sapia | South African Petroleum Industry Association

PARTC 3rd Annual Meeting

7-8 October 2015, Johannesburg

7 – 8 October 2015

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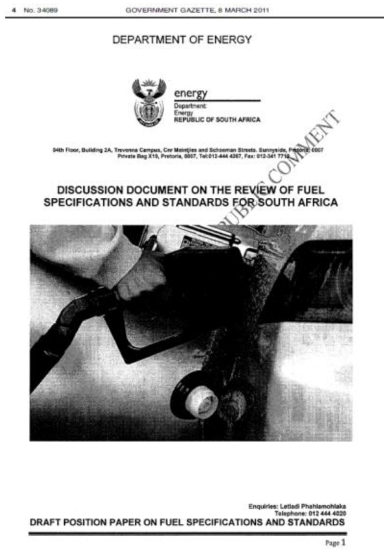
1. Introduction

About Sapia

The South African Petroleum Industry Association (SAPIA) represents the collective interests of the South African petroleum industry. The Association 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 to government, members of the public and the media.

2. Cleaner Fuels II history



4 No. 34089 GOVERNMENT GAZETTE, 8 MARCH 2011

DEPARTMENT OF ENERGY

energy
Department:
Energy
REPUBLIC OF SOUTH AFRICA

PUBLIC COMMENT

DISCUSSION DOCUMENT ON THE REVIEW OF FUEL SPECIFICATIONS AND STANDARDS FOR SOUTH AFRICA

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DRAFT POSITION PAPER ON FUEL SPECIFICATIONS AND STANDARDS

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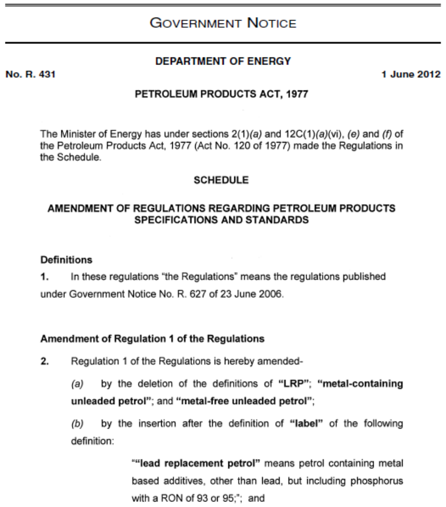


GOVERNMENT NOTICE

DEPARTMENT OF ENERGY

No. R. 431 1 June 2012

PETROLEUM PRODUCTS ACT, 1977

The Minister of Energy has under sections 2(1)*(a)* and 12C(1)*(a)*(vi), *(e)* and *(f)* of the Petroleum Products Act, 1977 (Act No. 120 of 1977) made the Regulations in the Schedule.

SCHEDULE

AMENDMENT OF REGULATIONS REGARDING PETROLEUM PRODUCTS SPECIFICATIONS AND STANDARDS

Definitions

1. In these regulations "the Regulations" means the regulations published under Government Notice No. R. 627 of 23 June 2006.

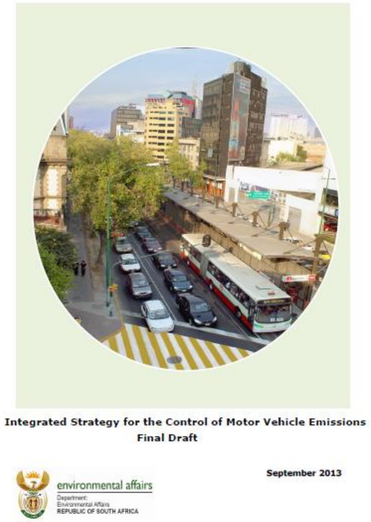
Amendment of Regulation 1 of the Regulations

2. Regulation 1 of the Regulations is hereby amended-

(a) by the deletion of the definitions of **"LRP"**; **"metal-containing unleaded petrol"**; and **"metal-free unleaded petrol"**;

(b) by the insertion after the definition of **"label"** of the following definition:

""**lead replacement petrol"** means petrol containing metal based additives, other than lead, but including phosphorus with a RON of 93 or 95;"; and



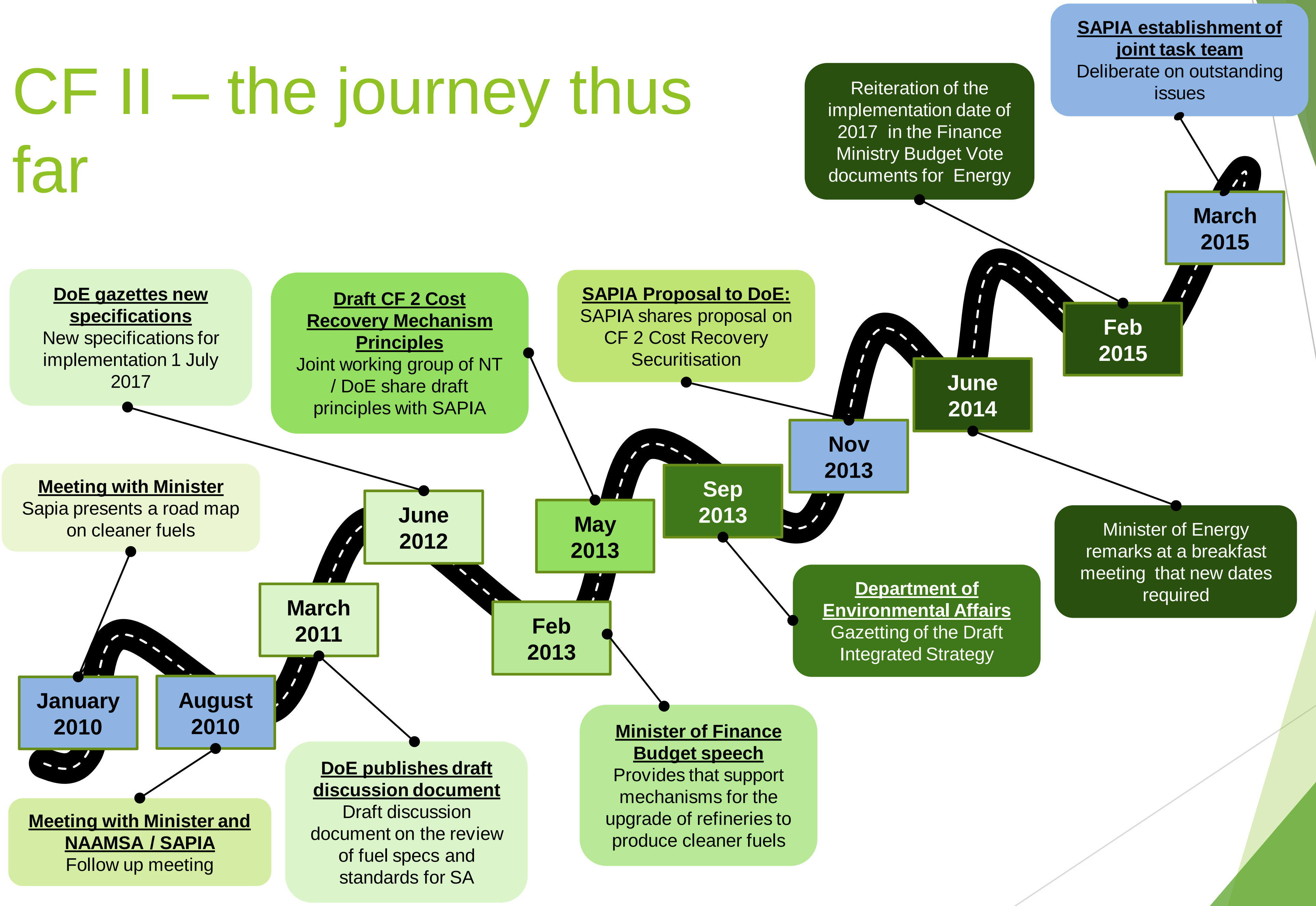
Integrated Strategy for the Control of Motor Vehicle Emissions
Final Draft

September 2013

environmental affairs
Department:
Environmental Affairs
REPUBLIC OF SOUTH AFRICA

- Progressive reduction of sulphur in diesel and lead in petrol since the 1990s
- 2006 - phase out of lead addition to petrol, max S in standard grade diesel of 500 ppm
- 2011 – draft discussion document for the review of fuel specifications and standards for SA
- 2012 – Gazetting of new specifications for cleaner fuels , implementation 1 July 2017
- DoE new specifications found endorsement from the DEA in their integrated strategy published 2013
- Critical identified role players included SAPIA, NAAMSA, the public and government

CF II – the journey thus far

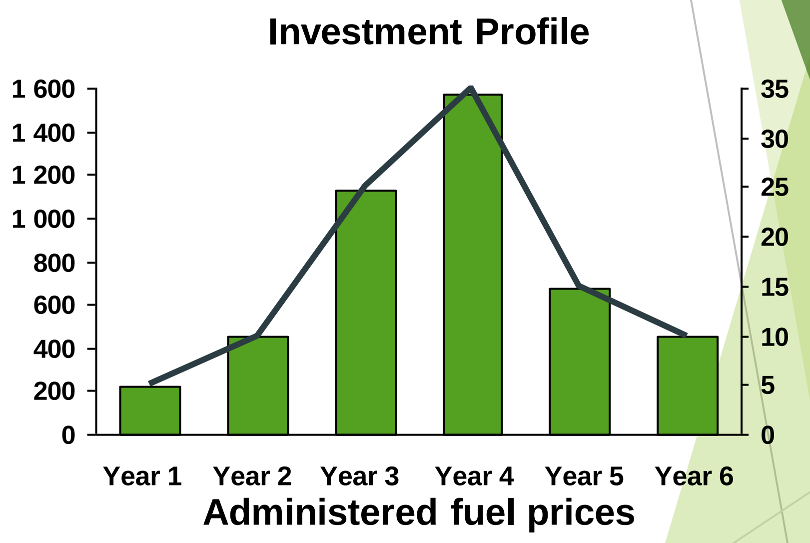


3. Main issues impeding implementation

Benefits to SA	Benefits to SA not fully quantified – cleaner air, interaction with ADPD, IPAP etc.
Investment is not economic	Investment is very large: US $ 4.5 bn (2011) (40% estimate) and uneconomic within regulated pricing structure – refiners won’t invest
Funding arrangements	Regulated pricing structure does not recoup investments which requires intervention from government – but funding principles not agreed
Impact on fiscus	The impact on fiscus, if any, has not been quantified
Government priorities	Government attention focused elsewhere – service delivery, electricity supply
Interaction with other policy	Interaction with other government policies not fully articulated

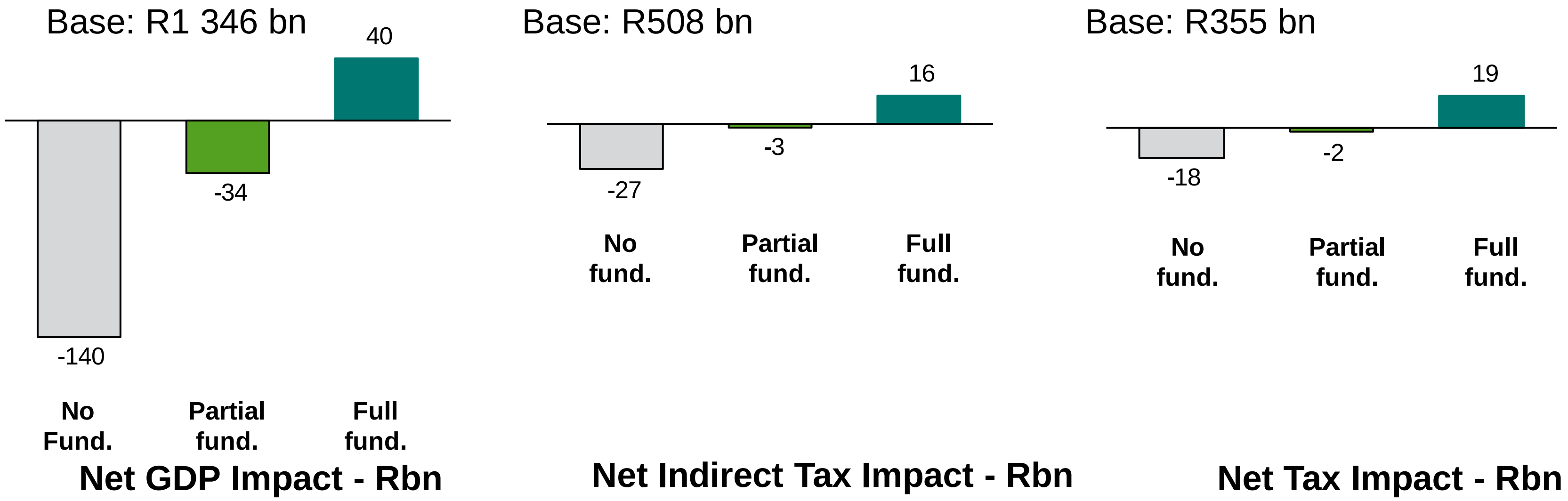
4. The quantum of investment required

- ➢ Total investment estimated at ~US $4.5 bn, (2011 - 40%)
- ➢ Peak spend in year 4
- ➢ However some caveats;
  - Assumes upgrades at the same time (unlikely)
    - Supply risk significantly increases
    - Skills / materials / construction requirements
    - Who goes first?
- ➢ $4.5bn now expected higher - R/$ weakness and capital inflation
- ➢ If funding from motorist the R40bn would equate to 15 c/l on fuel over 10 years – likely to be higher



5. Economic impact of the investments

KPMG study considered the economic impact of the investment based on three scenarios: no funding; partial funding and full funding all off the status quo ;

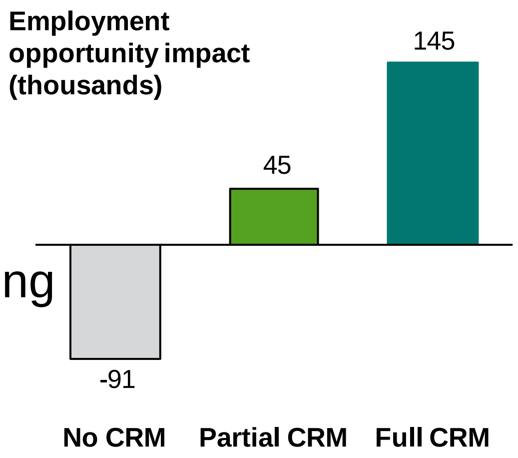


KPMG study concluded that for the full funding case, there was a net benefit in terms of GDP growth, indirect and net tax impacts

Other impacts – Jobs and GHGs

Employment

- Baseline provides 613 000 new employment opportunities created to 2020 across the economy
- With no / partial funding - impact is loss of direct refining jobs and reduction in goods / services with further employment impacts



Green House Gas Emissions

- KPMG study only considered vehicle impact – benefit R87 bn based on improved fuel efficiencies.
- Concawe study of sulphur reduction in EU fuels to 10 ppm found the incremental CO_2 emissions to be 23 – 30 kg/t of fuel from refineries
- Increased CO_2 emissions would mean increased carbon tax impact on refiners of R35 million

6. Why funding?

Why is funding required for refiners ?

- Clean fuels compliance - consequence of government policy
- Liquid fuels price regulated - limits ability to pass costs through to consumers
- Investments provide no economic benefits to refiners under present pricing regime
- Self funding options limited – margins are slim and expected to worsen
- Hence government is the only party who can effect a mechanism to provide funding to refiners - recognition of this assistance is provided by the DoE in 2011

What makes this different ?

- Scale of investment is huge, not deferrable and cannot be phased
- Investment is not a direct result of operations but for use by a third party - the motorist then has a direct influence on air quality through their choice of technology

The primary reason is thus to maintain the current local refining industry with its attendant benefits – employment, security of supply etc.

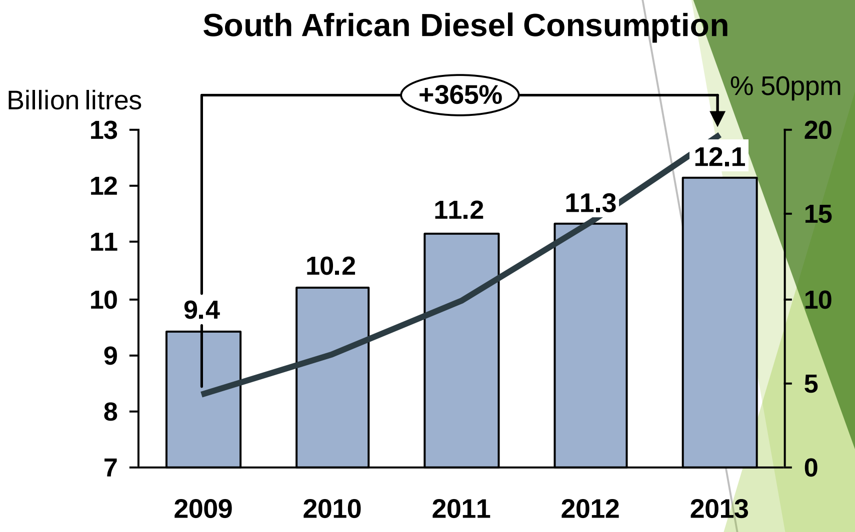
7. The market is not waiting

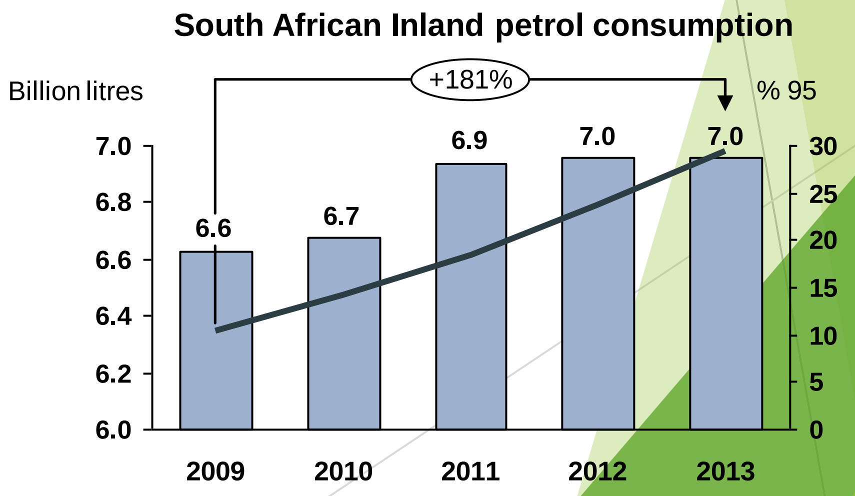
50 ppm diesel demand is growing

- 50 ppm diesel use – increase by CAGR 365% over the past 5 years – now amounts to 2.4 billion litres
- Refiners cannot make 100% 50 ppm diesel
- Imports will displace local production - means refinery turn down or export higher sulphur diesel

Petrol demand

- 95 octane inland petrol demand increasing – requirement for new vehicle technology
- Refiners can't presently make 100% RON95 - turn down and component import or import RON 95
- Low octane components export limited due to small local market and SA geographical location





8. Conclusion

- Cleaner fuels is an issue top most in integrated oil companies minds
  - The market is changing meaning a decision on cleaner fuels will be made for us
  - Refining activities are threatened
  - Threat to fuel supplies likely if nothing is done – upgrade refineries or import terminals
  - Policy uncertainty is further compounding the issue – requires resolution soon

- But there is continued engagement with government on cleaner fuels
  - Establishment of a Joint Task Team to assess outstanding issues
  - Work anticipated to be complete by November – thereafter decision on way forward lies with the DoE

One thing is certain – in the absence of any certainty, fuel shedding will take place

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