

The Big Five of the year

Looking back over the year there were five developments that were in my opinion the most important developments in our political-economy. They were: electricity supply problems at Eskom; strikes; the elections; the split in Cosatu; and the 40% drop in the oil price.

By looking back at these Big Five, what can we glimpse about the future?

Eskom

The woes at Eskom are well known and are having a profound impact on both the national psyche and the national economy. The mood in the country will not get better, and the growth rates not improve much, before power supply improves.

It seems as if that improvement will not occur before the middle of 2016 – about 18 months. It is all about capacity and the dates that capacity will be available.

The numbers tell the story: the current short fall of power is about 2 000 MW. To manage that deficit the entire system must be run flat out leaving little room for maintenance and forcing the use of expensive diesel-run generators. It also means that if the slightest thing goes wrong (which it of course always does) power supply is interrupted. That is what the 2000 MW shortfall means. The only way to cope with that is to install new capacity.

When the new capacity?

The first new unit (794 MW at Medupi) is scheduled to start producing by middle 2015, followed by two more units a year of about 800 MW each. Eliminating the current 2000 MW short fall will require 3 x 800 MW units. That can be installed by the middle of 2016, if all goes according to schedule.

But it is not enough to cover the 2 000 MW short fall. One also needs more capacity to be able to shut down parts of the system to do maintenance. The decision since the 2010 World Cup to “keep the lights on at all costs” has extracted a price in poorer maintenance. At the weekend of writing this, for example, Eskom reduced output by 4 000 MW thus causing power interruptions across the country. So we will need another 2 x 800 MW units to help cover maintenance interruptions. Those two units can be commissioned by 2017.

Eskom is also desperate to stop using the open-cycle gas turbines during peak periods. They are REALLY expensive to run (last financial year R10.5 bil). In addition there is old equipment that has to be replaced. Both these require further new capacity, taking us to 2018 before we are out of the woods.

This schedule, which Eskom again confirmed at the Investment Analysts Society last week, suggest that the tipping point for the better will only be reached by 2016; by 2018 it is possible to be out of the woods; and by 2020, when all 12 units from Medupi and Kusile are up and running, there can be decisive improvement. All of this is on the assumption that 2 x 800MW units come into production every year from 2016 onwards.

Private sector

In the meantime a lot of private sector investment in capacity is also taking place. 1 000 MW of renewable energy has already been connected to the grid. In total 4 280 MW (that is 89% of the size of a Medupi or a Kusile) have been contracted between Eskom and various private sector players. Currently Eskom is spending about R1.6 bil a month buying power from these various private producers. A multi-billion rand industry has developed and it is set to get much bigger.

A further round of bids by private producers will be released soon, including for a 2 500 MW coal-fired power station. If these investments indeed take place, it could take private sector MW capacity close to the combined capacity of both Medupi and Kusile. The private sector is entering electricity generation in a substantial way. This will help to improve power delivery by 2018.

Very much as an aside, a long term goal of the Mbeki government back in the 2000s was that 30% of SA's power must eventually be generated by private players. A back-of-the-cigarette-box calculation indicates that by 2018 we could achieve some 12% to 15%... . As Genl Smuts used to say: "The dogs bark, the caravan moves on".

Strikes

This year saw 13.2 million man days lost in strikes, the highest since 2010 when 14.6 mil man days were lost. It hobbled GDP growth and hit confidence for a six.

Predictably the platinum mines, with their record 5 months strike, contributed more than 50% of these days lost; the metal, steel and engineering industries contributed another 40%; the shoe industry chipped in 3%; the Post Office about 1% and the textile industry 0.3%.

Thus five industries made up 95% of strike days lost. It somewhat repudiates the view that the entire SA is constantly on strike.

Two features dominated these strikes:

- the persistence of the workers who stayed out much longer than expected and
- workers basically got the demands they went on strike for, even if these demands are phased in over a year or three.

In the platinum industry workers will reach their much publicised R12 500 in 18 months – in middle 2016; in the meantime in 2014 they got a 40% increase on the minimum. At the Post Office the workers' main demand was to be appointed as permanent employees. This has been acceded and will be phased in over two years.

Why?

The general consensus is that these strikes are the results of mischievous union leaders, uninformed workers who get led up the garden path and intimidation. Personally I do not buy it; I think something more complex is at work, i.e. the deeper fault lines running through SA society.

Could poverty play a role in the persistence we have seen from strikers? It is well documented that one breadwinner often looks after more than one household. Could the persistence be a reaction against inequality?

If these factors do indeed play a role, then the wage negotiations in 2015 will be tough and strikes guaranteed. Tinkering with labour laws will not resolve this. Much more fundamental action is needed. The NDP spells out most of them (e.g. lowering cost of living for the poor; negotiating a national accord on the way forward; attending to the income divide and so on). The problem manifests in the labour market, the solutions are outside the labour market in broader society.

Elections

The parliamentary and provincial elections in May produced the first really big electoral change since 1994. The ANC lost its status as a two-thirds party, a position it had held for 15 years from 1999 to 2014. A party of the left got into Parliament with a credible 6% of the vote. The antagonism between the EFF and ANC got so bad it torpedoed any idea of the two joining forces.

These trends will be reinforced in the run-up to the 2016 local government and 2019 national elections. The ANC is unlikely to regain two-thirds status; a labour-sponsored party of the left is likely to emerge (in possible competition with the EFF); Parliament is going to get more robust; antagonism between the EFF/a workers's party and the ANC will deepen; and politics in the country in the country will divide further between the real left (EFF/NUMSA), centre-left (ANC) and centre-right (DA).

The space between the left and the ANC will widen and between the ANC and the DA narrow. It is much too early to talk about *toenadering*, but watch this space over the next few years.

Split in Cosatu

In a profound development for SA labour relations and politics COSATU expelled NUMSA from the union federation. A serious fight is now going on between NUMSA and anti-NUMSA forces to capture COSATU. The prize is a considerable one and the fight intense.

Two scenarios are now possible.

The EXIT scenario: NUMSA remains expelled and COSATU splits with the NUMSA-supporting unions leaving and forming their own labour federation with NUMSA. What remains of COSATU would largely be a public sector union federation. Hectic contestation between competing unions will follow in the workplace. This will probably lead to increased conflict and labour unrest and employers will be caught in the middle. A new political party of the left is likely to be born. This new federation will not formally align itself to a political party but there will be many links with the new political party of the left. COSATU will remain loyal to the ANC.

The RECAPTURE scenario: NUMSA supporters remain in COSATU and get the special congress they have been agitating for (a normal congress is due in December next year so a logical compromise would be to bring that forward and dispense with the special conference); at Conference elections are held, Vavi and other NUMSA supporters triumph and the existing COSATU leadership is thrown out; NUMSA is re-admitted. A new political party of the left is still likely to be born. COSATU will become much more independent of the ANC alliance.

If the **RECAPTURE** scenario fails, i.e. the NUMSA supporters lose in COSATU, the **EXIT** scenario will follow.

Whichever scenario plays out, a new political party of the left will be born. Zwelinzima Vavi could very well become the leader. He has the brand, standing and ability to challenge the EFF and Malema as the authentic voice of the left and can become a more democratic critic of government.

The follow-up question then is whether the EFF will join this new party or try and fight it....?

Oil price

I do not have to repeat anything on this theme – recent trends are well known and the positive consequences for SA well canvassed.

Suffice it to say the benefits it brings to SA confirms the old adage by that king of SA historians, Cornelis de Kiewiet, who wrote in 1941 already that SA advances through political disasters and economic windfalls. It remains true three-quarters of a century later. In the midst of political disasters the oil price brings a windfall.

I wish you a happy festive season.