

Keynote Address

Advocate Sandile Nogxina,

**the Director General of the Department of Minerals and Energy
of South Africa, Johannesburg, South Africa**

at the Workshop on Energy in Southern Africa

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Programme Director

Representatives of the Energy Sector here present;

Organisers and sponsors of the Workshop;

Distinguished guests;

Ladies and Gentlemen:

The Department feels honoured in having been asked to deliver a keynote ^{speech} ~~speaker~~ at this very important Conference on Energy in Southern Africa. Allow me to begin by thanking the organizers who perhaps had the foresight of knowing that there would be a need for all of us to recalibrate our strategies given the global financial context that we find ourselves in. This conference is an indication of the acknowledgement by all those who are present, of the significance of energy to our economy. Energy, as we all know, is a key enabler for economic growth, without which “the wheels of the economy” would indeed grind to a halt. There are many issues which this conference intends to address and as if these were not challenging enough, the current global economic climate as I have mentioned adds another

dimension of complexity to the myriad of energy related challenges that currently face us. Although our insightful and strong fiscal policies will to a certain extent shield our financial markets from the current global financial crisis, the South African economy as a whole will not be left unscathed and the energy sector is in many ways impacted. Given the need for infrastructure expansion, the impact is bound to be negative, however we remain convinced that this challenge like all others also presents opportunities that we must seize. As has been indicated by many, domestic growth prospects will be impacted amongst others, by depressed export demand, financial volatility and exchange rate turbulence.

Reduced investor confidence in developing economies will impact our ability to raise the required capital for our infrastructure expansion programmes both in the liquid fuels and electricity sectors. The downgrading of Eskom's credit rating is likely to increase our cost of borrowing while the more recent drop of the South African credit rating from 'stable' to 'negative' is further going to pose serious challenges for us in this regard. While the economic slowdown in some of our major trading partners will also impact directly on our ability to export, our weakening exchange rate will further exacerbate the problem by resulting in increased costs of imports.

Focussing closer on energy issues, if South Africa, and other developing economies are still to meet the Millennium Development Goals, the key issue of energy poverty is one that will need immediate attention. The challenge in the energy sector is the need

to ensure that there is safe, accessible, economically viable energy that is essential to economic growth and that it is produced in an environmentally sensitive manner to ensure social progress. To achieve this, we need the cooperation and coordination of different stakeholders. The process of integrating business imperatives, technological deployment, capacity building, environmental processes and the governance of the sector to optimise benefits for all; is increasingly becoming complex and difficult to achieve.

The Southern African countries and South Africa in particular as a net importer of oil, are not immune to the challenges that characterise the oil industry. At present, we are all aware that the South African oil refining capacity cannot meet demand and this is a significant contributor to the trade deficit. There is an increased need to augment local production and diversify our energy mix with an increased focus on alternative fuel technologies such as CTL and GTL and indeed a focus on renewable forms of energy.

Fluctuating oil prices are a constant reality which we have to deal with and we need to find innovative ways of being able to switch to cheaper sources of fuel when global crude oil prices are high. Indeed we are now benefiting from the sharp drop in crude oil prices however this should not lull us into complacency as the rise, when it happens may just be as swift as decline that we have been experiencing recently. We are all cognisant of the fact that as a country which has a substantial part of the population classified as poor; high oil prices dent the hope of reduction of (energy) poverty in the near future. Oil

prices, as we all know, are also a significant contributor to the increase in food prices which is a consequence of increased input costs such as transportation. In this light a key issue that needs to be debated is the trade-off between biofuels and food security. Although high oil prices may automatically point to biofuels as a cheaper alternative, we need to consider the impact that this option has on food prices. In fact all strategies that we put in place in our pursuit to address the important issues of global warming and climate change should be clearly thought through to ensure that our poor are not adversely impacted.

Current constraints to our liquid fuels logistical infrastructure means that we are running at full capacity and should we be faced with a sustained technological glitch in any of the refineries to the inland market or in the Durban to Johannesburg the pipeline, we may be faced with a situation where we are not be able to get product to the inland market. In order to ensure continual supply to our inland market, not only do we need to increase the pipeline capacity but we also need to ensure that we have sufficient stock piles which will ensure that the market is adequately supplied in the case of such eventualities. Such stockpiling comes at a cost, and we need to engage on the most efficient mechanisms of funding. In our discussions we also need to start thinking of additional capacity and logistical improvements which need to be made to ensure that the supply of product reaches our landlocked neighbouring countries.

I am pleased to note that deliberations on electricity form part of today's proceedings. In this sub sector we are also faced with tough decisions relating to ways of raising the required capital. Recent successes of Eskom in raising finance from the African Development Bank are to be applauded. If we do not raise the required capital for our build programmes we face the risk of running into more power challenges in future.

A lower cost and lower risk solution under these circumstances is to focus more aggressively on energy efficiency and conservation initiatives. Unless we focus on energy efficiency initiatives, we may not be able to address electricity challenges in the short term. We also need to realistically examine whether we have made sufficient progress in facilitating access to Solar Water heaters. If not where are the bottlenecks and how do we move forward with a "Sense of Urgency"?

The dip in mineral commodity demand which is a consequence of the global financial turmoil is anticipated to result in a temporary decrease of electricity consumption by the mining and manufacturing sector. Although the residential sector consumes very little electricity as compared to the mining and industrial sectors, in the short-term we also need to look at fuel switching as part of demand side management and start focusing on promoting the use of the most appropriate form of energy for the most appropriate application, for example the use of LPG instead of electricity as a source of energy for household cooking and space-heating. However with this come


the challenges of ensuring that pricing, availability through local imports sources as well as distribution to end-users are attended to. Moreover, our current infrastructure has limited capacity to accommodate gas imports and we need to look at the different options of addressing this. In the longer term, we need to look at feasible ways of generating electric power from renewable forms of energy such as solar and wind and of course increased use of natural gas.

With the cost of funding increasing and with limited investments flowing into the economy, we are forced to re-prioritise some of the plans that we had put in place when the economic outlook was still brighter. We need to make the best use of limited funds to ensure that we meet these energy challenges. We need to focus on solutions that will address the challenges we face now, but which will not be regret investments in the long term.

The convergence of electricity and liquid fuels sectors cannot be ignored and we need to acknowledge that South Africa is not facing an electricity problem but is facing an energy problem with challenges in one segment of the sector impacting directly on the other

More now, than before, we need the support of the financial services sector to guide us as to how we can best raise the required funds for the energy infrastructure projects that we are undertaking.

It is heartening that we, as the Government, are engaging with our sector partners in order to discuss these issues. The role that each of us plays or needs to play in addressing these issues is important so that we are clear on our responsibilities and areas of accountability. The world energy market is in a period of substantial changes and new challenges confront both the consumers and producers. We need a concerted effort to deal with these problems now.

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In closing I would like to challenge all of us as sector partners to explore the possibility of doing more with less or maximising the benefit from what we have. The approach of always try and solve shortages by expanding capacity cannot be sustainable.

Thank you