**Is the fuel retail sector sustainable amid load shedding and declining fuel demand?**
*Karen Keylock*

The retail fuel sector has had an unpredictable few years. During the Covid-19 pandemic lockdowns, fuel sales volumes understandably plummeted in most markets but, as lockdowns eased fuel demand recovered. But the global economic slowdown, an unprecedented move towards working from home, acceleration in migration to online shopping channels and soaring fuel prices have reduced mobility and cast doubt on whether retail fuel volumes can recover to pre-pandemic levels.

On the upside, many shoppers sought out convenience stores – including forecourt convenience stores – at the height of the pandemic to avoid crowded supermarkets, and they continue to be a destination of choice not only for traditional categories such as tobacco, drinks and snacks but also for newly introduced and expanded grocery assortments.

**A preview of the impact of the energy transition**
In some ways, the dramatic shifts experienced in 2020 have provided a preview of the likely impact of the energy transition in years to come. The long-term outlook for fuel retail envisages a 9,2% decline in global value from $87 billion in 2019 to $79 billion in 2030 – although developing markets such as ours are expected to achieve modest growth over that period. This decline will be driven by efficiency improvements, regulations to curb emissions, and the rise of electrification and shared mobility.

As was the case during the pandemic, the decline in income from fuel retail is expected to be offset by gains in nonfuel retail, with global forecourt value increasing 36% from $22 billion in 2019 to $30 billion in 2030. A big contributor to this is EV-charging, which is expected to rise from approximately $35 billion in 2021 to $420 billion by 2030. Their networks, access to capital and customer knowledge put forecourt retailers in a strong position to switch to EV charging, but capturing this market will require significant investment in building EV charging infrastructure. And with recharging taking much longer than refuelling, fuel retailers will need to upgrade their facilities to provide better dining options, a safe environment, expanded seating and decent toilets.

**The load shedding problem**
A uniquely South African phenomenon that also needs to be factored into the sustainability of the fuel retail sector is load shedding. According to the South African Petroleum Retailers' Association (SAPRA), fuel retailers are under pressure because of generator-related costs with running, servicing and diesel costs coming out of the bottom line of service station owners – while oil companies benefit from stable or higher fuel sales. An analysis of the impact on fuel retailers of running a generator in the past 13 months is reported to show a cost increase of 77% from about R145 000 to R257 000.

Another challenge is that, due to the nature of their business, fuel retailers are obliged to stay open as they supply fuel to essential services such as SAPS and security companies. This, however, becomes dangerous when the service station is forced to close due to prohibitive costs or is trading in darkness. As a result, many fuel retailers are in ongoing discussions with the oil companies about whether sites can remain open 24/7. If not, this could affect fuel supply security, particularly in peri urban and rural areas where fewer service stations operate.

The approach of oil companies to renewable energy at sites is another bone of contention among fuel retailers, who are prepared to make the capital investment in a solar solution, but the oil companies are reluctant to allow this because the retailers don't own the properties as they belong to the oil companies.

**A sector worth supporting**

According to SAPRA, the fuel subsector contributes about 8% to South Africa's gross domestic product. There are about 5 000 petrol stations, creating over 700 000 direct and indirect job opportunities to contribute 5% of total formal employment in South Africa. But with factors such as declining fuel demand and load shedding thwarting growth efforts, just how sustainable is the fuel retail sector?

Across the board, businesses in all sectors are crying out for an end to load shedding – which is reported to be costing the South African economy R1 billion per day – and the fuel sector is no different. Installing generators and renewable energy systems go a long way to mitigating the problem but they cost money, which ultimately affects the bottom line. With this in mind, Nedbank offers easily accessible solar energy solutions that utilise the value of the infrastructure itself to tailor affordable repayments linked to the cyclical nature of each client's business.

For the longer-term challenge of declining fuel demand, EV charging certainly offers the greatest potential for fuel retailers. It is a natural progression from their established fuel retail operations, makes use of their experience and offers the highest potential margin. It also offers considerable scope for growth with oil companies already investing in the EV charging sector.

For our part, Nedbank's role is to enable players in the fuel franchise industry, through expert financial advice and innovative financing, to adjust and thrive through challenges and an evolving world for the greater good of the sector, creating jobs and growing the economy.

*Karen Keylock is National Franchise Manager at Nedbank Commercial Banking*