

Mitigation Policy in Carbon Intensive Countries: the case of South Africa

Presenter: Fundi Tshazibana | 29 September 2012



national treasury

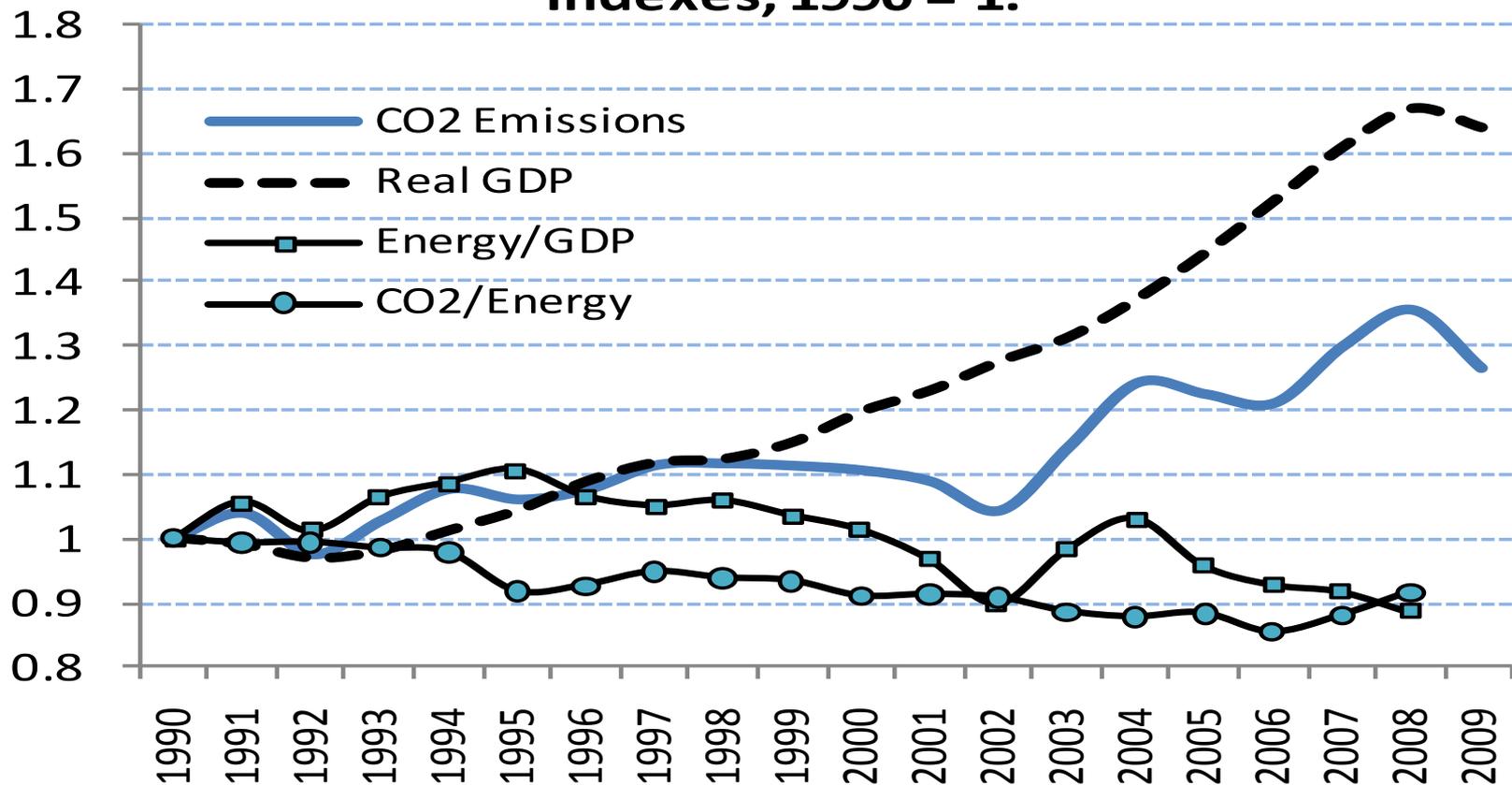
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Some facts



Major drivers of emissions in South Africa

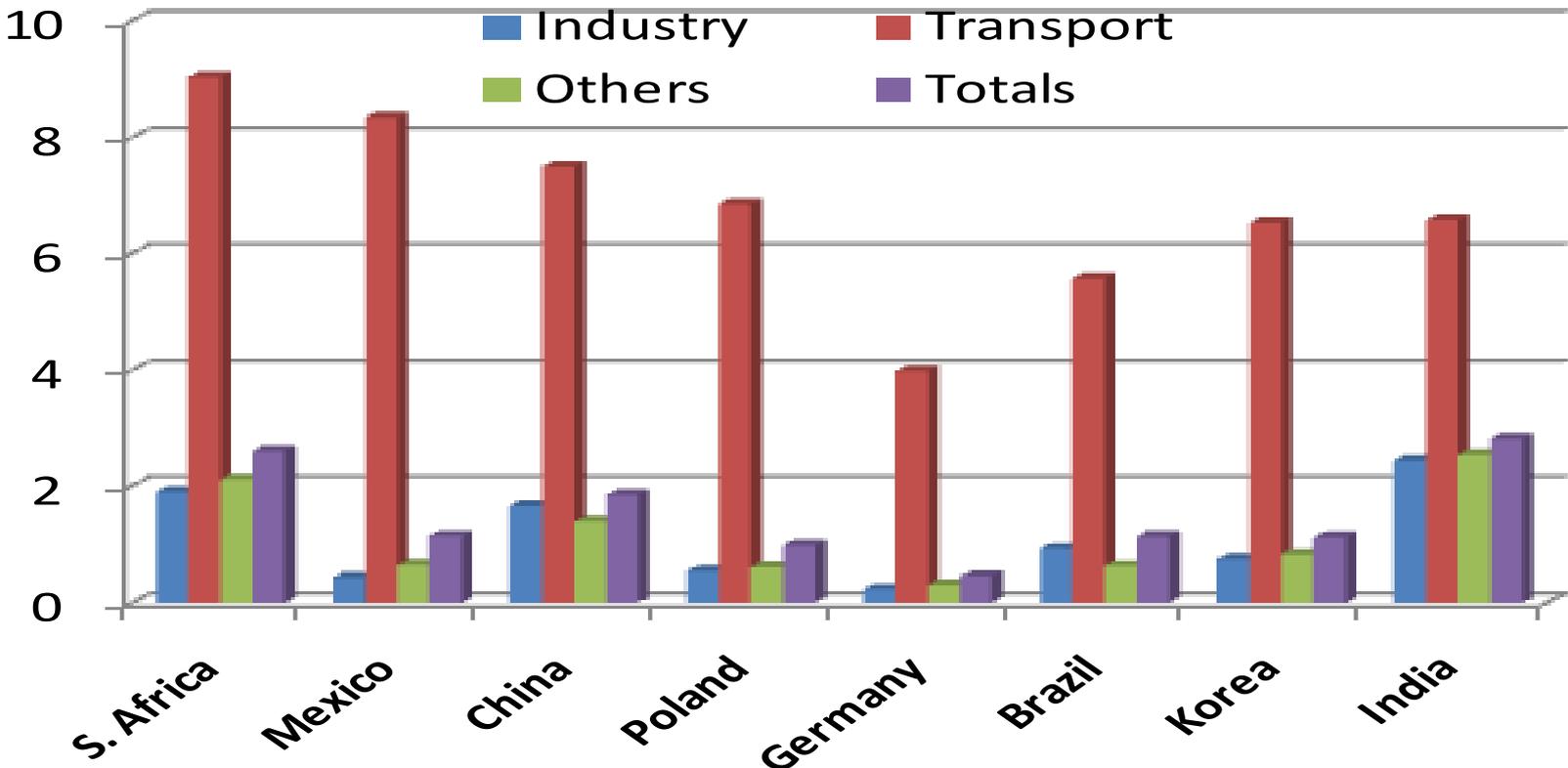
South Africa: CO2 Emissions and its Drivers Indexes, 1990 = 1.



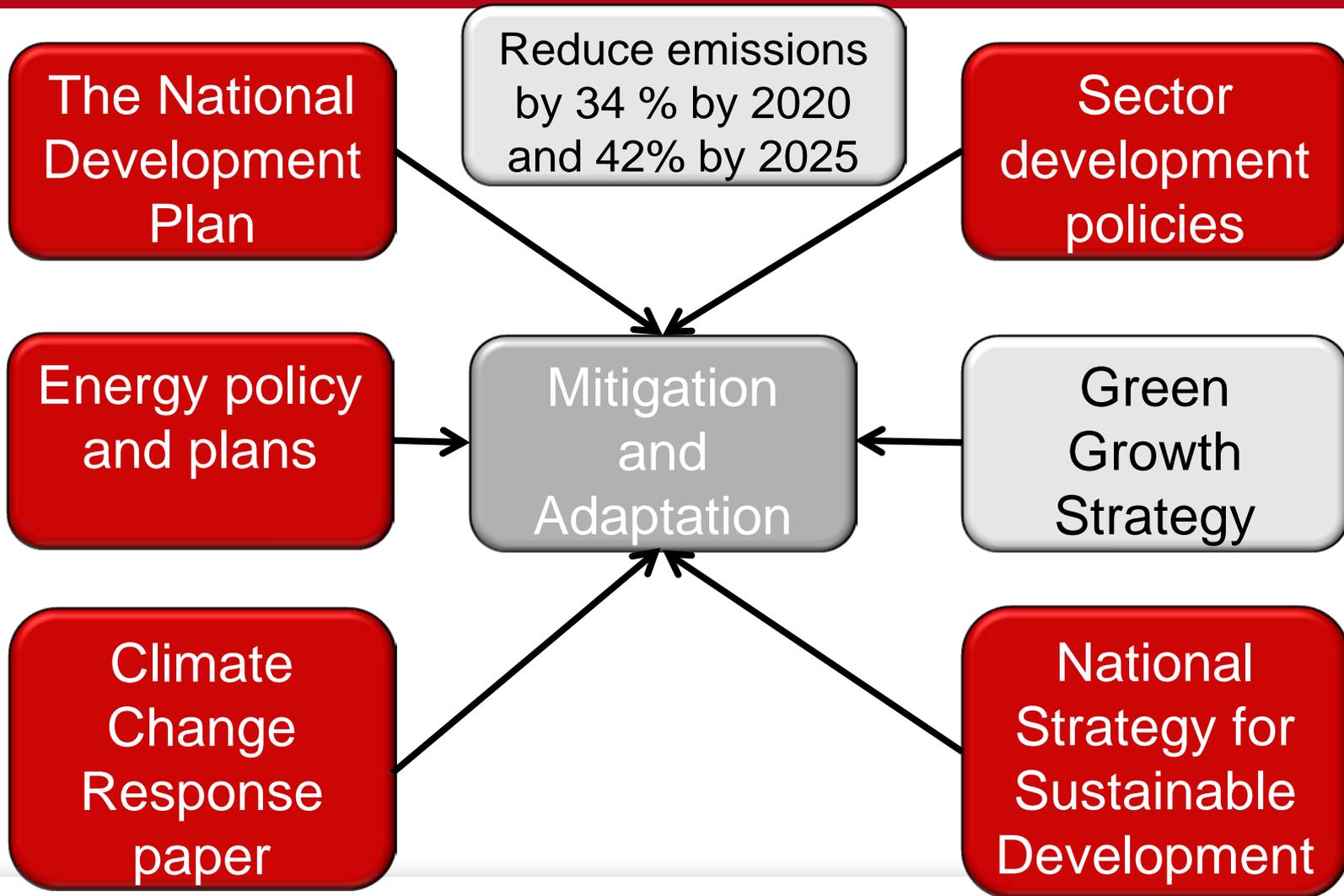
Source: World Bank World Development Indicators and U.S. EIA.

While emission intensity has declined, it still remains relatively high

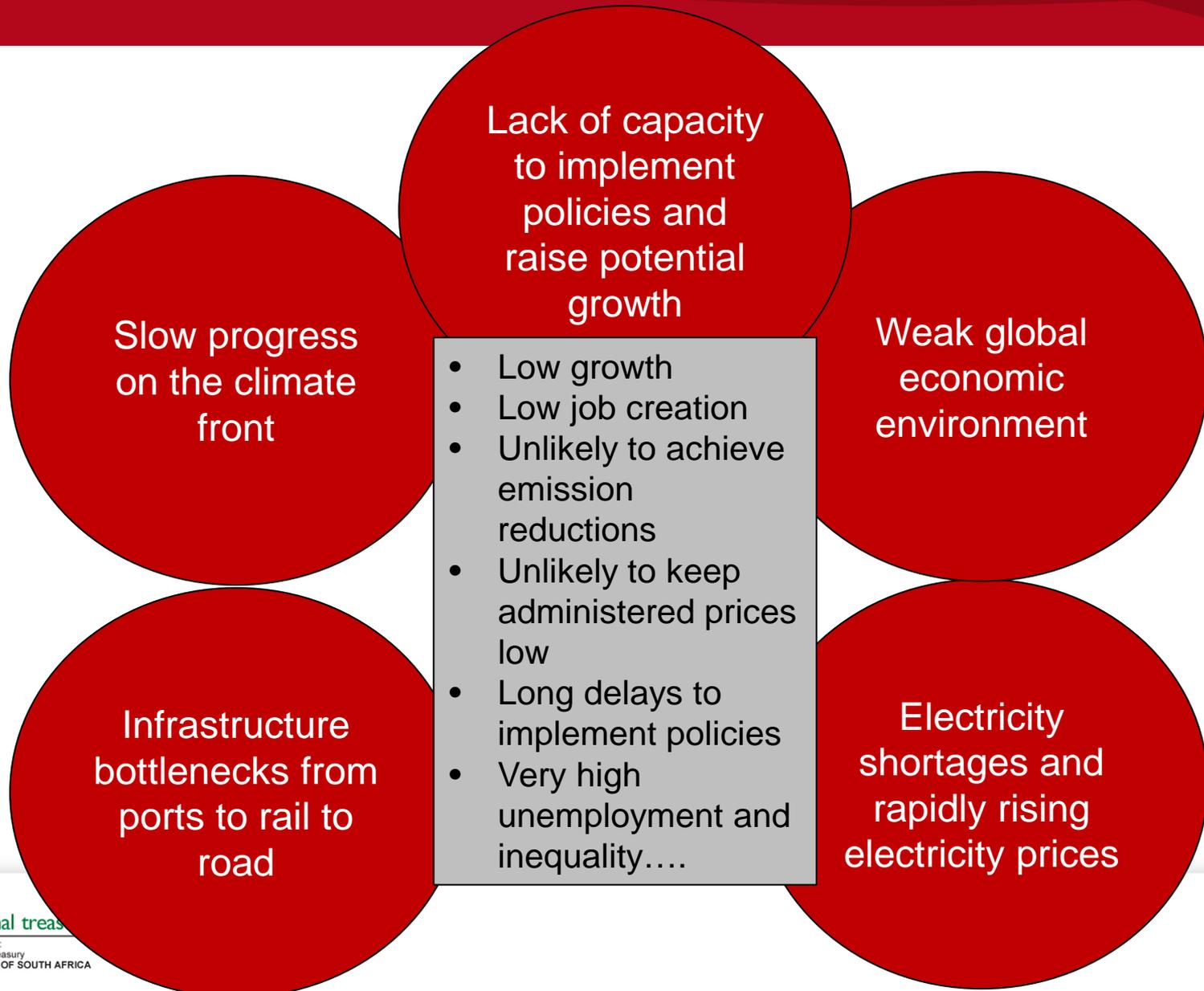
Energy Intensity Across Sectors (kWh per 2009 USD GDP)



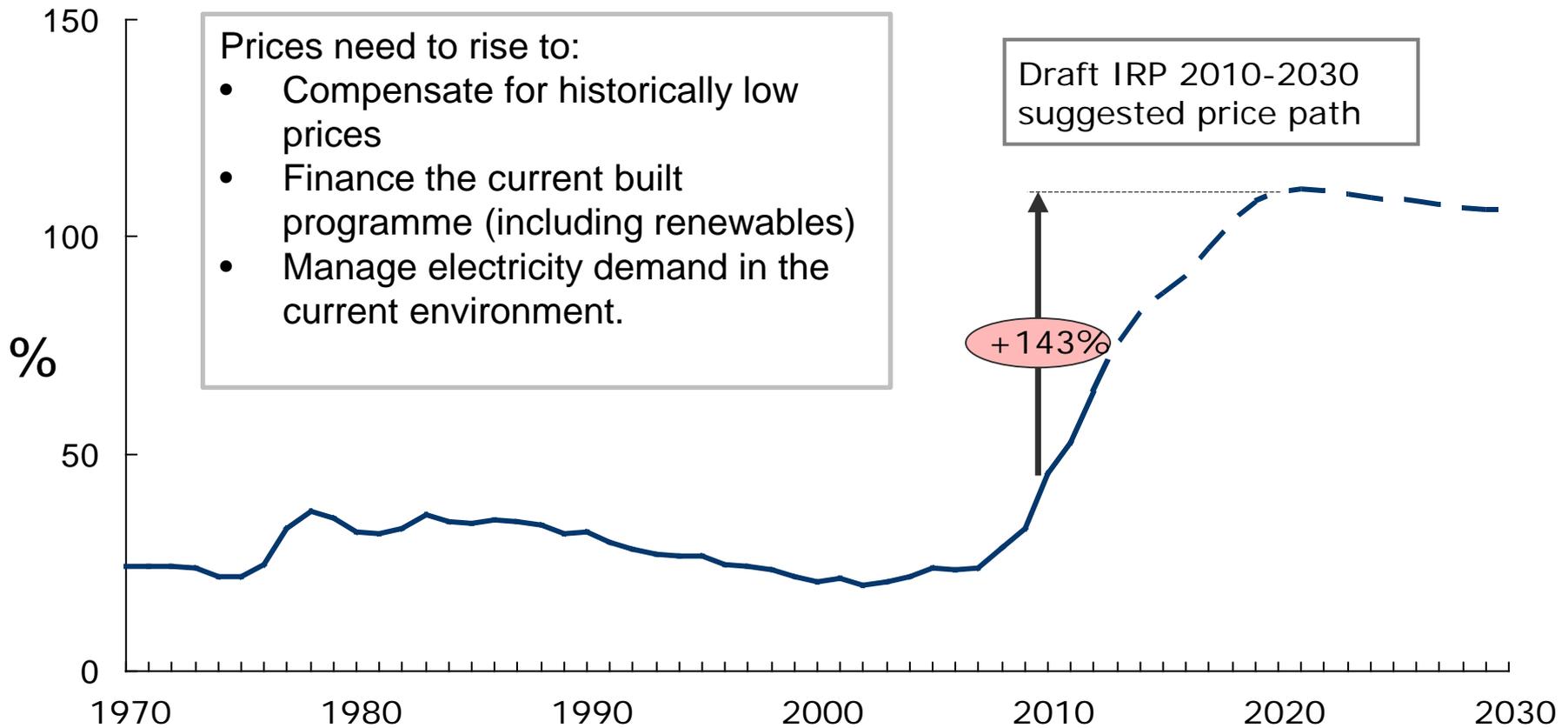
Summary of South Africa's policy interventions to mitigate and adapt against climate change



The current economic environment is NOT supportive of accelerated growth and job creation



Rapid increases in the electricity prices require large structural changes to the economy



SOURCE: Frost & Sullivan; Eskom; Integrated Resource Plan (IRP) 2010-2030

South Africa is considering a carbon pricing mechanisms including a carbon tax

- Paper on the idea of a carbon tax published in November 2010
- Modelling on likely economic impacts summarised in Thurlow et al
 - Given level and the mode of recycling, carbon taxes can have small negative impact on the economy
 - Revenue recycling strongly influences growth and distributional outcomes (i.e., trade-offs). If additional revenue is used to resolve bottlenecks in the economy, impact can be a positive-double dividend.
- Elements of a carbon tax design
 - Effective rate phased in over time
 - Some exemptions for trade exposure and offsets to retain competitiveness
 - Further exemptions for efficiency gains
 - No border tax adjustments
- Why carbon pricing is important
 - Threat of border tax adjustments and loss of competitiveness
 - Own development needs

What are the political economy issues

Political economy issues not straight forward

- Climate and economic discourse moving independently
- Managing vested interests
 - Private sector
 - Public Sector
- Managing broader work of government
 - Dealing with trade-offs
 - Bringing alignment between planning and implementation coordination functions
 - Reviewing institutions, including managing domestic and foreign climate finance, as well as reporting
 - Deploying additional tools
 - Messaging reforms to politicians and public

Many questions

- Should we be taxing the electricity sector which price and built programme are regulated?
- By taxing the electricity sector, which has seen rapid price increases, do we run the risk of facing considerable opposition to the carbon tax?
- Are the current electricity price hikes enough to discourage the use of carbon loaded electricity?
- Do firms and consumers have scope to reduce electricity related emissions further?
- What are the benefits to South Africa from mitigating since the country is a climate change taker?
- How do we avoid carbon leakage? What is the role of border tax adjustments?
- Will we have a first mover advantage?
- How should we recycle the revenue to optimise benefits while reducing costs?
- How should other government policies support the carbon tax?
- Will there be financial assistance from developed countries if we mitigate?

While managing the political economy, there is a need for relevant and functional economic tools

- In the South African context, benefits and costs are measured in jobs, equity and economic growth terms
- Temperature rises, water level increases are not meaningful to politicians and households unless expressed in jobs, equity and growth impacts.
- Partnered with various researchers to...
 - Develop economic tools that link climate change and energy models to economic models
 - Evaluate the economic impacts of various energy paths and in particular how regional energy options can lead to cleaner and cheaper energy as well as deeper regional integration
 - Evaluate the economic impacts of climate change and various mitigation and adaptation options.
- Managing the political economy through various engagements with the private sector and within government

Thank you

