PetroSA joins the ranks of sinking SOEs

There are reports that the national oil company Petroleum, Oil and Gas Corporation of South Africa's (PetroSA) flagship Mossel Bay gas-to-liquid refinery is set to run out of gas reserves by December 2020. Pointing at another in a long list of cash-strapped state-owned enterprises (SOEs) to find itself in serious trouble.

Image: Brand SA

With no sustainable long-term solution in sight, the subsidiary of the government's Central Energy Fund is already close to negative cashflows, as the Mossel Bay plant continues to operate at less than half of its capacity due to declining reserves.

While PetroSA is yet to decide on a sure way forward, Bernard Sacks, senior tax partner at Mazars, says that without an alternative source of gas, this will ultimately come at the expense of the South African taxpayer.

"Considering that $1bn has already been lost through PetroSA's unsuccessful efforts to secure additional gas reserves during its recent offshore drilling campaign, hopes for an alternative source of gas being found are dwindling, and the possibility of closing the plant is now a real consideration."

Shortfall

Should PetroSA close the facility, in addition to the dire economic impact this would have on Mossel Bay and the surrounds, Sacks notes that a significant shortfall exists for the estimated costs involved. "In a presentation made to the National Assembly, PetroSA has said it would cost R9.8bn to close the facility, of which it only has R2.4bn available."

He explains that the shortfall of R7.4bn would therefore have to be accounted for somewhere in the budget. "Ultimately, this shortfall would need to be funded through either a reduction in expenditure, or a possible increase in taxation – this, at a time when government is already under massive financial pressure."

Job losses

Another consideration that Sacks raises is the potential state liability in relation to the 1,500 people whose jobs are at risk. "With the reality of Mossel Bay's economy likely coming to a virtual standstill in the event of the facility's closure, the loss of 1,500 jobs would place further pressure on government by means of additional social grants that may be required to support the families of all those affected."

While PetroSA reportedly has several initiatives planned to keep the plant's doors open, Sacks believes that a greater reliance on imported products may be unavoidable. "The fact that the plant is set to run out of domestic reserves means that South Africa will either need to import natural gas to keep the refinery going, or resort to a greater reliance on imported fuels in the event of a closure."

PetroSA's present predicament is unfortunately indicative of the general state of South Africa's SOEs, which Sacks says will be one of the major concerns for Treasury to grapple with in the upcoming 2019 Medium-term Budget Policy Statement (MTBPS).

"PetroSA is just one of the many embattled SOEs that continues to be a financial burden for the South African taxpayer. If Treasury has any further plans to contain the amount of money that is being lost through these entities, now will be the time to implement them," Sacks concludes.