

Aluminium smelters are particularly energy intensive, and 1350MW is enough to run a city and equal to nearly 4% of SA's entire 37000MW capacity.

But Eskom, being Eskom, is keeping the exact price it has given Alcan a secret. Earthlife Africa reasonably says the danger is that Eskom may be subsidising a project that will create fewer than 1000 fulltime jobs.

But while you could afford to ignore this sideshow until now, this whole debacle assumed vivid life last week when Mineral and Energy Affairs Minister Buyelwa Sonjica threatened to impose fines on individual consumers who don't cut back on their electricity use. Sonjica says these fines aim to promote a culture of 'energy efficiency'.

But it seems energy efficiency wasn't foremost in the mind when the government cut a deal with Alcan at a discount tax rate for a project that will require a gobsmacking amount of energy.

This also smacks of a common tactic of the government to blame consumers for its defects.

It was the government's dithering over allowing Eskom to build new power stations from 1998 to 2004 that caused the present power squeeze.

As a result, surplus electricity capacity is now at 8% - half the global norm. It's all rather a bleak picture as Eskom sets about its R150bn plan to increase capacity to 39000MW by 2012.

But Sonjica's sentiments about power-mad consumers, greedily buying new appliances just for the thrill of plugging them in, is even more objectionable considering that besides cheap power, government is also giving Alcan tax breaks.

It is also thought that most of the aluminium produced by Alcan at Coega will be shunted into the export market, rather than being beneficiated in this country. In the 1950s, aluminium was dubbed 'congealed electricity' given the large amount of power needed to produce the metal.

Effectively, you could then argue that government is simply allowing Alcan to 'export electricity' at a time when we won't exactly be overflowing with spare capacity.

The gall of the government's Lords of Darkness, in seeking to slap fines on its citizens for using electricity when these officials are willing to sell their souls to attract a power-guzzling smelter, tells you much.

And their efforts to sweep away the tumbleweeds from the forlorn industrial development zone hint at a desperation for political validation for Coega.

This is a sensible critique. Regrettably, aside from environmentalists and a Rhodes University public accountability watchdog group, progressive activists have not yet found a handle to address the vast giveaways, or crony capitalism more generally. Worse, Port

Elizabeth trade union and community movements were party to the Nelson Mandela Bay Municipality's (2007) Growth and Development Summit agreement of March 29, 2007, which pronounced – as an 'economic vision' - that 'Nelson Mandela Bay is a world-class, well-diversified and integrated competitive global economy [*sic*] that prides itself on the ability of its excellent business environment to create a sustainable livelihood for its inhabitants'.

The Summit's first commitment was to 'Speed Up Service Delivery of Basic Services' and in particular, 'The NMBM is committed to the eradication of the housing backlog to address homelessness and eliminate informal settlements in Nelson Mandela Bay.' But tellingly, within one week of the agreement, Melekile Hani, a municipal housing project manager, was suspended because he informed Walmer residents that the NMBM council had sold prime land to the Walmer Country Club instead of allocating it for housing construction: 'I am a housing project manager in Walmer, so I cannot lie to the people. The council prioritised golf at the expense of residents' (Sapa, Johannesburg, 12 April 2007).

In spite of obvious conflicts of interest over Coega, such who benefits from subsidized electricity, the corporate welfare strategy was made explicit at the Summit:

The provision of world class economic infrastructure is a priority of the NMBM as this will encourage investment, retain existing industry and act as a catalyst for economic growth... The NMBM commits itself to working together in partnership with the CDC to promote the Coega IDZ as a preferred investment destination. The NMBM commits itself to lobbying government together with the CDC to ensure that adequate services, infrastructure and facilities are available to investors in the Coega IDZ.

Another telling reflection of NMBM Council bias was the decision to build the Embizweni Development,

a R1 billion tourism development in NMBM to be located on the N2 near Bluewater Bay and strategically located near the Coega IDZ and Addo Elephant Park. This investment will act as a gateway to Nelson Mandela Bay and include 720 residential units and five cultural villages, which will each contain its own theatre, restaurant, accommodation and arts facilities. The five cultural heritage villages will portray the peoples of the Eastern Cape's with authentic architecture, food, music and dress. Developmental partners commit themselves to working together to ensure that Embizweni is implemented by the 2010 Soccer World Cup.

In addition to tailor-made infrastructure including an elite housing estate and a 20 meter deep port, the key attraction of Coega for investors like Alcan is ultra-cheap energy. But following frequent mid-2000s brownouts due to supply shortages in the Johannesburg and Cape Town, a fierce debate has erupted over provision of discounted electricity to industrial users like Alcan, against the needs of the general citizenry.

Mismanagement of Eskom in the course of its own corporatisation has left the company with inadequate investments and a residual record of sweetheart deals skews consumption to a few huge foreign corporate users, such as Lakshmi Mittal's steel mills

(formerly Iscor), Anglo American's mining operations, BHP Billiton's smelters. Anglo formerly maintained a primary listing in Johannesburg but moved to London in 1999, while BHP Billiton was originally Gencor, and through relaxation of exchange controls was given permission by finance minister Derek Keys in 1994 to move billions of dollars offshore to buy Billiton (from Shell), which subsequently hired Keys as a lead official.

The main beneficiary of Coega's cheap energy, the Canadian firm Alcan, agreed in late 2006 to a quarter-century power supply agreement from Eskom - the world's fourth-largest power company - at an extremely generous price, less than the R0.14 cents per hour that bulk industrial consumers typically pay. This is already the world's cheapest electricity by far (Figure 1).

Alcan and Eskom claim that the deal will bring job creation and foreign exchange earnings, and pay off for the country. Fewer than 1,000 permanent jobs will be created in the process, however, and forex earnings will be partially diverted to cover billions of rands in imported raw materials and building supplies, as well as to dividend outflows to Alcan's head office.

In this respect, Coega typifies the maldevelopment now common in South Africa at a time the government claim to be constructing a 'developmental state'. Coega is one of at least a six-pack of post-apartheid megaprojects undertaken by the South African government, which are the main beneficiaries of R400 billion in promised state infrastructure spending. These include

- unnecessarily expensive new and refurbished soccer stadiums for the 2010 World Cup;
- the corruption-ridden R43 billion arms deal;
- another conventional nuclear plant in Cape Town and several new Pebble Bed Nuclear Reactors costing R25 billion+ (one of the first global deployments of a new nuclear energy technology – whose prototype was rejected years earlier by the German firm Siemens - that purports to offer new safety guarantees);
- the Lesotho Highlands Water Project (six vast dams planned) which supplies Johannesburg its water, and tens of billions of rands for other new large dams (including several costing R20 billion that will divert water from poor black farmers to mining houses in Limpopo); and
- the R20 billion+ 'Gautrain' elite fast rail network that will link Johannesburg, Pretoria and the O.R. Tambo airport but for elite travel only.

### **Costs of corporate welfare: Economy, society, global climate and local environment**

Coega's site will include a new port, container terminal and Industrial Development Zone (IDZ), utilizing vast public investments - at least R12 billion, including a R2 billion+ tax break for Alcan - and enormous quantities of land, water and electricity. The new employment anticipated at the port/IDZ would be the most expensive, in terms of capital per job, of any in Africa. Environmentally, the costs of the Coega projects in water consumption, air pollution, electricity usage and marine impacts are potentially immense. The early 2007 addition of a manganese smelter to the potential investment portfolio could generate severe adverse reactions amongst workers, with occupational safety and

health problems associated with symptoms similar to Parkinson's Disease and other nerve deterioration maladies.

The infrastructure under construction is unprecedented in Africa, and dwarfs the basic-needs development infrastructure required by deprived citizens of Mandela Metropole and across the Eastern Cape. Hence controversy has surrounded the decision-making process to construct the port and IDZ. Reports of conflicts of interest for key decision-makers cloud the project's governance. Coega was also initially meant to represent a key site at which European industrial firms involved in arms sales to South Africa could make 'offset' investments that would create jobs, so government could justify to the public its corruption-ridden \$6 billion weapons purchase. These so far haven't been forthcoming.

Socially, there are significant costs as well. Several hundred families were already displaced to build Coega's infrastructure, and those in the area will bear the brunt of the environmental toll exacted by the project. The opportunity costs of Coega include as many as 10,000 jobs lost in economic sectors which either must close or cannot expand, including the existing salt works, mariculture, fisheries, agriculture and eco-tourism, as shown in Table 1.

Most importantly, community and environmental activists point to far better prospects for employment creation and socio-economic progress if resources were used elsewhere. In 2001, a civic group - the Mandela Metropole Sustainability Coalition - proposed an alternative economic development scenario. The alternative strategy prioritizes basic-needs infrastructure investment throughout the Eastern Cape and, at Coega, state-supported eco-tourism and black-owned small-scale agriculture and mariculture.

Of the many subsidy components of Coega, civic groups like Earthlife Africa find Eskom's new deal most worrying, given the persistent electricity shortage across South Africa, the country's reliance on CO<sub>2</sub>-intensive energy, and the problem of mass disconnections of poor people for whom electricity remains too expensive. Using roughly 1,300 MegaWatts, about 3 percent of the country's total, Coega will constitute an enormous new drain, requiring expensive new transmission lines from Eskom's coal-fired generators 1,000 kilometers away.

Coega will be a major factor in climate change, at a time South Africa's carbon dioxide emissions are already running approximately 20 times higher than even the United States on a per capita income basis. Ironically, just as the ink was drying on Eskom's electricity giveaway to Alcan, Environment Minister Martinus van Schalkwyk returned triumphant from the November 2006 climate change treaty renegotiations in Nairobi, claiming that 'South Africa achieved most of its key objectives.'

Those objectives included promoting 'Clean Development Mechanism' (CDM) investments as mandated by the Kyoto Protocol's endorsement of carbon trading, which may factor into Coega's finances at some stage. By investing in Third World CDM projects that allegedly reduce emissions, northern polluters can buy the right to continue their emissions at present levels. Alcan promises to use relatively energy efficient technologies at Coega, so the market-oriented US organization Environmental Defense has suggested that the project be considered worthy of CDM investments by large international polluters, which would permit them to continue present rates of emissions. In promoting these kinds of investments, Van Schalkvyk says that his government is

sending 'a clear signal to carbon markets of our common resolve to secure the future of the Kyoto regime.' But there are vast problems with the new emissions trading system, and projects such as Coega show why this market should not be expanded in ways that generate new ecological problems without making a dent in overall emissions.

### **Captive regulation, revolving doors and nuclear power**

From the standpoint of meeting basic needs for electricity, South Africa's regulation of Eskom and municipal distributors has not been successful. This is not only because of an extremely weak performance by the initial National Electricity Regulator - Xolani Mkhwanazi, who subsequently became, tellingly, chief operating officer for BHP Billiton Aluminum Southern Africa - but also because government policy has increasingly imposed 'cost-reflective tariffs,' as a 1995 document insisted. The key issue is whether all consumers must cover the costs of the electricity they use, or whether richer and industrial consumers pay higher rates to subsidize the poor.

The 1998 White Paper allowed for 'moderately subsidised tariffs' for poor domestic consumers. But it also stated, 'cross-subsidies should have minimal impact on the price of electricity to consumers in the productive sectors of the economy,' meaning industrial users should not subsidize costs for poor residential consumers.

In addition to Mkhwanazi, the man responsible for Eskom's late-apartheid pricing - Mick Davis - left the parastatal's treasury to become the London-based operating head of Billiton. Davis took the post after former Finance Minister Derek Keys gave permission for an Afrikaner-controlled industrial company (Gencor) to expatriate vast assets in order to buy Billiton from Shell. After apartheid ended, Keys became chief executive of Billiton.

Ironically, the deals that gave Billiton, Anglo American and other huge corporations the world's lowest electricity prices came under attack in 2005 by Alec Erwin, the minister of public enterprises. The package Davis had given Billiton for smelters north of Durban and in Maputo, Mozambique, during the period when Eskom had extreme overcapacity, resulted in prices that often dropped below \$0.01 per kilowatt hour, when world aluminum prices fell. (Most households pay five times that amount.)

Erwin reportedly insisted on lower 'financial-reporting volatility.' Because the amount the foreign companies pay for energy changes with the value of the rand, every time the rand changes value by 10 percent, Eskom's wins or loses \$300 million. Erwin said the utility should work to escape from existing contracts. From Billiton's side, Mkhwanazi replied that any change to the current contracts could be 'a bit tricky for us. ... We would adopt a pragmatic approach and, who knows, perhaps there will even be some sweeteners in it for us.'

But the allegedly new approach was not applied at Coega, where Erwin as trade and industry minister from 1996 to 2004 had led negotiations for a new smelter. According to the chief executive of the parastatal Industrial Development Corporation (IDC), Geoffrey Qhena, 'The main issue was the electricity price and that has been resolved. Alcan has put a lot of resources into this, which is why we are confident it will go ahead.'

Meanwhile, however, to operate a new smelter at Coega, lubricated by at least 15 percent financing from the IDC, Alcan and other large aluminum firms were in the

process of shutting European plants that produce 600,000 metric tonnes between 2006-09, simply 'in search of cheaper power,' according to industry analysts.

A final example of the revolving door between government and industry within the minerals-energy complex is Brent Hegger, the Canadian CEO for the Alcan plant. Hegger previously worked as project manager for the Pebble Bed Modular Reactor (PBMR), a company 50 per cent owned by Eskom which became unviable during the early 2000s, given currency fluctuations and severe problems experienced by Eskom's partners in Britain and the US. On a simple (non-environmental) financial basis, electricity generated from nuclear power in other countries costs up to 25 per cent more than conventional fuels (Earthlife Africa 2001). The PBMR technology was already rejected by German firms who sold it to Eskom, yet is presently being marketed as 'homegrown' South African knowledge.

In spite of the vast waste of resources, the nuclear programme has been expanded during the post-apartheid era. Asked about the costs to taxpayers, Erwin replied in manner that has become familiar: 'Given that there are other shareholders involved, and the project is in a fund-raising exercise, this information is confidential and cannot be divulged' (SAPA 2004). The fund-raising failure became obvious a few months later, when Trevor Manuel authorised dropping another R500 million from the fiscus into the PBMR sinkhole. In addition to Earthlife Africa, the South African Council of Churches, South African Non-Governmental Coalition and Congress of South African Trade Unions complained:

Government intends allocating R500-million to the PBMR. At the same time, government has allocated slightly more than a billion rand in the 2004/05 financial year for the national electrification programme. The spending on the PBMR is almost half of the projected spending to achieve universal access. The project involves high risks and unpredictably high costs with the prospect of limited returns. (I-Net Bridge, 2005).

A press report on a Greenwich University Public Services Research Institute study by Steve Thomas notes,

The pebble bed's economic forecasts by the PBMR company have not been updated since 1998 and are 'implausibly optimistic'. Thomas points out that, as the demonstration plant itself would only incur costs, not create profits, building it would make sense only if there were a high probability of a 'stream of orders' from overseas.

Beijing has made no commitment to buy PBMRs. The company had been 'very vague' about its target markets. Its analysis of the world nuclear market was simplistic and its assumptions about who would buy the exported PBMRs had no basis. There was 'nothing remotely close to a firm order' from overseas for a pebble bed nuke reactor. The main expected export market was China but, despite several years of discussions, Beijing had made no commitment.

South Africa has not been able to find another international partner for the nuke project since the US company, Exelon, pulled out in 2002. John Rowe, chief

executive officer of Exelon, said the reason for the withdrawal was that 'the project was three years behind schedule and was too speculative'.

The French nuclear company Areva has also indicated it is not prepared to fund the demo plant. Britain's BNFL, the only foreign partner, is in financial difficulties. (*Cape Times*, 2005).

Finally, the extent of ineptitude within the state was unveiled in 2006, in semantic squabbling in the Western Cape, in the wake of yet another electricity outage. On the day before a crucial municipal election in which the ruling party lost control of Cape Town, Erwin blamed a Koeberg nuclear power station shutdown on a loose bolt in a turbine, and two days later incorrectly claimed, 'I did not use the term sabotage' (Pressly 2006). Quipped Western Cape regional secretary of the Congress of SA Trade Unions, Tony Ehrenreich, 'Regarding the power cuts, we should perhaps blame a few neoliberal nuts rather than a bolt that fell into a Koeberg generator' (Bell 2006).

When a report on the incident emerged from the National Energy Regulator of South Africa (Nersa) in August 2006, its contents were chilling enough to turn *Mail&Guardian* satirist Robert Kirby (2006) serious:

Eskom's lamentable security, inadequate protection systems, slack maintenance, breaches of licences, negligence and generally slovenly management at Koeberg - all of which resulted in a series of power blackouts in the Western Cape earlier this year. Never mind the blackouts, what about the now conspicuous danger of another Chernobyl disaster just up the road from Cape Town? Koeberg is of the same vintage as Chernobyl and the latter went out of control because of exactly what Nersa recently diagnosed at Koeberg: lamentable security, inadequate protection systems, et cetera. You name them, Chernobyl had them.

Last week, Erwin proclaimed to Parliament on this appalling state of affairs. The failures at Koeberg were 'being dealt with through internal disciplinary procedures', he said in a prepared statement. In other words, what should be examined and analysed under the floodlights of public scrutiny, is now being held in secret.

Getting curiouser and curiouser, Erwin once again denied that he ever used the word 'sabotage' when discussing the bolt in the generator. This time he abandoned his risible 'human instrumentality' and fell back instead on low specific-gravity bilge. 'It was also why I did not use the word sabotage, as we had to verify the existence or otherwise of a group before any such word was appropriate. The non-existence of such group has now been conclusively established'...

In a prepared statement, the composition of which has taken only five months to hatch, further clarification came from Erwin himself. It included an even more woeful alibi: 'Of as much interest has been whether I said this was an act of sabotage. I did not say this and all attempts I made to our erudite media to say what I did say merely got me into deeper linguistic difficulties.'

Judging only by the intellectual tensile strength of his logic, I would say that papers like *The People* or *The Sun* probably register as erudite on the Erwin scale. Anyway, in getting himself into linguistic difficulties, Alec Erwin has never needed much help from the media.

Erwin denied to Parliament that he had used the word 'sabotage'. I've suddenly

realised why they are letting him get away with it. Coming from Alec, the denial was just a token white lie.

### **Coal-fired power, climate change and carbon trading**

Nuclear is medium- to long-term in ambition. In the short term, the strategy will have to be expansion of power lines from Mpumalanga Province coal-fired generators to Port Elizabeth. The state's decision to provide Alcan such vast subsidies at Coega comes amidst rising elite and popular consciousness about climate change problems.

For years, global rulers have avoided action on CO<sub>2</sub> emissions, most recently at the July 2006 St.Petersburg summit of the G8 group of rich countries, at the October 2006 Monterrey, Mexico summit of G8 energy ministers (joined by 12 other major polluters, including South Africa), at the November 2007 Conference of Parties to the Kyoto Protocol in Nairobi, Kenya, at various other energy summits in 2007, and in Heiligendamm, Germany at the June 2007 G8 conference. No binding commitments were made to reduce greenhouse gas emissions at these events.

In October 2006, however, the British government released *The Stern Review: The Economics of Climate Change*, which estimates climate change costs of 5-20 percent of global GDP at current warming rates. Former World Bank chief economist Nick Stern calls for demand-reduction of emissions-intensive products (the opposite of Coega), energy efficiency, avoiding deforestation and new low-carbon technology. The key problem is that Stern and the establishment want many of these improvements to be financed via carbon trading.

Likewise, in 2002, Princeton University researcher Nipun Vats and Environmental Defense – through its 'Partnership for Climate Action' relationship with French aluminum firm Pechiney (subsequently purchased by Alcan) – promoted Coega as eligible for subsidies under the CDM. Coega could receive such subsidies if it can show its technology is cleaner than existing aluminum suppliers, and in turn that the energy-savings smelter technology can only be profitably financed through 'additional' investment resources using carbon trading mechanisms like the World Bank's Prototype Carbon Fund. (In contrast, a roughly R10 billion renewable energy investment in the CDM was proposed by the municipality, dedicated to household and industrial solar water heating systems, wind energy, and thermal decomposition of solid waste and sewage sludge.)

One point of contention will be the technology Alcan would bring. According to *Creamer's Engineering News* (2006), 'The project was also reconfigured to embrace the proved AP35 technology instead of the new-generation AP50, initially proposed by Pechiney.' That in turn may foil any bid for CDM credits.

In November, Alcan said it would proceed with the \$2.7 billion aluminum Coega smelter thanks to vast electricity subsidies from Eskom. Within days, University of Cape Town Environmental Studies Professor Richard Fuggle (2006) - the country's most respected environmentalist - attacked the increase in CO<sub>2</sub> emissions due to Coega in his retirement speech. He described Van Schalkwyk as a 'political lightweight' who is 'unable to press for environmental considerations to take precedence of 'development.'

According to Fuggle, 'It is rather pathetic that van Schalkwyk has expounded the virtues of South Africa's 13 small projects to garner carbon credits under the Kyoto

Protocol's CDM, but has not expressed dismay at Eskom selling 1360 megawatts a year of coal-derived electricity to a foreign aluminum company. We already have one of the world's highest rates of carbon emissions per dollar of GDP. Adding the carbon that will be emitted to supply power to this single factory will make us number one on this dubious league table.'

### **Coega rebuttals**

What do Coega backers say to this kind of critique? In an earlier version, the then trade and industry minister Alec Erwin (2002) replied to the analysis produced by Stephen Hosking and me as a 'poorly prepared polemic designed to support your obvious opposition to this project. I would not make the above remarks if the document had any real merit. We have held a number of discussions with responsible environmental groups and will work with them very closely'.

Erwin's specific points were considered at length – and rejected- in *Unsustainable South Africa* (Bond 2002, Chapter Two). But on the latter claim, it will be interesting to learn environmental groups in South Africa can keep a straight face and endorse such a project when even the Council for Scientific and Industrial Research acknowledged that 'generation of power for the smelter will result in an increase of about 4% in Eskom's atmospheric emissions' (*Business Day* 2001).

Mtimka's *Mercury* reply addressed other considerations related to corruption allegations:

The argument that 'public law and participation processes associated with the port and IDZ development have been unsatisfactory' is factually incorrect and is defamatory with respect to the character of the CDC. All due processes pertaining to the rollout of the project and investments were followed... There is no evidence of conflict of interest for key decision-makers which 'clouds the project's governance'. This statement is malicious and undermines the integrity of the CDC based on unfounded allegations.

The allegations are indeed serious, and include a conflict of interest of a key decision-maker, Achilles Limbouris, Operations Manager: Infrastructure Development. Investigations led to his (apparently justified) firing by the CDC (2006) just two weeks before Mtimka's article appeared, for Limbouris had 'been in contact with a tenderer, Scribante Construction (Pty) Ltd... who had tendered for an R85 million construction contract... [and leaked] sensitive and confidential CDC information... to the external environment.'

But the problem is apparently far deeper, and involves offsets associated with the notorious arms deal which permitted offset deals for the German submarine maker Ferrostaal for promised – though never materialised – Coega investments (Crawford-Browne 2007). The most credible corruption watchdog in the Eastern Cape, the Public Service Accountability Monitoring Project at Rhodes University, was initially concerned in mid-1999 when, according to director Colm Allan, 'the Coega Project had effectively collapsed due to the withdrawal of Billiton as its anchor tenant.' What resurrected Coega was then Defense Minister

Joe Modise's irregular agreement with the German submarine consortium on (13 June 1999) to purchase 3 submarines at a cost of R4.5bn in return for Ferrostaal's promise to construct a steel mill worth R6bn at Coega... [Shortly afterwards upon his retirement] Modise bought shares in and was appointed the chairperson of a company which has been awarded contracts to conduct work on the Coega project. Again, these contracts have been paid for out of tax-payer's money. Modise is the head of Harambee Investment Holdings, a black empowerment company, which bought a 30% shareholding in the BKS group in August 2000. BKS, one of South Africa's biggest firms of consulting engineers, established and partially owns a company called Khuthele Projects. In November 1999, the CDC announced that it had appointed Khuthele Projects as the engineering consultants responsible for conducting the integrated transportation study for the Coega IDZ. It also points out in its annual report that the contact to Khuthele would be extended for the 2000-2001 financial year. Modise effectively ends up benefiting financially as a businessman from a decision that he made whilst he was a Cabinet Minister.

Though Modise soon passed away, several other Coega officials appeared to be milking the project, according to Allan's 2001 report:

It is of concern that, at the time of the decision to pay for the construction of the Coega port and infrastructure, Mafika Mkwazi, the Transnet deputy managing director, was a direct beneficiary of the arms procurement deal. What is also of concern is the fact that Saki Macozoma, the Transnet managing director, has, since leaving the parastatal, emerged as a shareholder in a company founded by the chairperson of the CDC board, Moss Ngoasheng. Mafika Mkwazi is also a shareholder and director of Kgorong Investment Holdings. Kgorong secured a R220-million sub-contract to provide tracking radar on the corvettes as part of a joint venture with European Aeronautic Defence and Space Company and South African defence supplier Reunert. After resigning as Transnet managing director in March 2001, Saki Macozoma bought a 10% stake in Safika Holdings, a company co-founded by Moss Ngoasheng. He also joined the board of directors of Safika Technology Holdings. Ngoasheng is a director of Safika Holdings and owns 41% of the company.

What is disturbing here is the fact that tenders have been awarded by the CDC to companies with which Ngoasheng's company Safika has business relationships. Safika owns a 51% shareholding in a joint venture with Dutch firm of consulting engineers DHV and Stewart Scott consulting engineers called Safika-DHV (Pty) LTD. Notably, one of Safika's partner's in this company, Stewart Scott, has been awarded three contracts by the CDC. According to the Stewart Scott website the company was awarded one contract for the design of bridges and another for the design of the sewerage reticulation system for the Coega IDZ. It points out that both contracts were awarded as joint ventures with black empowerment partners Boonzaaier Dotwana and Associates. The dates on which these contracts were awarded are not indicated. The CDC announced in November 1999 that it had awarded a contract to Stewart Scott in a joint venture with Fongoqa, Skade Toyi

and Silva McGillavray to conduct a study of the requirements for a sewerage treatment or water reclamation works for the IDZ. CDC claims that the tendering process involved member's of the CDC team, technical experts from local authorities and the CDC's external consulting engineers...

Moss Nogoasheng, as chairperson of the CDC board of directors would, at the very least, have been required to endorse the awarding of these contracts. It is of concern here that Ngoasheng is listed in the CDC's 2000 Annual Report as the chairperson of the CDC Audit and Investment Committee. It is usual business practice for the executive of any company board to be clearly separated from its audit committee. If the Coega project is to have any form of credibility, it is vital to establish whether Ngoasheng declared his private interests in respect of these companies and whether he then recused himself from any further involvement in the process leading to the awarding of contracts to them.

What makes these questions more pertinent is the fact that CDC is a private company which is issuing contracts to be met out of tax-payers money. Yet, because it is a private company, the financial statements of the CDC cannot be audited by the Auditor General's office. Nor does the CDC have to comply with the strict financial reporting requirements set out in the Public Finance Management Act.

### **Resistance, from regulation to civil society activism**

As if anticipating the pressure welling up in the dissatisfied lower-income citizenry, especially as the Alcan cheap power deal comes under more scrutiny, Mandela Metropole councilors authorized in early 2007 that the forthcoming budget would increase the free basic water allotment to 102 000 households from 6000 to 8000 liters per month, and electricity from 50 kiloWatt hours to 75 for 89 000 households. But these are still small, tokenistic amounts, not a genuine lifeline 'human right' to basic services, particularly for larger families (or those with tenants and additional dwellings), especially in the event of family members contracting AIDS, which requires larger amounts of water and electricity.

And even so, it is easy to predict that resistance to Coega's guzzling of water and power will emerge later in the decade, adding to high levels of existing popular unrest. In South Africa during 2004-05, the police counted more than 5,800 protests against government, possibly the highest per-person rate in the world. (In China, with 1.3 billion people, there were 87,000 mainly rural protests, while South Africa's population is 45 million.)

After all, thirty years ago, in the wake of the Soweto uprising near Johannesburg, the revitalized anti-apartheid social movements known as civic associations were founded in Port Elizabeth's impoverished townships, thanks in part to the legacy of black consciousness and community empowerment activist Steve Biko, killed by the city's police in 1979. Thozamile Botha was instrumental in the Port Elizabeth Black Civic Organisation, which was one of the first and most formidable urban social movements

Twenty years later, as Coega came up on the drawing board, the assistant city engineer for hydraulics wrote a blunt memo about the prospects for imposing a redistributive tariff to help poor consumers through cross-subsidization, funded by higher

prices paid by large industrial users: If such a plan 'were to be implemented for industry, Coega would not go ahead.' Although *both* a redistributive tariff (mild as it is) and subsidies for Coega are now official policy, it is not hard to predict that the latter will exert pressure against the former. The perceived need to pump cheap water and electricity into Coega industries will likely sabotage government's objectives of social justice, public health, and economic growth via municipal services.

In all these respects, say critics, the Coega port and IDZ exacerbate the apartheid economic legacy of division, marginalization and grandiose, unworkable public-investment schemes. Such ventures were traditionally grounded not in a logic of development, but instead reflected the power of special interest groups.

Civil society resistance to this sort of maldistribution is already quite advanced, but often takes the form of illegal reconnections after prolific disconnections by municipalities and Eskom. In addition to community protests, local activists including Earthlife Africa, Nimble, The Zwartkops Trust, The Valley Bushveld Affected Parties and citrus farmers (2007) wrote an article for *The Herald* describing many other environmental problems raised by Coega:

While the rest of the world, including thousands of the world's leading scientists, politicians and economists, are scrambling to come up with solutions to what is potentially the biggest crisis we have ever faced in global warming, the Coega Development Corporation seems to know better than everyone else.

Faced with increasing public concern and protest, the CDC has gone to great lengths in recent adverts in the local media to try to discredit the opponents of the Coega smelters, and some of the other highly polluting and toxic industries the CDC is trying to attract, such as the ferro-manganese smelter, the oil refinery and the chlorine plant.

The people of Port Elizabeth need to ask themselves whether, in light of global warming, the pollution of our air and water, and its effects on people's health and in consideration of the billions of rand needed for the construction of new power plants, the provision of subsidies for the smelter, the job losses in other industries that can either not expand or exist due to the smelter's proximity, are worth the 1 000 jobs created by Alcan. Of these at least 300 will only be available to highly skilled professionals, probably many from overseas.

In light of the fact that each job created at the smelter is estimated to be costing about R5-million and considering the massive impact the smelters will have on our environment and the air we breathe, the answer to this should be easy. We reject the condescending manner with which CDC staff, including marketing and communications head Vuyelwa Qinga-Vika, are treating protesters. Those who have voiced their opposition to the smelters have been denounced as egotistical half-wits who are more concerned about clean air than the plight of the poor and fools that cannot distinguish fact from fiction, silly enough to believe the reports by leading scientists and politicians on global warming.

It is the lack of information to the public thus far which has enabled the CDC to execute its environmental impact studies and other required processes without enough public awareness and involvement. It is this very lack of information to and awareness of the public which is so startling and worrying.

The whole sorry saga of the Coega development in an environmentally highly sensitive, unsuitable area began with the controversial weapons deal, which brought us, as an offset deal, the Coega Industrial Development Zone. In their desperate effort to secure the ever-elusive anchor tenant needed to justify the billions of rand spent to date on Coega, the CDC and government have bent over backwards.

They are now giving, in addition to tax incentives, tax holidays and import/export duty exemptions, large subsidies and rock bottom prices for our water and electricity to the world's most polluting and energy intensive industries.

These currently include the Alcan aluminium smelter - a double-sized smelter with an output of 720 000 tons of aluminium per year. This makes it one of the world's biggest aluminium smelters, which will use three times as much electricity as our entire city.

The sheer size of the smelter boggles the mind - the entire area stretches more than 120 hectares, of which 50 hectares will be used for the actual plant. The capacity of our existing power stations is already strained to breaking-point, so new power stations will have to be built just to supply Alcan with the power it needs. This will entail either the building of yet another coal-powered plant, with massive power grids snaking their way all the way through pristine country, including game farms, or the construction of a nuclear power plant on our doorstep.

This would be at additional cost to our environment and to the taxpayers' pockets. It will not be Alcan who has to pay for the new infrastructure, but the South African taxpayer.

Alcan will receive our electricity for a price far below anything that any of us or other industries are paying. Another question that needs to be answered is: Who, in times of power shortages, will have preference - the smelter or the South African people?

This is only part of the problem. The Coega IDZ is located in an environmentally highly sensitive and unique area.

It has six biomes and is situated right next to the Addo Elephant National Park, close to various game and citrus farms, and the city of Port Elizabeth.

The health implications for all are enormous. Toxic emissions into air and our water include fluoride, sulphur dioxide, polycyclic aromatic hydrocarbons, nitrogen dioxide, carbon dioxide, other greenhouse gases and others - all of which have severe impacts, such as respiratory diseases, cancers, Alzheimer's disease, brittle bone diseases, smog and acid rain.

Despite the latest findings by leading scientists that establish a clear link between the exposure to fluoride and lung and bladder cancers in smelter workers, and despite health warnings Alcoa sent out to 3 000 of its workers worldwide, the CDC continues to deny there could be any problems.

Whether or not fluoride or any of the other toxic substances occur naturally in the environment or not is beside the point - exposure to large amounts can and will have disastrous consequences.

As for the claims that 'all is well in Richards Bay', various environmental organisations, including the Richards Bay Clean Air Association and Groundwork, most certainly differ. Richards Bay's residents are exposed to smog and pollution daily, with aluminium smelters being the prime suspects.

And let's not forget the issue of global warming - 1,8 tons of carbon dioxide is produced for every ton of aluminium. This figure alone should be enough to warrant a resounding 'No' to the whole issue of aluminium smelters.

Another worrying factor, the issue of what will happen to the waste produced by the smelter, has not been clarified.

The spent pot linings, for example, is hazardous waste and needs to be stored in sealed waterproof containers. We would like to know where these will be stored and how it will be guaranteed that there will be no leakages and seeping of toxins into our water?

There are also serious concerns about the dust of the raw material, which will be easily spread by the wind.

Various community activists and environmentalists have presented suggestions and plans for environmentally friendly alternatives for Coega, including a multifaceted approach that combines agriculture, marine-culture, eco-tourism and the massive expansion of infrastructure. However, these seem to have been ignored.

We would like to remind the CDC, the government and the public that our Constitution guarantees that 'everyone has the right a) to an environment that is not harmful to their health or well-being; and b) to have the environment protected'.

We sincerely hope that the South African government will have a change of heart and reconsider the impact the proposed Coega smelters will have on South Africa's environment and therefore its citizens.

Earthlife Africa (2007) added a broader condemnation of industrial policy:

A reasonable estimate of the price of electricity granted to Alcan is around 15% of the price charged to Soweto residents (or about 5 cents per kilowatt hour). This would be substantively lower than the industry and residential average rates (16c and 29c per kwh respectively). This deal covers the next 25 years.

South Africa is currently facing challenges to meet energy demand and is likely to do so for some years, as a result of insufficient forward-planning. It seems irresponsible to commit to supplying electricity in the quantity and the price which is demanded by the agreement with Alcan. Even more so when the government is proposing to supply this electricity through the building of additional coal-fired power stations.

Judging by these statements, the green critique of Coega is at a high level. However, to alter policy decisions, what is needed is a more sustained campaign – joining environmentalists, labour, community and other citizens - for *radically new industrial policies* that meet the society's needs, not the world economy's thirst for aluminum.

This is not too hard to imagine, because even in Alcan's own backyard, the Canadian province of British Columbia (BC), a highly-subsidised smelter and hydroelectric power plant were in mid-2007 deemed a rip-off both because the company won benefits in producing energy for excessively expensive sale back to the grid, and because their job-creation investment promises were broken. As reported by the *Globe and Mail* (Stoeck 2007), 'Critics of the deal said it was negotiated without a competitive bidding process and gave Alcan an unfair advantage because it used prices based on new

power projects, even though Alcan's generating plant in nearby Kemano - operating since the 1950s - churns out electricity at a much lower cost.' *Globe and Mail* commentator Konrad Yakabuski (2007) remarked:

Alcan has pocketed massive profits by, in essence, selling back to BC taxpayers at a premium the electricity taxpayers gave Alcan the right to produce for free five decades ago. Finally, the BC Utilities Commission has decided there should be a limit to taxpayer's generosity toward Alcan and has put the kibosh on the company's latest deal to sell power... The deal to sell power at huge markups to government-owned BC Hydro was a quid pro quo of sorts for Alcan's \$2-billion investment in the aluminum facility. The idea that the "sweetheart deal" -- as its opponents have labelled it -- was thrust upon the utility by its political masters in Victoria now seems increasingly credible.

South Africa's electricity regulator and other officials do not have the power to overrule the key ministers, especially Erwin. Only increased pressure from the citizenry can raise the costs of business-as-usual, and on 9 May 2007, coordinated protests were held against Alcan in Port Elizabeth, Richards Bay and Johannesburg. Earthlife Africa has attempted to shed further light on the deals being done at Coega through a Promotion of Access to Information Act request to Eskom about the price of power, conditions of supply and Alcan's potential to sell on unused electricity. The response, according to Earthlife Africa (2007): 'a complete and utter stonewall in response to legitimate questions concerning South Africa's welfare and long-term energy supply.'

So far the case of Coega stands out as a beacon of official South Africa's irresponsibility and corporate welfare. Drawing on Port Elizabeth's late 1970s traditions, a new version of the Port Elizabeth Black Civic Organisation is needed to galvanise mass action against not only this one manifestation of class and ecological apartheid, overlaid as it is by race, but in favour of the kind of political, developmental programme that will unite the various forces exploited by Coega-style logic - wherever it may be found.

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**Table 1: Direct and opportunity costs of the IDZ and harbour**

<b>Sector</b>	<b>Income losses (R million/year)</b>	<b>Employment losses (# of jobs)</b>
salt production	20	136
mariculture	116	875
fisheries	not estimated	not estimated
agriculture	510	7,500 (1)
eco-tourism	60	975
total	706	9,486+

NOTE: 1) Impacts on agricultural production are long term, and therefore of a different nature to the other job losses. Source: calculations by Steven Hosking and Patrick Bond, discussed in *Unsustainable South Africa*, University of KwaZulu-Natal Press, 2002.

## World Industrial Electricity Prices

Prices as at 1 January 2000 including local taxes but excl recoverable VAT from a representative utility for a 2.5 MW 40% load factor customer.

