ELECTRICITY SOLUTIONS

NEVA MAKGETLA: No-win power shut-offs block industrial development

Eskom is intentionally inflicting damage on the economy and society to cover its bills — surely there's a more constructive solution?

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Picture: THE TIMES

SA entered a technical recession in the past quarter, after four years of slow and precarious growth.

The downturn has many causes, but one is obvious, entirely domestic and in theory fixable: state agencies that sometimes, it seems, can't be bothered when something in the economy is going wrong.

Take Eskom's resolve to shut off electricity to municipalities that fell far behind on their bills. This is a no-win solution: businesses and consumers are harmed, city revenues decline further, the economy takes a hit, and that means Eskom's sales will fall further. A state agency is intentionally inflicting damage on the economy and society to cover its bills. Surely there's a more constructive solution?

Eskom is mostly acting against declining Free State mining towns and former labour-sending regions. But in August, it announced shut-offs in Emfuleni, which owes Eskom R600m. This could block industrial development.

Emfuleni contributes 1.3% of SA's population and GDP, but 2.4% of manufacturing value added and 13% of steel production. The ArcelorMittal steel complex anchored the region's economic growth from the 1920s, but is in decline. Emfuleni's share in national steel production shrank from almost a quarter in 1994 to an eighth in 2017; today its economy and employment are both smaller than in 2008.

Many factors contributed to the woes of SA steel, but Eskom played a big role. It more than doubled its prices after 2008, and applied for double-digit increases for most of the past five years. In response, most of the energy-intensive metals refineries have downsized.

Steel output from electric furnaces fell 50% from 2007 to 2015, more than twice as fast as other steel production. Electric refining of steel contributed 40% of production in 2015, but 75% of the total decline in output. Among others, ArcelorMittal downsized its electric-arc lines, and the number of foundries dropped by about a third after 2008.

But Emfuleni still has unusually strong industrial capacity and infrastructure. That enabled businesses there to diversify, mostly into food, clothing, transport equipment and petroleum refining. Excluding steel, manufacturing in Emfuleni expanded 7% from 2011 to 2017. For SA as a whole, the comparable figure was 4%. In this period, manufacturing employment outside of metals climbed 7% — twice as fast as in the rest of the country.

Nonetheless, downsizing in steel cut Emfuleni's revenues and increased bad debts. In 2017-2018, its operating revenues fell 6% in real terms. Budgeted electricity revenues dropped 5%, compared to a 2% fall in the cost of bulk purchases.

Budgeted revenues are overstated because increasingly households and businesses have stopped paying. In 2016-2017, Emfuleni's impaired debts reached R1.1bn, R200m more than budgeted. They climbed from 9% of total expenditure in 2012 to 24% in 2018.

The threat to deny electricity to Emfuleni leaves businesses with two options: downsize or shift to off-grid sources. Both will harm Eskom sustainability. as they eat further into its sales.

The shut-offs may drive Emfuleni to prioritise its payments for electricity. For the country, however, they impose substantial costs in the form of slower manufacturing growth and higher joblessness. And the measure will make it less likely that Eskom will be able to leave behind the vicious cycle of falling demand leading to costly overcapacity.

The main factors behind slow economic growth lie outside of SA's control in the decline in international metals prices from 2011 and the herd mentality on global capital markets. But the failure to find better electricity solutions reflects the need for stronger efforts to align the fragmented state and conflicted polity around long-term development.

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