



energy

Department:
Energy
REPUBLIC OF SOUTH AFRICA

H.E. Hon. Minister of Energy, Hon. Mmamoloko Kubayi

Opening Address

at

The International Gas Cooperation Summit

Durban, 9-11 October 2017

Salutations:

The Chairman or Programme Director, CEO of institutions present,
The Sponsors of the Event;
Government Officials,
Captains of Industry,
Members of the Media;
Honoured Guest,
Ladies and Gentlemen.

Welcome:

I am delighted to welcome you to our beautiful country, South Africa. It is a great pleasure for me to once again welcome some of you who have previously participated in gas conferences such as the South Africa: Gas Option Conferences hosted in 2015 and 2016. I am grateful for yet another opportunity to engage with some of the world's most prominent oil and gas power and project development players as well as stakeholders from our neighbouring countries and South Africa, on our country and regions' energy plans.

I would like to thank the organisers of the **INTERNATIONAL GAS COOPERATION SUMMIT (IGCS)** for affording me an opportunity to speak at this important event. I note with interest that IGCS main objective is to examine how South Africa's gas economy will impact on job creation and wealth creation over time. This summit would not have come at a better time than now; when The gas industry is showing such a great promise in our country.

Ladies and Getlemen, Goal 7 of the 17 United Nations' sustainable development goals calls on all of us to "Ensure access to affordable, reliable, sustainable and modern energy for all". To achieve this goal will require all of us to continue to look for cheaper low carbon energy sources. I raise this to make the critical point that as you deliberate in this summit you should not lose site of the fact that in the end the main objective is to achieve universal and sustainable access to affordable energy. In this connection, Gas is one source of energy that can help us achieve this objective.

The increasing importance of gas as a fuel source in the world economy:

Most of the energy companies in the world agree on one statement: *we have entered the era of gas*. The oil and gas major companies have switched to become gas and oil companies, with their gas production and revenues surpassing those of oil. Gas is the fastest growing fossil fuel – it is estimated that LNG supply will increase by 50% over the next five years. Over the next 20 years, LNG will catch up with oil and coal and emerge as the main hydrocarbon component of a more sustainable mix to power the world's economy. Thanks to technological advancements like LNG shipping, the nascent but vibrant developments in small-scale LNG and enhanced market liquidity, gas is increasingly accessible, which will see its demand steadily grow across almost all regions. Gas market accessibility will also be enhanced, particularly for new buyer entrants like South Africa, by the wave of new innovations observed in the gas industry, such as pricing innovations.

Policy makers across the globe agree that gas will be an engine of their countries' economic growth and development in the next decades. In response, other BRICS countries like China and India have given priority to move towards gas-based economies and investing in import infrastructure to meet the growing domestic demand.

South Africa's views on developing a gas market:

South Africa has recognised this global shift and has set itself the vision to enter the global gas market and promote the development of a gas market, not only locally here in SA but also in the Southern Africa Region. For emerging economies, switching to gas as a competitive, cleaner and more flexible source for power production is a game changer:

South Africa also recognises the need to build infrastructure that's sustainable for the long term. The megatrends transforming our planet – rapid urbanization, climate change, shifts in global economic power, demographic changes, and technological breakthroughs - can cause even traditional assets to lose relevance quickly, with the possibility of existing technologies in areas like power generation becoming obsolete. CCGT plants are cheaper to build and operate than conventional coal-fired plants. There is a shorter construction lead time for CCGT due to its modular nature of construction and relative simplicity.

Gas contributes to lowering CO₂ emissions and supports renewable energy growth by compensating for its inherent intermittency. Gas is also complimentary to nuclear baseload, as gas plants are leveraged for their flexibility.

On a macro-economic level, economic surplus is created by lower fuel prices for power production. The multiplication of production projects and international gas market liquidity contributes to create an accessible, transparent and reliable market where sourcing the gas is not an issue. Most importantly, the establishment of a gas market helps mitigate the decrease in coal production and use (e.g. power plant decommissioning)

and fosters the creation of new job profiles and skills to develop, construct and manage new import, transport and consumption infrastructures and tertiary sectors, such as services.

South Africa's power, industrial and transportation sectors show great potential to contribute to a gas market development and we have done substantial gas demand analysis that indicates that the industrial and transport sectors represent 4 times the gas demand for power.

South Africa's introduction of gas into the energy mix, could also play a major role in regional development. Sourcing of gas from neighbouring countries such as Mozambique can result in a win-win situation, where piped gas will stimulate economic activity along the routing areas in both Mozambique and South Africa. Through regional transport networks, gas could be introduced into adjacent, landlocked SADC countries. A small-scale LNG industry has the advantage of addressing off-grid power generation for mining and industrial needs in remote locations in the region. In SADC, all member countries have, collectively and individually, committed to address constraints to speeding up of energy infrastructure project implementation. The recent successful SADC Energy Investment Forum held in Swaziland demonstrated their resolve to deal with these challenges. The August 2017 SADC Summit considered the roadmap for regional industrialization, including how energy infrastructure development can be leveraged to catalyze industrialization across the region.

Establishing an enabling framework for gas market development and for private sector investment:

In South Africa, the National Development Plan (NDP) recognises the important role of gas in the energy mix, representing government wide commitment to a gas economy.

The LNG-to-Power Programme will be the main vehicle through which to stimulate this envisioned gas market in South Africa. It requires an all-inclusive effort by the general government and other stakeholders in South Africa. Over the past 2 years, we have been putting in place the enabling framework for private sector participation in our energy sector to enable gas industry development and growth.

We are working together with key stakeholders, including national and provincial departments, SOEs and IDZs, on relevant legal, regulatory, infrastructure, environmental, societal, industrial, water and energy related aspects of a comprehensive gas industrialisation policy for South Africa.

With regard to infrastructure, we are planning for investment in LNG import terminals, storage and regasification facilities, primary high-pressure gas transmission pipelines and secondary distribution pipeline networks. The Department on Trade and Industry, holds the position that natural gas can improve the efficiencies of many industries, currently using sub-optimal fuel sources in their production processes, which can contribute to a turnaround of diminishing industrial capacity and demand in South Africa. Hence our inter-departmental collaboration on market demand and industrial development.

We have undertaken an extensive review of all legislation and regulation impacting on and required for the effective development of a gas industry in the country. Legislative and Regulatory amendments will ensure coordinated planning in respect of gas, ports and transport planning, coordinated regulation between regulators and exclude exclusivity in the infrastructure to be established. The process of amending the Gas Act of 2004 has commenced, to the stage that this year a draft Gas Amendment Bill will be tabled in Cabinet. The amendments largely relate to a licensing framework for gas infrastructure and mandating the Minister of Energy to make determinations regarding the required infrastructure.

..

South African realities:

- *Policy and regulatory certainty for private sector investment*

South Africa views the gas industry as a major contributor towards reviving growth, protecting living standards and facilitating economic transformation. However, our fiscal space is limited for investment and programme development. We have to turn to the private sector and innovative private financing options to support our strategies and plans.

We acknowledge that the private sector will respond positively only in the case of policy and regulatory certainty. The successful resolution of the recent impasse with Eskom, regarding renewable energy IPP power purchase agreements has signaled to the market that there has been no

reversal of policies and regulations, particularly with regard to private sector involvement in the energy space.

- *South Africa's economic legacy of inequality and market concentration:*

Nearly a quarter of a century after the Apartheid regime, the South African economic structure today is still extremely concentrated, capital-intensive, and excluding vast numbers of people due to wealth disparities and unemployment. In order to redress these historic inequalities, the Government established the Broad-Based Black Economic Empowerment Act No. 53 of 2003. The aim of this Act is to, among others; promote economic transformation in order to enable meaningful participation of black people in the economy.

Transformation of the energy landscape through introducing new fuel sources and the private sector is not sufficient. Meaningful socio-economic transformation is also required. Since taking up my position as Minister of Energy, I have challenged my team to find ways, together with financiers and other government departments, to broaden black economic participation across the energy value chain. This is what we would like to see happening also in the gas sector.

In conclusion:

The development of our Gas Programme has not been undertaken in isolation of the international and domestic community - and many of you among us here have been instrumental in helping us shape this

programme. For that we are extremely grateful. Let us commit over the next two days to continue exchanging information as we all participate in this exciting and innovative new energy and economic chapter of South Africa and the Southern Africa region.