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Message from the CEO

Earlier this month we were pleased to welcome Minister Geraldine Fraser-Moleketi to our offices in Sandton for the formal presentation of BUSA's submission on the African Peer Review Mechanism (APRM). As organised business, we have strongly supported the aim of the APRM to foster the adoption of policies, standards and practices that will lead to political stability, high economic growth, sustainable development and accelerated regional and economic integration. The Minister indicated her appreciation of the seriousness with which BUSA has participated in the APRM process and also thanked us for the high level of our contribution.

I believe that this broad review of our country's performance will assist us in achieving our collective goals of a 6% growth rate and halving unemployment in South Africa by 2014. One of our key challenges is to identify clear constraints to higher economic growth and then to find pragmatic solutions that will reduce barriers to growth. The APRM will assist in identifying such constraints.

BUSA is actively engaging with several of the researchers who are finalising South Africa's country report. It is important that this report have the support of all sectors of our society, including business. We have raised certain concerns about some of the statements made in the draft report with the Minister and she has assured us that

these will be addressed in the final version of the document. The Minister is adamant that the report will be totally credible and will hold up under any type of scrutiny.

It is also important that business plays a key role in the development and implementation of the action programmes that will flow from the APRM and BUSA is also engaging with government on these. Duplication in the implementation phase must be avoided and suitable use should be made of existing structures such as NEDLAC where appropriate.

Once more, South Africa was honoured to host the World Economic Forum African Summit at the end of May and beginning of June in Cape Town. This premier event in the African calendar saw eminent business leaders, politicians and other key stakeholders from within and beyond the continent engage on how to accelerate the growth of Africa's economy. Participants at the conference were optimistic and confident that Africa has passed its worst times and is on its way to growth and development.

BUSA representatives attended a roundtable hosted by the Minister of Labour, Membathisi Mdladlana, on 11 May 2006 and discussed the impact of labour laws on job creation and small business. More information on this meeting is given later on in the Bulletin. Later in June we will be participating in further high level

discussions with the Minister on this subject.

In early May, a BUSA delegation met with Minister Mpahlwa, Minister of Trade and Industry, under the leadership of BUSA president Patrice Motsepe. The dti welcomed BUSA's input on issues contributing to economic growth.

The protracted strike in the security sector has been very concerning. BUSA took a public stand on the strike which was widely reported in the media. In addition to the harm the strike is causing the economy it has served to exacerbate an already tense situation which has seen lives lost, persons injured and considerable destruction of property. We hope for a speedy agreement by the parties involved.

In an effort to achieve open communication between business and Eskom, Thulani Gcabashe, CEO of Eskom, will speak at a series of meetings with BUSA members in June. Eskom is also featured on page 5 in the BUSA Opinion Piece.

I would like to take this opportunity to congratulate BUSA vice-president Futhi Matoba on her appointment to the Board of the United Nations Global Compact, where I'm sure she will continue to serve with the outstanding diligence she continues to display in her service to business and to our society.

Jerry Vilakazi

Business Leadership South Africa



>Business Leadership CEO Michael Spicer

In this month's issue BUSA features Business Leadership South Africa, formerly known as the South Africa Foundation. Business Leadership is an association of South Africa's largest corporations and major multinational companies that have a significant presence in South Africa. These companies are represented on Business Leadership's Council at the level of Chief Executive or Chairman.

Business Leadership is the independent voice of South African business leadership which promotes the interests of South Africa and its people, as well as the direct interests of its members. Business

Leadership believes that various elements are central to developing a successful business environment within South Africa, and its key motivations are:

- ❑ Business leadership has a collective duty to contribute to the process of policy making on national and international affairs.
- ❑ The goal of all members is for South Africa to have a strong, independent private sector, operating within a market-oriented economy. Members believe that this is an essential feature of any successful, free and democratic society.
- ❑ The development of human capital and the raising of income levels are essential in building a successful nation.

Business Leadership seeks to formulate and express coordinated views on macro-economic and other national issues, as well as to promote the interests and further growth of South Africa's private sector, both domestically and internationally. It strives to

promote enterprise development and an environment conducive to the conduct of business within a democratic society, where the social goals of employment creation and poverty alleviation are as important as economic growth.

One of Business Leadership's main activities, through the activities of its members, is to foster relationships between South Africa and the rest of the world, in the belief that these relationships will improve opportunities for South Africa as well as for the entire Southern African region.

The Chief Executive Officer of Business Leadership is Michael Spicer. Prior to being appointed to this position, Mr Spicer was an Executive Vice President at Anglo American plc and an Executive Director of Anglo American South Africa. Mr. Spicer remains on the Board of Anglo American South Africa in a non-executive capacity and continues to be Chairman of Vergelegen Wine Estate. He also sits on the Boards and Councils of a number of other business bodies, such as the Business Trust and the National Business Initiative.

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>Consumer Protection Bill

BUSA previously engaged extensively with other stakeholders in NEDLAC on the Consumer Protection Policy and now welcomes the opportunity to comment on the Consumer Protection Bill.

BUSA supports government's plans to legislate to protect consumers. However, a balance must be maintained between consumer protection and the national economic imperatives in order to increase sustainable economic growth and create employment. Due to the limited timeframe afforded to parties to comment on the Bill, it was not possible for BUSA to include suggested

alternative drafting in respect of certain sections of the Bill. BUSA is, however, keen to engage with the Department of Trade and Industry (dti) with a view to making alternative proposals in respect of the manner in which certain sections of the Bill have been drafted and the approach that has been adopted regarding certain issues.

The primary difficulty with the current Bill is that some sections overlap with the provisions of existing legislation. The Bill is replete with sections that impose obligations or create rights that are already imposed, or created, by existing legislation. In certain respects, the duplication causes unnecessary friction and conflict between the Bill and existing legislation and gives rise to uncertainty and ambiguity in so far as

interpreting the Bill is concerned.

The Bill introduces significant and material obligations on primarily the suppliers of goods and services in South Africa. When viewed holistically, the aforementioned obligations amount to the imposition of severe economic and financial burdens on medium and small businesses. In addition, the introduction of the administrative structures, contemplated in the Bill, will contribute significantly to additional regulatory obligations that must be fulfilled by suppliers.

BUSA is of the view that the extent to which the Bill imposes significant additional burdens on business it is out of line with the commitment in ASGISA to reduce the

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cost of doing business.

In view of the potentially high cost of implementing this legislation for both government and business, BUSA has requested that this Bill be subjected to a Regulatory Impact Assessment, as envisaged in ASGISA for all new legislation.

The complexity of the Bill in respect of the language that it uses and the administrative structures that it creates do not further the very issue with which the Bill is purportedly concerned – consumer rights. The layperson will be confounded by the length of the Bill, the legalese with which the Bill is replete and the number of administrators who will be tasked with administering the Bill and championing consumer rights.

BUSA is particularly concerned about the extensive legislative and regulatory duplication in the Bill when considered in the context of current South African legislation and the numerous conflicts that exist between this Bill and other existing pieces of legislation. BUSA has therefore recommended that before proceeding further with this Bill, detailed engagements should be held by the dti with other government departments. BUSA also engages with other government departments and will be raising concerns on this Bill as part of ongoing discussions.

BUSA is looking forward to constructive and meaningful engagement in NEDLAC and trusts that ultimately a Bill, which achieves the objectives of consumer protection without compromising achievement of the ASGISA goals, will become law.

The detailed BUSA submission on the Bill can be accessed on the BUSA website.

> Ministerial Discussion on the Impact of Labour Laws on Job Creation and Small Business Development

On 11 May the Minister of Labour hosted a Ministerial Roundtable discussion on the impact of labour laws on job creation and small business development as part of the ASGISA processes.

The roundtable was facilitated by Professor Eddie Webster. Delegations from BUSA, labour and the community constituency were present, as were a number of academics, journalists and researchers. Representatives from the Office of the President were in attendance, including Mr Joel Netshitenzhe. The Chairpersons of the Parliamentary Portfolio and Select Committees on Labour were present.

The roundtable was opened by the Minister of Labour. The Minister gave some background on the decisions that had led to the roundtable. He stressed that its focus was on small business development in line with the Cabinet decision that the regulatory environment should be reviewed so as to develop small businesses to stimulate economic growth. He also indicated that some “tweaking” of the legislation might be required to remove unintended consequences that could be impeding small business development and job creation.

The theme of the morning session was labour market policies and small business development. Research papers

by Halton Cheadle on the LRA and its impact on the growth of SMMEs and by S Godfrey, J Theron and J Maree on bargaining councils, exemptions and small business development were considered.

The theme for the afternoon session was labour market policies and their impact on job creation. A research paper by Paul Benjamin on the regulatory efficiency of the CCMA and Patrick Deale’s paper on dispute resolution under the LRA were considered.

The Minister then closed the proceedings. He advised that his Department would formulate proposals based on the day’s discussions. The subject would be discussed further at a high-level leadership meeting to be held at the end of June. He stated that it appeared to him that all the parties were in agreement that the fundamental framework of the law was correct. The Minister agreed with the sentiment expressed by a number of the presenters that implementation and enforcement of the laws needed to be improved. In this regard, the Department would shortly be subject to a major overhaul and matters such as the shortage of inspectors would be addressed.

> BUSA Vice – president nominated as United Nations (UN) Global Compact member

BUSA would like to congratulate BUSA vice - president, Ms Futhi Matoba, Chairman of Deloitte, on her appointment to the Board of the United Nations (UN) Global Compact, the world’s largest voluntary corporate citizenship initiative.

Ms Mtoba is one of a select group of 20 business, labour and civil society leaders

from around the world who have been appointed by the United Nations Secretary-General, Kofi Annan.

Launched in 2000, the UN Global Compact brings business together with UN agencies, labour, civil society and governments to advance principles in the areas of human rights, labour standards, the environment and anti-corruption. More than 2500 companies in over 90 countries participate in the Global Compact.

The Global Compact Board will meet once a year, with the inaugural meeting taking place at the UN Headquarters in New York later in 2006.

> 4th session of the African Union Labour and Social Affairs Committee

The 4th session of the African Union Labour and Social Affairs Committee was held in Cairo, Egypt, from 22-27 April 2006. BUSA COO Vic van Vuuren attended the first three days of the conference as part of the South African tripartite delegation, also forming part of the Pan African Employers Confederation representing organised business in Africa.

The Chairperson's report included the following headings:

- Special Technical Committee (STC)
- Draft Strategy Framework for a Policy on Migration
- Social Welfare

The AU Extraordinaire Summit on Employment and Poverty Alleviation in Africa adopted (September 2004) a Declaration, Plan of Action and Follow-up Mechanism, calling for commitment by member states to place employment at

the centre of economic and social policies and endorsed an eleven point plan to achieve this goal.

AU member states tasked the AU Commission - through the Department of Social Affairs - to develop a Social Policy Framework to assist members in carrying out Africa's vision of social policy. A draft was tabled at the meeting for consideration. The processes recommended in the document to advise, and assist with implementation and monitoring were said to be "far too cumbersome, ambitious and costly". The AU office was asked to go back to the drawing board and produce a more concise and relevant framework document for consideration.

The African Centre for Applied Research and Training in Social Development (ACARTSOD) works very closely with the African Union Commission but remains an independent body. Discussions are under way to see if ACARTSOD should work as a specialised agency of the AU.

Key projects undertaken by ACARTSOD include the following research themes:

- Social development in Africa
- The impact of migration from North and Sub Saharan Africa through Libya to Western Europe
- Regional Economic Groupings
- OAU - 40 years of conflict management
- Integrating information and communication technology into educational curricula in Africa
- Problems and challenges facing the African child soldiers, refugees and displaced persons in the changing world

- The social Impact of HIV/AIDS on African countries

While South Africa is not a member, Zimbabwe and Lesotho serve on the ACARTSOD board.

The African Rehabilitation Institute (ARI) is dedicated to the equalisation of opportunities for persons with disabilities and their full participation in the activities of their societies, communities and countries at large. ARI is experiencing financial difficulties due to member states not paying their contributions.

The Supreme Council for Sport in Africa (SCSA) participated in a meeting in May 2005 of the International Olympic Academy Olympic Truce session. This session was held in Greece and enabled participants to look for ways and means to make sport contribute to conflict prevention, peace and development as part of the international year of Sport and Physical Education proclaimed by the United Nations.

> India trains civilian foreigners

The Ministry of External Affairs, Government of India, has arranged training courses at various institutes in India for the civilian training of foreign nominees under the Indian Technical and Economic Cooperation (ITEC) Programme and Special Commonwealth Africa Assistance Programme (SCAAP) during 2006 - 2007.

The entire cost of the training under these schemes, including return international airfare, tuition fees, accommodation, emergency medical treatment, stipend, book allowance and study tour, is borne by the Ministry of External Affairs, Government of India. The courses offered cover a wide range of subjects, with flexible time

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durations. They include IT, entrepreneurship development, pharmaceutical education, textile management, secretarial training, public system management, water resource development, education planning and administration, rural development, etc.

Member organisations interested in nominating appropriate candidates, possessing the requisite qualification for the courses) are requested to contact Ms Judy Davies at the BUSA office via email at judy.davies@busa.org.za

>New Offices for BUSA

On Monday, 12 June 2006 BUSA moved to new offices located on the 1st floor of 3 Gwen Lane in Sandton. Parking at the new building is limited, but plenty of public parking is available across the road from our new building.

We look forward to welcoming you to our new offices.

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

BUSA Opinion Piece: Eskom – To load shed or not to load shed?



> Thulani Gaabashe Eskom CEO

After the generator damage of Koeberg Unit 1 in December 2005, resulting in both the rotor and the stator requiring repair, the Koeberg team can confidently announce the successful synchronisation of the power station to the national electricity grid. The stator was repaired on site at Koeberg, while a replacement rotor was obtained from the French utility, EdF.

The stator rewind and the rotor inspection and testing were completed during the last half of April 2006. The mechanical re-assembly of the generator was completed by the beginning of May, and a number of tests, including rotor alignment, were conducted successfully.

Koeberg Unit 2 has already been shut down for its refuelling and maintenance outage. This outage will carry on for the rest of May, June, and most of July. The projections of electricity demand indicate that a shortfall of up to 400 MW may be experienced in the Western Cape during this period.

Demand side management (DSM) measures such as issuing five million compact fluorescent lights (CFLs) to Western Cape residents and exchanging two-plate electric stoves for two-plate gas stoves, as well as dynamic market participation programmes, are just some of the DSM programmes being rolled out to mitigate this shortage. This is progressing well and to date minimal load shedding has taken place. But because of the bitter cold that we have been experiencing throughout South Africa lately, there might be a need to load-shed after all.

Load shedding is a controlled way of rotating the electricity capacity that is available between customers when the demand is greater than what can be supplied due to a generation shortage, or transmission or local capacity constraints. The main focus of this load shedding is on alleviating pressure on the national transmission network in order to avoid uncontrolled blackouts in a particular region, or in the country as a whole.

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Eskom regards this measure as a last resort as it causes considerable inconvenience and, equally important, it has an adverse impact on the economy.

Eskom's National Control Centre will therefore first try several other measures to manage daily supply shortages and will avoid load shedding as far as possible.

Some of the measures that will be explored before load shedding is considered are as detailed below.

The activation of demand market participation (DMP). As part of the demand side management (DSM) mechanism, DMP gives customers the opportunity to "sell back" their flexible load to Eskom's System Operator. Any customer that can reduce its scheduled load by a predetermined amount (preferably in the region of 20 MW) on instruction from Eskom can offer it a day ahead, at a price. This is done through an electronic system created by Eskom's Key Sales and Customer Service Division (KSACS).

Once DMP customers have indicated their price tolerance, or offered their flexibility at a given price, Eskom considers these DMP bids as alternatives to supply side options. The least cost combination of demand and supply offerings is scheduled in order to obtain a balance between demand and supply every hour of the next day. Likewise, Eskom would schedule generators and DMP customers to be on standby for the next day to supply reserves. Closer to real time, during the next day when reserves might be required, Eskom will again make an economic decision as to whether to call on a supply side

option to increase generation or on a DMP customer to reduce load, to bring demand and supply into balance.

This programme has proved to be a great success in that it makes available to the Eskom System Operators the untapped value of dispatchable load inherent in industry.

KSACS special pricing division was instrumental in the research and devising of DMP, following the approval given by the South African National Energy Regulator (NERSA) in December of 2004.

Secondly, to avoid load shedding, the implementation of the accelerated DSM programme aimed mainly at reducing the risk of load shedding in the Western Cape in particular until Koeberg regains its full capacity. The targeted savings by DSM in the region are estimated as 400 MW of lowered demand.

This is obviously a longer-term strategy as it involves behaviour change and the creation of an electricity savings culture among consumers.

Eskom's national DSM strategy is a dual approach – firstly to reduce electricity demand at peak periods by shifting load to off-peak periods; and secondly to obtain an overall electricity consumption reduction by installing efficient equipment and optimising industrial processes.

An advertising and communication programme has been developed to support the DSM efforts in the Western Cape. The objectives of the campaign, whose theme is "Together we have the power to save", are to gain immediate power savings, encourage community involvement and ensure

sustainable power.

In the event of supply shortages continuing, the emergency hydroelectric generating capacity will be activated, which can contribute 270MW to the system. The Inga site has long been regarded as one of the best for generating hydro-electric power. The smaller power stations – Inga 1 and Inga II – are already operating, while the larger Inga III is projected to give an output of 3 500 MW.

A further option is to activate Emergency Level 1 at the power stations, which involves the stations increasing their output to the maximum level. This will add another 450 MW to the system, but can only be sustained for limited periods of time.

Eskom has interruptible contracts with some of its largest customers, in terms of which their supply can be interrupted for short periods at specific intervals. These interruptions release significant blocks of power, which make an immediate difference to the system. The interruptible contracts can contribute up to 2 155 MW of power.

Eskom's gas turbine stations – Acacia in Cape Town and Port Rex in East London – are extremely expensive to run, therefore they are only enlisted if the supply shortage continues despite the use of all the other interventions mentioned above. The gas turbine stations take only three minutes from start-up to synchronisation, and together the gas turbines add 342 MW to the system.

Let's all become promoters of energy efficiency by making sure that we save as much electricity as we can, because together we have the power to save!

Economic Commentary – The death of inflation targeting by Jac Laubscher – Sanlam

The South African Reserve Bank recently shocked financial markets by hiking its repo rate from 7 to 7,5 percent.

Readers of some of my previous commentaries will know that I have been arguing that this is the right thing to do in the current circumstances, in spite of inflation being well entrenched within the SARB's inflation targeting range. The fact that the SARB has clearly demonstrated its independence in the process is a plus, and runs counter to my argument that although the Reserve Bank is formally politically independent, it is nevertheless sensitive to political imperatives.

However, the accompanying statement from the Monetary Policy Committee offers an insufficient explanation for the rate decision.

It can surely not be because of the inflation outlook, in spite of the Bank now forecasting CPIX inflation to peak at 6,2 percent in Q1 2007, compared with 4,9 percent previously. For a start, the forecast is not plausible. For inflation to rise to the extent envisaged by the Bank, the oil price will have to rise to at least \$90 per barrel, everything else remaining the same, or the rand will have to weaken to at least R8 – R8,50/\$ (with the same caveat). The first would require a geo-political crisis, and the second an emerging market crisis. Surely these possible scenarios are not part of the Bank's central forecast?

But even then, the Bank states that CPIX inflation should breach the upper limit of the target range only briefly, and fall back to within the range in Q2 2007. By Q3 2007 it should be at 5,2 percent, according to the Bank.

In its Monetary Policy Review of May 2004, the Reserve Bank stated "... if the measured inflation moves out of the target range, the important

consideration is what the future trend of inflation is expected to be".

Furthermore, "if the overall inflation trend is expected to remain outside of the target for an extended period of time, the MPC will be expected to react. However, if the expectations are that the inflation rate will return to the target range within a short period of time, then the MPC will not necessarily react". It would therefore be inconsistent to try and justify the increase in the repo rate on the basis of the Bank's inflation forecast.

There must therefore have been other reasons why the SARB raised its repo rate, although it does not say so explicitly. But then it also does not state explicitly that its decision was motivated by its revised inflation forecast, opting for a vague reference to its "detailed analysis of the economy".

The most likely reason why the Bank hiked its repo rate could be the risk to the exchange rate from a rising current account deficit, driven by high growth in domestic demand, which in turn is being driven by excessive growth in credit and household debt, at a time when the financing of the deficit has become less sure. A perfectly sensible reason, but why does the Bank not say so in simple, straightforward language?

I must admit however that I do not have much sympathy with the predicament in which policymakers find themselves as they have actively contributed to its formation. Surely it is to be expected that credit growth will soar after interest rates have been cut by 650 basis points, and household cash flows have been boosted by a cumulative R36,7 billion in personal income tax reductions in the past four years, R12,1 billion of which was announced as recently as in the 2006/07 national budget.

We are now paying the price for two fundamental policy errors in recent years, about which I have written extensively in the past:

❑ SA policymakers failed to distinguish sufficiently between the extent to which the improved performance of the economy was due to domestic structural improvements, and on the other hand to favourable global tailwinds (the commodity boom and the sharp increase in capital flows to emerging markets), which were bound to subside. Policy should have been more counter-cyclical.

❑ Domestic demand was stimulated too aggressively ahead of implementing the required supply-side reforms that would have enabled domestic producers to exploit buoyant demand conditions to a greater extent.

The result is that the credibility of the inflation targeting regime lies in tatters. The Reserve Bank's inflation forecast is not transparent and the wild swings in where the Bank sees inflation peaking is not encouraging confidence. The explanations offered in the MPC statements are not clear enough in explaining the MPC's decisions – a much shorter statement, concentrating on the interest rate decision, the reasons for it, and the future stance of monetary policy would have served the purpose better, rather than the rambling overview of economic statistics that are public knowledge.

Most importantly, the Bank has now repeatedly adjusted interest rates for reasons other than pure inflation concerns. For analysts to regain some understanding of the Reserve Bank's policy reaction function will require a fundamental reconsideration of the present inflation-targeting framework. Room will also have to be created for policy instruments other than interest rates to be used to relieve the burden carried by monetary policy.