

3. CONTEXT AND ENVIRONMENTS



1. Introduction

The retail fuel industry functions in a deeply regulated and even unique industrial environment. Like any other sector, though, it is also subject to the dynamics of the broader South African polity as well as to the vicissitudes of a globalising world. Each of these phenomena has their impact on the day-to-day operations of petrol stations. A sudden climb in the oil price on the back of instability in the Middle East, volatility on world bourses, unpredictable rand-dollar exchange rates and even see-sawing domestic interest rates will all soon find their expression, one way or the other, at the petrol pumps.

In domestic terms, the long overdue reform of the retail fuel industry has a multiplicity of requirements to confront. The national political agenda demands that black economic empowerment must be promoted and that the various rights and values enshrined in the 1996 Constitution be embraced. It is also imperative that joblessness is not exacerbated and, with it, poverty.

Since 1994 a whole raft of labour legislation has been introduced which requires a variety of responses from economic sectors on issues such as employment equity, skills development and diversity. At the same time, the world is changing. Protection barriers are falling. Regional trade blocs are emerging and multilateralism is on the rise. As a sector that is both capital intensive and labour intensive, the South African fuel retail industry is often at the frontline when it comes to experiencing the pressures of the local economy and of the international marketplace. It meets these challenges in a number of ways.

Few doubt, however, that just as the retail fuel market chugged over comfortably during the time of economic sanctions and apartheid enjoying guaranteed margins and comfortable profits, so the dawn of a new era is all but upon it. It is an era in which things are less predictable, where competition is hotting up, where consumers are becoming more knowledgeable and more demanding and where society will no longer tolerate abuses for long. It is also the era of HIV/Aids, which is not the focus of this study but the shadow of which looms darkly over this sector as it does over the entire nation.

2. The policy environment

Various studies have noted the lack of literature either with regard to the current status of the retail fuel industry in South Africa or concerning the determination of retail margins for petrol resellers in general (SBAB, 2001). There is little doubt, as we have stated, that big changes are afoot in the sector. Since 1977, one of the key pieces of legislation for the fuel retail industry has been the Petroleum Products Act. This is currently undergoing amendment with a draft Petroleum Products Amendment Bill due to be worked through Parliament during the course of 2003. This new legislation will have a significant impact on the sector. The formal aim of the Bill is listed as follows: 'To amend the Petroleum Products Act in order to provide for the licensing of persons involved in the sale of certain petroleum products, to establish a licensing authority to issue licenses, to provide for the promulgation of regulations relating to licenses, and for matters connected therewith'.

According to a presentation to the Petrol Station 5 Safety Project working group by a representative of the Portfolio Committee on Mineral and Energy Affairs, Mr David Dlali, the legislation is intended to:

IN TERROR AND IN SILENCE

- specify what criteria should be met in order to get and keep a retail license
- specify how such a business should be operated
- make regulations relating to 'the need for facilities and services to be provided for consumers and the extent to which the interests of petroleum product consumers shall be served' (DME 2001)
- make regulations relating to 'any matter relevant to the orderly provision of petroleum products in South Africa'

The new Bill, Dlalali stressed, 'will thus allow government to regulate on security issues as part of licensing service stations'. This stance was later challenged by a senior departmental official.

Changes are long overdue in the sector and are universally anticipated. At a workshop arranged by the Department of Minerals & Energy in Pretoria on 16 August 2001, stakeholders were asked to predict the shape of the fuel retail industry in the next 5 to 10 years. Consensus opinion suggested that as a result of de-regulation (or re-regulation) more service stations will enter the sector, discounting of the petrol price will be allowed, job losses will be incurred and increased competition will be encouraged. Average throughput at individual petrol stations is expected to diminish and marginal sites will close. The movement away from areas with low margins (or volumes) will pose a threat for development in rural areas. Lower margins will also force service stations into further non-fuel retailing and diversification (SBAB, 2001).

These expectations gave way to the idea of a two-tier system with a relatively regulated industry in the more rural areas as opposed to a de-regulated system in the more urban areas. It was also expected that discounting will be more general in urban areas while prices will be higher in rural areas. A loss of 30% of the present sites was anticipated, resulting in approximately 3 360 sites. While urban areas will be characterised by bigger service stations selling in excess of 600 000 litres per month, rural areas will be hosting small suppliers selling 100 000 litres and the far rural areas will be pumping less than 50 000 litres and would be characterised by general dealer-type outlets or even mobile distributors.

The demand for petrol and diesel as products is relatively static. Furthermore there is limited brand loyalty among consumers. This results in major oil companies being driven by the maintenance of their market share and concern with their market reputation. In South Africa, this has led to so-called 'gold-plating' which is a very glossy image presentation of sites.

'Image consistency is important and acknowledged but whether it is necessary to have such relatively expensive claddings and structures as are to be seen on many new sites across the oil company spectrum is debatable. This is particularly true in the less busy areas and rural areas. The cost of entry (particularly for smaller entrepreneurs) has become extremely high, while they have difficulty in raising finance' (FRA/SAFDA, 2001).

It is anticipated by some of the oil companies that future rental values be based on fuel sale volumes, as well as retail margins on a sliding scale. Traditionally, rentals were based mainly on a sliding scale of volumes sold. Serious concerns have been aired by retailers about this new approach to base rentals on gross retail margins with non-oil company

CONTEXT AND ENVIRONMENTS

proponents arguing in particular that rentals should be based on a sliding scale of volumes only (SBAB, 2001).

Black economic empowerment is currently one of the top industry policy issues. It also forms a key objective of the national political agenda in every sector. The vision expressed by the White Paper on Energy Policy is that black economic empowerment should be: 'reflected in the composition of the industry at all levels and significant domestic black ownership or control in all facets of the industry' (1998: 71). The vision of the African Mineral and Energy Forum (AMEF) is that:

- 25% of the retail network is to be owned by black oil companies
- the number of historically disadvantaged dealers is to increase to at least 50%
- appropriate legislation that accelerates growth of black oil companies be put in place

According to the South African Petroleum Industry Association (SAPIA), which represents the oil companies, major progress has been made since the signing of the Charter for Empowering Historically Disadvantaged South Africans in the Petroleum and Liquid Fuels Industry in November 2000. The fuel industry is recognised in many quarters as the leader in this regard. The overarching objective of the charter is to attain 'sustainable presence, ownership or control' by historically-disadvantaged South Africans of approximately a quarter of all facets of the industry within 10 years. Strategic focus areas within the Empowerment Charter include employment equity, capacity building, ownership/control, financing, procurement and the legislative and regulatory environment (RISE, 2002).

... The combined challenge of attaining empowerment, liberalisation, environmental sensitivity, rural development and upliftment will be a severe test for the industry... (SAPIA, 2001)

There is, however, still a long way to go and initial timeframes and targets have been modified. According to the oil companies there has been significant investment in the retailing side in recent years. Even as empowerment initiatives gain impetus, serious concern has been expressed about the high levels of business failure among new black dealers. These are generally ascribed to the high cost of entry, the tough trading environment and the lack of appropriate training programmes to ensure proper financial understanding and acceptable levels of managerial competency. According to the Small Business Advisory Bureau 'the future well-being of the industry and the nation at large depends on black economic empowerment – Without it, there will be no long term stability' (SBAB, 2001).

In the ongoing effort to reduce costs and increase net profits by retailers, the viability of manned forecourts has come under consistent pressure. This clashes directly, however, with the determination (and policies) of the government and the aims of the trade union movement not to allow the deterioration of employment levels either nationally or in this sector. According to SBAB, 'the desirability of employing pump attendants as opposed to self-service cannot be questioned, however it should be weighed up against the advantages of less expensive fuels on the driveway. Not only will it benefit the economy, but also the community at large. South Africa might have to follow the worldwide trend of moving towards self-service models to reduce costs. In view of the extreme difficulties facing particularly the very small and rural fuel retailers, self-service in certain instances might be justified. In other cases a combination of self-service and manned pumps might be the solution. This is particularly desirable in view of the need for black economic empowerment' (SBAB, 2001).

It is expected that the abolishment of the RatPlan and de-regulation, as well as the entrance of Sasol into the market will be appropriately accompanied by a process of re-regulation and legislation. The perception exists, however, that these factors will inevitably lead to more service stations entering the market, discounting, job losses, increased competition, the reduction of throughput of sites, reduced income and the subsequent closure of marginal sites. These expectations emphasise the need, according to the SBAB, for a two-tier system, with a relatively regulated rural area as opposed to a less regulated urban one. Adaptive solutions such as a national oil company serving rural areas, co-suppliers with multiple branding or an area dominated by one oil company cannot be excluded. Major concerns exist about the future of rural and far rural areas (SBAB, 2001).

It is evident that the problems facing the industry will call for a reconsideration of glossy, high image sites. This is a factor that the oil companies in particular will have to consider very seriously, as the sustainability and future success of a large number of their distributors is at stake. Once again, argues the SBAB, a two-tier system for rural and urban areas and very small filling stations has to be considered.

3. The socio-political environment

South Africa's 1996 Constitution and, in particular its Bill of Rights, provide a defining blueprint for inter-relations between any group of individuals, companies or participants within an economic sector. And while the Constitution is an aspirational document in many ways – as well as acting as an engine of transformation – South Africans are now entitled to have their human dignity respected and to work and live in an environment that is not harmful to health or wellbeing. South Africans now have the right to freedom and security, the right to not be treated in a cruel, inhuman or degrading way and the right to bodily and psychological integrity (See the Constitution of the Republic of South Africa, Act 108 of 1996: Ch 2). It is worth considering whether these basic rights are being met in terms of the people who manage and work in the country's petrol stations under prevailing conditions.

About a third of petrol attendants surveyed said they were scared some of the time while more than a third reported they were scared all the time at their place of work (RISE, 2002). Loss of life (83%) and physical injury (53%) were the main concerns. Many other aspects of the Constitution are applicable. As with the interpretation and passage of all law, these basic pillars of our new society frame any kind of theoretical or practical undertaking. In the new political era, dismantling inequity and tackling poverty are arguably the central objectives of the current administration. Sub-themes include job creation and protection as well as black economic empowerment. Each of these has a strong relevance to any change anticipated in the retail fuel industry.

But it is also important to note that intention is not always closely connected to reality. South Africa's criminal justice system has serious capacity problems. The police are severely stretched and underskilled, the courts are experiencing long delays and prisons are overcrowded. To make things worse, organised crime has secured a foothold in South Africa. Its presence has already been clearly felt in the retail fuel sector. Both of these factors will have a very direct impact on safety and security issues at petrol stations.

In addition, the government itself is under-resourced and lacks capacity. This is true at the Department of Minerals & Energy as well as at the Department of Labour. The latter rarely

CONTEXT AND ENVIRONMENTS

fulfills its mandate with regard to occupational health and safety in this sector. This is due mainly due to a lack of numbers and funds as well as to new organisational requirements. The consequence of this aspect is that the retail fuel sector remains largely unmonitored by the state when it comes to safety and particularly with regard to security issues.

The lack of capacity experienced by the state is reflected by the activities of the trade unions connected to this sector. Low levels of interaction are common with site visits infrequent or even rare. The working group was told by union leaders that this was because forecourt staff are scattered across such a vast area and in such small concentrations that organising poses extremely difficult logistical challenges, particularly in the rural areas. Also, the unions representing most petrol attendants are engaged in huge sectors involving hundreds of thousands of employees. Union activism at most petrol stations is therefore generally low and, unsurprisingly, trade union membership is equally poor.

The retail fuel industry, like all sectors of the economy, is subject to the Occupational Health and Safety Act 85 of 1993. The Act is preventative legislation, the provisions of which require certain measures to be taken to avoid work related accidents. The primary aim of the Act is to establish rules and structures that are designed to protect the health and safety of employees against hazards and risks that emanate from the activities of the job. The Act applies wherever an employment relationship exists. It also deals with issues related to the activities of employers and employees that could affect the health and safety of the public at large (BP, 1999).

There are three basic principles underlying the structure of responsibilities and liabilities in the Act. Firstly, the Act imposes several duties and prohibitions on both employers and employees. Secondly, it recognises that, in order to promote health and safety in the workplace, there needs to be shared responsibility and co-operation between the employer and the employee. Thirdly, to ensure compliance, the Act also makes provision for continuous policing to be done by inspectors from the Department of Labour who conduct investigations and enquiries into work related accidents (BP, 1999).

In the event of a person suffering from any injury, illness or disease that has been contracted as a result of the type of work that the person does, the incident needs to be reported and dealt with in terms of the requirements of the Compensation for Occupational Injuries and Diseases Act 130 of 1993 (BP, 1999).

4. The internal environment

Horizontal relationships in the fuel retail sector (for example among the oil companies or between retailers) appear to be strong. The oil companies meet each other in a variety of forums from smaller committees like the oil industry retail security forum to larger umbrella bodies like the South African Petroleum Industry Association (SAPIA).

Similarly, service station managers and owners are represented by the South African Fuel Dealers Association (SAFDA) and by the Fuel Retailers Association (FRA). In addition, most of the major oil companies have established their own retailer councils with whom they meet regularly to discuss strategic issues. Various workshops have taken place over the last few years involving all the stakeholders.

IN TERROR AND IN SILENCE

The petrol attendants, though, are poorly organised and are not well represented by their unions as we have discussed. The survey indicates, in fact, that petrol attendants are mainly loyal to each other with oil companies and managers falling a distant third and fourth behind customers.

It has been starkly evident from the research conducted by this working group, however, that severe blockages exist vertically within the sector. Retailers and managers spoke with bitterness and anger about their perceived treatment by the oil companies. 'The oil companies make it virtually impossible for an average petrol dealer to make a living,' the working group was told by one retailer. Dealers complained of arbitrary rules being imposed on them that were applied in an uneven way. They argued that franchise agreements, often for short periods, were imposed on dealers without recourse or debate. They said they were forced to staff their petrol stations on a 24-hour basis at the insistence of the oil companies thus exposing their personnel to heightened safety risks. One dealer claimed that after decades in the business, he was still being treated with contempt by the oil companies.

There is nobody you can complain to. The retail manager passes you on to the rep. He says there's nothing he can do. The scheduler is a law unto himself.¹

Anecdotal evidence of animosity between the oil companies and the retailers (described by one industry member as 'creative tension') received by the working group was backed up by the formal submissions of the FRA and SAFDA. 'Of utmost importance is the future relationship between oil companies and their fuel distributors,' one report said. 'A serious change of philosophy is called for if fuel retailers are to survive' (SBAB, 2001).

'Profit margins of fuel retailers have become very marginal – If oil companies are continuously going to claim larger proportions of their gross profits in terms of rentals and franchise fees, the majority of fuel service stations will be seriously affected. The future profitability and the success of oil companies are directly related to the profitability and success of their fuel retailers' (SBAB, 2001).

Just as the results of the RISE survey suggests the relationship between oil companies and retailers appears to be poor, so the relationship between the retailers and their staff appears equally frail and unhappy. Obviously there are exceptions. But, according to the survey as well as to information gleaned by the working group, the rift is deep. 'Many owners expressed an inherent mistrust of their employees,' the RISE survey reported. 'Some owners and managers, particularly those with stations in the northern suburbs of Cape Town, held employees accountable for some of the crimes that had been committed at those stations' (RISE, 2002).

Recruitment practices do not, on the whole, alleviate mistrust or create confidence between employers and employees: 'When hiring new staff, 21 of the 25 participants admitted that they recruited by word of mouth and from other attendants. Eighteen of the participants said that they undertook background checks that usually entailed collecting a telephonic reference from a previous employer. One owner said that he sent attendants' fingerprints to the police to check whether or not the potential employee had a criminal record. Dealership owners said that they preferred to hire family members of attendants currently working at the station, particularly if the attendant had worked at the station for a long period of time. They also preferred to hire younger attendants, preferably

¹ Anonymous oral submission by a petrol retailer to the Petrol Station 5 Safety Project, September 2002. The 'scheduler' refers to the fuel delivery manager/co-ordinator.

CONTEXT AND ENVIRONMENTS

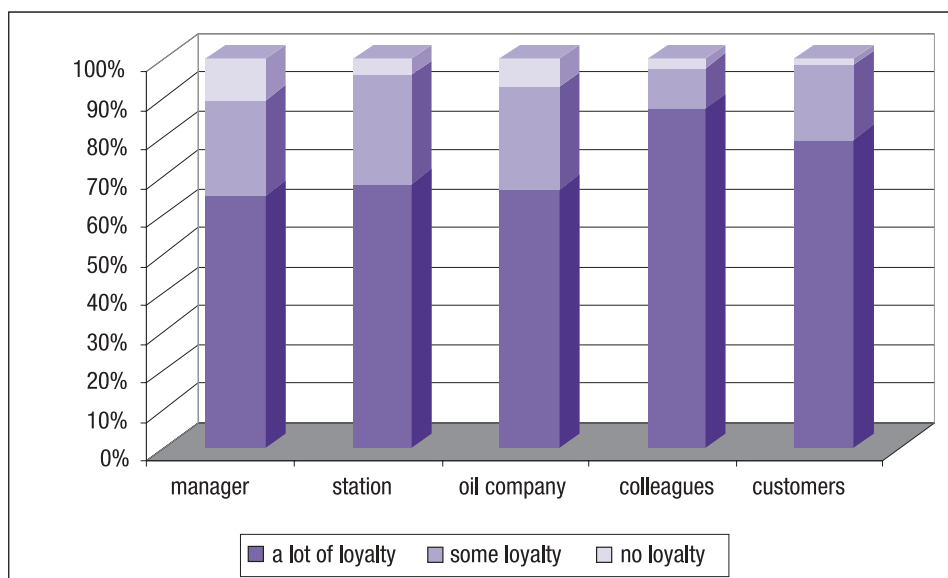
individuals with no experience, so that they could be trained according to how the owner wanted them to work. One owner also spoke about a 'college of knowledge' and described it as those attendants who had worked at a number of different stations and who had acquired valuable knowledge about the functioning of the petrol stations generally. It was alleged that such attendants were in a position to leak crucial information to criminals' (RISE, 2002).

A high percentage of owners indicated both verbally to the working group and in the research that they believed most incidents of crime at their petrol stations were 'inside jobs' which involved their staff. These crimes included the more serious violent crime as well as pilferage and shoplifting. A high level of mistrust was again evident.

The owner of a Caltex medium-risk metro station, for example, told RISE he was convinced his employees 'have a party every night' after he left the station. He stated he had recently installed CCTV cameras as he hoped it would produce evidence of, among others, shoplifting by employees. Another Caltex owner said he wanted to introduce a system whereby employees had a separate entrance as this would permit them to be searched when they entered and exited the site (RISE, 2002). Almost 60% of service stations recover cash shortages from the wages of petrol attendants while 32% deduct from attendants' bonuses (SBAB, 2001). In addition, the retailers complain that 'a lack of understanding exists regarding the real nature of the retail fuel industry and the constraints that marginal profit margins and the conditions experienced by retailers can place on wage negotiations within the industry. Very often in the past, adjustments to profit margins were followed by wage demands' (SBAB, 2001).

The animosity between oil companies and retailers and the mistrust between owners and their staff is naturally reflected in attendants' attitudes to both. Attendants expressed the highest degree of loyalty to one another (87%) and then to customers (79%). Five percent of the sample (n=32) said they felt no loyalty and within this subset, managers were the

Figure 3.1: Extent of loyalty to different groups of people



(RISE, 2002)

IN TERROR AND IN SILENCE

group to whom these attendants were most likely to feel no loyalty. Almost 80% of the 150 forecourt workers surveyed said they were dissatisfied or very dissatisfied with their weekly wages. Most don't have written job descriptions. Over half had never received feedback, including half of those who had worked at the same petrol station for five or more years.

About 11% of petrol attendants surveyed said they would do any other job 'that pays more and with fewer risks' than their current employment. An additional 11% said they would like to be self-employed or run their own business. The largest number of petrol attendants (19%) said they wanted to be employed in the security sector (RISE, 2002).

Interestingly, the Small Business Advisory Bureau noted in its report into the sector in 2001 that personnel are the largest single item of expenditure in the service station industry. 'The degree of control over this item can determine whether a profit or a loss will be realised'. The SBAB said the total component for personnel remuneration included auditor's remuneration, legal expenses, total wages and salaries including pension, medical, owners' salary, staff welfare, bonuses, uniforms, workmen's compensation, training, UIF, security and refreshments to staff. In total, the report said 41.67% of filling stations surveyed exceeded the ratio of personnel expenses to gross profit. The report said that in order to rectify this ratio, 'a service station owner should look at the following:

- training of staff to perform better
- overtime and bonus payments could be too high
- lack of productivity
- weak performers
- unnecessary salary increases
- temporary workers
- responsibility of workers'.

The importance of personnel costs in relation to a petrol station's profitability is thus amply demonstrated (SBAB, 2001).