



Sappi Presentation  
to NERSA Public  
Hearing

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**sappi**

# Sappi Presentation

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# Sappi Background

- **Global business employing 30,000 permanent employees – indirectly supports 200,000 people**
- **South African production capacity greater than local demand – reliant on exports**
- **Previous competitive advantage – low cost energy; fast eroding**
- **Sappi profits under pressure – reduced export contribution**
  - **Exchange rate**
  - **Energy costs 11.7% of sales vs 7.6% in 2004**

# Sappi Background

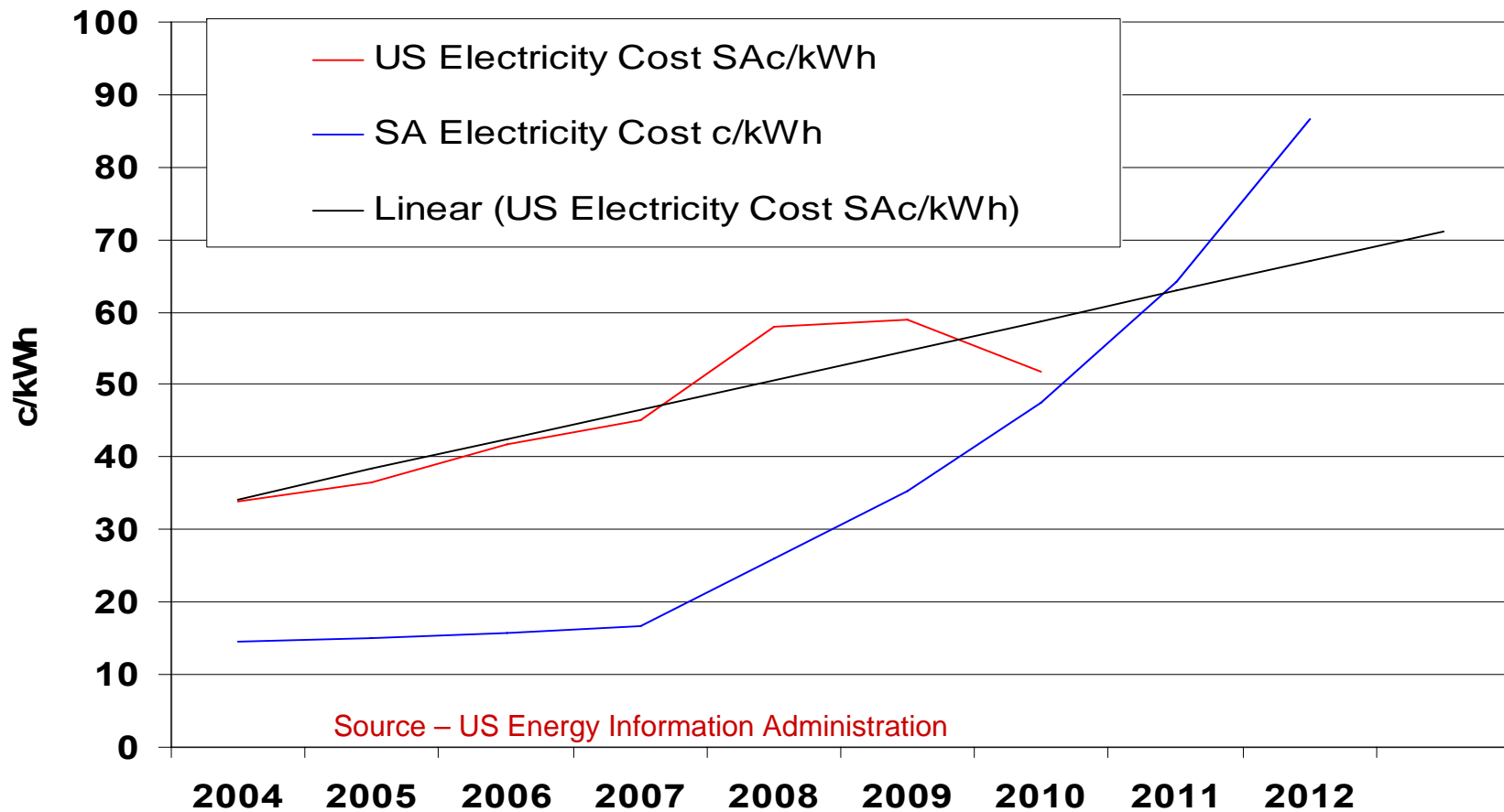
- **Unsustainable in an internationally competitive market**
- **Closing and curtailing operations; zero performance bonuses; minimal increases**
- **SA Purchased electricity ~R350m/annum – generation 45%**
- **35% increase over 3 years → electricity costs to ~R1b**
- **Has assisted during January 2008 power crisis – to date unsuccessful in PPAs**

# The Problem

- **Not** that electricity price is increasing
- **Is** the rate at which prices are increasing
- Price can only be countered by reduced demand - efficiencies
- Energy efficiency improvement can not be achieved by a 'magic wand' approach.
- Planning and adjusting – behaviour and capital
- Three years behind major competitors - Europe and USA

# Sappi Background

## Electricity Escallation



# Way Forward

- **The Consumer**
  - Pay increased electricity prices, but at a slower rate
  - Drive energy efficiencies
- **Government**
  - Provide direction - National Integrated Resource Plan
- **Eskom**
  - Efficiently and cost effectively generate and transmit electricity
  - Focus on management and planning of electrical power supply
  - Supplier of last resort – guarantee supply at all times
  - Electricity costs should exclude special pricing elements – cross subsidising is a government responsibility
- **Regulator**
  - Benchmark and regularly publish prices worldwide to eliminate speculation
  - Ensure an enabling environment that allows optimum power generation from all players – co-generation; IPP's
  - Ensure unrestricted access to transmission grid for such power



THANK  
YOU

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