Address by  
Deputy Minister of Minerals and Energy  
Ms Lulu Xingwana  
19 August 2004  
“Energy Transitions” Workshop  
Energy Research Centre  
University of Cape Town

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Ladies and Gentlemen it is a pleasure to be here and to be given an opportunity to participate in this workshop.

At the outset let me congratulate your two organisations on selecting as the focus for this workshop the needs of low-income households. We appreciate that for academics such topics are perhaps not as glamorous as some others. But as I am sure you realise, they are very important to South Africans at this stage of our development.

I am also pleased to see that this workshop is a collaboration between a university from a developed country together with one of our own. We appreciate the interest that Stanford University has in this subject.

This workshop takes place, just weeks before the second anniversary of the Johannesburg Summit on Sustainable Development (Johannesburg +2). An important event in the History of South Africa where we will be evaluating the progress SA has made in Implementing the resolutions of WSSD. Whilst energy was not explicitly mentioned and highlighted in the Millennium Development Goals (MGS), the Johannesburg Summit highlighted the importance of energy in Poverty eradication. The Johannesburg Plan of Implementation emphasizes the important role of energy in poverty eradication.

The Johannesburg Plan of Implementation stated that
‘Eradication of Poverty is the greatest global challenge facing the world today and an indispensable requirement for sustainable development, particularly for developing countries’.

Regarding energy it states that ‘Access to energy facilitates the eradication of poverty’.

As you discuss this subject, Ladies and Gentlemen, and research possible ways of increasing access to energy for the millions of the poor in the world and more particularly in South Africa and Africa in general, we need to acknowledge the fact that there is no single energy source that can provide for all the energy needs of communities especially the poor. We need to understand that for the poor to develop and flourish in their different socio-economic endeavours, they need energy that is accessible, affordable, reliable and economically viable. We need to link energy provision to key economic development issues such as job creation, local economic development, education and training.

In short, energy provision to low income households is inextricably bound up with the existence of the “first” economy and the “second” economy that our President spoke about in his state of the Nation address earlier this year. Bridging the divide between these two economies is part and parcel of the energy transitions that your workshop is concerned with.

The challenge is to ensure that we broaden the energy supply mix for all communities whilst at the same time moving towards more sustainable solutions and also at the same time bearing in mind that the energy choices made by the poor is a complex matter.

We would like to think that we have got the right policy platforms in place. Our White Paper on Energy Policy of 1998 points us towards a demand side approach to energy solutions. We also have the White Paper on Renewable Energy published last year that sets some targets.

The next step is of course to move beyond policy to practical implementation. And as you will appreciate this is where it begins to get more difficult. As you well know there is no “silver bullet”. There is no “one size fits all” approach to household energy solutions. I
really do wish that we had all the answers but regrettably we do not.

We have looked around and abroad for answers. We have looked to the partnerships that emerged at the World Summit on Sustainable Development. We are a partner in the Global Village Energy Partnership, and many others.

We have had workshops with the World Bank. Unfortunately they are not providing us with the answers that we need.

So in our usual South African way we are inventing our own solutions as we go along. Are they perfect? I suspect not. Do they solve all the problems? Not yet. Are we making a difference? Yes definitely!

Our approach to household energy is a multifaceted one. We are trying to do a number of things at the same time. It may even appear that some of them contradict others. If so, this is because we are working in a complex and often contradictory market.

One of our early interventions was wood lots in rural areas. These began quite well but as you know they are long-term projects. With the restructuring of government this project was handed over to the Department of Water Affairs and Forestry and I hear that it is going slow.

Government’s major intervention in the household energy transition has been to electrify households. This is a huge programme involving a subsidy of approximately one billion Rand per year and has been very successful in providing electricity to households. But the sustainable use of electricity for low-income households is undermined by their low incomes. Consequently we have introduced a limited amount of free basic electricity to cater for basic needs. The subsidy here is approximately R500 million this year and it will increase to about R600 million next year.

I think you will agree that these electricity interventions are a substantial effort to move households to a cleaner and safer energy. They also make economic sense as electricity is cheap in South Africa, we have had spare capacity and electricity prices are not as volatile as petroleum related prices, which suffer from commodity volatility as well as exchange rate volatility.

In parallel with the electricity interventions there has also been a focus on paraffin. One of our early interventions was focussed on energy prices, in particular paraffin, which is widely used in low
income households.Whilst paraffin is not the best fuel, it is less damaging to health and the environment than coal or wood.

We zero rated Value Added Tax for paraffin. Unfortunately the benefits did not in many instances reach the intended beneficiaries. Our next step was to regulate a single maximum retail price for paraffin. Our research tells us that taken together these two paraffin interventions are not yielding the desired result. One of the contradictions here is that by making paraffin more affordable we may also be increasing the risk of more accidents and fires. We are also trying to address these issues. We constantly put out the message about paraffin safety and we have been pressing the South African Bureau of Standards to make the paraffin stove safety standards compulsory. Unfortunately they are very slow in doing so.

LPG is also a cleaner and healthier fuel than coal or wood. In parallel with the paraffin initiatives we have been preparing the way for an intervention in LPG. We built into the Petroleum Products Amendment Act last year a provision that will allow us to concession areas for LPG somewhat similar to the concept we have used for non-grid electrification. We have had workshops with the major stakeholders in the LPG Global Challenge and we are now in discussions with several companies to commence a pilot project stage which we expect to start later this year. Naturally there is concern that the zero rating of VAT on paraffin and the subsidies to electricity are undermining the efforts of LPG to penetrate the low-income market and we intend to reinstate VAT on paraffin as soon as we have a viable alternative.

Naturally there is pressure from the LPG industry for subsidies. This does raise the question about how best to apportion subsidies for low-income households among the various energy carriers. What is the right mix? What are all the criteria that should be considered? These are not simple questions because the answers range from macro economic issues and the future of oil to complex household economics and survival strategies of the poor. We are continuing to address this issue.

Another parallel programme has been the focus on low smoke fuels. The objective is to firstly reduce coal-burning pollution in households and ultimately to replace coal entirely. Although this will of course contribute to sustainable development it is difficult to attract financing for such programmes. Let me cite two examples. At the World Summit on Sustainable Development in 2002 we handed out thousands of pamphlets requesting participants to donate to a fund to do this. Not one cent was received! We have also explored
carbon financing. But again there are huge technical challenges in measuring how much smoke was sequestered. The measurement costs are larger than the benefit received!

Our Basa Njengo Magogo programme is about showing households how to light coal fires in a way that will reduce the pollution by up to 50%. We started with 16,000 households in Orange Farm near Johannesburg last winter. The target is one million so we have a long way to go. It is very labour intensive and time consuming persuading people to change a habit they have got used to over many years but it is the lowest cost intervention we have thus far. The results so far are good and once “converted”, households seem to be maintaining the new “gospel”.

Thus far I have not said much about the role of modern renewable energies in the low income “energy transition”. This is because there does not seem to be much a role for them at this end of the market. The conventional fuels are just so much cheaper. And there is considerable consumer resistance to renewable energy such as the solar panels that we have used for off grid electrification because the energy product is seen to be inferior. We are through CEF (Pty) Ltd. doing a fairly large project testing the economics of solar water heaters for lower income housing but the prospects are not expected to be fantastic.

Rather we see the entry points for renewables in household energy provision to be in the upper income end of the market. If the rich do it there is a good chance that the poor will also want to do it. At least that seems to be the case with cell phones and motorcars. So we are putting most of our focus on household energy efficiency and renewable energy at the upper end of the market for the time being. Once product reliability and economies of scale have been achieved we can consider rolling this out more generally.

Ladies and Gentlemen, it is very important that we support the promotion and development of Renewable Energy technologies in the holistic fashion as opposed to making them energy for the rural areas. I must state that the Renewable Energy technologies and particularly their positive impact on Environment are highly commendable, largely in a country like ours which is so dependent on fossil energy to meet its energy needs. The challenge is mainly a cost one.

The energy choices for the poor should be those that will assist in
relieving them from the burden of highly energy costs, relieve them of health challenges, help them maximize the use of their time for other productive activities and free them from the environmental problems and social miseries.

The Integrated Energy Centres, that our Department is championing, are geared at reducing the energy burden to the poor. These centres will ensure that energy sources and information on energy is made available to poor energy consumers, at their doorsteps. This is one of the growing efforts of our government to increase access to services.

Ladies and Gentlemen as you deliberate for these two days on energy for the poor and grapple with the challenge of increasing access to energy to all South Africans, please note that energy is important and indeed critical in improving the living standards of millions of our people who are still caught in the poverty trap.

I thank you for your attention.