Mr T B Maqubela
Deputy Director General – Petroleum and Petroleum Products Regulation
Department of Energy
Visagie Street
Pretoria

Cc Mr R Maake

13 May 2022

Reference: Meeting 11 May 2022 - 2nd Phase of Short-Term Relief Measures to Address Increasing Fuel Prices - 93 Octane proposal - requested industry comments

Dear Mr Maqubela

At a meeting held on the 11th of May 2022 between Industry Associations and the DMRE chaired by Mr R Maake, it was requested amongst other agenda points for Industry Associations to make additional comment on the proposal of a price capping of 93 Octane ULP. It was recorded by both Retailer Associations present that previous submissions made on the topic to the DMRE in 2018 had not received any formal response and now price capping re-appears on the agenda in an effort to bring short term relief to constrained consumers in a period affected by external forces. We also record that there appears to be mis-guided interpretations by some stakeholders on the resultant impact a proposal of this magnitude will have on the economy.

The SAPRA NEC convened a meeting on the 13th of May 2022 where various discussions where had on the negative impacts the proposed price cap would have on already constrained retailers.

Whilst it is not entirely clear how the price cap of 93 anticipated by the DMRE/Treasury would directly translate into a sustainable saving for consumers, the consequent impact the price cap will have is to threaten retailer viability, security of supply and job sustainability. It is noted that since the 2018 request for comment on the topic, that retailer operational challenges have compounded.

We are concerned that the consequential impact of the proposal has not been explored to the full extent. Of significant importance, and in addition to many grave concerns identified, we envisage that a proposal of this magnitude, coupled with current market conditions including low demand, margin under-recovery and continuing rising costs could result in **significant job losses**, this against our Honourable Presidents National Development Plan objectives and Jobs Summit conference, wherein a special plea was made for all sectors to work together and bring about meaningful job creation.

Some initial concerns are recorded below. These points can be expanded on by the SAPRA NEC in a necessary meeting we propose to be had with affected stakeholders as the next step to the written submissions:

1. Price competition on product will become a reality. This will threaten smaller retailer sustainability in rural areas and go against industry transformation objectives.
2. Smaller sites will suffer the hardest. Is the drive to move smaller sites out of operations?
3. The dynamics between coastal and inland product offering have not been considered.
4. Stakeholder consultations – key stakeholders have not been engaged. Examples are labour, original equipment manufacturers, financial institutions, rewards programme facilitators, PLFC & transformation committees etc. Engaging a broader stakeholder network will provide broader empirical data to inform a sound and balanced final position.
5. An Intensive economic impact analysis should be conducted by an independent company to guide the proposal. The scope of the analysis must be clear to determine the viability of the proposal in a constrained model and the impact on the micro and macro environments in the short to medium term.
6. Theft of fuel has increased exponentially with the rising cost of diesel. A 93 price cap would encourage more theft of product.
7. B-BBEE will become increasingly difficult to realise, especially for new to industry entrants.
8. Some retailers are already considering closing operations and venturing into other business models, as they don't see the ROI anymore, this with all the rising costs and margin drops. The impact this has on loss of staff and their resultant families is significant.
9. What is the actual reason that the DMRE/Treasury wants to place a price cap on 93 only and not on 95?
10. The 93 price cap proposal will create major confusion in the application of RAS on the forecourt.
11. The PPA states that employment is regulated and only forecourt attendants may dispense fuel. Potential deregulation means that self-service will become a transitioned reality. Over 80000 jobs may be on the line.
12. At what point will the 93 Octane pilot proposal reach breakeven, or is the proposal made in perpetuity especially noting that the subject heading is "2nd Phase of **Short-Term Relief** Measures?

Other points to consider

13. New site license applications have grown exponentially in the recent years, even though volumes are slowing down.
14. Cost of cash and merchant fees study initiated by the Department are still outstanding.
15. OEM specification on performance cars using 95 Octane may have repercussions on consumers.
16. Uncertainty will foster a downward turn in business and investor confidence resulting in greater economic downturn.

We trust that you understand from the initial analysis that the proposal made has far reaching and significant consequences and cannot be implemented without further viability studies. We are in an extremely unstable market at this moment and attempting to “deregulate” could culminate into market collapse and threaten security of supply. We recommend that a more extensive consultation process, together with a well scoped study on the consequential economic impact, be convened by the Department to include all affected stakeholders in an attempt to find a balance that will level the playing fields, rather than the current proposal that appears to impact only one segment.

SAPRA is available and requests a further meeting opportunity to expand on all points raised above to provide with absolute certainty that the proposal for a price cap is risky and will have a major economic impact on South Africa, which includes business and consumer.

Kindly acknowledge receipt of this document with proposed follow up meeting dates.

Yours sincerely

Hendry vd Merwe
SAPRA National Chairman

Vishal Premlall
SAPRA Director