■ NATIONAL

CLIMATE CHANGE

# Government’s R172bn fossil fuel subsidy at odds with climate ambitions

BL PREMIUM

01 FEBRUARY 2022 - 05:10 *by* DENENE ERASMUS

Picture: THE TIMES

The SA government’s spending on energy subsidies is out of tune with its stated climate change ambitions contained in its Paris Agreement commitment and the energy transition deal it struck with major developed economies late in 2021, according to a report published on Monday.

SA, the biggest emitter of greenhouse gases in Africa, has a standing commitment to limit emissions to between 350-million tonnes and 420-million tonnes of carbon dioxide equivalent — a reduction of about 20%-33% by 2030.

It won an $8.5bn deal to manage and finance its green transition — though it is subject to conditions that are still up for negotiations — at the climate change conference known as COP26, held in Glasgow.

However, a report published by the International Institute for Sustainable Development (IISD) — an independent think-tank based in Canada that promotes human development and environmental sustainability — says the government needs to review energy spending policies that favour fossil fuels.



Energy subsidies in SA more than tripled between 2017 and 2020 from R58bn to R172bn, with the highest subsidies allocated to fossil fuels, including coal-fired electricity, the IISD said. About 77% of the subsidies were delivered in the form of bailouts to Eskom or in foregone revenue as in carbon and VAT exemptions.

The government spent nearly R67bn on bailouts for carbon-intensive companies, including R56bn for Eskom in 2020/2021, as well as R43bn to support the oil and gas industry, which benefited from VAT exemptions provided for the sale of petrol, diesel and illuminating paraffin.

These subsidies supported the use of coal in SA, which, according to the report, made up 88% of the electricity mix in 2018, with Eskom producing more than 90% of total power supply. The report also found that pollution from fossil fuel use costs the country R550bn each year in environmental harm and damage to public health.



Some of the recommendations made in the report include raising fossil fuel taxes (specifically taxes on coal) and ending the exemptions to the carbon tax.

“The government uses fiscal policy to influence the economy to meet the needs of the people and to move slowly towards a less carbon-intensive economy. But the bailouts and exemptions are doing the opposite of this, locking in high-carbon energy and pushing out clean energy,” said Richard Bridle, senior policy adviser at the IISD.

He conceded that taxes on coal would affect electricity prices but said these costs could be mitigated through targeted assistance to vulnerable consumers using coal tax revenues.

The IISD argued in the report that coal is the most underpriced fossil fuel in SA due to bailouts, which distort the price of electricity generated from coal while failing to account for its true cost, adding that the retail price would need to double to reflect coal’s social and environmental costs.

The report highlights the challenges faced by countries seeking to transform carbon-intensive economies at a time when climate change is dominating debate globally as the biggest risk to economies. SA faces a potential loss of market share for its exports as economies such as the EU consider levies on imported carbon-intensive products. Proposals that may lift the price of energy for consumers may also prove controversial.

“The era in which cheap coal provided cheap energy is over. Medupi and Kusile showed us that [coal-powered stations] are not cheap to build and when we take account of the damage to public health, it is not cheap to operate,” Bridle said.

There is a strong case for targeted subsidies and people facing energy access issues should receive support, he said. But blanket energy subsidies are “regressive” and mainly benefit those who consume the most, “who tend to be the richest people in society”.

Raising fossil fuel taxes “would generate revenues that can be spent on social priorities [such as] improving energy access, as well as funding education, health and other priorities and ensuring that the energy system is properly maintained and developed”, he said.

*erasmusd@businesslive.co.za*

**BusinessLIVE Comment Policy**

We welcome comments that are civil and considered. Any comments that are racist, bigoted or vulgar are not allowed.
Please read our Comment Policy before commenting.

**2 Comments** **BusinessLIVE** **Disqus' Privacy Policy** **Reg Rumney**

Favorite Tweet Share Sort by Best

Join the discussion...

**Skeptical Dog** • 2 hours ago

What a load of bull, written by wealthy priveliged think tanks. Zero rating fuel is not a subsidy, but helps save the poorest of the poor transport money they can spebd on fiod. Typical ivory tower nonsense.

• Reply • Share ›

**Paul Kearney** Skeptical Dog • 2 hours ago

Well, this should be split into Eskom only "About 77% of the subsidies were delivered in the form of bailouts to Eskom or in foregone revenue as in carbon and VAT exemptions" then we may see that it is primarily about bailing out Eskom.

Quite funny; take money loaned to clean up the environment and spend it supporting the biggest polluter to keep polluting.

• Reply • Share ›