

FINAL

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TOURISM BUSINESS COUNCIL OF SOUTH AFRICA (TBCSA) COMMENTS ON THE ESKOM TARIFFS INCREASE APPLICATION FOR 2018

1. INTRODUCTION

The Tourism Business Council of South Africa (TBCSA) is the umbrella organization which represents the unified voice of business for the Travel and Tourism (T&T) private sector. It is a non-profit, private organization working to unite and influence the diverse Travel and Tourism private sector behind one core mission of contributing to a competitive, responsible and inclusive Travel and Tourism (and South African) economy. Our mandate is to serve the needs to our members who broadly constitutes 20% of the sector's leading business enterprises and whose output represents 80% of the sector's overall economic contribution. This we do through lobbying the public sector on issues, including macro-economic issues, that now and then have a negative effect on the effective functioning of the tourism industry. We also facilitate key industry programmes that are aimed at driving growth and development in the sector.

Ours is a vibrant and growing sector, whose most recent economic impact (2016) according to the World Travel and Tourism Council (WTTC) is as follows:

- **R 127.9 bn in direct GDP contribution or 3.0% of total GDP in 2016.** This is forecast to rise by 2.7% in 2017, and to rise by 4.5% pa from 2017-2027, to R204.4bn or 3.8% of total GDP in 2027;
- **R 402.2bn in total GDP contribution or 9.3% of GDP in 2016.** This is forecast to rise by 2.5%, and to rise by 4.2%pa to R624.2bn or 11.5% of GDP in 2027;
- **1 533 000 total jobs or 9.8% of total employment in 2016.** This includes jobs indirectly supported by the industry. This is expected to rise by 6.7% in 2017 to 1 636 500 jobs and to rise by 4.2% pa to 2 459 000 jobs in 2027 (3.2% of total);
- **R 128.3bn in visitor exports generated or 9.9% of total exports in 2016.** This is forecast to grow by 4.4% pa in 2017, and grow by 7.3% pa from 2017 -2027, to R271.3bn in 2027;
- **R 68.9bn or 8.1% of total investment generated in 2016.** This is expected to rise by 0.6% in 2027, and rise by 4.0% pa over the next ten years to R102.5bn in 2027 (or 9.6% of total).

2. Background

Eskom has applied for a tariff increase in the context of a slow economic growth and downgrade, where the country is at risk of facing a further downgrade, with the Reserve Bank projecting growth to be 0.6%. This also happens in the midst of an unemployment rate of 27% as revealed by Statistics South Africa. This is coupled with an increase in the number of indigent households across the country. South Africa's municipalities registered 3,56 million indigent households in 2016, which means that 2 in every 10 households were classified as indigent in 2016 (Statistics SA, 2017). Issues of slow growth and unemployment imply a shrink in disposable income among households.

The application for a tariff increase is also happening within the context of declining business confidence. The Quarterly Rand Mutual Bank and the Bureau of Economic Research Business Confidence show that the Confidence Index fell to 29 points in the 2nd quarter of 2017. Businesses are still indicating worse than normal performance.

In the travel and tourism industry, a sustainable and responsible tourism as emphasized by government requires renewable sources of electricity which can be afforded by business. Of note is also the fact that inclusive growth with a thriving SMME sector is dependent, among others, on affordable energy or electricity prices.

3. TBCSA's submission

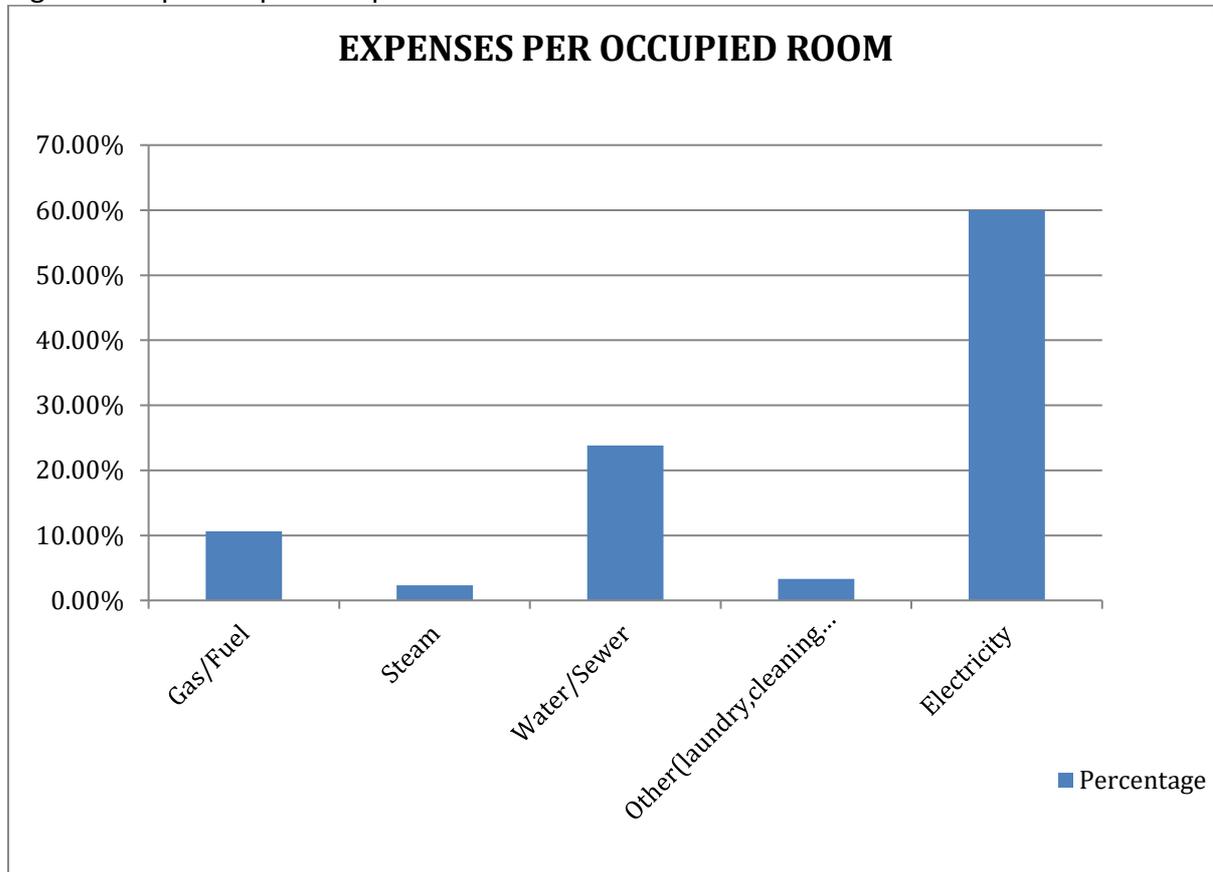
It is against the backdrop outlined in the previous section that we as the TBCSA submit our views and position on Eskom's application for tariff increases.

3.1. Impact on the Accommodation and hospitality sectors

The imminent rise in the cost of electricity will push up the overall input costs by the accommodation and hospitality sectors. It should be borne in mind that these two sectors are the ones that employ the largest number of people. In the tourism sector generally, the Statistics South Africa satellite account shows that 1 in 22 people were employed in the tourism sector in 2015. Also, 20,1% of employment in South Africa in 2016 was in the tourism sector. With a rise in electricity prices, these two sectors will be the largest hit. The situation will force them to push up their prices, which in turn may lead to a situation where a decline in tourists is experienced. Already, there has been a decline in domestic tourism in South Africa. The Tourism Business Index also shows insufficient overseas leisure demand as well as insufficient domestic leisure demand as negative factors contributing to low business performance in the accommodation sector. Other factors identified were increases in rates and taxes. A rise in electricity prices will compound this situation, which may lead to job losses as business would be going down.

In the accommodation sector only, the biggest cost after salaries and wages is energy. This is due to the fact that rooms need to be lit, heated and cooled (dehumidified) according to location-specific requirements and guest satisfaction. Cutlery and linen need to be washed constantly, while linen also requires ironing. The graph below illustrates expenses per utility per room.

Figure A: Expenses per occupied hotel room



Sources: Wilkofsky Gruen and Associates

In the hospitality industry, restaurants will be affected by the rising costs of electricity as there is always a need for cooking, refrigerating food and keeping storage spaces to specific conditions for long periods. As food safety is important, restaurant owners cannot reduce service quality due to high electricity costs. They will have no alternative but to increase prices to make up for the electricity costs.

3.2. Indirect impact on the Travel and Tourism sector

The tourism sector is one that will be able to contribute to the recovery of the economy provided a viable environment in the form of favourable policies, infrastructure and affordable electricity exists. Currently, there has been a decline in domestic tourism, where 2.5m trips - where people visit families, relatives and friends - has been recorded in the first quarter of 2017 when compared to 5,2m in the same period in 2016. Business trips have also shown a

decline. Consumers are under strain to choose between needs and wants, and most of them perceive travel as a luxury. Businesses that are reliant on domestic travel will suffer due to decline in travel patterns. Therefore, increased electricity tariffs will exacerbate this situation.

3.3. Environmental Impact of coal generated electricity

The Tourism Business Council of South Africa would like to take this opportunity to also indicate the impact of generating electricity through fossil fuels. We are aware that coal mining causes environmental degradation, and scars the landscape. Coal fired power generation emits greenhouse gases and other hazardous air pollutants. These will in the long run have a negative effect on tourism, which is the most important sector for the South African economy.

The tourism industry, in particular, the accommodation and hospitality industry, are high energy intensive industries and would like to switch to producing their own energy through renewable sources. Eskom needs to encourage this practice in affordable ways as it will reduce the carbon footprint, a move which will be beneficial to Eskom on the one hand, so as to reduce the burden that is currently on the grid, especially during peak hours. This move would also rescue the environment from damage as a result of carbon emissions. Accepting the inputs of other electricity production sources into the grid would also ensure consistent supply of electricity.

4. Implications for the travel and tourism industry

The implications of the rise in electricity prices are dire for the tourism industry.

- In the first place, consumer spend will be restrained due to reduced disposable income, which has a negative impact on the profit margins in the sector.
- In some cases, there will be closure and insolvencies of small businesses to the imbalance in the input costs versus income.
- Unemployment levels will be on the rise due to business closures and staff retrenchments.
- Business confidence is already low because investors are not confident in investing in a country where economic growth is sluggish. This puts the growth of the tourism sector at risk.
- Transformation initiatives will be delayed due to businesses' focus on keeping the business afloat in the midst of poor performance.
- Integrating renewable technologies and smart management systems come with high costs. This poses a limitation in terms of converting to energy efficient systems.
- Investors will consider SA's neighbouring countries as alternatives to developing and growing their businesses, due to the cost of running a business in South Africa.

5. TBCSA's position

TBCSA acknowledges the economic principle of inflation, including tariff & price increments. However, 19.9% tariff increase will have a detrimental effect on the travel and tourism industry which is already under strain due to the economic downgrade and sluggish growth. There is already a lack of trust and transparency regarding Eskom's dealings. The tourism industry proposes that the National Energy Regulator of South Africa reviews the proposed percentage increase, and only put an increase based on inflation.

It is also unreasonable for Eskom to simply pass on the producer costs to the consumer. Eskom is still a monopoly and consumers have no alternative source of electricity. In the interest of the different industries such as manufacturing, finance, real estate and other businesses, as well as tourism for example, who contribute immensely to the GDP of this economy, Eskom should consider raising funds so that it is able to run effectively, and not pass costs to the consumer.

6. Conclusion

The South African economy is already burdened by a series of factors, and the sluggish growth is impacting negatively on the poor. The tourism industry is one of the industries that can contribute to economic growth due to the fact that it contributes immensely to employment. Factors such as high electricity prices will have a negative impact on the ability of the sector to thrive and thus contribute more to the GDP of the country. Growth in the sector will create a favourable environment for inclusive growth. This kind of growth will however be made possible by a viable operating macro-environment.

Yours Sincerely

Ms. Mmatšatši Ramawela
CHIEF EXECUTIVE OFFICER
Tourism Business Council of South Africa

TRANSMITTED ELECTRONICALLY, THEREFORE SENT UNSIGNED