

**Minister of Energy**

**Hon Ms Tina Joemat-Pettersson**

**Address at the Argus Africa LPG 2015 Conference**

**20 October 2015, Cape Town, South Africa.**

Honoured guests,

Ladies and gentlemen

It is my great pleasure to join you again at the annual Argus Africa LPG Conference. The present is a time of significant change and opportunity throughout the conventional and unconventional gas value chains around the world. A few weeks ago here in Cape Town, we have had another related gas options event, marking our journey in development of a gas industry in South Africa.

While the causality between energy use and economic growth is difficult to establish, the creation of value in sub-Saharan economies needs to be accompanied by a rise in modern and more efficient energy use. The successful development of the energy sector is a key factor in determining the pace of economic and social development in Africa.

Modern energy services are crucial to human well-being and to a country's economic development; and yet according to the World Bank and the International Energy Agency globally over 1.3 billion people are without access to electricity and 2.6 billion people are without clean cooking facilities. More than 95% of these people are either in sub-Saharan African or developing Asia and 84% are in rural areas.

Africa presents a very diverse energy landscape, with large country-by-country variations in resource endowments, patterns of consumption and policy challenges. However, some key recurring characteristics and questions can be noted:

- For many low-income households, continued limited access to electricity is a fundamental weakness throughout our continent and a huge barrier to

development. With electricity being a premium energy source, we have to apply our minds to ways of conserving electricity and to use it for the applications that it is best suited for. Petroleum products are still the lifeblood of the economies throughout Sub-Saharan African countries. They are key fuels used in road transport, power generation and for lighting and cooking in ordinary households. The question is which policies, fuels and technologies can improve the situation in, and how quickly is this energy access gap being closed?

- The traditional use of solid biomass for cooking accounts for the largest part of household energy consumption, but has significant health and environmental impacts. Again the question is how we can achieve a transition to cleaner alternatives?
- In Western Africa, although for some countries in Africa oil has been central to their modern histories, for many the large revenues have not been translated into tangible socio-economic benefits.
- In Southern Africa, the drive is to diversify a heavily coal-dominated electricity system (with renewable energy playing a much larger role), but also various forms of gas as alternatives.
- Major natural gas potential as well as discoveries in both offshore waters as well as onshore locations (Mozambique, Tanzania, South Africa) are creating high expectations, but what are the avenues – and obstacles – facing these countries as they look to get the best value from natural gas while also contributing to balance the regional energy demand and supply equation?

This conference is yet another opportunity to raise awareness of the cross-cutting issues and emphasise the need to work together to address these challenges in order to change the status quo for the future benefit of all of our citizens.

Closer to home, both in terms of the topic (LPG) and the market (South Africa) some contextual information is in order. The consumption of LPG accounts for about 3% of the total South African fuel consumption, of which household use of LPG amounts to only 3% of the national LPG consumption. The remainder is being used in commercial and industrial applications. The use of LPG remained constant over the

past 10 years despite the Department's focus on promoting the household use of LPG in South Africa.

Compared to other developing countries South Africa still has a large potential for increasing the role of LPG in the energy mix. For context, Brazil and Malaysia uses on average 40 and 65 kilograms of LPG per capita per annum, compared to South Africa's 3-6 kilograms. The more intensive usage occurs in the Western Cape Province, with varying levels in other provinces being a function also of proximity to supply infrastructure. Industry is projecting the potential for the South African market to grow to 20 kg per capita per annum in the medium term.

In this context the Department is working with industry to develop the market, e.g. in addition to the regulations related to the pricing of LPG, several other objectives to promote the shift towards increased gas and LPG consumption are listed in the Gas Act (2001) (Act No 48, 2001). They include:

- Facilitating investment in the gas industry;
- Ensuring the safe, efficient, economic and environmentally responsible transmission, distribution, storage, liquefaction and re-gasification of gas;
- Promoting companies in the gas industry that are owned or controlled by historically disadvantaged South Africans by means of license conditions so as to enable them to become competitive;
- Promoting skills development among employees in the gas industry;
- Promoting the development of competitive markets for gas and gas services;
- Promoting access to gas in an affordable and safe manner.

Currently the Department is aware of the pricing structure challenge in terms of the maximum retail LPG price (MRGP) remaining the highest cost fuel alternative to the consumer. An unintended consequence of the current MRGP is that the reduction of the selling price (by R74/ton) relative to the price of 93 octane petrol, makes the refining margin on producing LPG negative. We are working on rectifying this aspect of the LPG market in consultation with relevant stakeholders through the development of the Liquid Fuels Master Plan process.

Evidence of the drive towards lifting constraints on supply infrastructure in South Africa is that NERSA granted licenses for the construction of four major terminal

facilities at the ports of Saldanha Bay, Richards Bay and Ngqura having a combined storage capacity of approximately 65 000 m<sup>3</sup>. Although the approvals of additional storage capacity will improve the security of supply of LPG, some risk remains in the Western Cape, and specifically the Cape Town metropolitan area where consumption rates are high. Upon completion (most will be operational by 2018), these projects will improve significantly the security of supply of LPG.

Furthermore the Department has developed a Gas Utilisation Master Plan (the “GUMP”) for South Africa. The GUMP is a roadmap for the development of a gas economy. It analyses the potential and opportunity for the development of South Africa’s gas economy and sets out a plan of how this could be achieved. One of the key objectives of the GUMP is to enable the development of indigenous gas resources and to create the opportunity to stimulate the introduction of a portfolio of gas supply options. The demand from the Gas to Power Programme will provide a market for a potential supply of gas. It will also provide long term gas demand sinks for future indigenous gas supplies.

The initial period of the development of South Africa’s gas industry could be anchored on the demand provided by the Gas to Power Programme. The potential to link the Gas to Power Programme to supply a limited amount of gas, marketed in the form of a gas supply agreement (GSA), for use of industrial and other users is therefore also being explored.

In the absence of available natural gas within South Africa and to ensure that new capacity is delivered in timescales commensurate with the objectives of the medium term risk mitigation project, it is recognised that it will be necessary to import gas, inter alia, in the form of either liquefied natural gas or compressed natural gas. As a consequence the Gas to Power Programme could be designed as a potential means to catalyse the importation of such gas. In May 2015 the Gas to Power Programme commenced with a formal Request for Information. The Request for Information was intended to solicit information from participants in the gas to power industry. We have indeed received information on a number of interesting LPG-based project options. This information is being used to design the procurement documentation for the Gas to Power Programme.

***What is the relevance for the LPG sector?*** In the case of LPG, refining crude oil is not the only source of supply, as the yields of LPG are quite low in refining and LPG can be produced from natural gas liquids at lower cost. In short, if a country is importing mainly gasoline and LPG, then a local refinery in Africa may not be able to produce these products at lower cost.

The Gas to Power Programme therefore is intended to serve as a catalyst not only for Electricity from natural gas, but also to provide momentum for the broader South African economy to more widely make use of conventional (natural) and unconventional forms of gas – including LPG.

Another initiative that may impact on the functioning of the LPG industry, is the enquiry launched by the Competition Commission in June 2014. The Competition Commission believes that conducting this inquiry will assist in understanding how it may promote competition in the LPG sector. From this market inquiry the Commission envisages to make recommendations that may serve to improve the state of competition and recommendations on appropriate policy and regulatory mechanisms that would enhance competition.

Last week's information gathering operation is part of the Commission's investigation into alleged fixing of the price or deposit fee for gas cylinders, and is unrelated to the ongoing broader LPG market inquiry.

In conclusion, my Department is spearheading a range of initiatives not only to change the energy mix in South Africa, but also to increase accessibility and supply reliability of affordable modern energy source to all citizens, with specific focus on low-income households.

Overall, end user prices are affected by several factors: market size and economies of scale, mode of product transport, controlled pricing, protection of inefficient domestic suppliers, degree of competition (or lack thereof), clear and stable legal frameworks, effective monitoring and disclosure of industry statistics.

These are the issues that are also on the agenda of this LPG conference. I trust you all feel energized and ready to absorb as well as contribute interactively and constructively towards finding solutions towards these challenges over the next two days.