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Forest Exploration to develop new gas field off SA's West Coast
March 18, 2009
Gas exploration company Forest Exploration International and its project partners plan to spend between $3-billion and $4-billion over the next 20 years to develop the Ibhubesi gas field, off South Africa's West Coast.

The initial drilling programme into the gas field has been "highly successful", producing a gas well that tested better than any other well drilled off the South African coast. However, the second phase of the $100-million drilling programme was less successful. Forest Exploration International commercial director **John Langhus** told *Engineering News Online* that it had not yet defined a definitive resource estimate of the gas field. However, "we do consider it a world-class asset and a world-class discovery, and it is large enough to move ahead".

Langhus stated that the company was awaiting a decision from the Department of Minerals and Energy (DME) on whether production at the Ibhubesi gas field could go ahead. If the production right was received within the expected date, which was June this year, it was likely that production would start in 2012. The gas from the project was most likely to be used for electricity production, and Langhus noted that although the company did not have any definitive offtake agreements in place, it was in advanced discussions with several parties.

"We are pretty confident that there is plenty of market here to be developed."
Langhus told the Cape Town regional Chamber of Commerce and Industry that it planned to draw 100-million cubic feet of gas a day and that this was expected to rise to about 225-million cubic feet. The initial supply would be enough to power a 700-MW combined-cycle gas turbine to supply base-load electricity or 400 MW of peaking power from an open-cycle gas turbine. These power stations would be able to compete with coal-fired power stations but would be cleaner and could be constructed in a shorter time.
http://www.engineeringnews.co.za/article/forest-exploration-to-develop-new-gas-field-off-sas-west-coast-2009-03-18

State's rescue plan for SA vehicle sector takes shape
March 23, 2009
A TASK team led by the Department of Trade and Industry is considering a three-pronged plan to rescue the automotive industry, including tax adjustments to stimulate demand for cars.

The team, which includes industry and labour representatives, was set up as part of a South African response to the global economic crisis, thrashed out in the National Economic Development and Labour Council (Nedlac).

The framework envisaged a dedicated response to help ailing industries, including the automotive sector. Industry players were not prepared to discuss the details of the plan, which is expected to be finalised by month-end, but it is understood that the rescue package will stand on three legs:

· Bridging finance to help cash-strapped car manufacturers' balance sheets provided by the Industrial Development Corporation (IDC). An industry source stressed that the finance would not be a bail-out, but loans that have to be repaid;

· Tapping into Department of Labour and Manufacturing, Engineering and Related Services Sector Education and Training Authority funds for on-the-job training to minimise retrenchments, while additional funds from the Unemployment Insurance Fund could be allocated to help workers already retrenched. The loss of skills from inevitable downsizing has been identified as one of the biggest threats to the industry; and

· Incentives to stimulate demand, akin to programmes that have been rolled out in Germany and the UK. These could take the form of scrapping allowances, tax incentives or temporary rebates for trade-ins to stimulate demand.

The entire automotive industry has been severely affected by the global downturn.
Roger Pitout, director of the National Association of Automotive Component and Allied Manufacturers, told an industry workshop on Friday that component production was down 35% from last year and 8000 jobs had been lost in the components sector. "This is a real crisis. Companies that have already retrenched people are now left with established, highly skilled people. If they were to lay off more workers, these skills would be lost. That is the real problem. We want to increase component output, but how will we do that if we lose these skills? It will set us back years," he said.

Vehicle manufacturers are also bleeding. The net employment loss in the car assembly segment so far is 9500. More jobs were on the line, said Herman Ntlatleng, sector co-ordinator for the National Union of Metalworkers of SA. New vehicle sales, which peaked at 714000 in 2006, have slumped and forecasts for the year are at 385000. Moreover, exports have also slumped. National Association of Automobile Manufacturers of SA director Nico Vermeulen said at the same workshop that the depth of the decline had taken everyone by surprise. Vermeulen was counting on the Reserve Bank announcing an interest rate cut of between 150 and 200 basis points this week to help stimulate the economy.

Despite the dire situation, the government will not consider a bail-out on par with the stimulus packages in Europe and the US. "If you look at the framework the social partners in Nedlac had agreed in response to the global economic crisis, it makes no specific commitment on the nature of interventions," trade and industry director-general Tshediso Matona said last week. "We have agreed to mobilise specific institutions, but no language of bail-outs has been adopted and we have no resources to have such bail-outs." The industry was appreciative of the government's position and "had no expectations of that kind of intervention", he said.
Treasury spokesman Thoraya Pandy said yesterday the Treasury could not comment on the proposal about tax adjustments to stimulate demand, as the task team's work was led by trade

and industry. The Treasury would, however, consider the recommendations once the plan was tabled.
http://www.businessday.co.za/articles/topstories.aspx?ID=BD4A964935

EC pushes for trade pact signature date
March 23, 2009
THE European Commission (EC) will forge ahead and set a date for the signature of the interim economic partnership agreement (EPA), which has already overshot its deadline for conclusion by 15 months. European Union trade commissioner Catherine Ashton dispatched a letter on Friday to trade ministers of countries negotiating an EPA under the Southern African Development Community (SADC) configuration, saying the commission wanted to move towards setting a date for signing off the interim agreement.

The parties met earlier this month in Swakopmund to iron out remaining concerns expressed by SA, Namibia and Angola — the ANSA group — and significant progress was made on key issues. Officials who attended described the meeting as one of the most positive the parties had held in the two-year period of negotiations, which had been marked mostly by acrimony. However, agreement remained elusive on two key issues, namely the European Union's (EU's) demand for a most-favoured nation (MFN) clause and the issue of the definition of the parties. Ashton wrote in the letter: "I think I have done all I could, both in terms of substance and timing, to accommodate the concerns expressed by the ANSA group and I am pleased that this has allowed us to find concrete solutions on how to solve the majority of those concerns."
The trade commissioner, how- ever, urged for the deal to be formalised to "provide the necessary legal security to the preferences (the EU) is offering to Botswana, Lesotho, Namibia, Mozambique and Swaziland".

These countries do not benefit from the legal security in their trading relations with the EU as does SA under the trade, development and co-operation agreement. The EU has been unilaterally extending preferences to the region in breach of World Trade Organisation (WTO) rules since the expiry of a waiver on the Cotonou agreement at the end of 2007.
Europe is anxious to bring its trade relations with the SADC group in line with trade rules to avoid a WTO challenge. SA's chief trade negotiator, Xavier Carim, yesterday said there had been agreement after the Swakopmund meeting that there still needed to be a political discussion between leaders in the region and also with the EU trade commissioner to resolve issues.Carim returned this weekend from a meeting in Addis Ababa where the EPA framework was discussed between African representatives.

"There are a range of different views on the continent, but many have the same problems as we do. Many countries feel that the EPA in its current form would undermine the regional integration agenda," he said, adding that it was hoped that more time would be afforded by the EU to sort out the concerns. From Ashton's letter it seems clear that the EC would be loathe to make further concessions on the MFN demand. Under the MFN, concessions made to countries whose trade exceeded more than 1% of world trade would, in future trade agreements, be automatically extended to the EU. At the Swakopmund meeting the EC offered to raise the threshold of countries' portions of world trade to 1,5% and agreed to limit the MFN requirement to customs duties.
http://www.businessday.co.za/articles/economy.aspx?ID=BD4A964910

Inflation up 8,6% in February, breaks declining trend
March 25, 2009
The increase in South Africa's consumer price index (CPI), which is used by the South African Reserve Bank for its inflation target, was up 8,6% year-on-year in February from 8,1% year-on-year in January, Statistics South Africa (Stats SA) said on Wednesday.

This means that the declining trend has been broken. Previously there had been a five-monthly decline after the record 13,6% registered for CPIX -- the old targeted measure -- in August last year and the 13,7% for the old CPI in August. CPI was up 1,2% month-on-month after increasing 0,4% in January. The new consumer inflation index was expected to have remained unchanged at 8,1% year-on-year, according to a survey of leading economists by I-Net Bridge.

Forecasts among the nine leading economists surveyed for CPI ranged from 8,0% to 8,6%. Stats SA said the food and non-alcoholic beverages index increased by 0,2% between January and February, taking the annual rate to 15,8% from 15,7% in January 2009. This monthly was largely driven by monthly increases in cold beverages (4,2%), other food (0,5%), meat (0,4%), sugar, sweets and desserts (0,3%) and fish (0,2%). The alcoholic beverages and tobacco index increased by 1,1% between January and February 2009, largely driven by monthly increases in beer (1,5%) and tobacco products (1,2%), mainly cigarettes.

The health index increased by 6,2% between January and February 2009, driven by monthly increases in health services (10,0%), mainly doctors' fees (which are surveyed annually). The transport index increased by 1,8% between January and February 2009, mainly due to a 10,5% increase in the price of petrol. Stats SA added that prices for miscellaneous goods and services increased by 3,7% between January and February, largely as a result of a monthly increase of 6,4% in insurance, mainly health insurance (which is surveyed annually).

Other categories showing above average annual increases were restaurants and hotels (13,4%), recreation and culture (9,7%) and housing and utilities (9,1%). CPIX hit 11,3% in 2008 from 6,5% in 2007 and CPI struck 11,5% from 7,1% in 2007. In July 2007 CPIX hit 6,5% from 6.4% in June, but then dipped to 6,3% in August before resuming an unbroken uptrend in September where it struck 6,7%.

Annual CPIX for 2007 was at 6,5% from the 4,6% in 2006, while annual CPI was at 7,1% from the 4,7% in 2006. The core inflation rate, which excluded volatile foods, municipal rates and monetary policy changes, is no longer provided. That rate was 10.2% year-on-year in December. CPI reverted to a new basket and weights in January, with the CPIX becoming superfluous as CPI now includes owners' equivalent rent.
http://www.mg.co.za/article/2009-03-25-inflation-up-86-in-february

Private power generation put on hold
March 25, 2009
Deteriorating global financial conditions had forced listed electricity company Independent Power SA (Ipsa) to adjust its operations and growth plans, it said yesterday. Ipsa, which is listed on London’s Alternative Investment Market (AIM) and the JSE, owns SA’s first independent gas-fired power station, at Newcastle in KwaZulu-Natal.

The plant supplies power under contract to Eskom and City Power of Johannesburg. The company plans to increase capacity, to complement the existing plant. The company has made it its priority to install and commission new electricity capacity to bridge the widening gap between electricity supply and demand. Ipsa CE Peter Earl yesterday said SA and neighbouring countries had an urgent need for more electricity capacity. But the unfavourable economic conditions have dealt a blow to Ipsa's plans for additional capacity in Newcastle.

Commenting on Ipsa's results for the year ended September 30 last year, Earl said the group was adjusting its operations and growth plans "to match the tightened credit conditions affecting southern Africa". Ipsa chairman Stephen Hargrave said the company, which he said was "rich in assets," was arranging finance to meet its working capital needs "and the board has a reasonable expectation that as a result the company will be able to develop new power plant capacity to complement its existing initial pilot plant in Newcastle".

Hargrave said "in normal market conditions" the commissioning of the Newcastle plant should have enabled the company to raise external finance "and thus release cash for the development of the next project". "Extreme tightness in financial conditions has taken a number of potential funders out of the market altogether and has made others much more reluctant to make commitments.

"Cash flow constraints have, therefore, had an impact on our plans for Newcastle and these will continue to do so until such time as we either refinance the plant or sell the turbines originally intended for Coega," Hargrave said. Ipsa last year announced that it was disposing of the four gas turbines previously intended for its Coega project near Port Elizabeth when it became clear the project would miss its 2010 deadline. The project is a combined-cycle gas turbine plant of 1600MW.

The group has been in negotiations with prospective buyers of the turbines since October last year. It bought the turbines in March 2007. Earl said the negotiations were yet to yield a positive outcome. Ipsa reported that its loss for the year to September 30 had widened from £2,8m in 2007 to £4,4m. Headline loss per share rose from 3,95p to 4,97p, while cash and cash equivalent deteriorated by £298000.
http://www.businessday.co.za/articles/topstories.aspx?ID=BD4A966474

Dip in M&A deals follows global trend
March 25, 2009
MERGERS and acquisitions (M&A) activity in SA last year plunged in line with the global economic downturn. Total deal value came down from R514bn to R312bn, with the mega-deal of 2007 notably falling off the list. Deals worth more than R5bn dropped by over half from 23 in 2007 to only 10 last year.

Speaking ahead of Ernst & Young's annual review of M&A activity for last year, which will be released on Tuesday of next week, Dave Thayser, director for Ernst & Young transaction advisory services, said yesterday that the decline in M&A value in SA closely followed global trends and that 2008 was an eventful year.

The 33% decline in local activity by deal value came off a record year in 2007 and was in line with international trends. However, last year would be remembered for the dramatic economic downturn mid-year, which was mirrored mid-year in declining deal value and a large number of unconsummated deals in the second half of the year. Thayser said that the first half of the year was a time of uncertainty and cautious optimism, which quickly subsided towards the end of the year as the economic downturn spread with astounding speed from the developed to the developing world.

The largest transaction of the year in SA was the unbundling of 90% of Remgro's holding in British American Tobacco to Remgro shareholders valued at R58,7bn. The deal ranked as the fifth largest in the history of South African M&A. The top 10 deals last year came in at R154bn compared with R208bn in 2007, a 26% drop, following the dramatic 51,5% increase compared with the top 10 deals of 2006. "In SA the major drivers of M&A remained surprisingly constant despite big changes in the overall economic conditions, although it remained still to be seen whether the effects of the economic downturn still have to filter through," Thayser said. Empowerment, which remained a significant deal driver last year, was perhaps most at risk as credit conditions weakened and free cash dried up, he said.

Management consultancy Mckinsey noted that following the financial crisis, mega-deal activity was likely to shift towards large-scale transformational deals in other sectors, particularly energy, material and telecoms. Unlike the 2001 to 2002 downturn where companies were not financially distressed, the current downturn had paved the way for a higher number of large, industry shaping deals. Hostile takeovers, which peaked in 2007, became increasingly prominent as a result of very strong market confidence and extraordinary financial conditions, but these were likely to taper off.

Thayser said that M&A activity this year seemed likely to be characterised by caution with perhaps corporate rescue appearing as a new deal driver. Private equity could also reassert itself as markets stabilise. "All eyes will be on early signs of an economic turnaround, which could encourage buyers to come out of their shells."According to research consultancy Thomson Reuters, global M&A totalled $2,9-trillion last year, down 30% from the record volume of 2007. The consultancy said the comparison would have been worse were it not for the high value rescue deals which were concluded last year.
http://www.businessday.co.za/articles/topstories.aspx?ID=BD4A966602

Mozambique, SA to build $620m fuel pipeline
March 26, 2009
A Mozambican and South African consortium, Petroline Holdings, plans to start building a $620-million oil pipeline linking Johannesburg to the port of Maputo before the end of this year. Mateus Kathupa, chief executive of state-run Mozambican company PETROMOC, which holds a 40% stake in the consortium, said on Thursday the construction of the petrol and diesel pipeline would take six months.

The 450km pipeline, with an annual capacity to transport 3,5-million cubic metres, will facilitate fuel imports via Maputo, which is closer to Johannesburg than any of South Africa's major ports, including Durban. "Our aim is to have this project up and running before 2010 in order to have an additional capacity in terms of oil supplies to South Africa," he told Reuters in an interview. Pipeline construction was originally scheduled to have started in September last year. Katupha said the delay was related to problems in the approval of an environmental impact study, but he expected them to be resolved by May.

"There are little issues to be ironed out such as compensation of land to the people residing in the areas where the pipeline will pass through," he said. Other stakeholders in the project include South Africa's Woesa Consortium, which holds 25%, and Gigajoule International, which controls another 20%. Companhia de Desenvolvimento de Petroleos em Mocambique (CDPM), a Mozambican consortium of small and medium companies, holds the remaining 15%.

Katupha said the pipeline would reduce the risk of fuel shortages in the interior of South Africa and cut deficiencies in transport and storage capacities. "This is a very ambitious project that [will produce revenues of] over $800-million a year from the pumping and distribution of oil in South Africa," he said. -
http://www.mg.co.za/article/2009-03-26-mozambique-sa-to-build-620m-fuel-pipeline

Absa's black investors to get up to 5,1% stake
March 26, 2009
BLACK investors will get as much as 5,1% of SA's biggest retail bank, Absa , under a plan to boost black ownership of big firms, the bank said today. The second part of what is a two-stage deal involves exercising options on preference shares held by black investment group Batho Bonke.

Absa, which is majority-owned by Britain's Barclays, will provide bridge financing for the deal, as well as back-up funding if Batho Bonke fails to find a funder. South African companies must meet targets on black ownership, management and procurement as part of a government drive to shift more control of the economy into the hands of the black majority. Batho Bonke, which is led by politician and businessman Tokyo Sexwale and is 44,7% owned by Mvelaphanda Group, bought 73,1 million preference shares in 2004, or 10% of the company's equity, with options attached that must be exercised by June 2009.

It will need to raise about R5 bn to exercise all of those options, which will unlock R2,2 bn in value assuming an Absa share price of 100 rand. To fund part of the transaction, Absa will buy back about half of the options at market prices and cancel them, and will then issue 36,6 million ordinary shares to the group, giving it a stake of 5,1% and a seat on the board. Batho Bonke, which will keep the remaining shares until March 2011, will need to raise third-party funding to fund the rest of the deal. Assuming it raises funding, it will pay a cash dividend of R236m to its shareholders. Shares in Absa fell 1,6% to 97,90 rand by 1153 GMT, as financial stocks tracked their weaker European peers. Absa Chief Financial Officer Jacques Schindehutte told a conference call Batho Bonke was at an "advanced stage" of finding funding.

If, given volatile market conditions, Batho Bonke failed to get funding, Absa would finance the deal, but the black investment group would be forced to scrap the dividend and its stake in the firm would fall to about 3%. Schindehutte said Absa was unlikely to do further deals to boost black ownership in the company given market conditions, but would not rule it out. Several black economic empowerment deals are under threat as the value of shares that were used as collateral to back the complex transactions falls, forcing companies to inject more capital, which

dilutes the black shareholding.
http://www.businessday.co.za/articles/topstories.aspx?ID=BD4A967876

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