New energy in the region's fuel market: Puma Energy - Brent Oil merger

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The recent merger in South Africa between Puma Energy and Brent Oil, recently approved by the competition authorities, may change the competitive landscape in regional and South African markets for fuel retail, leveraging Puma's long-established presence throughout the rest of the region. This article considers the implications of the merger.

The fuel sector is a key strategic one in all economies, with the prices of most goods and services being directly or indirectly driven by changes in fuel costs.[1] Fuel retail markets in the Southern African region are typically highly concentrated, with a relatively small number of firms accounting for large market shares and possessing considerable market power within countries. Moreover, large oil companies are also vertically integrated throughout the value chain, heightening entry barriers into the sector for non-vertically integrated entrants. In South Africa, major oil companies – Engen, Caltex, Sasol, BP, Shell and Total are able to control fuel supply to the downstream levels of the market.[2]

Puma - Brent Oil merger

Puma Energy, an independent oil group originating from Argentina entered the African continent in 2002 at the wholesale and downstream levels of 16 African countries.[3] The wholesale level of the value chain involves storing, marketing and transporting of petroleum and natural gas products, whilst the downstream level involves retail and distribution of petroleum products.[4] Puma Energy's African footprint has expanded over the last decade primarily through the acquisition of major oil companies' assets. Its presence was strengthened in 2010, as a result of its acquisition of BP's downstream operations in Namibia, Botswana, Zambia and Malawi, with branded service stations in 7 African countries, 600 000 storage facilities and 2 500 employees across the continent.

Puma Energy's continued regional expansion is geared towards taking advantage of wholesale and downstream opportunities that arise as oil majors increasingly concentrate on upstream services.[5] Since 2011, large oil companies such as Shell have exited some of Africa's fuel retail markets as a result of dwindling profit margins, increased competition and official price caps. This was evident with Shell closing down its operations in most African countries, BP exiting the Tanzanian fuel market and Total scaling down its Zambian presence. The trend out of downstream retailing oil activities has been a common feature amongst global oil brands.[6]

In South Africa, the fuel sector is regulated in certain respects at the retail level.[7] Until recently, Puma Energy had no plans of operating in the South African retail fuel market which is dominated by the oil majors and has an extensively developed liquid fuels infrastructure. However, as South Africa increasingly becomes an importer of final fuel products, this market has become more attractive for Puma Energy's entry.[8] It has been argued that Puma Energy's entry into South Africa is likely to challenge the dominance of the main fuel retailers and relatively smaller retail players like Sasol.[9]

Puma Energy holds a wholesale licence and was prohibited from holding a retail licence in South Africa, but strategically acquired independent fuel retailers who heavily rely on big oil companies for their supplies.[10] Puma has acquired 40 petrol station sites in Mpumalanga and Kwa-Zulu Natal of which some are to be branded as Puma Energy.

Puma Energy has most recently acquired Brent Oil. Brent Oil entered the South African fuel market in 2003 as a non-refining wholesaler of petroleum and petroleum products to commercial and retail customers with branded fuel stations nationwide. The entrant was only able to source its petroleum products from suppliers such as Sasol and Total. The acquisition of Brent Oil by Puma Energy Africa, which was approved by South Africa's Competition Tribunal in August this year, gives Puma Energy control over all of Brent Oil's operations. According to Puma Energy, this transaction will assist it in expanding its presence in the South African fuel supply industry as it is a relatively new player in this market, while Brent Oil has stated that partnering up with a long-term industry partner will help grow the Brent Oil brand. Both parties are predominantly active in Mpumalanga, Gauteng, Limpopo and KwaZulu-Natal provinces and following the Commission's analysis, the combined post-merger market shares in these provinces will be less than 5% for petrol and diesel products, and less than 5% on a national scale as well. The merged entity will be constrained by competition with other market players such that the merger will not substantially lessen or prevent competition in the identified product market.[11]

The entry of Puma Energy in other regional markets has been different. In Zimbabwe, Engen and Total continue to hold a strong position in the market. However, the exit of BP, Shell and Caltex from the Zimbabwean market created an opportunity for the entry of fuel retailers such as Redan and Sakunda. Puma Energy went on to acquire Redan in 2013, one of the country's largest indigenous oil companies, giving them access to 62 service stations across Zimbabwe.[12] In Zambia, Puma Energy has managed to capture the largest share of the retail network (33.5%) followed by oil majors, Total (25.7%) and Engen (8.4%).[13] In Namibia, Puma Energy took over BP and Caltex assets in 2010 in order to expand the retail segment of its business.[14]

A recent CCRED study on the fuel sector in South Africa highlights the importance of access to a reliable supply of fuel for downstream operators in particular. Evidence suggests that the control by the oil majors of fuel supply chains and key refining and storage infrastructure is a primary constraint for new wholesale entrants who are generally unable to compete effectively against incumbent firms Sasol, Shell, Engen, BP and Total SA.[15] Although the acquisition of Brent Oil by Puma Energy has paved way for a new player in the South African fuel market, it is significant that Puma has had to enter the market by acquisition and that Brent Oil has not itself been able to present an alternative to incumbent refiners upstream. Nonetheless, the ability of Puma Energy to import fuel leveraging Brent Oil's footprint in the market presents a significant opportunity for greater rivalry in the fuel sector.

Notes

1. Human Sciences Research Council. (2002). Structure of the SA fuel retail industry.
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3. The New Age. 'Puma energy to launch in South Africa' (17 April 2015). *The New Age.*
4. Marine Oil and Gas Academy website. 'Oil and gas value chains'.
5. TradeMark SA. 'Why big companies are exiting Africa's oil retailing business' (22 June 2011).
6. See note 5.
7. Das Nair, R., Mondliwa, P. and Roberts, S. 'The inter-relationship between regulation and competition enforcement in the South African liquid fuels industry.' *Journal of Energy in Southern Africa,* February 2015, Vol. 26 (1), p. 11-19.
8. Creamer, T. 'Fast expanding Puma energy eyeing SA prospects as imports rise' (10 January 2015). *Engineering News.*
9. Competition Tribunal of South Africa. In the Large Merger between Puma Energy Africa Holding and Brent Oil Holdings Proprietary Limited, 31 August 2015.
10. Business Report. 'Puma Energy: Fuel retailer to enter local market' (20 April 2015). *iol Business Report*.
11. See note 9.
12. Muronzi, C. 'Foreign giants take over fuel sector' (23 January 2015). *Zimbabwe Independent.*
13. Energy Regulation Board of Zambia. Report on status of the petroleum industry.
14. Kaira, C. 'Puma Energy plans more investments in Walvis Bay' (10th February 2013). *The Namibian.*
15. Paelo, A., Robb, G. and Vilakazi, T. 'Security of fuel supply in trumping BEE needs' (28 November 2014). *Business Day Live*.