

MEDIA RELEASE

The Strategic Importance of the South African Oil Industry

27 September 2021, Johannesburg – The South African Petroleum Industry Association (SAPIA) commissioned a study to assess the economic impact and contribution of the oil industry to the South African economy.

The oil industry plays a strategic role in enabling and stimulating the South African economy. Says Avhaphani Tshifularo, SAPIA Executive Director, “Our industry is pivotal to the growth, investment and employment of the whole economy”.

The economic impact study conducted by FTI Consulting showed that the direct contribution to the South African economy in 2019 was the following:

- R139 bn to GDP (2,7% of GDP in 2019)
- 171,358 jobs (1,1% of employment in 2019)
- R55 bn in capital expenditure
- R152 bn in operating expenditure
- R121,3 bn in tax generated and collected
- R1 bn of social investments

The oil industry has the second highest multiplier effect on GDP, compared with other industries in the South African economy. For every R1 contributed directly to GDP, a further R1.59 is supported elsewhere in the economy. The industry supported 1.5% of country total employment - for every 1 job created in the industry, a further 1.52 jobs are supported elsewhere in the economy. The industry contributed R94 billion in capital expenditure and R197 billion in operating expenditure. For every R1 million of capital investment, the industry adds another R1.2 million to GDP.

South Africa has a well-developed downstream industry involved in importing, producing, and distributing petroleum products for its domestic and regional markets. The industry was directly responsible for the supply of about 35 billion litres of petroleum products to these markets. During 2019, six refineries were operating with a total installed capacity of 718.000 bpd, processing and transforming crude oil, natural gas and coal into petroleum products.

The industry transports crude oil and petroleum products around the country through pipelines measuring 3800km operated by Transnet Pipelines and supplies jet fuel to South Africa's main airports. It operates over 5000 retail services stations supplying customers across the country with petrol and diesel.

The domestic supply is reshaping and could reset the security of supply balance between domestic production and imports. The release by the Department of Mineral Resources and Energy (DMRE) on the new regulations regarding Petroleum Products Specifications and Standards which were gazetted repealing those published under the Government Notice No. R. 627 of 23 June 2006, means that important decisions need to be made on whether domestic refineries will be upgraded to meet these

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regulations. This will have a direct impact on employment and a larger dependency on imports which both impact the South African economy.

A further consequence of the regulations mean that tens of thousands of jobs will be placed at serious risk. This includes not only jobs in the refineries themselves but also in the industries associated with the refineries – those that supply services to the plants and those that rely on the production of specialty products from these plants.

The Petroleum Products Specifications and Standards mandate the use of ultra-low sulphur petrol and diesel products from the 1 September 2023. SAPIA is of the view that the very short time frame provided for implementation is impossible to meet and will likely render the refinery fleet obsolete within two years, making South Africa largely dependent on imports for its petroleum products requirements. This is going to raise considerable questions about the security of supply of products and worsen the trade balance.

SAPIA is presently in the process of consulting with the DMRE for them to amend these regulations so that a mutually acceptable and possible implementation date is obtained. These consultations will also include obtaining a suitable financial framework to promote the necessary investments to upgrade the refineries. Without a financial support mechanism, it would be difficult to justify the refineries' upgrades.

The industry is evolving and faces uncertainties. Every aspect of the industry is changing – demand, supply, emerging technologies and environmental regulation and policy. Says Tshifularo, “SAPIA and our membership are committed to playing our part in society now and into the future as we adapt to this evolving environment.”

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About SAPIA:

SAPIA represents the collective interests of the South African petroleum industry and plays a strategic role in addressing a range of common issues relating to the refining, distribution and marketing of petroleum products, as well as promoting the industry's environmental and socio-economic progress. SAPIA fulfils this role by contributing to the development of regulation in certain areas of South African policy; proactively engaging with key stakeholders; sharing research information; providing expert advice; and communicating the industry's views.

For more information, please contact:

Cindy-Lee Maneveld

Head: Advocacy, Engagement and Communication

Mobile: 066 423 2319

Email: heac@sapia.co.za