

PERSPECTIVES

Foreword by the Minister of Minerals and Energy

Message from the Chairperson of the Parliamentary Portfolio Committee on Minerals and Energy

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“Our industry must align itself with the priorities that our democratic government has to manage.”

CHAIRPERSON'S REPORT



Dana Flanders,
Chairperson of
Sapia

Energy is the driving force of the national economy. Our industry has a special role to play, therefore, in aligning itself closely with the priorities of a democratic government whose goal is a better life for all.

AN INDUSTRY THAT IDENTIFIES WITH THE NATION

I am happy to report that members of the South African Petroleum Industry Association (Sapia) are constructively engaging with all these national priorities.

- They, as their primary function, deliver vital energy in the form of world-class liquid fuel products at globally competitive prices. Petroleum fuels are delivered to all sectors of the market, including South Africa's neighbouring NEPAD partners.
- They seek to be leaders in respect of Black Economic Empowerment (BEE), a process so crucial to our national stability and success.
- They strive to be at the forefront of sustainable development as defined at the World Summit in Johannesburg 2002.

- They bring to South Africa the benefits of their global skills and technology.
- They make billions of rands of “bricks and mortar” investments in the South African economy.
- They are helping to address South Africa's major social challenges – poverty, crime and HIV/AIDs.

Sapia wants to stand out as a South African business organisation representing an industry that is committed to making our country a winning nation. We firmly believe that all South Africans must be encouraged to work together in overcoming the many challenges we share.

KEY NATIONAL CHALLENGES

Let me briefly highlight some of the key challenges shared by our industry with all South Africans:

PROMOTING BLACK ECONOMIC EMPOWERMENT
BEE is the social issue that is being given our highest priority. It is where Sapia's members, as highly competitive companies, have worked together with government to develop and implement an industry sector

charter to set the pace for South Africa. I will return to BEE in more detail later.

POVERTY ELIMINATION AND RURAL DEVELOPMENT

This is one of the greatest of the challenges we face. Our industry is assisting by seeking to ensure a reliable supply of affordable energy to all parts of the country and through the extensive corporate social investments made by its members.

PREVENTION OF CRIME

The tragic assassination of five men at a Grassy Park service station in mid-year, while not typical of the general trend, focused public attention on a problem that the petroleum retailing sector has been facing for some time. Sapia members, in an effort to protect lives, have – in addition to individual company efforts – joined forces to build a countrywide crime data bank and develop mutually supportive safety measures.

FIGHTING HIV/AIDS

All of society must answer the challenge of HIV/AIDS. We are playing our part. Sapia members have come together to develop an HIV/AIDS education programme for forecourt attendants at service stations. The first phase will be in KwaZulu-Natal, where the incidence of HIV/AIDS is very high, and the project will be rolled out nationwide in due course. In addition to such joint programmes each member company has its own internal action plans.

MAJOR INDUSTRY ISSUES

There are certain other industry specific matters that I would like to highlight.

MANAGED LIBERALISATION AND RELATED LEGISLATION

- The goal of both our industry and the government remains a competitive and free market. We are

working together to find a holistic way of change that will meet three objectives in the interests of the national economy. These are: i) to keep fuel prices as low as possible; ii) to protect jobs iii) to ensure the petroleum industry remains sustainable during the transition from a regulated state to a free market.

- The relevant amendments that are planned to the Petroleum Products Act, especially those impacting on the nation's network of service stations, need to be drafted with great care and implemented in a manner that will assist in achieving the above. Regulatory modifications that may affect the country's level of refinery self-sufficiency and logistics infrastructure also deserve careful and serious attention.

GLOBAL COMPETITIVENESS

- Global competitiveness is vital for progress and success in uplifting the poor and assisting Africa. The petroleum industry is preparing to make a dramatic leap, costing billions of rand, to ensure South Africa remains at the forefront of technological and environmental standards in respect of its liquid fuels. Our aim is to keep our domestic industry globally competitive and to meet or exceed the agreed standards of environmental control.

COMMUNICATION

- Sapia, founded in 1994, seeks to make ours an open industry. We are building on the strong foundation laid in very recent years and are enhancing transparency through open communication and co-operation.

More information on many of the subjects I have just raised can be found in the Director's Report or under relevant articles in this publication.

I wish to expand further on only two major issues, BEE

and Managed Liberalisation as they directly affect the future of the petroleum industry – and thus the nation as a whole.

BLACK ECONOMIC EMPOWERMENT

As I have already stated, facilitating BEE is a top priority for Sapia. We are achieving it through a private-public pact involving the Government, the people in our industry and society generally. In consultation with the Ministry of Minerals and Energy we are moving ahead with the "Charter for the South African Petroleum and Liquid Fuels Industry on Empowering Historically Disadvantaged South Africans in the Petroleum and Liquid Fuels Industry". Because it is a pioneering model, it takes time to create acceptable guidelines and measurements, and the overall process for assessing compliance and accreditation in terms of the Charter is under development. We have moved quickly to dramatically redistribute part of the investment built up over the past 100 years by the founders of the oil industry. The goal of 25 percent ownership of the SA petroleum industry by Historically Disadvantaged South Africans (HDSA) is being met at a rate probably unprecedented in private enterprise. It is being achieved in various ways. All privately owned members of Sapia have, in differing arrangements, already negotiated transactions to facilitate black ownership of their companies or to assist in the development of black owned oil companies.

It is worth noting that whilst the ownership deals catch the headlines, the work done on employment equity, skills development, supply-chain partnering and procurement probably have a greater impact on broad based empowerment.

If the private sector generally is to meet the agreed goals, it is essential that there be fair, standard measures of achievement. At the same time the rules

should be flexible and give credit for innovative approaches to the challenge. This is not easy, but good communication and co-operation can remove most obstacles.

MANAGED LIBERALISATION

The year 2002 has seen the first really significant changes in the way in which the industry is regulated.

- The informal regulatory structures of the past are giving way to proper regulation in terms of an Act of Parliament. Sapia welcomes this.
- For the first time in many years there are no overdue marketing margin increases in terms of the MPAR mechanism. The industry appreciates the government's efficient application of the rules.
- The IBLC system is in the process of being replaced by a more clearly market-related system.



In liberalising this regulated industry – returning it to normality, in fact – a complexity of issues needs to be considered. They range from how the nation is supplied – crude refining, synfuels and product imports – to how the petroleum industry is sustained.

During the current, fairly radical review of regulatory mechanisms a careful balance of conflicting policy objectives is required. For instance, while it is essential that fuel prices are kept as low as possible, it is also essential that there be fair returns on investment – especially at a time when huge additional investment is called for to upgrade technology and produce more environmentally friendly products. There are also the needs of black economic empowerment and of saving jobs and small businesses to consider, all important priorities.

Fortunately Sapia is moving to a point where its members and the Ministry of Minerals and Energy not only share the same goals, but can find common strategies for reaching them. Sapia's attitude is a positive one. We are looking at the opportunities in the near future rather than the threats, and we trust that together we shall find a way to meet the needs of the nation as a whole. It is in this positive spirit that we have approached the guidance of the Government's White Paper on Energy.

Sapia is focusing on the policy document's constructive approaches and proposals – which are numerous. For instance, the Government declares its intention "to create a stable and internationally competitive liquid fuels industry . . . with limited intervention and continued investment . . .". This coincides with the industry's vision of how best to ensure efficiency and growth. The need for the petroleum industry to operate in a way in which its returns justify expansion is self-evident.

As I have said earlier, encouragement of investment at this stage is vital in the light of the changes in fuel standards that are planned to ensure South Africa keeps pace with global developments. The changes will require capital expenditure of billions of rands.

We welcome the statement that the government will not intervene with more regulations in the crude oil refining industry, and are pleased to note that the government believes that competitive market forces should determine prices.

We also welcome the White Paper's commitment to promoting a climate of certainty and fair returns for investors and to using a fair and transparent method to set fuel prices and profit margins during the era of price regulation.

All parties, including representatives of government, investors, refiners, distributors, management, workers and trade unions, recognise that the goal of the Energy White Paper is the goal of all those supporting a better South Africa. The White Paper lists some of its policy objectives as: "Increasing access to affordable energy services, improving energy governance" – and, most important of all, "Stimulating economic development".

For all parties prepared to co-operate in achieving economic growth, it is clear that the goals should be:

- A good business climate in South Africa.
- Sustainable development.
- A competitive world-class industry earning fair returns.
- Liberalisation of the industry.
- Attainment of the targets in the Charter.

MEMBERSHIP

Membership of Sapia reflects the radical transition that is taking place in the petroleum industry. In its last report Sapia noted that its membership had increased in a few months by more than a third. Since that report, Sapia has lost a member – not because the association has become less representative, but because one of the stand-alone black-owned oil companies has merged with one of our foundation members.

SINGLE INDUSTRY ASSOCIATION

As my predecessor said last year, we believe that the best interests of the industry will be served by an inclusive approach. We will continue to engage with other individual companies and organisations in the industry, to search for ways to bring about a merged industry association. Our desire is in accordance with the Minister's statement in her forward that "business in South Africa must not remain divided on racial lines".

SUMMARY

In dealing with the changes and challenges of the liquid fuels industry, we believe that through clear communication between the parties and a willingness to co-operate the problems can be overcome and the challenges met. It is in this spirit that Sapia and its members intend to co-operate with government in developing sound structures and practices in the field of energy. Also we believe that, by working together as partners rather than adversaries and by involving all other participants in our industry such as retailers, employees and trade unions, it will be possible to achieve the formidable yet critical goal of social upliftment that is necessary for the well-being of the nation.

THANKS

I would like to express my sincere thanks to my fellow governors for their assistance and support. We all manage companies that compete fiercely with each other on many fronts every day. It requires a special commitment and discipline to come together to make progress on the matters of common concern and national interest that we deal with at Sapia. I also pay tribute to two colleagues who retired as governors during the year – Almorie Maule and Shepherd Shoniwa. Almorie had served as chairperson of Sapia and Shepherd as vice chairperson. I wish them well in their new directions. I welcome Fawzy Muhiyiddin and Simphiwe Mehlomakulu to the Board of Governors.

