Liquid fuels industry

an overview of policy challenges

The EDRC Petroleum Group outlines policy and regulatory changes for the liquid fuel sector and the challenges they pose to labour.

South Africa's liquid fuels industry plays a very important role in the economy. It is the largest source of foreign direct investment (R1,5-billion per annum) for the South African economy. It contributes about 10% to the Gross Domestic Product (GDP) and R19-billion in indirect taxes. It employs about 100 000 people directly and indirectly. Policy challenges need to be carefully considered given that the sector also impacts on the inflation rate (through fuel prices) and affects people's access to warmth, light and cooking energy. This article broadly outlines policy challenges for the sector.

Recent history

In the early years, the activities of the South African petroleum industry were steeped in secrecy, as the United Nations imposed trade embargoes and financial disinvestment on the apartheid government. In response, the apartheid government developed complex regulations, legislation and agreements between itself and strategic partners to meet the country's energy needs. This included:

- special measures to procure (buy) oil;
- active exploration by Soekor, a state-owned company;
- establishing a large crude oil stockpile;
- developing local synthetic fuel manufacturing industries – Sasol and Mossgas which could make oil from coal or gas.

Intense international pressure forced Mobil to withdraw from South Africa, and local capital bought Mobil interests and formed Engen. Government made the remaining transnationals and Engen support local synthetic fuel production by limiting their own refining capacities and marketing synthetic fuel. In return, the synthetic fuel producers stayed out of the retail market.

The end of apartheid and the consequent lifting of sanctions before the first democratic elections in 1994, led to a re-examination of social and economic policy in South Africa to correct the imbalances created by apartheid. In liquid fuels, the minister first released a draft Energy White Paper and later, after taking into account various submissions, released the Energy White Paper (December 1998).

Key policies and regulations

There is a complicated system of regulations and agreements between government and the private sector. The following are the most important ones:

Synthetic fuels subsidy

Government subsidises the production of synthetic fuels by Sasol and Mossgas, through the Equalisation Fund. The production of liquid fuel from coal or gas is more expensive than traditional crude oil refining. Government subsidises these companies to make sure that liquid fuels continue to be locally produced for a variety of reasons. Among the apparent reasons are that it provides a partial hedge against international oil prices and ensures savings in foreign exchange. However, government suspended payment to the Equalisation Fund in February 2000, resulting in an 8c/l drop in the petrol price.

The Ratplan

The Service Station Rationalisation Plan (Ratplan) is a voluntary agreement between government, the wholesale industry and service station owners. It controls the number of service stations allowed to operate in South Africa. It does not allow self-service at petrol stations in order to protect the jobs of petrol pump-attendants. It also stops wholesale marketing companies from operating service stations.

Price control

While the profits of crude oil refineries are no longer controlled, the retail price of petrol is tightly controlled. The price is based on what is called the 'in-bond landed cost' (IBLC). This is the price that would be paid if petrol were imported. The government sets the petrol price monthly and attempts to ensure that the price is high enough to cover the production costs of local producers in the industry while at the same time not allowing them too much profit. The process of setting the price of petrol has been a hotly debated issue in South Africa, but has at least become more transparent. It is set according to a formula that takes the international oil price into account.

Import and export control

Government controls the import of refined petroleum products. The aim of this policy is to ensure that local refiners use their refineries to maximum capacity. Importation of refined products is only allowed when local refineries cannot produce enough to meet the country's demand. Questions have been raised regarding government's capacity to monitor this adequately. Similarly, exporting locally refined products is only allowed after local demand for certain products has been met. Black-owned companies have recently been given permits to import refined products to allow them to compete with local oil companies.

Transnational corporations

Internationally, globalisation has been characterised by neo-liberal economic policies that negatively affect the living standards of workers and the poor. Neo-liberal policies favour minimum government intervention to allow 'market forces' to direct the economy. Most of these policies tend to benefit transnational corporations (TNCs). Developing countries have been most affected as they compete to attract foreign investment into their countries. Workers' wages and working conditions in developing countries are significantly lower than workers doing the same work in developed countries.

The South African government seems to favour neo-liberal policies directed towards deregulation. Policy and legislative changes are creating tension between promoting economic growth (measured

The Ratplan does not allow self-service at petrol stations.

mainly by growth in total GDP) and promoting social equity and justice. Government seems to have de-prioritised the latter with the shift from the RDP to GEAR and the self-imposed structural adjustment programme to attract foreign business. The government has accepted the view that only economic policies favourable to investors can lead to extensive economic growth and significant job-creation.

There is a strong push from the business sector, especially TNCs involved in the import-export market, for the liquid fuels industry in South Africa to become more globally competitive by:

- deregulating the oil industry;
- lifting government controls on the import of refined petroleum products;
- phasing out price controls;
- privatising state-owned companies.

They argue that this will allow businesses to cut costs and therefore increase their 'global competitiveness', while at the same time potentially ensure cheaper transport for the majority of people.

Labour's response

Labour has opposed deregulation of liquid fuels and instead proposed that it be re-regulated. This stance has been informed by a number of concerns.

Disastrous consequences have followed in countries where TNCs' activities were not adequately regulated by the state and/or countered by organisations of civil society. An extreme example is the impact on the Nigerian economy of the Dutch/British owned Royal Dutch Shell's activities. Since 1958, oil companies like Shell exploited Nigeria's oil wealth. The people of Nigeria have suffered economic deprivation, environmental devastation and the discriminatory practices of successive military regimes financed by oil revenues.

Deregulation has, in many parts of the world, led to job loss and higher fuel prices. Workers in our liquid fuels industry do not know for certain what government's policy changes will mean for them. But they are concerned that privatising state-owned companies or deregulating industries will allow new owners to cut costs and increase profits by lowering employment levels and retrenching workers. Workers and unions are instead calling for new labour intensive investments for the liquid fuels industry.

Labour has also opposed scrapping the Ratplan, fearing (among other things) that petrol pump attendants will lose their jobs. The current legislative framework does not place adequate onus on industry to provide a social plan to ensure the future wellbeing of workers involved in production and retailing of liquid-fuels.

The COSATU parliamentary submission on liquid fuels also called for the establishment of a state owned integrated oil company.

The Energy White Paper

In December of 1998 the government published the White Paper on Energy Policy. This White Paper is a broad policy proposal for the energy industry as a whole in South Africa. Workers and their trade unions, and other organisations and interest groups have different views on the proposed policy. In the Energy White Paper the government makes a number of policy proposals regarding the liquid fuels industry.

Ownership and control

The government proposes key changes to ownership and control of the liquid fuels industry. Many of these changes are in response to pressures arising from global economic changes:

- The industry must be deregulated and there should be minimal government intervention in the industry in future. The minister, however, has recently announced that the industry will be re-regulated not de-regulated, and only when the 25% milestone of black ownership in the industry has been achieved.
- The government will lift controls on the import of refined petroleum products, and will abolish price control; this means that local refineries such as Mossgas and Sasol will, in the future, have to compete with other producers nationally. It has been estimated that in order for the synthetic fuel industry to remain viable, the international crude price should be above $18/bbl.
- The state-owned CEF companies (like Mossgas) are to be restructured: some may be privatised, others will be commercialised, whilst certain state assets in the oil industry could form the basis of a new petroleum company of which the government will be a major shareholder. This process is already underway, with the CEF being restructured into a commercial entity (state oil company combining Mossgas and Soekor) and a non-commercial entity (policy, regulatory and strategic responsibilities). The Petroleum Licensing Agency has been established as part of the non-commercial activities to be an agent of government to encourage the prospecting of oil, grant rights and regulate the off-shore activities of oil companies.
- Some restructuring will be aimed at promoting black economic empowerment.
- The Ratplan, which currently protects the jobs of service station attendants by preventing self-service, will be maintained in the short term, but phased out in the longer term. Legislation will be put in place to ban self-service until certain milestones have been achieved.
- While government will continue to support Mossgas, it will make no new investments in new refineries or new synthetic fuels projects in the future; these must be made by the private sector.

The government has indicated that the changes it proposes must be introduced gradually, and that 'efforts must be made to protect jobs'.

Black economic empowerment

The White Paper states that South Africans who have been historically disadvantaged should own or control 25% of the liquid fuels industry. It is not clear what form this new, black ownership will take or what role workers will play in determining this. It is also not clear how the work situation of workers in the industry is likely to change under black ownership.

Human resources

In its 'human resources' section, the White Paper indicates that government will:

- ❑ develop policies to address the skills imbalance in the industry;
- ❑ develop an employment equity plan to correct the effects of apartheid employment practices.

It will also strive to increase the number, of women and black people on all policy development structures and ensure that procedures for contracting out work will promote women and black owned small and medium businesses.

Health and safety

The energy White Paper says very little about workers' health and safety, but does set out the government's plan to promote safe use of liquid-fuels products by consumers through:

- ❑ an electrification programme which will encourage households to use electricity instead of paraffin;
- ❑ introducing and promoting safety and performance standards for paraffin stoves;
- ❑ requiring that paraffin suppliers introduce safety measures as part of their business activities;
- ❑ government monitoring and assessing the impact of all safety measures and providing guidance to the petroleum industry.

Issues facing workers

Workers in the liquid fuels industry face many of the same problems as workers in other sectors in South Africa. In recent years, workers have faced an increasingly insecure future with threats of restructuring, retrenchments and legislative changes. The major issues facing workers in the liquid fuels industry are job insecurity, health, safety and environmental issues, and wages and working conditions.

Job insecurity

Unlike previous decades, the most pressing issue facing workers in the petroleum industry is a lack of job security. Internationally, large oil companies have been engaging in 'strategic partnerships' or merging to form even bigger, 'mega-companies'. Their aims have been to cut costs to compete with other mega-companies. One example is the recent merger of BP and Amoco and later Arco where 10 000 jobs were lost internationally.

Another strategy of TNCs has been to move their head offices to Asian or developing countries where wages, working conditions and environmental standards are lower, allowing them increased profitability. The 1998 International Labour Organisation studies show that employment in Eastern Asian refineries has increased from 241 000 in 1980 to 585 000 in 1994, whilst for the same period it decreased in Central Europe and Central Asia from 450 000 to 249 000.

Employment figures in the South African refining industry have declined significantly, from 18 000 in 1993 to approximately 14 000 in 1997. SAPIA, the employer body, holds that the refining industry now employs 10 000 workers. Companies also say that they need to outsource to be globally competitive. They have been defining their 'core' activities and contracting out jobs including information technology and accounting.

Workers who are particularly vulnerable to deregulation are petrol pump attendants - about 45 000. Labour's submissions on the draft White Paper on Energy raised this concern and called for the Ratplan to remain in place.

Wages and working conditions

Workers in the industry will be under constant pressure to keep wage demands low, or will be forced to work longer hours for the same wage. We have already witnessed this in recent wage settlements where workers traded a higher wage settlement for exemptions from the BCEA. Continuous shift operations for depots have also been introduced in order to maximise use of capital investments.

Workers in the liquid fuels industry, especially in South Africa, have great difficulty in obtaining the information they require for collective bargaining. While general information about the financial situation of the oil industry is available it is difficult to obtain specific 'relevant information' about profit levels and profit margins in the industry or a specific company.

Health and safety

The liquid fuels industry involves dangerous chemical processes. The transport, storage and marketing of liquid fuels often involve the handling of poisonous, highly flammable and generally dangerous substances. Cost cutting measures, outsourcing and restructuring may, if unchecked, lead to more dangerous working conditions.

The way forward?

Historically, the apartheid state used the sector to achieve significant industrial, economic and social goals through extensive and costly projects. Despite the political and economic shortcomings of these projects, they put in place the apparatus allowing the new government to potentially achieve progressive goals through proper legislation and regulation.

But, TNCs have been lobbying government to restructure and deregulate the sector in an attempt to further their primary goals of profit maximisation and capital mobility, in line with current global developments. In many cases these goals are in conflict with workers' interests.

Future developments in the sector will centre on the tension between the goals of the state, TNCs, local capital, workers in the sector and the broader public (consumers). Workers and trade unions need to be constantly aware that local struggles are located within world-wide processes of TNCs' strategies, and restructure the industry according to the South African reality.

The labour movement and broader society must work to ensure that fixed domestic investment is located within a sustainable economic framework that accommodates social and environmental goals as well as economic development needs.

This requires detailed and well-informed policy interventions. Future articles will tackle in detail, a number of issues related to restructuring the industry. ★

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