The unjust impact of domestic political economies and global geopolitics on South Africa's energy transition

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TOWARDS A JUST TRANSITION - THE ROLE OF INDUSTRIAL POLICY

An illustrative preliminary

- ❑Can you do analysis and facilitate public discussion that is genuinely independent and public interested while relying on the funding of foreign governments that have their own strategic interests?

TIPS received funding from the EU and GIZ through the SPIPA initiative, UK PACT, and the CDC Group to research and draft an initial Just Transition Finance Roadmap for South Africa. SPIPA is the Strategic Partnerships for the Implementation of the Paris Agreement. The CDC group is the UK government's Development Finance Institution and is becoming British International Investment. UK PACT is the UK Partnering for Accelerated Climate Transitions and is a donor funded programme of the UK Government.

- ➢Meanwhile, the UK Confederation of British Industries thinks that the green agenda will drive economic growth and is *"the biggest economic and business opportunity for the UK".*

(*Financial Times 2022 07 30)*

Overview

1. Getting the basics right: what a ‘just transition’ is not
2. South Africa’s comparative disadvantages
3. Political economy: how local interests and geopolitics distort SA’s transition
4. The approaches of wealthier countries and regions
5. Technologies, sequencing and blocked options
6. Financial and fiscal omissions and considerations
7. Conclusion

Getting the basics right: what a ‘just transition’ is not

- A focus of ‘just transition’ that is limited to coal sector, miners, families and communities is inadequate and misguided although may be tactical
  - Creates the possibility of an unjust ‘just transition’, which is absurd
- Equally unrealistic, submerging just the transition under the ambitious, goal of addressing global structural inequalities
  - Enables a deeply unjust transition by not paying adequate attention to likely welfare impacts

- **The right approach:** standard social welfare analysis:-
  - Different frameworks (e.g Rawlsian vs Utilitarian) may imply different conclusions but they share the crucial characteristic that they are, in principle, comprehensive

South Africa’s comparative disadvantages

In the context of “common but differentiated responsibilities and respective capabilities”

- ❑ Energy-intensive, coal-dependent economic legacy constructed on racial oppression
  - ➢ Vulnerable to global penalties for not taking adequate measures to reduce climate impacts.
  - ➢ Has South Africa already used its ‘fair share’ of available ‘carbon space’?
- ❑ A fragmented society that impedes strategic responses
  - ➢ Huge inequalities produce diverse, often conflicting, priorities
- ❑ A national power utility with interlocking operational and financial crises
  - ➢ Operational failures provoked financial burden that now constrains new investment
- ❑ Limited domestic financial resources
  - ➢ Burden of structural poverty/economic exclusion reduces capacity to finance new investment
- ❑ Vulnerability to external influences

Political economy: local interests & geopolitics distort the transition

- Domestically - large corporations and wealthy individuals want:
  - Transition strategy that maximises their benefits and profit share
  - Ability to defect from grid and its liabilities while retaining access to its benefits
- Wealthy countries want to:
  - Maximise residual fossil fuel rents – including from the most environmentally harmful sources (e.g. USA, Canada, Australia)
  - Ensure their own businesses and industries benefit from new-era energy investments (e.g. Denmark, France, UK)
- Elements of civil society (including media) have been recruited to
  - Promote those larger interests – capitulation/co-option justified by climate emergency
- But ‘just transition’ = equitable sharing of costs and benefits, locally and globally

The approaches of wealthier countries and regions

Maximise the transitional benefits!

- Australia 1981, CO_2 emissions “adverse implication .. for Australia’s coal markets”
  - response : dig (coal), drill (offshore gas) and become top tier carbon exporter
- Canada, low-carbon domestically (hydro & nuclear) – mobilising dirty oil-sands
- USA hydrocarbon importer to largest fracking global oil producer & LNG exporter
  - While reducing domestic GHG emissions by switching from coal to gas
- Western Europe demonstrates dangers of dependency
  - War with Ukraine replaces cheap Russian pipeline gas with US LNG
  - Germany closed nuclear power, now restarting coal fired power stations, rationing gas
- Lesson: Don’t lose sight of energy sovereignty.

Technologies, sequencing and blocked options

- **Significant uncertainties about strategies, which systemic interventions are feasible?**
  - what role for hydrogen and what other energy carriers and storage modes may be adopted.
- **‘Optimal’ decisions are country-specific, but whole system perspective needed**
  - Need resilience to low probability but high impact risks
  - Delays to decision-making blocks or obstructs potentially valuable transition pathways
- **Levelized cost of energy (LCOE) unhelpful:**
  - misses added costs of transmission, backup and storage
  - “LCOE is no replacement for … system-wide modelling” (*Gas Pressure*, Halsey et al, IISD 2022)
- **For South Africa to reach Net-Zero by 2050** (*It All Hinges on Renewables, NBI/BCG 2022*)**:**
  - R900 billion for battery storage |
  - R840 billion for <u>**renewable generation**</u> **| >>>>>>> Less than 40% of investment cost**
  - R560 billion for transmission expansion |

Financial and fiscal omissions and considerations

- ❑ The public has been repeatedly misled by ‘experts’ and journalists claiming that more renewable energy generation will benefit households, Eskom and the fiscus: the opposite is more likely
  - ➢Generation decisions that precede credible financing plans risk fiscal collapse and (further) undermining South Africa’s sovereignty
  - ➢Concessional loans used to manipulate policy (tail wagging the dog) – similarities to the Russian-linked nuclear deal with different ‘civil society’ partners, active or passively complicit
  - ➢Decentralised generation: may reduce loadshedding but harm finances and deeply inequitable
  - ➢Ignorant or/and self-serving objections to grid connection fees: undermine

Conclusion

- **The scale of South Africa's transition is greater than most other countries**
  - due to the deep dependence of the economy and society on coal
  - case for a 'transition of a special type' must be strengthened
- **It is critical to synchronise operational, investment and financing plans**
  - leaving financing until last risks deep inequities and fiscal disaster
- **For South Africa to achieve a just transition to net zero in 2050**
  - Action must be guided by competent objective analysis, decision-making and implementation
  - Vested interests need to be identified, challenged and managed appropriately
  - Technical and financial challenges and uncertainties must be addressed
- **Current path risks a deeply inequitable transition, with brutal impacts on livelihoods and living standards of SA's poor majority, present and future.**