



**CLOSING REMARKS FOR THE ENERGY INDABA THE MINISTER OF ENERGY,  
HON MR DAVID MAHLOBO, MP, AT THE GALLAGHER ESTATE, MIDRAND,  
JOHANNESBURG ON THE 08<sup>TH</sup> DECEMBER 2017**

Programme Director,

Ambassador Thembisile Majola, Deputy Minister of Energy

Ministers and Deputy Ministers,

Representatives of Premiers' Offices

Honourable Members of Parliament

Members of the diplomatic corps

Invited Speakers, Facilitators, Moderators and Rapporteurs

Government Officials

Captains of the Industry

Media officials

Distinguished guests

Delegates

Ladies and gentlemen

Good day

1. We have come to the end of the most fruitful exciting two days of the Energy Indaba. This important event has been an eye opener but more important the nation and our friends in the region and abroad have been and or are awaiting its outcome with bated breath.
2. Number of commentators, lobbyists and agencies sought to define what this gathering should be and others felt it was convened in a haste without any shred of appreciation of what were our intentions.
3. As true patriots and advocates of human solidarity, peace, stability, development and prosperity you remain single minded and focused on the task at hand.
4. After meeting with key stakeholders amongst them, the Energy Intensive Users Group and the Petroleum industry Association, I am convinced that there is huge potential in this sector, which if correctly tapped can help us grow this economy.
5. The power sector and the liquid fuels sector directly employ more than 150000 workers and this excludes those that work in the mining sector. The sector accounts for a significant portion of the GDP and as such if we do not tap into the vast potential of this sector, we would be missing an opportunity to grow this economy.
6. Subsequently, we have shared our experience of engagement with the president who instructed us to get down to work and address the main issues what will we do to reignite the economy.

7. One of the key objectives of the Department of Energy (DoE) is to ensure energy security which, in essence, is about ensuring the availability of energy resources, and access to energy services in an affordable, reliable and sustainable manner, while minimizing the associated adverse environmental impacts.
  
8. A number of factors pose potential threats to energy security including scarce and depleting energy resources, geopolitical instability, inadequate energy infrastructure and, more recently, natural disasters. To ensure continued security of energy supply, it is essential that there is coordinated and integrated approach to energy planning and coherent policy making. In the breakaway sessions, constraints were identified solutions were proposed which I believe will be of advantage to South Africa.
  
9. The South African energy sector is governed and regulated by a number of legislation which includes the National Energy Act, 2008 (Act No. 34 of 2008) among others. The National Energy Act states the following as its objectives:
  - i. Increasing access to affordable energy services;
  - ii. Improving energy governance;
  - iii. Stimulating economic growth;
  - iv. Managing energy-related environmental and health
  - v. Impacts and securing supply through diversity.

10. There is consensus that all work streams have identified the role of each energy carrier that is coal, renewables, nuclear, gas and liquid fuels. This energy mix allows South Africa to use all the South Africa energy resources. Energy is an integral input in production. In the utilisation of the energy resources it has been recognised that we need to ensure that we produce energy that will enable us as a country and all our businesses to be competitive locally, regionally and globally.
  
11. We face numerous energy challenges; the first challenge is to meet rapidly rising demand for energy especially in developing countries. The second challenge is the need to increase energy supply in a globally carbon constrained environment. The third challenge is to ensure security of supply and affordability of energy for all. These are challenges that South Africa equally faces in the energy sector.
  
12. Globally and indeed domestically fossil fuels remain the dominant source of energy powering the world economy and providing around 60% of energy growth. It is estimated that by 2040, natural gas will grow the most with its share in primary energy gradually increasing. Oil remains essential to transportation and chemicals. Coal is projected to slow sharply with gas replacing it as the second-largest fuel source driven by the need for cleaner fuel. Nuclear and renewables see strong growth totaling more than 20%.

13. The energy demand is reliant on adequate infrastructure to meet energy transportation, refining and storage needs to lower energy costs to consumers. More than half of the increase in global energy consumption is used for power generation as the long-run trend towards global electrification continues.
14. South Africa needs to industrialize the economy to take advantage of being well-endowed with natural resources including both renewable and non-renewable resources. What are we going to do?
15. Petroleum products (diesel), natural gas and other renewable energy sources (i.e. solar, wind, biomass, bagasse, and landfill gas) collectively contributed less than 1.0% towards the total installed capacity for electricity generation. Imported crude oil dominated the primary supply of liquid fuels, followed by imported natural gas.
16. The threat of climate change, together with global developments in renewable energy and nuclear energy technologies and other cleaner alternatives to traditional coal power stations could see South Africa's future energy mix being quite different from that of the past.
17. Over the last few years, various policies have been developed by the DoE in an effort to increase diversification of primary energy sources and reduce over-reliance on fossil fuels for the supply of energy.

18. Investments in the energy sector should embrace the transformation agenda of the country and meet the strategic imperatives of meaningful ownership, job creation, skills development, localization and local resource exploitation.
19. On Petroleum; the Petroleum and Liquid Fuels Charter was the first empowerment charter to be crafted and signed off in 2000. Despite the early adoption of transformation, the energy sector remains largely untransformed.
20. The development of an energy sector-wide transformation Charter, in line with the revised codes of good practice, as a driver for transformation across the sector is critical if the NDP commitments to dealing with inequality; poverty and high levels of unemployment are to be realized.
21. The Department together with relevant stakeholders in the liquid fuels industry is developing the petroleum sector codes to promote transformation in the sector.
22. There is an audit currently in progress to confirm the extent of transformation in the petroleum retail sector. This report on this is expected in February 2018
23. The issues around the commitments related to the IPP programme, which include amongst others the trickling of benefits to local communities will need to be finalized and agreed to before the next window. There is a need for independent verification of the benefits of this programme to our people.

24. Constrained government budgets in both the developed and developing countries have necessitated increased infrastructural investment through innovative private sector financing options. Institutions financing infrastructure development are increasingly broadening their investment opportunities, innovative financing options and risk tolerance levels toward developing markets, Greenfield projects and riskier infrastructure assets with greater levels of private equity.
25. The South African situation is no different from that of other countries. The country's social, economic and fiscal context makes it imperative to leverage private sector financing and investment to meet infrastructure investment needs.
26. To alleviate pressure on the fiscus, stimulate economic growth and development and improve the welfare of society as a whole, the government needs to utilise the private sector for infrastructure development, especially in the development, implementation and operation of energy infrastructure.
27. In this regard, the South African government has established an Independent Power Producers Procurement Programme (IPPPP), which has successfully designed, procured, monitored and evaluated electrical energy infrastructure projects from the private sector. This is a demonstration that both private and public sector funds can contribute to infrastructure investments. Meaningful transformation still remains our immediate concern in this sector.

28. All the commissions have acknowledged that energy is an enabler however there are issues that need to be resolved. If South Africa has to address inequality, poverty and unemployment then radical economic transformation is non-negotiable. The economic empowerment of historically disadvantage communities namely blacks, women, youth and people with disabilities is non-negotiable.
29. All commissions have acknowledged the need to implement transformation. As government we have ensured that transformation has been legislated as part of the liquid fuels sector. Government will ensure that transformation will be implemented across the energy sector. Information on opportunities from the sector should be accessible to all, the SMMEs enterprise development programmes will be developed and SMMEs empowered.
30. There is need for skills audits to be conducted and strategic plans developed to ensure that we have adequate skills required for the energy sector. The skills plan should also be linked to the energy infrastructure development plan of the country to ensure that we focus and invest in skills that will be absorbed and utilised by the energy sector. This key strategic skills intervention programme will optimise skills in the sector. The Department should work with the Energy and Water SETAs to develop an energy skill plan for the country.
31. The Commissions have identified funding as important an issue for consideration. Energy sector projects are complex in

nature; project preparation is expensive and requires companies with deep pockets. In addition to the bankability of projects, all financial institutions require a strong balance sheet, collateral, and a proven track record of the sponsor team.

32. Furthermore, the cost of capital in South Africa is high especially for our black owned businesses. Our developmental funding institutions and commercial banks have not been able to sufficiently provide adequate and innovative funding instruments to meet the needs of the energy sector. A bold suggestion is to have an Energy Infrastructure Bank like the Land Bank for the agricultural sector. Such Energy bank may fund, pool and raise capital towards funding of energy infrastructure. This is a matter that I will take to government, the executive - Cabinet and the Minister of Finance for consideration.

33. The following are key suggestion which we will considered:

- i. The MPRDA needs to be finalised for policy certainly to enable shale gas exploration and production.
- ii. There is a need for legislated review to harmonise Gas Act., Ports Act., and Electricity Act in relation to the permitting licensing of gas activities across the different gas uses and gas types (natural gas, LNG, CNG and LP Gas).
- iii. The DoE must finalise the approval of the Biofuels Regulatory Framework including enabling Regulations for the use of municipal waste as a feedstock.
- iv. There is a policy and regulatory vacuum for embedded generation especially for 1 MW – 10MW projects yet these

projects can be implemented by SMMEs and create the much needed jobs.

- v. There is a need for a clear framework for the participation of Municipalities in power generation including the licensing of PPP projects with Municipalities.
- vi. Procurement of electricity generation is too focused on price; there is a need to revise the procurement to weigh more heavily on local manufacturing, job creation and participation of black entrepreneurs and communities.
- vii. There is a need to set-up a compliance, auditing and verification unit to ensure that energy infrastructure projects comply with transformation policies including the services provided e.g. we should not only monitor the amount of local equipment purchased but also the extent of local skills usage.

34. Large infrastructure projects should have a social labour plan that will have a comprehensive skills workforce plan that would include re-skilling of labour on decommissioning of the infrastructure project.

35. For the natural resources – coal, uranium, vanadium – government must develop a beneficiation strategy that gets aligned to the energy infrastructure

36. The Department must acknowledge that technology development is happening at a high pace resulting in policy, planning and regulations not taking into account new technology

developments and evolving technology costs. There needs to be a way that our policy, planning and regulations frameworks are not too technology specific. An example is energy storage and Concentrated Solar Power (CSP).

37. The procurement of electricity capacity per technology stifles innovation – government must procure capacity specifying capacity, carbon emission profile, transformation targets.

38. Delegates, I wish to re-state that Nuclear remains an integral part of the Energy Mix of the Republic. As I said earlier in the conversation, I had spoken with Mr Mabuza and Mr Xuza, we will implement the Nuclear expansion at a pace and scale that our country can afford. This policy principle will apply across all energy sources that they will be implemented at a pace and scale that our country will afford.

**39. On the infrastructure the commissions have identified the following:**

- i. Electricity grid access needs to be planned to support strategic infrastructure programmes.
- ii. The Witbank Coalfield is almost depleted; new infrastructure is needed for Waterberg Coalfield.
- iii. LNG importation infrastructure has to be developed to enable LNG importation which is a primer for our local shale gas.
  - a. Access to rail and terminals to enable coal exports

40. The South African economy is heavily dependent on liquid fuels for the transportation of goods and people across its geographical expanse. Petrol and diesel are almost exclusively used for road transport of passengers and freight, powering more than ninety percent (90%) of the transport sector. With this in context, the security of supply, distance from crude markets and geopolitical environments dictates that South Africa has certain security of supply of liquid fuels to mitigate against oil supply disruptions.
41. South Africa refining capacity is 700 000b/d of which 72% is from crude oil. In terms of consumption both petrol and diesel consumption exceeds refinery capacity production in South Africa. The country has seen a steady increase in imports of both petrol and diesel finished products. The NDP highlights the need for investments in the refining capacity although it acknowledges the dilemma on making such investment decisions; particularly, considering the challenges posed by declining refining margins.
42. The NDP envisages a South Africa which, by 2030, will have amongst other things, adequate supply of liquid fuels to avoid disruptions to economic activity, transport and welfare.
43. The NDP proposes diversity by way of alternative energy resources and energy supply options, both in terms of power generation and the supply of liquid fuels.

44. In as far as liquid fuels requirements are concerned, the NDP points out that South Africa face challenges with regard to existing refining capacity. Although the country has six refineries, four of which are crude oil refineries, our country imports an increasing share of refined products.
45. This picture is comparable to the rest of Africa. Africa has the lowest number of refineries of any continent. Fifteen of the refineries are located in two countries; South Africa (six) and Egypt (9). The outstanding feature of these refineries is that they are ageing. Even in South Africa, most oil refining capacity dates back to the 1960s. Based on the facts above, it is evident that the construction of refineries on the continent has not kept pace with the developments in the extraction of the resource (crude oil).
46. South Africa is on Clean Fuels I which is equivalent to Euro III liquid fuels specification. South Africa wants to transition to Clean Fuels II specification which is equivalent to Euro V specification. This requires massive investments to convert the refineries to meet the new fuel specifications.
47. Refinery owners want government to fund the upgrades or to allow them to recover the costs of the refinery upgrades after the upgrades have been commissioned. Government is reluctant as this is tantamount to the public investing into assets they do not own.
48. The cost of the upgrades is estimated at over R40bn. South Africa can consider the option of upgrading current refineries while

building a new refinery with a capacity of 400000 barrels per day, it will cost about R10billion.

49. The liquid fuels sector provides 750 000 direct and indirect jobs equal to almost 5% of the total formal employment in South Africa. The liquid fuels sector contribute about R300 billion to the GDP of South Africa's growth and contribution to the South African economy is critical.
50. For the South African Government to achieve its development objectives and to encourage investment, it continues to create an environment that is conducive to investments in the petroleum and gas infrastructure.
51. We are reviewing some pieces of legislation including Regulations with a view to facilitating investments in the petroleum infrastructure. Recently two new LPG import terminals were commissioned and liquid bulk.
52. South Africa has the possibility of introducing a variety of sources of natural gas which could be economically available within 25-year planning horizon to 2040. Sources could include extensive expansion in natural gas from shale gas, production from deep water offshore fields and development of regional gas pipeline network. Indigenous and regional gas can play a critical role in growing the economy of the country and the region.
53. We envisage that a Gas to Power Programme incorporating LNG imports will be the main vehicle through which to stimulate this envisioned gas market in South Africa. It requires an all-

inclusive effort by government and other stakeholders in South Africa. In pursuance of improving energy supply security and trade within the Southern Africa Development Community (SADC), South Africa entered into a Gas Trade Agreement with the Republic of Mozambique in 2004.

54. We remain optimistic that recent gas discoveries in the Rovuma basin in Mozambique will benefit the economies of this region and further bolster regional economic integration. We also look forward to the commercialization of natural gas from Kudu Gas Field in Namibia. Coal Bed Methane prospects in South Africa, Zimbabwe and Botswana are an indication of the need for closer cooperation in this regard.

55. South Africa has also started strategic engagements with oil producing countries in Africa such as Nigeria, Equatorial Guinea, Morocco and South Sudan, with an economic objective to sustain our security supply.

56. Our sincere gratitude to HE President Zuma, the Cabinet, Deputy Minister Majola, Portfolio Committee on Energy, Our agencies, Experts, Business, Facilities and Moderators, the Preparatory Team, Media and our sponsors-words can't express our appreciation.

57. Now that we have looked at the issues, its time to walk the talk. It is in our hands to change our economic fortunes and we dare not fail.

58. Have a safe and joyful festive season. Come back alive and re-energize.
59. God bless Africa, her sons and daughters.
60. I thank you.