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Not bad, Mr President – now let's swing into action

SA, rating agencies want more detail on growth plans

MARIAM ISA

PRESIDENT Jacob Zuma has made it clear that the government has finally decided to respond to pleas from business and take steps the private sector sees as necessary to pull the economy back from the brink of recession and avoid a damaging downgrade to South Africa's sovereign credit rating.

His state of the nation address on Thursday focused almost entirely on constraints to economic growth and acknowledged that the deepening downturn stemmed from domestic as well as global issues, which should be addressed through a pragmatic turnaround pact with business and labour.

However, labour got little mention in Zuma's pledges to cut government costs, eliminate red tape, make it easier to import scarce skills, and ensure that cash-strapped state-owned enterprises were streamlined, properly managed and even scrapped if unnecessary.

Some plans were not new, but business leaders said that after his crisis meetings with CEOs and Finance Minister Pravin Gordhan this week there was a sense of urgency and commitment that had been absent before.

"We are pleased that most of what we highlighted in our meeting with him on Tuesday was mentioned — that is a positive sign," said Khanyisile Kweyama, the CEO of Business Unity South Africa.

"Of course, the country and rating agencies will be looking for more detail on growth, but we commend the belt-tightening initiatives."

Standard & Poor's and Fitch rating agencies have put South Africa on the bottom rung of their investment-grade ladders, and in December S&P placed a negative outlook on its assessment, which means a downgrade is possible in the coming months.

For the first time, Zuma admitted the risk and warned that this outcome would make it more expensive for South Africa to borrow from abroad to help finance its development programmes, which would in turn hurt the poor.

Standard Bank chief economist Goolam Ballim said: "The president was deliberate and unambiguous in his opening remarks, indicating that South Africa stands at risk of being relegated to the 'second division' and would remain there for a length of time, which would have negative consequences for all." This was an "unequivocal signal" that the government was prepared to embark on serious reforms, which would hopefully be outlined in Gordhan's national budget on February 24, he said. "The substance of the president's remarks showed the extent of political licence afforded to reforms — we can wait with a sense of cautious optimism."

PLAYING BALL: President Jacob Zuma tees off at the Presidential Golf Challenge, Atlantic Golf Estate, on Friday. Cabinet ministers and other VIPs were in attendance Picture: ESA ALEXANDER

Others were more critical of Zuma's remarks, which in many places bore a striking resemblance to speeches from the National Treasury. This reinforced speculation that Gordhan may have gained the upper hand in the cabinet, as his appointment calmed financial markets after Zuma's unexpected reshuffle of finance ministers in December.

"South Africa is very good at plans. The issue is always going to be in the execution," said Alan Mukoki, the CEO of the South African Chamber of Commerce and Industry. "What would instil confidence quickly and get us off the starting blocks would be transparency about the progress we are making. No investor will take a position to do anything without adequate, understandable information about what is happening with the targets."

He pointed out that this was central to revamping the parastatals — such as Eskom — which are constraints to economic growth.

The IMF and the World Bank expect the economy to expand by less than 1% this year, which would be the slowest pace since the recession in 2009.

Zuma admitted that growth would fall well short of the 5% target the National Development Plan had set for 2019.

Water infrastructure is also deteriorating, exacerbating the impact of the drought.

Anticipated tax increases were absent from Zuma's speech. Business leaders say they expect these to be unveiled in Gordhan's budget, as part of efforts to boost flagging tax revenues and keep debt and budget deficits below dangerous levels.

They have also agreed, in discussions with the government, to the introduction of a minimum wage, which Zuma flagged in his speech. But the president said levels had not been set, and it would be implemented in a way that did not undermine employment creation, the health of small businesses or economic growth.

In a bid to stem concern about profligate spending, the president said that although plans to build several nuclear power plants remained in place, they would only proceed at a pace the country could afford.

Goldman Sachs MD Colin Coleman said: "President Zuma identified the key issues . . . he successfully captured the centrality of economic growth for job creation and the need for a partnership with business to drive an effective response. [But] specifics in many areas were . . . lacking."

More than anything, South Africa had to prepare for deep cuts to state expenditure and doing more with less, he said. "The president touched the tip of the iceberg in that respect and we look to the finance minister's budget speech for detail."

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DA seeks details of Gupta deals with Eskom

ANN CROTTY

ON Wednesday, the Competition Tribunal will meet to consider whether to approve the Gupta family's bid to acquire control of Optimum Coal.

If, as is expected, the tribunal approves the R2.1-billion deal, it will become effective immediately.

DA mineral resources spokesman James Lorimer said on Friday that given the absence of competition concerns it was understandable the transaction would be approved by the competition authorities.

"But this deal has to be looked at in a wider context. It's not just coal assets, it's the facilities at Richards Bay Terminal, it's the Eskom contracts and it's the close links with senior ANC figures."

The DA would raise the matter in parliament in a bid to ensure transparency. "The Eskom contracts are the key to this deal. We will insist that Eskom discloses the details of all its contracts."

He said the involvement of the Gupta family was troubling from the start. First a cabinet minister with a record of uncomfortably close ties with the Gupta family travels to Switzerland to assist in putting together the deal, "and now we know the deal involves 'the boss's' [President Jacob Zuma] son Duduzane", said Lorimer.

The Competition Commission has recommended to the tribunal that it approve the acquisition by Tegeta on condition that there are no retrenchments "as a result of the merger". Crucially, this condition will not prevent Tegeta from retrenching workers because of the current difficult operating conditions.

It emerged from Competition Commission papers this week that Tegeta was owned by Oakbay Investments, which is controlled by the Gupta family, and Mabengela Investments, in which Duduzane Zuma has a stake. The deal sees Tegeta buying control of Optimum Coal Mine and Optimum Coal Terminal, which has facilities at Richards Bay. The companies are being bought out of business rescue and Tegeta was reportedly the only party interested in acquiring them.

The high-profile transaction made its way swiftly through the Competition Commission process. It was filed with the commission on December 17, a week before the commission closed for its year-end break. After investigating the proposed transaction, it released its recommendation on Thursday. The tribunal will have a hearing, open to the public, on Wednesday.

The commission found that the proposed transaction was unlikely to substantially prevent or lessen competition in the thermal coal market. The merging parties are smaller players and face competition from large rivals such as Anglo American, Exxaro Coal and South32. However, the commission found the proposed merger raised public interest concerns, particularly over possible job losses, which is why it attached the prohibition on retrenchments.

Oakbay CEO Nazeem Howa welcomed the commission's recommendation and said it was good news for Optimum employees.

"Through this acquisition we have prevented a liquidation that would have seen 3 000 people lose their jobs."

Caltex's white rabbit turning red with anger

ASHA SPECKMAN

US oil giant Chevron — which plans to disinvest from South Africa — and agents operating on its behalf could find themselves before the National Consumer Commission over complaints about franchise agreements for Caltex service stations.

More than 100 fuel retailers — some of whom have been running Caltex service stations for more than 20 years — have lodged complaints with the Fuel Retailers Association of Southern Africa and some have approached the courts over franchise agreements that they claim are being unilaterally terminated.

They say they are being forced to abandon their businesses without receiving payment for the goodwill they have built up over time.

Three weeks ago, Chevron said it was looking for a buyer for its 75% shareholding in Chevron South Africa as part of a global asset-sale programme. This is intended to cut costs.

Caltex service stations are mostly run by franchisees who have either signed franchise deals directly with Caltex or with branded marketers.

In 2011, Chevron sold parcels of its retail business in various provinces to these branded marketers, who then directly leased land to retailers and took over the administration of franchises in those areas.

Some retailers have been invited to negotiations for a new franchise agreement, but they are being asked to pay joining fees ranging from R1-million to R12-million, effectively meaning they have to repurchase their franchise.

Most of the complaints have been registered by franchisees operating in KwaZulu-Natal and the Eastern Cape.

Des Smith, 65, who has been operating a Caltex outlet on the KwaZulu-Natal South Coast for 27 years, said he was determined to discover why he had not been offered a new agreement. He received a letter last month informing him that his franchise agreement would not be renewed when it expired on July 31, like many others.

> More than 100 fuel retailers have lodged complaints

He sells about 330 000 litres of petrol monthly, more than double the 150 000 litres a month he sold when he first started to operate the outlet. He employs 22 people. Smith estimates that the goodwill in the business is worth about R6-million.

Chevron South Africa said the negotiation of new contracts was standard business practice and unrelated to the parent company's potential sale of its stake in South Africa.

It said negotiations and decisions to renew contracts depended on many factors, such as performance and alignment to transformation goals.

The fuel retailers association is threatening to escalate the matter to the National Consumer Commission, claiming that Chevron's actions are in violation of the Consumer Protection Act.

This week, the association distributed a letter to branded marketers who manage fuel dealers on behalf of Chevron.

In the letter, the association accuses marketers of abusing their powers and asking exorbitant fees from dealers that they have invited to enter into new agreements.

Reggie Sibiya, the CEO of the association, confirmed it had distributed the letter. He said Chevron could be hauled before the commission.

Sibiya said Caltex branded marketers, who only have wholesale licences, were violating the Petroleum Products Act if they took retailers' sites.

"Exchange of monies in relation to buying a business is only allowed between retailers who own a retail licence issued by the Department of Energy," he said.

He said sites owned directly by Chevron were not experiencing problems.

Third-party landlords were also allegedly refusing to renew leases and wanted to take over the service station sites, without paying for goodwill, said Sibiya. The oil companies were being held to ransom and because they did not want to lose the sites they went along with the plan. All fuel retailers were affected, he said.

About 70% to 80% of the sites were not owned by oil companies but leased from independent property owners. Franchisees had no security of tenure. "More and more retailers are victims of that system," said Sibiya.

Also at risk were jobs at service stations as these may not be guaranteed under new owners.

Elias Kubheka, national motor sector co-ordinator for the National Union of Metalworkers of South Africa, which represents 15 000 members in the fuel industry, said the union would seek legal advice. "It's a difficult one we have to take up with the operator."