

# ERSA Policy Brief

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## **South Africa can reduce its crude oil import risk**

*Hammed Amusa, Njeri Wabiri and Krish Chetty*

Despite its small size and limited quantities of oil reserves, South Africa has various options for improving the security of its oil supplies -- particularly at a time of fluctuating oil prices and geopolitical tension in major oil-producing regions.

In “Application of a multi-criteria integrated portfolio model for quantifying South Africa’s crude oil import risk” (ERSA Working Paper 108), Hammed Amusa, Njeri Wabiri and Krish Chetty present an appeal for a comprehensive investigation into the security of the country’s oil supplies, and recommend a coordinated and considered approach to oil importing.

Their quantitative assessment of South Africa’s crude oil import risk – a first of its kind – reveals that this risk has eased over the past ten years, but that significant vulnerabilities remain. Although South African oil imports from the troubled Middle Eastern region have dropped from levels of about 95% in 2000, a still sizeable 62% of crude oil imports were sourced from there in 2007.

The authors’ proposals for import adjustment strategies include a policy to import constant quantities of oil each month, which are shown to slash both the general and specific risks of the oil import portfolio. Their model also points to the benefit of diversifying away further from Middle Eastern oil suppliers, to suppliers in lower-risk regions such as Europe, North America and Russia.

As the bulk of South Africa’s crude oil imports are orchestrated by private-sector agents linked to the locally based energy multinationals, the process may well lack the overall coordination necessary to reduce the exposure to risks that flow from gyrating oil prices.

The authors call for strategic partnerships between private-sector firms engaged in sourcing crude oil imports, and subsidiaries of the Central Energy Fund – the parastatal responsible for the country’s energy needs. Such a partnership ought to include efforts to foster bilateral relations with oil suppliers from less-risky regions.

Given the swelling demand for energy across the economy, South Africa’s high per capita oil consumption and the imperative for creating an enabling operating environment, an assessment of South Africa’s energy security ideally should incorporate all types of energy resources and supplies.

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