South Durban Community Environmental Alliance | LFFU Leave Fossil Fuels Underground | University of Amsterdam | NWO Netherlands Organisation for Scientific Research

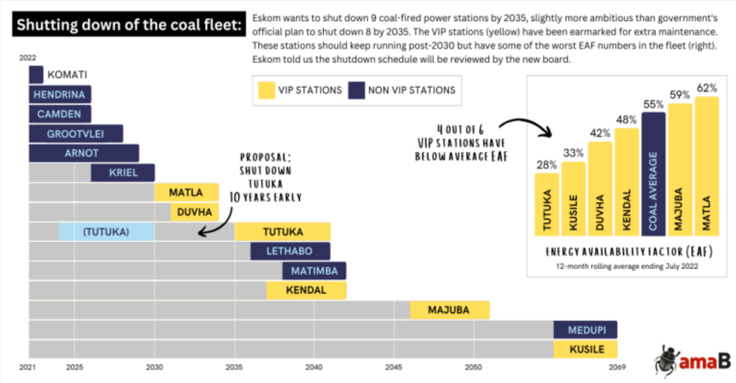
Policy Brief #1
November 2022

The Just Energy Transition Partnership seen from below

Conditions under which decarbonisation should be financed in South Africa

Key messages:

1. **Decarbonisation essential but must be done properly**
2. **Hidden loan costs and conditions do economic harm**
3. **JETP must not fund Eskom's new methane gas addiction**
4. **New loans must not pay interest on old (corrupt) loans**
5. **Demand management must not be ignored**
6. **All Eskom policies and practices need accountability**



Above: Eskom's planned closures of coal-fired power plants

What will this facility by us? Eskom has identified a pipeline of projects in support of its Just Energy Transition Strategy

Prioritised capacity opportunities and associated funding required

Project	MW	Cost Estimate [1] (Rm)	Timing
Komati PV	100,00	2103 - 3155	12-18 months
Komati Gas*	1 000,00	15300	24-48 months
Sere PV	600,00	8323 – 12485	18-48 months
Kleinzee	300,00	5067 – 7601	12-24 months
Aberdeen	200,00	3581 – 5371	24-26 months
Majuba PV	65,00	838 – 1258	12-24 months
Tutuka PV	65,90	845 – 1274	12-18 months
Arnot PV	17,00	222 – 334	12-18 months
Duvha PV	23,50	304 – 456	12-18 months
Lethabo PV	75,00	968 – 1452	12-18 months
Olyvenhouts drift PV	550,00	7700 – 11250	12-18 months
Other wind*	100,00	1992-3500	TBD
Microgrid*	1 400,00	60200	6-12 months
RBay gas*	3 000,00	70000	24-60 months
Komati Battery storage	244 MWh	3360 – 5039	12-18 months
Total funding required		180 809 – 198 975	

Above: Eskom's desired use of JETP financing, November 2021

Below: Eskom CEO Andre de Ruyter, World Bank President David Malpass and Public Enterprises Minister Pravin Gordhan, at the Komati power plant, where Eskom desires a 1000MW methane gas generator. (Photo source: The World Bank, 6 November 2022)

Introduction

South Africa's energy parastatal Eskom has 40 000MW of coal-fired power capacity, yet typically a third is out of commission due to age and accidents, causing widespread blackouts. In November 2021, at the outset of the Glasgow Conference of the Parties 26, an $8.5 billion "Just Energy Transition Partnership" (JETP) deal was announced by the Pretoria government with partners in Paris, Berlin, London, Washington and Brussels. The final package, presented 12 months later at the Sharm El-Sheikh COP27, aims to not only begin decarbonising Eskom's grid, which relies 85 percent on coal, but also to promote electric vehicles and green hydrogen. The idea of leaving fossil fuels underground in exchange for Western finance (as a downpayment on climate debt) is a good one, but problems immediately surfaced.

1. Decarbonisation essential but must be done properly

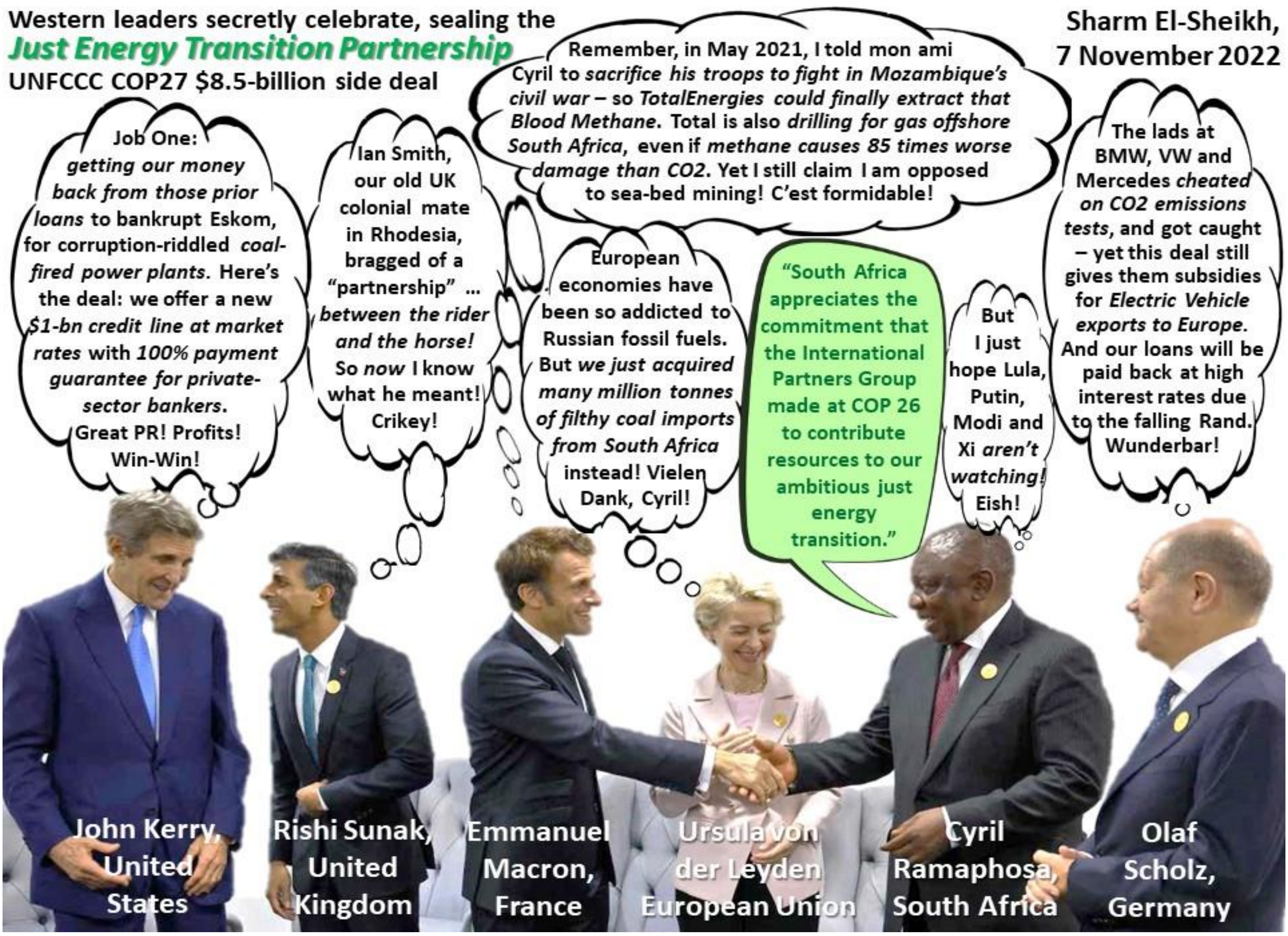
The JETP was constructed top down, without meaningful civil society consultation. The state and Big Oil were also still exploring for offshore methane gas, fracking and planning a massive coal-to-LNG replacement, so the Climate Justice Charter Movement called for a JETP boycott. Protests against Shell and Total since October 2021 led to a temporary court victory against further gas exploration in September 2022.

2. Hidden loan costs and conditions do economic harm

The JETP will pile on nearly entirely hard-currency debt: initially $8.245 billion, with only 3 percent of the funds in the form of grants. While U.S. and British loans are at market rates, the Europeans provided slightly 'concessional' debt. However, because the loans are in hard currency and South Africa's currency is declining, Eskom will face onerous repayment in coming years. In April 2022, the Rand/$ rate was R14.3/$ but by the time of the COP27, had fallen to R18.4/$. Not only are the rates expensive when considered in 'real effective' terms (incorporating currency decline), the hard currency is not necessary for many components of the JETP (such as wages), now and especially in future, as local manufacturing replaces imported renewable energy components. Eskom needs to build its own internal renewables capacity and energy storage, and not continue to privatise generation. It needs to shake reliance upon multinational renewable energy firms which repatriate profits and dividends to their home countries.

3. JETP must not fund Eskom's new methane gas addiction

On the one hand, a JETP is necessary – in grant form not loans – to support Eskom's shift from coal over-reliance and ensure a genuine Just Transition for adversely-affected workers and communities. However, one immediate danger is that Eskom CEO Andre de Ruyter has proposed a methane gas investment programme – for which he anticipates using 44 percent of JETP funds – including 1000MW at the site of the decommissioned Komati coal-fired power plant.



4. New loans must not pay interest on old (corrupt) loans

Eskom's existing $23 billion debt is nearly entirely due to just two oft-broken coal-fired power plants – Medupi and Kusile (4800MW each) – whose lead contractor, Tokyo-based Hitachi, in 2007 donated 25% of its local subsidiary to South Africa's ruling party. As a result, in 2015, Hitachi was successfully prosecuted under the U.S. Foreign Corrupt Practices Act. As early as 2008, the scandal went public. Yet Eskom lenders soon included the West's main export-import banks and the World Bank, which made its largest-ever loan for Medupi in 2010 ($3.75 billion). Eskom's new JETP debt allows it to repay older loans, in turn legitimising Medupi-Kusile corruption. It is immoral for creditors not to take a 'haircut' on these loans. JETP money must not fund repayment of Eskom's Odious Debt.

5. Demand management must not be ignored

Eskom urgently needs new renewable supply, but "demand side" of the utility's electricity grid is just as vital. The largest consumer, using more than 5 percent of grid supply, is BHP Billiton (South32, based in Melbourne, Australia). Its Richards Bay aluminium smelter imports the main ingredient (bauxite), processing it with coal-fired power at a price just 10 percent of what ordinary consumers pay. The product and profits are exported. Similar abuse of electricity occurs at Sasol's Secunda plant – the world's highest CO_2 emissions point source – where an apartheid-era refinery squeezes coal to produce liquid petroleum (which would otherwise be imported, at far lower environmental cost). The guzzlers need immediate shutdowns.

6. Eskom policies and practices need accountability

Finally, Eskom remains riddled with staff corruption. The "energy racism" disconnection policies De Ruyter imposed on black neighbourhoods in 2020 (during winter amidst the Covid-19 pandemic) – which he terms "load reduction" – were followed by his proposal to end electricity cross-subsidisation for poor people. The JETP implicitly supports these backward policies. Eskom has never taken seriously the Just Transition agenda. Indeed, ultra-polluting coal-fired power plants and mines now kill thousands of nearby community residents annually due to particulate pollution.

Conclusion: Changing the JETP into a force for good

Other JETP components are also poorly conceived, such as subsidies for electric vehicles (given via Western car companies) that will be unaffordable to most South Africans, and the Green Hydrogen hype which threatens to redirect future renewable energy capacity into Sasol's foreign export markets instead of meeting local needs. But activists are fighting back, and solidarity is needed to change the JETP – or otherwise endorse the Climate Justice Charter Movement boycott.

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