

Keynote Address by the Minister of Energy:

Honorable Dipuo Peters, MP

ANNUAL LPGAS CONFERENCE

RIVERSIDE HOTEL, VANDERBJILPARK

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The LPGas Safety Association of Southern Africa (LPGSASA);

Members of the South African Petroleum Industry Association (SAPIA);

The LPGas Industry members;

Government officials present here;

Distinguished guests;

Ladies and Gentlemen!

It is always with great pleasure that the Department of Energy (DoE), as custodian of energy policies of our country, is afforded the honour to address the LPGas Safety Association at its annual conferences and other of its major events. These are challenging times in the energy sector where we are confronted with volatile prices of crude and ever increasing prices of electricity.

“Access to modern energy provides the productive capacity for stimulating economic development and reduces conditions for poverty while improving health, air quality, productivity comfort, education, and hardships imposed on women and children. Energy is essential for our very existence, yet for all the invaluable benefits that energy brings, its consumption can generate harmful pollutants which affect the air we breathe, our waterways and the soil which provides our food. But not all energy sources have the same potential to affect our health, so it is important that consumers are informed and able to choose cleaner fuels to meet their energy needs”.

South African households, particularly middle to high income class have for a long time over-dependended on electricity for all their energy needs. This is attributed to cheap electricity and abundance of coal used for the generation of electricity, a phenomenon that made South Africa not to see the importance of exploring and investing in alternative environmental friendly sources of energy. In the energy and other sectors, global warming has become a topical issue all over the world. This is not because it is the most common topic on the agenda, but it is in response to the environmental damage cause by burning of fossil fuels, hence the importance of investing in alternative sources of energy such as LP Gas.

In 2008, South Africa’s high electricity demand by households, mining and manufacturing sectors exceeded supply resulting in load shedding and black outs, mainly in the Western Cape and Gauteng provinces, South Africa’s economy heartlands. This necessitated the South African government to explore alternative sources of energy. One of these energy sources is the Liquefied Petroleum Gas (LPG). Currently my Department is in the process of finalizing the National Liquefied Petroleum Gas Strategy for the Republic of South Africa. The development of this strategy is predominantly informed by *inter alia*; Government’s concern on South African household’s over-dependence on electricity as a source of energy and concerns about green house gas emission which contributes to global warming.

Honorable delegates, the National Liquefied Petroleum Gas Strategy seeks to;

- provide national access to safe, cleaner, efficient, portable, environmentally benign and affordable thermal fuel for all households;
- switch low income households from paraffin and biomass to LPG as the thermal fuel;
- contribute to demand side management by removing cooking and space heating from electricity; and
- enhance the level and quality of energy services currently available to residential users throughout South Africa.

Our strategy aims to convert 1.5 million households to LPG by 2016. This includes households which are electrified and those which are not electrified. However, it should be emphasised that most beneficiaries will be low income households because it is one of government's priorities to address poverty and develop rural areas; hence one of our key focus areas is to eradicate energy poverty through LPG.

Ladies and Gentlemen, work done thus far on this document has revealed that the South African LPG sector is faced with a number of challenges, and these include;

1. High prices of LPG and its appliances,

Although it has always been our intention to grow the LPG market in South Africa, high prices of LPG and its appliances has been unaffordable to most households, particularly low income class and has acted as barrier to accelerate switching from other sources of energy to LPG. In view of this, my Department has developed and promulgated maximum retail LPG pricing regulations for residential purposes. These regulations came into effect on 14 July 2010, and were well received by the consumers, whom these regulations are meant to benefit.

Honourable delegates, although this is the case, we still feel as government that the maximum retail price is still high and beyond most poor people's affordability. However,

this is the step in the right direction, as it has been said before; Rome was not built in one day.

In terms of dealing with the costs associated with access to LPG appliances, our strategic intervention will include introducing incentives to local cylinder manufacturing and LPG stoves manufacturers with the intention of bringing production costs down and retail LPG prices to affordable levels. This strategic intervention forms part of lessons learned in other countries that have a more developed LPG industry.

2. Limited local production,

Although we have a total of six refineries with a capacity of 460 000 barrels per day, excluding synfuels, the production of LPG is low and falls short of the current demand. This has necessitated importation of LPG. We believe that the successful implementation of the strategy will result in the increase in imports of LPG, thus unlocking import facilities development opportunities.

3. Vertical integration of the LPG industry

The LPG value chain is vertically integrated, highly concentrated with very limited opportunities for new entrants. This phenomenon acts as an impediment to small business development, black economic empowerment and other government supported initiatives to transform the economy and promote rural development and poverty alleviation.

4. Inadequate LPG infrastructure

Honourable delegates, one of the biggest challenges with LPG in South Africa; is the lack of infrastructure ranging from storage to import facilities. There is only one import facility with the capacity of 3 600 metric tonnes. This ultimately affects supply for the product. In terms of the storage facilities, there are few storage facilities in South Africa and the refineries do not have bulk storage facilities for LPG. Added to that, our

refineries do not produce enough LPG to be used within and outside the borders of our country. We always experience shortages during the winter months. I therefore cannot place enough emphasis on the importance of importing the product to ensure security of supply.

I have been informed that industry has raised concerns with the current maximum refinery gate price (MRGP). Let me assure you, my department has started the process of reviewing the MRGP. I therefore request industry players to cooperate with the department and assist with information that they may be requested to submit.

Working together with the LPG industry, all the challenges that have been highlighted can be addressed. I believe that LPG has a very important role to play in terms of the energy mix in South Africa. The truth that all of us have face is that, the era for cheap electricity is gone. This is the time that we should be investing in other energy sources thus LPG.

With these few remarks, I wish a very robust and successful conference.

I thank you.