

Eastern Cape LPG supply crisis – Automotive

Background:

- The Eastern Cape (“EC”) automotive sector is a high volume user of LPG and Propane – reliant mainly on PETRO-SA as a single source of supply. EC is hub of Catalytic Converter industry. Shortage of LPG and Propane thus very concerning.
- July and August – serious shortages experienced as well as delays due to diversion and additional transit time, cost etc.
 - * NAAMSA, NAACAM, CCIIG escalated to DTI and DME
 - * Multinational companies offshore head offices escalated their concerns to DTI
- October – shortage situation escalates with four refineries down for extended periods due to scheduled and unscheduled maintenance
 - * NAAMSA, NAACAM and CCIIG yet again escalated concerns to DTI and DME
- Multinational suppliers have made significant investment in South Africa for manufacture of catalytic converters and are extremely concerned
- South Africa LPG pricing is regulated. We have heard that low margins for refiners have been a factor behind supply shortages. However, we have also heard conflicting reports that LPG pricing in SA is already at a premium versus global benchmarks, making SA less competitive. We cannot comment on whether pricing is a key issue that needs to be addressed.
- Aging Infrastructure seems to be a major factor behind frequent refinery shutdowns for unscheduled maintenance. Recent shortages were apparently largely due to this.
- Incoming APDP means that LPG demand from automotive industry is going to increase. Thus increasingly important to ensure that LPG supply problems are resolved.

Current Business Impact:

- Impact assessment from various automotive component suppliers
 - * Switch from Propane to LPG resulting in reduced efficiency and longer cycle times thereby reducing global competitiveness
 - * Short term imported (?) gas premium cost ranges between 6% and 15% (in some rare cases 3 times the normal going rate)
 - * LPG stock levels average 35% of demand and has at stages dropped to below 10%
 - * Lost production reports - 1 day ranging up to 400 man hours and in some cases up to 15% of production
 - * Certain catalytic converter components are in global critical shortage – downtime caused by LPG shortages results in premium export freight cost and lost confidence in SA as a source, exacerbated by the fact that LPG distributors and some catcon suppliers have issued Force Majeure letters to global customers
 - DTI is pushing catcon industry for increased investment by localising substrate extrusion. The industry is a major user of LPG and shortages of LPG will be a further deterrent to local investment.

Conclusion:

- Ongoing shortages of LPG will impact negatively on business confidence, investments, exports and jobs
- Of particular concern is catalytic converter manufacturing - a sector earmarked within JPAP2, NGP, Beneficiation to grow PGM Beneficiation through auto catalyst manufacture
- Vtally important that the refineries urgently address ageing infrastructure and share scheduled maintenance plans to avoid simultaneous capacity disruptions in future