Inclusive Radical Economic Transformation across the value chain

THE FUEL RETAILER’S ASSOCIATION

04 MAY 2017
KEY AGENDA ITEMS

1. Context
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The Fuel Retailers Association Of Southern Africa (FRA) is a registered employers organization under the provisions of the Labour Relations Act, 66 of 1995. The FRA, is a financially independent and fully autonomous association that ensures the survival and success for all its members who are Fuel Service Station Owners in the retailing of fuel in South Africa. The Association monitors and becomes involved wherever necessary with all aspects of retail fuel governance, distribution and sales in South Africa in order to protect and enhance Fuel Retailer’s Interest.

The Charter was signed in 16 years with the aim of bringing parity onto an industry that was not representative of the Historical Disadvantaged South Africans. The Moloto Solutions report produced in 2012 showed with little surprise the failure of the industry to meet their set target of 25% ownership. The Petroleum & Liquid Fuels Sector Code Alignment Steering Committee is seeking to ensure that:

- Past mistakes are not committed and Meaningful radical economic transformation is realised in the sector;
- The Petroleum and Liquid Fuels Charter (LFC) promulgated under Schedule 1 of the Petroleum Product Act, 1977 (Act No. 120 of 1977 as amended by the Petroleum Products Amendment Act 58 of 2003 as the strategic tool adopted to date to effect transformation in the petroleum sector is the aligned to B-BBEE policy framework; and
OBJECTIVES

- How to ensure sustainability of the Industry is paramount and service stations are correctly designated. Whilst our members turnover is high the key issue is what ends up in their pockets is very low.
- Goodwill must be protected
- Identify sites/entities that must transform. It is critical that we look closely on who must be targeted as there are Non HDSA’s sites that are too small to be considered.
- New entrants who are not BEE must not be forced to comply with the Charter since in most cases they are still paying their loans.
- there must be a clear baseline - DoE is currently busy with this exercise.
- Vertical integrated companies
Objectives conti.

- Alignment of the Codes and LFC on agreed themes.
- As the Charter contains themes that are advancement of transformation it is critical that the steering committee agrees on them.
- Appointment of a Committee outside the DoE and neutral Chairperson.
Industry Transformation Challenges: Vertical Integration

- The EWP envisaged “the preservation of retailing activities for small and medium businesses” and the “preservation and promotion of formal sector employment.” To give effect to this EWP policy statement, certain prohibitions relating to the sale of petroleum products were included in the Act, namely a prohibition on vertical integration in the petroleum industry (to promote small business in the retail industry) and on self-service at retail fuel outlets (to protect the jobs of pump attendants).

- One of the objectives of the Petroleum Products Act of 1977 (as amended), is to promote development of SMMEs in the sector and the retailing sector presents that opportunity and hence the prohibition stated in Section 2(A)(5)(a) of the Act that states “No person may make use of a business practice, method of trading, agreement, arrangement, scheme or understanding which is aimed at or would result in - a licensed wholesaler holding a retail licence except for training purposes as prescribed, but excludes wholesalers and retailers of liquefied petroleum gas and paraffin”.

- FRA is of the opinion that Oil companies should not own assets at retail level.
Industry Transformation Challenges: Procurement

- Value chain supplier is controlled by the Oil companies as such Retailers have very little discretion when determining where and whom to procure from and are prejudiced where they have no control over the outcome. Retailers will benefit from Oil company initiatives.
Industry Transformation Challenges: Turnover Thresholds

- Turnover-based size definition results in classification of Fuel retailers as Large Entities
- Fuel retailers are forced into Large Entity thresholds due to the levies they collect on behalf of the State.
Industry Transformation Challenges: RAS Pricing system

- Implementation of RAS pricing mechanism has negatively impacted the entrepreneurial compensation.

- Oil Companies dictate the % of the commission in pricing negotiations.

- With ROROs being the worst affected. This is most likely because ROROs are generally not being sufficiently compensated for the assets that they own as they have to individually negotiate with oil companies for their return. This also highlights the dangers of an system that sets retail prices but does not effectively regulate the building blocks thereof: it is difficult to ensure that various types of retailers are adequately compensated using a methodology that is not adequately monitored and enforced.

- The pricing model needs to be congruent with the other objectives of the Act. The Act prohibits the wholesaler from operating the business and yet pricing allows wholesalers to earn a profit relating to operating the business.

- The protection of Entrepreneurial Margin in RAS margins is crucial for BEE’s who often come to the system highly geared.
Industry Transformation Challenges: Skills development

• Not all Fuel Retailers participate in Skills Development, Enterprise Development and Supplier Development.

• No standard Retailer Career Development and Leadership Development Program is in place.

• A standard Service Station Ownership Development Program in conjunction with the W&R seta is to be initiated.

• FRA is in the process of establishing an academy for retailers. With the view of improving their skills to meet the fast paced changes in the fuel sector.
Industry Transformation Challenges: Funding and high gearing of BEE

• Oil companies are encouraged to work with all relevant funding institutions into finding viable funding models that will take into account the challenges that are likely to be faced by black dealers.

• The 10 year tenure will also ensure affordable repayment of loans whilst allowing retailers to enjoy some profits from the businesses (incentive to stay).

• Banks should relax their lending rates to BEE’s in order to promote transformation
Industry Transformation Challenges: New to Retail (NTI)

- Lack of mentoring and coaching of New To Industry (NTI) sites during 1st six months of operation.
- NTI lack of financial management, financial controls and cash flow management skills.
- NTI not understanding the complexities and intensity of the petroleum industry as a regulated environment.
- No standard ownership change program for NTI in place.
- Focus on quantity vs quality of NTI fuel retailers.
- Not utilising a Standard Service Station Business model.
The challenges hindering transformation in the industry largely relate to the following areas:

- Lack of adequate training
- Enterprise development
- No punishment for failing to comply
- DoE not holding parties accountable
- Vertical integration
LEVEL PLAYING FIELD

WE ARE COMMITTED TO PRODUCTIVE PARTNERSHIPS
THANK YOU