



INCLUSIVE SOCIETY INSTITUTE

Op-Ed

Crisis in Europe highlights critical importance of self-sufficient, secure and stable energy production By Daryl Swanepoel

The true value of a stable and secure energy sector has again been brought to the fore as Russia's invasion of Ukraine triggered energy security concerns across Europe, with nations moving to reduce their reliance on Russian oil and gas in their networks.

While the strategy is likely in the longer-term to speed up Europe's efforts to become less dependent on Russia for its energy needs, South Africa too must undergo a large-scale energy transition to overcome our electricity shortage and load-shedding after years of neglect and corruption.

Although Europe is not on the brink of collapse because of its decision to reduce its dependence on Russian gas, its leaders are under no illusion that a world without power is potentially suicidal and are pushing policy makers to develop and introduce plans to mitigate against the harmful effects of a war-induced energy crunch.

Disappointingly, South Africa's response to its own energy crisis has been more lethargic, apathetic and confusing. The country has long been suffering the consequences of underinvestment in infrastructure and power station maintenance, compounded by corruption and maladministration at State-owned utility Eskom. The electricity system has weakened to the point that debilitating load-shedding has become the default in managing grid stability when demand exceeds supply.

Rotational power cuts carry an enormous cost to the economy. According to the Council for Scientific and Industrial Research (CSIR), load-shedding is estimated to have cost the economy between R60-billion and R120-billion in 2019 and subsequent CSIR data shows that 2020 and 2021 were even worse in terms of power cuts.

Moreover, with the war in Europe intensifying, things are expected to get more dire for Eskom as the shock waves emanating from the conflict see global oil prices shooting through the roof. This, in turn, is driving up fuel prices to unprecedented highs and for South Africa's power utility this means one thing – its open cycle gas turbine generators, dependent on diesel, have become an increasingly expensive fallback. Eskom has warned about the difficulties of absorbing costs related to higher diesel prices.

Unstable electricity supply, combined with a 175% increase in power prices over the last decade, has proved to be a binding constraint on the country's economic growth and has left South Africa's investment proposition in tatters. Government acknowledges that power constraints must be addressed, with several policy interventions and new energy generation projects set to come online over the next few years to close a capacity shortfall that is estimated to be between 4 000 MW and 6 000 MW.

While stakeholders agree that there are no simple solutions to the energy crisis, there is a need for creative, short-term measures to help better manage and stabilise the situation, while at the same time advancing South Africa's low-carbon, clean energy transition. Stabilising electricity supply will help improve business confidence, enhance sentiment towards South Africa and make it more attractive to domestic and foreign investors.

As part of a broader economic research project, the Inclusive Society Institute has consulted with energy experts to gather insight into what the country should do to place it on a path of higher and more sustainable economic growth. Those participating in the roundtable discussion acknowledged that certain reforms are currently under way to transform the sector, including lifting the threshold for electricity generation projects for which a licence is not required to projects of up to 100 MW, and bolstering energy supply with the ongoing massive procurement of utility-scale power. While these reforms will take time to bear fruit, there are some 'quick wins' that could have immediate positive impacts and provide the economy with breathing space to catalyse some of the more complex opportunities that are presenting themselves.

One of these arguably 'easy and fast' solutions is to import energy sector qualifications programmes, as an alternative to importing skills. Developing a curriculum and learning material is complicated, arduous and timing consuming – the luxury of which we do not enjoy. Importing qualifications or learning programmes will reduce the lag, which the country can ill-afford, between skills planning and implementation of projects.

Scaling back from 'grand plans' to smaller, focused projects will also increase chances of success. Using pilot projects to test the feasibility of different technologies will create an enabling environment to fast-track development and help build local supply chains that can be used in the procurement process.

As the world transitions to a low-carbon economy, South Africa must stand ready to seize the climate opportunities before us, such as, the \$8.5-billion concessional finance offer linked to last year's COP26 event in Glasgow. Climate change is often discussed as a major risk, but for first-movers, willing to innovate, it may hold a key to unlocking substantial economic development.

It is said that 'necessity is the mother of invention' – the necessity presented by our ongoing electricity shortage may be the impetus that is needed for a solution to South Africa's energy problems.

Daryl Swanepoel is the Chief Executive Officer of the Inclusive Society Institute, an autonomous and independent research institute. This article captures the essence of the retail sector's contribution towards the development of the institutes blueprint for the rejuvenation of the South African economy.

10 March 2022