

The Current Geopolitical Crises: Risks and Opportunities

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29 July 2026

Identification of current global energy trends

The situation globally remains very fluid, and it is impossible to predict all the consequences of the various shocks and geopolitical changes underway.

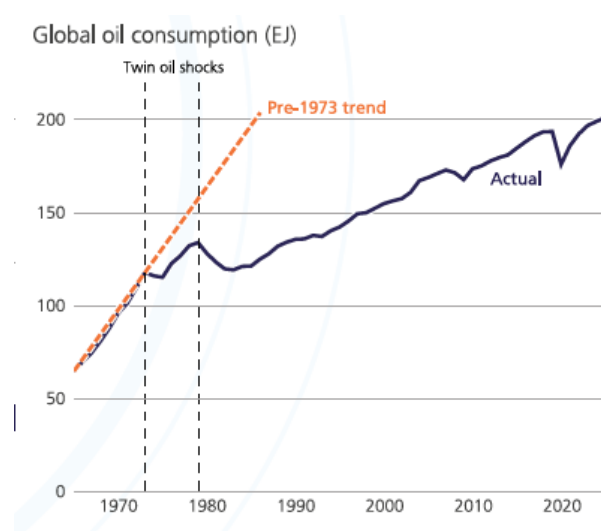
Nonetheless, some significant trends in world energy markets are clearly discernible. To a large extent these trends pre-existed the current conflict in the Middle East and the Russia-Ukraine conflict, but they have been accelerated by these conflicts. It would be important for South Africa to factor these trends into the country's economic planning:

- shocks to oil and gas prices are creating a disincentive for the use of these energy sources as countries seek greater energy security and seek to make their economies less vulnerable to this external limitation to their growth and development;
- the current crisis is resulting in the acceleration of the global energy transition that was already underway before the current crisis, as investment in renewable energy – originally driven by policy, then by price advantages – is now also being driven by geopolitical and energy security considerations;
- the rate of electrification is increasing, as processes that have historically made use of fossil fuel-based energy, are turning to electricity-based solutions, such as, mobility (electric vehicles) and certain industrial processes (electric arc furnaces);
- governments are more actively pursuing industrial policy interventions upstream and downstream along these new energy value chains, this has seen increased investment in grid infrastructure and other electricity equipment, critical minerals, battery production, and is increasing the productivity of certain services through digital applications and artificial intelligence;
- at the same time, new patterns of trade and finance are emerging and global trade is being disrupted and fragmented, with tariffs and other

barriers to trade being erected, some emphasizing strategic alliances, some decarbonisation, and debates between multilateral and plurilateral trade rules, all against a backdrop of increased military conflict and a break down in the international rule of law.

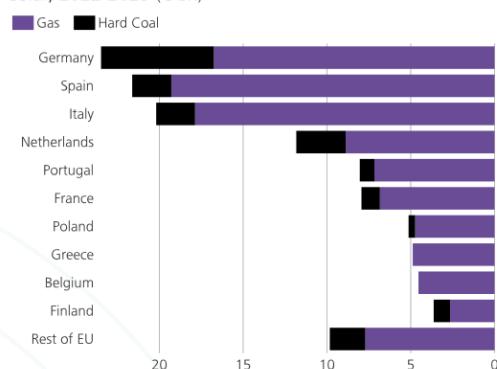
Data insights from this year's Statistical Review of World Energy

Oil shocks in the 1970's created incentives for a movement away from oil dependence. One of the responses was that investment in nuclear power accelerated in several countries.

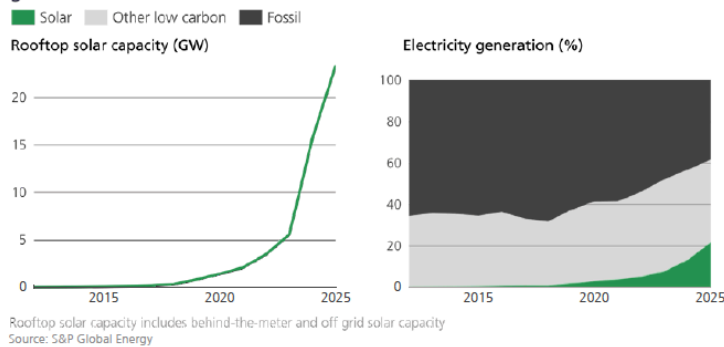


It is likely that the energy shocks of the current period will again fossil fuel importing countries to strengthen their strategic position through increasing investments in alternative sources and, where possible local sources, of energy. For example, the EU between 2022 and 2025, has reduced its imports of fossil fuels by increasing wind and solar investments. And Pakistan's investment in roof top solar has displaced about 20% of its fossil fuel electricity sources in the past five years.

Avoided fossil fuel import cost due to added wind and solar, 2022-2025 (€ bn)



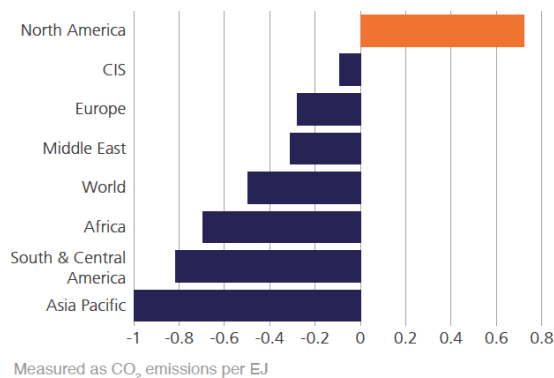
Pakistan's rooftop solar revolution pushed solar to account for a fifth of its electricity generation in 2025



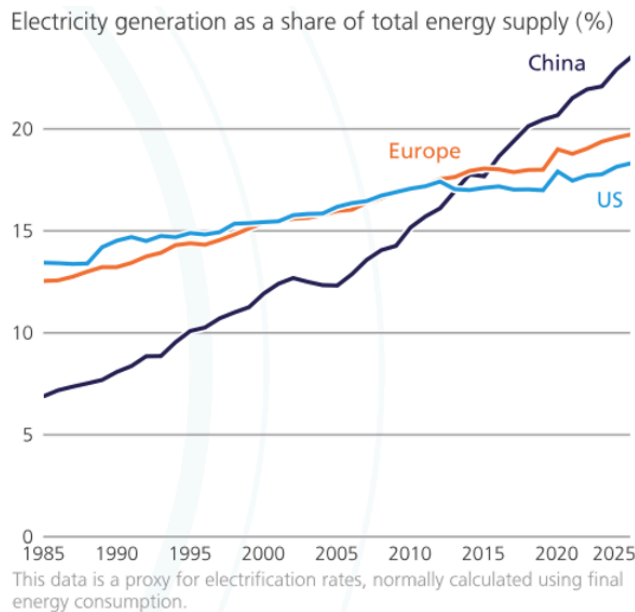
This process is not happening evenly – and is highly contested. A number of economies are oil and gas exporters who are at risk if global fossil fuel demand falls. Some like Saudi Arabia are trying to diversify their energy sources and their economies. North America, driven particularly by the United States, was the only world region to increase the carbon intensity of total energy supply during 2025.

For many African countries – with 19% of the world's population, but only 3,6% of the world's energy supply in 2025, the challenge is not about decarbonising the energy system, but about mobilising investment to build a (decarbonised) energy and electrification infrastructure. As such, for Africa, a key threat of the current conflict is that the resultant rising borrowing costs are making such investments more costly and more difficult. For South Africa, which is less capital constrained, a specific risk is that policy errors will be made in response to ongoing geo-political shifts and that an energy transition that is still in its early stages, will be delayed, or even derailed.

Change in carbon intensity of total energy supply (%)



China has electrified more quickly than Europe and the United States



How do these trends impact on South Africa's economic planning?

For South Africa, these developments expose significant risks and opportunities. As a net importer of crude oil and refined petroleum products, the country remains highly exposed to global fuel price shocks, exchange-rate volatility and disruptions to international supply chains.

Fuel levy reductions, in response to the early days of the current Middle East Crisis, helped to cushion the immediate impacts on households and businesses, but these measures are necessarily temporary.

There is a need to move beyond short-term crisis management towards a long-term development strategy that strengthens economic resilience. This overall development strategy should guide specific economic policy frameworks for areas such as the electricity sector and for liquid fuels.

Electricity policy needs to remain laser-focussed on achieving a competitive-cost path for future electricity prices as the continuation of electricity price increases will serve to inhibit investment and economic growth and will have severe negative consequences for employment and socio-economic development.

What is to be done:

- The restructuring of Eskom and the wider electricity sector to ensure security of supply through increased levels of investment, as well

sufficient levels of competition among generators of electricity, is a high priority.

- In addition to expanded investments in renewable energy and battery systems, some gas to power investments (for peaking when supply and demand requires it).
- Just transition policies should be implemented to offer pathways to workers and communities negatively affected by technological changes.
- The Just transition must also aim to secure the wider economic benefits of growth and new employment that will be achieved through the reliable provision of competitively priced electricity.

What is to be avoided:

- Slowing the reform process due to resistance by incumbents and vested interests, risks locking the system onto a higher cost path, and may result in future electricity shortages if new generation and grid investments fall below what is required.
- The electricity system should be cautious about not over investing in gas to power plants, as this will open the economy up unnecessarily to higher costs, currency risks and price shocks (if significant gas or oil reserves were to be discovered in South Africa this calculus would need to be adjusted). Specific solutions will need to be developed for industrial gas users facing a 'gas cliff' as imported gas from Mozambique tapers down.
- There are many good arguments as to the benefits of nuclear power, but the relatively high cost of nuclear power will result in high electricity costs which will impose a constraint on economic growth and investment.

Liquid fuel policy announced recently by government will stipulate a requirement to increase the size of strategic fuel reserve holdings by both government and the private sector. This is against the background that since the Middle East conflict commenced, South Africa has not to date suffered material fuel shortages and has switched a large portion of the country's fuel purchases from the Middle East region to the Atlantic basin.

What is to be done:

- Increases in fuel storage facilities may be an important intervention to ensure greater resilience in the face of supply stocks, but the costs of holding significantly increased fuel reserves need to be fully factored in.

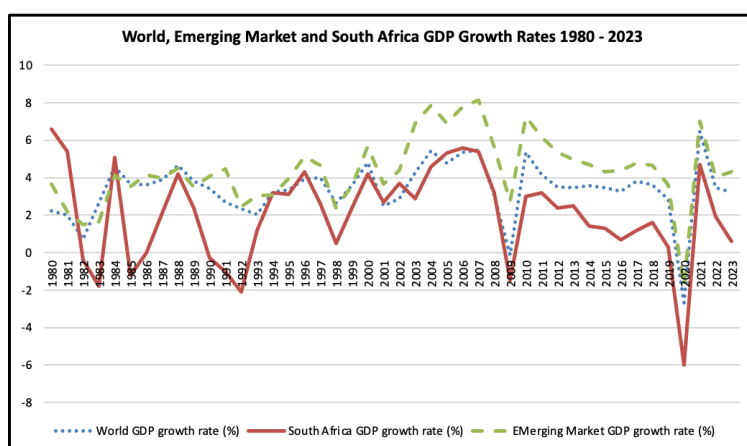
- The longer-term plan should be to reduce fuel imports over time and to rely on the natural resource advantages of the South African economy to power electric vehicles, including in the public transport system.

What is to be avoided:

- There is a risk that any invest in new refinery capacity will result in higher fuel costs for South African businesses and consumers, particularly in the case that such refineries are not technologically competitive or cost competitive. [An unfortunate effect of the closure of refineries has been reduced local capacity to produce by-products like bitumen, which is used in roadbuilding, and imports of such products will rise.]

Which growth path will South Africa choose?

South Africa is a relatively open economy with growth cycles affected by global shocks and trends.



But we have negative and positive agency.

- **Negative:** In the 1980's (during the crisis of apartheid) and for twelve years since 2014 (the state capture years), South Africa's growth rate has diverged below that of the world economy and emerging market growth rates.
- **Positive:** When governance was relatively strong in the first 12 years of democracy and global commodity prices were high, South African growth even exceeded the world average from time to time.

If we respond to the current crisis with appropriate energy, electrification, minerals and industrial policies we will have the potential to lift South Africa's

trend growth and be less vulnerable to the ups and downs of global cycles. But poor policy responses to the current crisis would likely mean that South Africa continues to underperform, deepening and pro-longing the ongoing phase of negative per capita growth, with the inequality and unemployment outcomes that this entails.

Deliberate policy intervention is required to make growth more inclusive of there is danger that new investment could reinforce existing patterns of concentrated ownership and unequal economic participation. This highlights the importance of broadening economic opportunity through black economic empowerment, diverse ownership models, local enterprise development, worker ownership, skills development and stronger public institutions capable of ensuring that the benefits of investment are widely shared.

We should expect challenges along the way, so a capable and ethical state is required to lead the planning process in the national interest. To be effective, government planning needs to be *embedded* in the realities of the South African economy but must be *autonomous* of vested interests.

Currently there are signs that SA's energy transition is stalling – there is disagreement over the details of the unbundling of Eskom, regulations for the wholesale market and protocols to enable wheeling of electricity of across the grid are facing delays. If this stall in the energy transition takes hold – and the state is unable to sustain reform momentum - South Africa risks remaining on a path of energy-constrained growth, particularly if electricity and other energy costs continue to rise. This would be a sub-optimal outcome as compared to the counterfactual where the economy moves onto an elevated growth path based on a lower cost, cleaner and relatively sovereign energy future.

Government's recently announced Industrial Development Strategy seeks to align policy interventions with global trends by prioritising the 3Ds of

decarbonisation, digitalisation and diversification. This approach intends to change the structure of the South African economy in line with the logic of the world's emerging new power systems and industrial systems.

To achieve this there needs to be closer alignment between energy planning and industrial policy. Forward-looking supportive policy frameworks are required for strategic sectors such as energy-intensive industries, electric vehicles, battery manufacturing, green hydrogen, transmission equipment and

fertiliser production, and the use of public investment and procurement to strengthen domestic productive capacity.

Plans to build over 14000 km of transmission lines and the investment in electricity generation that a modernised grid would unlock, have the potential to be a game changer for South African manufacturers, steel producers, cement and construction sectors.

South Africa's long-term prosperity will depend on whether the country uses this moment to accelerate the structural reforms required to achieve a competitive price path for electricity, reduce dependence on imported fossil fuels, strengthen domestic industrial capabilities and build an energy system that supports inclusive growth.

These policy choices will determine whether the country remains vulnerable to future external shocks or emerges more resilient, more competitive, and better positioned within a rapidly changing global economy.