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## Exploring South African 'Green Leadership' in the Context of the European Green Deal

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KAS-MDPD, the German Development Institute (DIE) and the Finnish Institute of International Affairs have launched a new publication series on the external dimension of the EU's Green Deal, with inputs by experts from the biggest (re-)emerging powers.

How is the Green Deal perceived by (re-)emerging powers across the world? And what does the Green Deal mean for the EU's global power ambitions? The publication series involves perspectives from eight countries/regions: Brazil, China, the EU, India, Indonesia, Mexico, Russia and South Africa.

# Introduction

South Africa has played a prominent role in various regional and global policy processes, including international climate negotiations through the United Nations Framework Convention on Climate Change (UNFCCC). South Africa is seen as an important partner for international cooperation given its profile within the Africa region and the Global South more broadly. At the domestic level, various policies and programmes support the development of the country's green economy and a transition towards more efficient energy and renewable energy production.

South Africa's role in providing 'green leadership', however, may be constrained by factors such as the ongoing contestation within the country around the green economy narrative in the context of pressing socio-economic challenges and ongoing reliance on coal-based power generation, the demands of the domestic policy agenda in light of COVID-19 and the legacy of the Zuma administration. With these considerations in mind, there remain significant opportunities for cooperation between South Africa and Europe in providing green leadership, building on existing strong ties between the EU and South Africa.



# 1. South Africa's Approach to the Green Economy

## 1.1 A contested narrative

South Africa has developed a range of policy instruments in support of a green transition, yet continues to grapple with the socio-economic implications of such a transition in the context of inequality, unemployment and an energy-intensive, fossil fuel-based economy. While South Africa's carbon emissions represent only about 1% of global emissions, its reliance on coal-based power generation means that it is one of the more carbon intensive economies in the world measured on a per capita basis. (1) About 90% of South Africa's electricity is generated from coal. (2) Liquid fuels demand is largely met through oil and gas imports, but South Africa also possesses the largest coal-to-liquids fuel plant in the world. The coal sector is important as an export product (representing about 15% of total mineral exports by value) (3) and as a source of employment. In 2019 the coal industry employed approximately 92 000 people, representing 19% of total employment in the mining sector. (4) South Africa has continued to invest in coal-based energy production – the Medupi and Kusile power plants have been under construction for over a decade and, when complete, will be among the largest coal-fired power plants in the world. While South Africa's latest energy plan (Integrated Resource Plan, 2019) does recognize that investment in new coal-based power generation is in decline and requires that all new investments in such generation is based on high efficiency, low carbon emission technologies, it foresees that by 2030 coal would still account for 59% of South Africa's energy mix. (5) It is also noteworthy that South Africa plans to continue promoting the exploration and development of oil and gas reserves. Offshore oil and gas development is promoted through the government's *Operation Phakisa* programme for the ocean economy, which received a significant boost with the announcement by Total of the discovery of an estimated 1 billion barrels of gas in the Brulpadda find in 2019 (another offshore gas discovery of undefined yet 'significant' scale was announced in 2020 from the nearby Luiperd prospect). (6)

South Africa's continued emphasis on fossil fuels may well create challenges for the country's exports as global partners move towards the development of carbon pricing mechanisms. The European Green Deal has, for example, raised the clear prospect of border carbon adjustments to address carbon leakage.

South Africa is facing significant electricity-generation challenges. Eskom, South Africa's state-owned utility, has been plagued by poor management and planning, underinvestment in maintenance, and corruption. For the past number of years Eskom has managed power generation shortfalls through a system of managed power cuts throughout the country (referred to locally as 'load shedding'), which has had significant negative impacts on the economy. Eskom has amassed R488 billion (EUR 26,4 billion) in debt and is reliant on government bailouts to remain solvent. (7) To address the sustainability challenges of Eskom, South Africa appointed a presidential task team in December 2018, and in February 2019, the government announced plans to unbundle Eskom into three subsidiary companies (generation, transmission and distribution) and to open the market to wider participation from private players in electricity generation. (8)

The aim of this reform is to improve the transparency and accountability of Eskom and to ensure an uninterrupted electricity supply for the country. The process of unbundling will take place over several years (2019 – 2022).

Despite the importance of coal in South Africa's energy mix, there has been growing investment in renewable energy. South Africa's initial Integrated Resource Plan (IRP), published in 2010, set a target of 17 800 MW of new electricity generation capacity to be derived from renewables, largely solar and wind. (9) This commitment informed the establishment of the Renewable Energy Independent Power Producers Programme (REIPPP), which has to date facilitated the procurement of 6 422 MW of renewable energy capacity through investments totalling R209 billion (EUR 11,3 billion). (10) The programme has also been lauded for contributing directly to South Africa's broader national development and transformation agenda through the creation of 40 134 jobs, advancing ownership by black South Africans (11) and local communities; increasing representation of black South Africans in management roles; empowering black-, women-, youth-owned, and small enterprises; developing small businesses in local communities, and addressing some of the socio-economic needs of communities local to projects. (12) While policy uncertainty and other challenges have hampered the growth of the renewable energy sector in recent years, the release of IRP 2019 has revitalised the sector. IRP 2019 specifies new-build allocations of 1 GW for solar PV and 1.6 GW of wind energy in most years from 2022 till 2030. The transition to renewable energy is likely to receive a boost from government regulations issued in 2020 that allow municipalities in good financial standing to procure electricity from sources other than Eskom. (13) Some of the largest metro municipalities, including Cape Town, Ekurhuleni and eThekweni, have released energy plans that include the procurement of significant renewable energy from independent producers.

A recent announcement by Minerals Resources and Energy Minister Gwede Mantashe, in March 2021, of eight new independent power suppliers reflects the growing pressure on government to address Eskom's power shortages. While this is a positive development, many concerns have been raised around the reliance on expensive powerships, only a minority of which produce renewable electricity. (14)

However, in the State of the Nation address on 12 February 2021 (15), President Ramaphosa made it clear that despite progress being made on the maintenance of ageing Eskom power plants, "without additional capacity, there will be an electricity supply shortfall of over the next 5 years, as old coal-fired power stations reach their end of life." The President therefore announced an easing on the licensing requirements for new embedded generation projects, which he said could "unlock up to 5,000 megawatts of additional capacity and help to ease the impact of load shedding". The amendment of the Electricity Regulation Act to increase the licensing threshold for embedded generation is expected to take place by mid-May 2021 and is a very positive development for distributed-generation projects in a wide-range of sectors, including mines, mineral processors, factories and farms. The South African government has adopted a range of policy instruments in

support of developing the country's green economy. South Africa's National Development Plan 2030 calls for the green economy agenda to be leveraged to promote deeper industrialisation, energy efficiency and employment. (16) With the hosting of the UNFCCC COP17 in 2011 the South African Government launched a Green Economy Accord, presented as a social pact on green jobs that includes commitments by government as well as the private sector.

Since 2020, the country has committed to achieve net zero carbon emissions by 2050. Key elements of the government's approach to the green economy are older and, inter alia, outlined in the National Climate Change Response White Paper (2011), the Bio-Economy Strategy (2013), the revised National Waste Management Strategy (2020) and the Low-Emissions Development Strategy 2050 (2020). In early 2019 South Africa introduced a carbon tax, one of few developing countries to do so. It is also envisioned that the National Climate Change Bill, currently under development, will establish a framework for carbon budgeting and will make it mandatory for large emitters to have a carbon budget. In September 2020, the South African Cabinet approved the establishment of a Presidential Climate Change Coordinating Commission to coordinate and oversee a just climate and energy transition in South Africa.

A recent green economy policy review of South Africa's industrial policy framework noted that South Africa's Department of Trade and Industry has provided leadership for the development of green industries, with building blocks to support renewable energy, resource efficiency, the circular economy, and e-mobility. In addition, the department increasingly focuses on aligning industrial policy with environmental objectives. However, the review notes that South Africa's overall industrial policy vision "tends to consider the transition to an inclusive green economy as an add-on to other developments in the country. The links between green economy and inclusive development, and between green economy, competitiveness and industrial development, have not been adequately developed." (17)

There has been significant uncertainty around the future of the renewable energy market in South Africa, fuelled in part by statements from Eskom and unions that appear critical of the widespread adoption of renewable energy technology. This has, to some extent, been addressed by statements in support of the REIPPP by the Presidency, the Treasury and the Department of Mineral Resources and Energy. However, there is a critical need for action by government to ensure momentum, continuity and transparency in the rollout of renewables. Furthermore, local renewables markets are facing greater competition for investments. For current players in the market, continued delays mean financial losses and idle manufacturing facilities, as well as weakened market confidence. As a result of the uncertainty, the sector has lately seen several international business closures, suspended investment decisions, and manufacturers running on skeleton staff.

In addition, a major concern is the opposition of labour unions in South Africa, who are concerned about the green transition's cost to inclusive growth and jobs, rather than seeing it as a source of innovation and growth. However, there are positive signs that certain labour unions are attempting to engage with the challenges posed by climate change. While strongly supporting a just transition and insisting that jobs should not be lost through South Africa's climate response, the Congress of South African Trade Unions (COSATU) issued a set of proposals to the government in January 2020 that included support for investment in renewable energy. (18) In discussing the proposal, Mathews Parks, COSATU Parliamentary Coordinator, is quoted as saying "both environmental and economic denialism are dangerous and should not be entertained. We think we can and must tackle climate change and unemployment simultaneously. All it requires is creativity, political will, planning and resources." (19)

## **1.2. Signals on the Greening of South Africa's COVID-19 Response**

The South African Economic Reconstruction and Recovery Plan, published in October 2020 to guide the national response to the socio-economic impacts of the COVID-19 pandemic, highlights that "the pursuit of green industrialisation and a green future is an important intervention not only in addressing the persistent challenges of inequality, poverty and unemployment, but also in offering a sustainable solution to climate vulnerability and driving economic competitiveness." (20) President Ramaphosa, speaking at the UN General Assembly Biodiversity Summit on 31 September 2020, noted that COVID-19 recovery efforts should foster "greater and not less harmony with nature", while South Africa's Minister of Environment, Barbara Creecy (who currently chairs the African Ministerial Conference on the Environment) has highlighted that there is "a recognition now that we should not see the economic response to climate change as one only of threat to existing jobs and existing industries, but we should start to understand it as something that also contains within it enormous potential". (21)

Conversely, as part of the South African government's efforts to reduce the negative effects of the Covid-19 economic crisis, President Ramaphosa announced in April 2020 a three-month delay in first carbon tax payments (South Africa's carbon tax was implemented in October 2019). In March 2020, Minister Creecy lowered the minimum air pollution standards. This decision, after public consultation, was informed by the financial difficulties being experienced by Eskom and Sasol, seen as unable to invest in infrastructure that would lower their emissions to standards called for under new regulations. It is also noteworthy that COVID relief funds have, in part, been directed to support the fossil fuel sector and energy intensive industries. It is clear, therefore, that behind the narrative of 'building back better', there is a more complex reality that has also involved some compromises with and concessions to the fossil fuel sector and energy intensive industry.

### **1.3. South Africa's Green Leadership Regionally and Globally**

In foreign policy domains, South Africa is widely seen to have had a disproportionate level of engagement and influence; similarly in global environmental policy processes. It has also long underscored the relationship between ecosystem health and human development, a core element of the Johannesburg Declaration emerging from the World Summit on Sustainable Development, which South Africa hosted in 2002. South Africa plays a key role in various important negotiating blocs within the UNFCCC COP process, including the G77 plus China, the Africa Group of Negotiators, and the BASIC group (Brazil, South Africa, India and China). South Africa hosted COP17 in 2011 and chaired the G77+China group during the COP21 negotiations in 2015 that culminated in the Paris Agreement.

South Africa's negotiating position in global climate negotiations is informed by its unique socioeconomic profile. It has been observed that, "like the rest of the developing world, South Africa is far less capacitated to address mitigation and adaptation than the developed world. However, unlike the majority of the developing world, it is also a significant contributor to climate change. It is therefore in a relatively unique position, with a difficult balancing act to play to protect its interests." (22)

Davies, Fakir and Nagiah have offered the following summary of South Africa's position on climate change at the international level: "climate change poses a serious risk to the developing world; developed countries should be held responsible for their contribution to climate change; developing countries should be given some carbon space with which to pursue their development objectives; and the developed world needs to provide support (financial, technical and capacity building) to the developing world for them to be able to adapt and mitigate."



## 2. Europe and South Africa – Partnering for a Green Transition

The Government of South Africa has a long-standing relationship with European partners – South Africa is the EU's most important trading partner in Africa and the only country on the continent with which it has concluded a strategic partnership agreement. The Strategic Partnership Joint Action Plan, adopted in 2007, covers numerous strategic areas of common interest, 'job creation through inward investment' remains a long-term priority, as is collaboration on climate change and other environmental issues. (23) The relationship has achieved results in the fields of environment, climate change and the sustainable development agenda, with various initiatives and projects currently underway, including the Sustainable Energy for All (SE4ALL) and Switch Africa Green Initiative.

As testament to the importance of the EU-South Africa partnership, Frans Timmermans, the Vice President of the EU Commission, and flag bearer of the European Green Deal, visited South Africa in March 2020 to engage with key government and private sector stakeholders. At the 14th European Union - South Africa Ministerial Political Dialogue, convened as a virtual meeting in July 2020, the EU offered continued support to South Africa's green transition through climate finance and the facilitation of investment, technology transfer and the provision of expertise for green, fair, inclusive, and just economic recovery. (24) Both parties also intend to scale up cooperation and work towards higher ambition in the implementation of the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda, the UNFCCC and its Paris Agreement, and other multilateral environmental agreements, including the negotiation of an ambitious post-2020 biodiversity framework through the Convention on Biological Diversity. (25)

There are also other entry points for the South Africa - EU partnership to collaborate on common issues related to the African continent. This includes, for instance, leadership and alignment on the green transition elements of the EU's Comprehensive Strategy for Africa (unveiled in March 2020), as well as exploring new areas of trilateral climate and energy cooperation between South Africa, the African Union and the EU. Making significant progress on areas of common interest is essential to change the public perception of Europe's historical, and often skewed, relations with Africa. Equality and social justice need to be a central element of this new way forward.

# 3. The Road ahead: where do the opportunities and challenges lie?

South Africa's renewable energy sector is the most mature in the African region, and therefore offers a useful platform for investors seeking to venture into the rapidly growing regional market. In terms of commercial viability, the structure of the national renewables programme offers valuable lessons for the region in the design of the rolling competitive bid window procurement programme structure, which established market confidence early on and attracted vibrant investor interest locally and from abroad.

As the only African nation with a G20 seat, South Africa can also serve as a pathway for private sector climate finance into Africa. South Africa's IRP2019 clearly sets out the pathway for future investment opportunities for solar PV panels, wind tower and battery manufacturers. The country also has some of the world's largest high-grade resources in vanadium, platinum, palladium, nickel, manganese, rare earths, copper and cobalt, which are used in the global energy storage sector and could create an opportunity for new industry and localisation. Although the local market remains small, local manufacturing to provide battery storage for both grid services and utility-scale storage may represent a viable commercial opportunity for the SADC region at large.

Besides renewables, investment in other low-carbon technologies has been slow and there is a recognised need for increased investment in energy efficiency, smart grids, e-mobility, forestry, bio-energy, hydrogen and fuel cells. The South African finance community needs to expand its experience in adaptation finance and project implementation. This should include increasing knowledge of new services and technologies, and better understanding correlations between the risks and returns of associated assets. Those seeking capital and risk protection need to correctly gauge the market opportunities and efficiently structure their financing and investment strategies. There is therefore significant potential for technical cooperation, joint research and public private partnerships between South Africa and the EU in the areas of renewable energy, circular economy and green finance.

Addressing unemployment and managing a just transition will remain a key political priority for South Africa and will therefore need to be central to EU – South Africa cooperation. This is tied to the shift in the South African electricity sector and a just transition away from coal-based jobs, with emphasis on 'leaving no one behind'. The loss of jobs in the coal sector and the job creation potential of the renewable energy sector (as well as the green and circular economy more broadly) remains a major concern for unions, policymakers and other stakeholders. A great deal of work is already underway to support this transition and provide opportunities to re-skill South Africans, yet these efforts must be expanded further. This represents an opportunity for deepening EU-South Africa intergovernmental cooperation, while exchanging lessons on how to manage energy transitions and drive resilient job creation. While the debate on border carbon adjustments is not very advanced in South Africa, it should be noted that there have been concerns raised around the EU's move towards such policy instruments.

Beyond economic cooperation, political alignment around climate negotiations is key. The EU recognizes that the demonstration effect of a successful, just transition in South Africa can play an important role in promoting buy-in from other countries in Africa and the Global South more broadly. South Africa's diplomatic clout can also play a key role in supporting enhanced ambition in global climate negotiations. The stakes are high, yet there is a strong foundation of cooperation and the South African government has been clear around its own priorities and constraints, centred around the imperative to create quality jobs – this in turn provides a clear platform for collaboration around green leadership and a more climate resilient future.

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