

SA must speed up energy transition or risk losing export markets, says economist

BY BL PREMIUM

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SA cannot afford to go at its own pace in the transition towards cleaner energy and lower greenhouse gas emissions (GHG).

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The implementation of regulations by the EU that will penalise exporters from high-emissions countries through the introduction of carbon border taxes could soon pose a significant barrier to trade for SA businesses that rely on coal-fired electricity.

SA has committed to cut GHG emissions by about 25% between 2025 and 2030 and to transition towards net-zero emissions by 2050, but there was still no clear plan of how this would be achieved.

The country's energy supply plan still made provision for an additional 1,500MW of coal-fired power to be added to the grid this decade, as well as 3,000MW of gas-fired power plants.

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The regulations that will be phased in by the EU between 2023 and 2026 will present a risk for SA exports to the EU, which are now valued at about R300bn a year, said Lerato Monaisa, an economist at the economic research institution, Trade & Industrial Policy Strategies (TIPS).

Initially, the new rules will primarily affect steel and aluminium exporters, but over the medium- to long-term all exporters could be affected.

As part of the European Green Deal, the EU will implement the Carbon Border Adjustment Mechanism (CBAM), which was aimed at prevention of “carbon leakage” from countries that have weaker climate policies than the EU’s. This would be achieved by imposing a carbon tax on embedded greenhouse gases of carbon-intensive products imported into the EU.

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Implementation of the plan was still subject to various regulatory approvals, but the proposed timeline for implementation is January 2023, with a transitional period between 2023 and 2026, Monaisa said during a recent webinar hosted by TIPS.

The scope of the mechanism now covers direct emissions from electricity and 29 product categories from the cement, fertilisers, steel and aluminium sectors.

“Initially the largest effect for SA will be on the iron, steel and aluminium sectors,” said Monaisa. Exports to the EU accounted for about 15% of SA’s total iron and steel exports and 40% of aluminium exports.

“Current production methods for iron and steel are primarily dependent on coal and coal-based electricity for primary and secondary production. As a result, SA’s steel production was more emissions intensive than the world average,” she said.

Primary aluminium production in SA was, however, less carbon intensive than the global average, but this would change if the scope of the EU mechanism was expanded to include indirect emissions since 88% of the carbon footprint for aluminium produced in SA was from coal-fired electricity.

There has been a proposal in the European parliament that the transitional period to implement the new carbon border tax be shortened so that the rules would be phased in by January 2025. But until then, said Monaisa, the burden on importers would be administrative rather than financial.

To lessen the effect of these new regulations, on smaller businesses in particular, TIPS suggested the implementation of a local carbon reporting system to ease the administrative burden on SA businesses during the transitional period.

“SA exporters must be prepared for a broader CBAM that will have a shorter transitional period and include indirect emissions. If indirect emissions are included, SA exporters will face additional risks as the country is heavily reliant on coal for its electricity,” she said.

Over the medium and long term, to prevent the loss of market share in the EU region, SA would have to speed up its own energy transition to enable the decarbonisation of carbon-intensive industries. This needed to happen by moving away from coal-based electricity to renewable energy in production processes.

TIPS also said SA would need to introduce more ambitious climate change policies and reform the country’s carbon tax regime to reflect global carbon pricing.

According to Monaisa, SA had to increase the local carbon price to a level where it would stimulate heavy emitters such as Eskom and Sasol to reform their operations.

SA introduced the first phase of the carbon tax in June 2019 as part of the government’s broader climate change mitigation policy. This first phase, which makes provisions for companies to receive between 60% and 95% in tax allowances such as rebates or exemptions, was scheduled to end in 2022, but in February the Treasury announced it would be extended by three more years, up to the end of 2025.

SA’s carbon tax rate is now expected to reach \$20 (R292.60) a tonne by 2026 and \$30 by 2030. The World Bank recommends carbon prices of \$50-\$100 by 2030, while the IMF recommends lower carbon prices for developing countries of between \$25 and \$50 by 2030.

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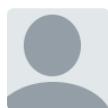
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I do not understand why the current administration do not declare a state of emergency in energy generation industry. This I would think it will allow the country/government to approach companies with proven track record of building/constructing electricity power generation capacity to help build at least a 1000megawatt within the next twelve to fifteen months. China is one country which has shown us that significant electricity generation capacity can be build quickly/ short space of time. The way the country is moving we will be sitting with this problem which dates back two Thabo Mbeki's time in the next three years. We surely living in a banana republic

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