

# bulletin.

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## Message from the CEO



>BUSA CEO Jerry Vilakazi

The formation of BUSA in November 2003 created the first and largest national representative body that speaks on behalf of employers in South Africa, and internationally. In large measure, it is BUSA’s broad-based and diverse membership that gives the organisation credibility with government and its social partners to represent South African business and to ensure that it plays a constructive role in achieving our national economic, development and transformation goals. It is a known fact that prior to the unification of black and white business, organised business to all intents and purposes was disjointed and served sectional interests. The launch of BUSA was therefore applauded as a major milestone in our journey to create a truly non - racial society. Both locally and internationally for the

first time business could speak with one voice and work towards a common purpose.

The diversity of BUSA’s membership, however, brings with it certain challenges that have to be recognised and managed if the organisation is to serve all its constituents and the different sectors that they represent. On most issues, BUSA can present unified positions that enjoy the support of all its members. There are certain issues, however, where this is simply not possible. On such occasions, we have to recognise that the business world is competitive by nature and that organisations such as BUSA, and indeed its members themselves, are founded on the principle of “unity in diversity”. In anticipation of this, the BUSA Constitution specifically provides for recording of minority views where there is no consensus on issues. It is therefore my view that we will continue to record divergent and minority views where such emerge, especially when submitting comments on policy matters to government. While we strive for consensus, sometimes we just have to accept that, after extensive discussions and consultation, the best we can do is to express a majority position, together with the minority views of certain

member organisations. This, I believe, is a sensible course of action. If BUSA is to retain the confidence of its members, and the business constituency as a whole, it needs to ensure that the strongly held positions of all its members are entered into the policy debates. A former American diplomat once described democracy as a hard core of common agreement, surrounded by a rich variety of individual differences. BUSA is the same. We all hold in common certain core principles and values but have room to share – and be enriched by – individual views on matters of detail.

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A case in point has been the processes to formulate a BUSA submission on the draft second phase of the BBBEE Codes. While we reached consensus on the majority of issues, there were areas where members held divergent views. These have been recorded as such in our submission that has been presented to the Department of Trade and Industry. The Codes will have a significant impact on the business environment and it is crucial that we make sure that the views of all the sectors of our economy are made clear. We must, therefore, ensure that the Minister and

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his Officials appreciate the different views held by BUSA's constituents, so that they can take account of these in the processes to finalise the Codes. BUSA has invited the Minister of Trade and Industry to participate in a roundtable discussion with the members who, because of the particular needs of their sectors, hold divergent views on the Codes so as to afford them the opportunity to make their positions, and their underlying reasons, clear. This meeting will take place shortly.

Another issue that requires the collective response of business in South Africa is the capacity of organised business in our country to serve business. My assessment of the resources of BUSA and a number of its member organisations leaves me with the conclusion that if compared to similar economies, South African organised business will rank among the least resourced. The lack of resources has a direct impact on the capacity of organised business in South Africa to serve its members. Some of our critical member organisations continue to struggle to meet their membership fee commitment to BUSA. In a normal business environment, members who are not paying their dues would lose their membership. However, in our environment where access to resources still reflects the legacy of the pre-1994 racial exclusion of blacks in the economy, such a move would amount to racially fragmenting business. I will welcome members' input and comments on the issue of resourcing organised business in South Africa. I believe that South Africa needs a new approach to funding organised business. At some point in time organised business must be prepared to emulate the political miracle of 1994 and truly shed its structural remnants of the past. To this end, I have initiated a process to inform the BUSA membership on this matter.

**Jerry Vilakazi**

# Chemical and Allied Industries' Association

The Chemical and Allied Industries' Association (CAIA) was established in 1994 to promote a wide range of interests pertaining to the chemical industry. These include fostering South Africa's science base; seeking ways to promote growth in the sector; promoting the industry's commitment to a high standard of health, safety and environmental performance; and consulting with government and other role players on a wide variety of issues. Membership is open to chemical manufacturers and traders as well as to organisations which provide a service to the chemical industry, such as hauliers and consultants.

CAIA is the South African custodian of the international Responsible Care initiative, which has been adopted by 52 countries worldwide. This is a key component of the work of the Association. CAIA obtains guidance on the implementation of the initiative through its principal, the International Council of Chemical Associations (ICCA). Over 100 members are now signatories to Responsible Care in South Africa.

Responsible Care is an initiative of the global chemical industry in which companies, through their national associations, commit to work together to continuously improve the health, safety and environmental performance of their products and processes, and so contribute to the sustainable development of local communities and of society as a whole. It encourages companies and associations to inform the public about what they make and do, about their performance, including reporting performance data,

and about their achievements and challenges.

An important aspect of the Responsible Care initiative is independent verification of compliance. To promote this important aspect the CAIA Board has earmarked funds specifically for the auditing process. This will ensure that members are doing what they say they are doing and improving year-by-year. The drive is for Responsible Care to be extended to suppliers of chemicals. A number of transport companies are already signatories. This will be extended to chemical company customers and service providers.

CAIA promotes a proactive relationship with government, particularly the Departments of Trade and Industry, Environmental Affairs and Tourism, Water and Forestry, Education, Labour, Science and Technology. Government has produced an integrated manufacturing strategy in which chemicals is one of six sectors covered that has a major role in the economy. This is soon to be debated in a Chemical Sector Summit involving labour, government and the CAIA.

CAIA's advocacy efforts are primarily channelled through Business Unity South Africa (BUSA). A further aspect of external relationships is communication with the general public and various NGO's.

CAIA has formed a close relationship with the Chemical Industries Education and Training Authority (CHIETA) to identify those skills required in the industry, to develop learnerships and to help integrate learners into the industry.

## > European Union (EU) Southern Africa Business Trade Forum Task Team

A Task Team met in Gaborone, Botswana, from 6 – 7 April 2006 to workshop an EU proposal to establish a Business Forum that would focus on trade related issues pertaining to the Southern African Development Community (SADC) Economic Partnership Agreement (EPA). In essence the EU business community wanted a structure based on the experience of the EU – Mercosur Business Forum. Some specific proposals regarding a Business Trade Forum – EU Southern Africa (BTFES) were formulated and will be considered by the appropriate business organisations / communities in the EU and in SADC.

Friede Dowie represented BUSA at this workshop and the other business representatives from the region were from SADC based regional business organisations, namely the Southern African Confederation of Agricultural Unions (SACAU) [the person who is the current President of the SADC Business Forum] and the Association of SADC National Chambers of Commerce and Industry (ASCCI) plus a private sector consultant. It is the intention that they will form the core of the SADC business representatives on the Task Group that will take this matter forward and that they will eventually play a co-ordinating role in steering the work of the BTFES.

## > India Brazil South Africa (IBSA) Inter-Ministerial and Inter-Governmental Meetings

BUSA CEO Jerry Vilakazi, Lebogang Montjane and Friede Dowie represented BUSA at this round of meetings which was held in preparation for the IBSA Summit to be held in September 2006 in Brazil. In essence all the meetings were inter-governmental and the session which was originally termed a “Business Forum” was transformed into the first IBSA Trade and Investment Forum under the auspices of the three governments as distinct from the IBSA Business Council which was established in 2005. (In fact, the governments of Brazil and South Africa (SA) proposed that the IBSA Business Council should be abolished in favour of the Trade and Investment Forum.)

The SA government delegation was led by the Minister of Foreign Affairs and the officials’ delegation was led by the Director-General of Foreign Affairs, Dr Ntsaluba. The delegations from Brazil and India were likewise led by their Ministers of External Affairs but, save for the Trade and Investment Forum where business from Brazil was in attendance, there were no business representatives from Brazil and India.

With a view to progressing the work of IBSA a number of Focus Groups have been established and it is the intention to fast track delivery by ensuring that projects are in place by the time the Summit is held in September.

A process has been set in motion to ensure that business plays an appropriate role vis-à-vis these Focus Groups which, inter alia, cover the following:

- Trade and Investment;
- Science and Technology;
- Information and Communications Technology (ICT);
- Energy;
- Transport;
- Social Development;
- Health;
- Education; and
- Defence.

## >The World Bank Private Sector Liaison Officers(PSLO) Network

The Private Sector Liaison Officers (PSLO) Network is a network of business intermediary organisations working to foster trade and investment between countries with the support of World Bank Group’s products and services. The network, which includes 42 countries, was launched in Europe in 1999 as a joint World Bank, International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) initiative.

This network consists of liaison officers that facilitate local companies’ access to the World Bank Group business opportunities, services and knowledge. Trained by the World Bank, the PSLOs disseminate information about business opportunities (e.g. procurement) within the World Bank, facilitate contacts between local companies and the World Bank Group, organise consultations on development issues of interest to the private sector and provide information on the World Bank’s knowledge resources and partnership opportunities.

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Ms Deidre Penfold (SACOB) and Ms Nwabisa Matoti (BUSA) have been nominated to represent South Africa on the PSLO network.

The first retreat for the year was held in Johannesburg and Maputo (Mozambique) from 27-31 March 2006. The retreat started off with a presentation from Ms Ritva Reinikka, World Bank Country Director for South Africa, Namibia, Botswana, Lesotho and Swaziland. She outlined the World Bank's activities in Southern Africa and also talked about the 2004 Investment Climate Assessment (ICA) for South Africa which concluded that while investors were generally positive on South Africa's investment climate, worker skills, labour regulations and crime remained the major obstacles to increasing investment.

Mr Nigel Twose and Mr Gilberto de Barros from Foreign Investment Advisory Services (FIAS) made a presentation on doing business in Africa and emphasised the fast pace at which African countries were undertaking business-friendly reforms to increase investment. Mr Richard Ranken from the IFC provided an overview of the IFC's programmes in Sub Saharan Africa (SSA) and highlighted the IFC's commitment to increasing investment to \$900 million per year by 2008 in the Africa region. Priority sectors for this investment were Financial Markets, Infrastructure, Oil, Gas, Mining and Chemicals, Health, Education and Agribusiness.

Mr Rubin Japhta from the International Finance Corporation (IFC) Private Enterprise Partnership for Africa (PEP Africa) talked about the planned technical assistance programmes for Africa which would aim at improving the business environment, mobilising investment proactively and enhancing SME

development. Mr Kogan Pillay from the National Treasury described the South African model for Public Private Partnership (PPPs) aimed at strengthening private investment in public infrastructure and service delivery. Mr David Bridgman from Multilateral Investment Guarantee Agency (MIGA) gave an outline of services that MIGA provided, i.e. technical assistance for investment promotion, on-line investment promotion tools, political risk insurance and mediation. He indicated that MIGA's new focus in SSA would be on infrastructure in post-conflict or "frontier" countries.

On the Maputo leg of the retreat, Mr Rafique Jusob from the Mozambique Investment Promotion Centre (CPI) provided an overview of the investment opportunities in Mozambique. These included fisheries, hydro stations, timber, tourism and large regional initiatives such as the various development corridors linking Mozambique with its neighbouring countries. Mr Michael Baxter, World Bank Country Director for Mozambique, Angola, Malawi, Zimbabwe and Zambia, gave an overview of the World Bank Group's activities in Mozambique. These included lending for infrastructure, education and health, public sector modernisation and decentralisation, private sector and industrial development.

Mr Tunde Onitiri from the IFC described the portfolio of the IFC in Mozambique which totalled \$154 million in committed funds and included 14 projects in agribusiness, the hotel industry, banking and general manufacturing (six of these projects were in the SME sector). The IFC's main initiative in the country had been the Mozal aluminium smelter for which IFC support totalled \$145 million over the

two phases of the project and included the structured SME linkages programme to expand Mozal's sourcing to local firms.

The retreat was concluded with a presentation by Mr Slaheddine Ben-Halima, World Bank Senior Procurement Specialist for Southern Africa. He provided an overview of procurement in World Bank financed projects in the Southern Africa region and indicated his availability to carry out procurement seminars for companies upon request of the PSLOs in the region. The South African PSLOs are in the process of arranging a procurement seminar for South Africa.

## >295th Session of the ILO Governing Body

BUSA COO, Vic Van Vuuren, attended a meeting of the International Labour Organisation (ILO) Governing Body at the end of March. The International Employers Organisation (IOE) provided the following report on this meeting.

"Change" was an underlying theme of this session of the Governing Body. For sometime now the Employers' Group has been pushing the view that the ILO needs to rethink the way in which it works if it is to remain credible and relevant in the future, particularly to employers. Previous debates on Governing Body and International Labour Conference reform have failed to ignite consolidated support from amongst governments in the face of Workers' Group resistance.

This session, however, saw a strong shift in at least governments' engagement in these issues. A Working Group on Conference Reform met for the first time

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with the employers and governments sharing many ideas on how to revitalise the working methods and content of what is the ILO's premier policy-making body. This concurrence of views augurs well for future reform discussions and may hopefully realise improvements that can be quickly introduced into forthcoming conferences.

Governments appear to have reached a point where they are not going to back away from the need to effect improvements and will no longer simply accept "no" as an answer.

Similarly, reform is on the agenda of the Employers' Group within the Committee on Freedom of Association, the Conference Committee on the Application of Standards and, more generally, within all committees of the Governing Body in the ongoing push to improve the governance role of the Governing Body.

Too often, in the lengthy agendas of the various committees, decisions are not clear, follow-up is uncertain and responsibility for action is not properly delegated. This can leave the Office without a clear sense of what is required of it or what the Governing Body expects.

Efforts are now being made to ensure that, at the end of each debate, the key issues and action points are clearly addressed in the reports to the Governing Body, thereby providing the clarity of action such decisions require. This has proven particularly effective recently in the work of the Multinational Enterprises (MNE) Subcommittee and now within the Employment and Social Policy Committee. This clarity also helps in developing a strategic approach to the work of the committees and the information exchange with the Office.

Change is never easy, but it now appears that the need for change is more widely understood, which will be helpful in taking these issues forward in subsequent sessions.

An important issue remains – that of trying to keep the ILO focused on its mandate. Changes within the UN more generally and other efforts to take the ILO debates beyond its constituents pose particular challenges. Throughout these discussions the Employers' Group continues to emphasise that the ILO needs to be developing and delivering an agenda that meets the needs and expectations of its constituents and that its resources – which are limited - are used in areas where the ILO can have the most impact on issues relating to the world of work. The ILO is a specialised UN agency with a clear focus and mandate. This specialisation needs to be understood in wider reform debates as the ILO is not like the United Nations Development Plan (UNDP) or United Nations Conference on Trade and Development (UNCTAD) that have a more general development role. Its focus needs to be where its constituents are drawn from – namely, the workplace.

This is particularly true when the Decent Work Country Programmes (DWCPs) are discussed. Whilst focusing on local needs is positive, we need to ensure that the local debates themselves remain rooted in the ILO's mandate and do not result in ILO resources being diverted into wider development agendas, no matter how worthy they may be. At the heart of the success of these DWCPs is the development of strong social partners. The resources of the Office must be used to support the social partners to ensure that the needs of their members are reflected in the DWCPs and that they are then able to participate fully in implementation and play the important national role of serving their members.

## BUSA Opinion Piece



>Colin McClelland Director of SAPLA

## Shortages of Jet Fuel, Petrol & Diesel – December 2005

***BUSA invited South African Petroleum Industry Association Director Colin McClelland to write this month's Opinion Piece. Mr McClelland writes:***

In agreeing to write on this subject for the BUSA Newsletter I was conscious of the Minister of Minerals and Energy having appointed Advocate Moerane to head an investigation into the very matter. I had hoped that the outcome of the investigation would have been known by the time this review appeared so that I could have drawn on its findings – rather than running the risk of being accused of attempting to anticipate these findings.

I would thus like to make it very clear that my comments here are my own personal observations based on my experiences in December 2005 and on the information that was available to

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me at time and which I used in my various media interviews. When the Moerane Investigation issues its report in late May or June the Nation will then have available a full analysis of what happened.

In the meanwhile, to me the nub of the December problems was that all the refineries in South Africa had, in a very short period of time, to shut down in order to make major plant modifications in order to produce the cleaner fuels that were being introduced in January 2006.

In one way or another each of these shutdowns was bedevilled by delays – in the case of Cape Town where the supply problems were the most serious – some of the troubles stemmed from a major power failure in November. Whilst the oil companies had arranged imported product to cover the expected shutdown time – they did not adequately allow for the added delays.

On Friday, 9 December it became clear that serious supply problems were very likely, and SAPIA put out a media release advising the nation of this.

On 10 December the Cape Town International Airport had to close because of a lack of jet fuel. This happened because the batch of fuel due to be sent to the airport that day proved to be off specification – and there were no other supplies available. In aviation there is no question of using off specification product and hoping for the best.

Taken together these two events, the Sapia media release and the high profile airport closure linked with the imminent festive season holidays resulted in the motoring public embarking on a massive panic buying

spree. The result of this was similar to “a run on the bank” and the outcome was widespread stock outs at service stations.

The irony of this was that by the time this happened the various refineries were all back in production. The new plants did suffer some further teething troubles which gave the industry anxious moments, but the situation gradually normalised through January 2006.

There was a further problem in the inland areas in late January 2006. This was as a result of a problem at one of the inland refineries.

A joint “Logistics Planning Team”, chaired by the Department of Minerals and Energy was set up to deal with the December crisis – and this team met every day through December and most of January – even meeting on Christmas Day. I must express the thanks of SAPIA to those involved in ensuring that all South Africans were able to reach their holiday destinations.

I need to draw attention to what is to me a more significant matter than the December shortages.

This is that the growth in demand and the effect of producing cleaner fuels – in effect this reduces refinery production capacity quite a bit – has meant that it now very difficult for the industry to move sufficient petroleum product into the inland areas. The capacity of the petroleum products pipeline is to be increased – but only in 2010.

The industry is dealing with this by added road and rail supply, and by looking at options such as re-opening the Maputo supply lines into the lowveld of Mpumalanga.

A Ministerial Team consisting of all stakeholders involved in the supply chain has been set up to find satisfactory solutions to keeping the industrial heartland of South Africa supplied – and thus allowing ASGISA to reach its goals.

Let me close by saying that I am convinced that the industry – and the other role players in the supply chain - will find ways of ensuring that the fast growing demand for fuel in the inland areas will be met.

Perhaps it is worth saying that the issue is nothing to do with refinery capacity – it is usual to import refined product on some scale before expanding refinery capacity so that the new capacity comes on stream at a reasonable utilisation rate – but with the ability to move product from the coast into the industrial hinterland.

*The industry – and the other role players in the supply chain - will find ways of ensuring that the fast growing demand for fuel in the inland areas will be met.*

### Queries / Feedback

*The Communications Team would like to encourage members to continue giving feedback regarding the Bulletin. Please send us your views by calling 011-784 8000 or email [busa@busa.org.za](mailto:busa@busa.org.za)*

Economic Commentary: Has the inflation target been defined correctly? – Jac Laubcher Sanlam

The statement issued by the Reserve Bank after the last Monetary Policy Committee meeting gave the impression that the committee was itching to pull the trigger and increase the repo rate.

The opening sentence was as follows: “Strong consumer demand and rising international oil prices continue to pose a threat to the inflation outlook”. And in the closing paragraph it was stated, “the MPC perceives the risks to inflation to be on the upside”. The sharp increase in credit, consumer demand, the growing deficit on the current account of the balance of payments and higher oil prices were specifically mentioned.

The conclusion to which the MPC came was nevertheless to keep the repo rate unchanged in the light of the current favourable inflation outlook. The Bank after all does expect CPIX inflation not to exceed 5 percent until the end of 2008 which is well within the target range of 3 - 6 percent.

One therefore gets the impression that in a sense the favourable inflation outlook, *relative to the target range*, was not welcome, as it prevented the Bank from doing what it thought fit, namely to increase the repo rate. Opponents of inflation targeting as a monetary policy framework, owing to the alleged resultant inflexibility in policy making, will argue that this justifies their point of view. According to them central banks should also take into account objectives and conditions other than just a numerical inflation target.

But perhaps the question is whether the inflation target has been defined correctly if it results in sub-optimal policy decisions. In the past I have consistently advocated a point target, with a permissible deviation to either side, as in the case of the Bank of England. A point target will assist in focusing policy deci-

sions and inflation expectations more effectively than the current broad range. However, it appears that government is not in favour of this proposal. But what about the width of the target range? Should it not be narrowed?

The current target range of 3 to 6 percent is so wide that one could turn the proverbial ox wagon around in it. An inflation rate of 3 percent can in no way be regarded as being equivalent to 6 percent. In the current international context 3 percent inflation is relatively low, whereas 6 percent is relatively high, and they require different policy stances.

Consequently the wide range results in a lack of focus in monetary policy, as was essentially evident in the recent statement by the MPC. The solution is obvious: narrow the target range by lowering the upper limit from 6 to 5 percent as a first step.

A CPIX inflation target range of 3 to 5 percent will in fact be nothing new. After the target range had been set at 3 to 6 percent with the introduction of inflation targeting in February 2000, it was reduced to 3 to 5 percent for 2004 and 2005 in the Medium Term Budget Policy Statement in October 2001. The reduction proved to be premature, as the inflation target had not yet been reached at that stage, and it was short-lived - the sharp decline in the rand exchange rate at the end of 2001 compelled the government to suspend the 3 to 5 percent target range after only one year.

A narrower target range will also bring South Africa closer to accepted international practice. According to the IMF's World Economic Outlook of

September 2005, only Brazil has a wider range than South Africa, with an inflation target of 4, 5 percent (+/- 2, 5 percent). Of the 21 emerging and developed countries mentioned in the IMF article, 11 have point targets. Furthermore, the majority allows a deviation of one percentage point at most to either side of the central value of their target range.

As far as the upper limit of the target range is concerned, South Africa finds itself in the company of only the Philippines (6 percent) and Brazil (7 percent), while 16 countries have an upper limit of at most 4 percent, and a midpoint of 3 percent or less for the target range.

The question is whether lowering the target range to 3 to 5 percent would have a material influence on Reserve Bank decision-making. CPIX inflation has been within the current 3 to 6 percent target range for an uninterrupted period of 31 months, and in fact would have been

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within a 3 to 5 percent target range for 30 of the 31 months. The average CPIX inflation rate during this period was 4 percent, with a standard deviation of 0,5 percent.

A target range of 3 to 5 percent is therefore achievable and would not necessarily imply tighter monetary policy as it is still in line with the Reserve Bank's inflation forecast for the next three years. It will nevertheless send a strong signal that the policymakers will not allow the past 3 years' progress towards lower and more stable inflation to be undone.

However, to the extent that it would increase the risk of exceeding the upper limit of the target range, it would mean that the Reserve Bank could increase interest rates sooner in order to combat this risk - as the Bank seems keen to do.