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Govt's massive fossil fuel subsidies are hurting SA, report finds

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The IISD released a report highlighting the current state of South Africa's energy subsidies and their role in the energy sector.

Waldo Swiegers/Bloomberg

Government's energy subsidies, mainly dominated by fossil fuels, more than tripled to R172 billion in three years, research by the International Institute for Sustainable Development (IISD) shows.

By comparison, the use of fossil fuels is estimated to cost South Africa a minimum of R550 billion each year in terms of environmental harm and public health.

Finance Minister Enoch Godongwana will, at the upcoming budget, make announcements of phase 2 of the carbon tax - which seeks to reduce greenhouse gas emissions.

South Africa's energy subsidies, mainly dominated by fossil fuels, more than tripled to R172 billion between 2017/18 and 2020/21. This has come at a huge societal cost, according to research by the International Institute for Sustainable Development (IISD).

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The independent think tank on Monday released a report, *South Africa's Energy Fiscal Policies: An inventory of subsidies, taxes, and policies impacting the energy transition*, which highlights the current state of South Africa's energy subsidies and their role in the energy sector.

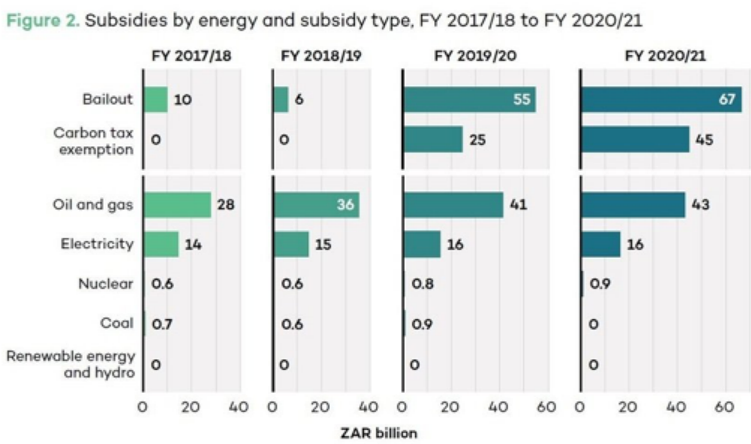
Energy subsidies take various forms. Among them are carbon tax exemptions, the free basic electricity programme and even government bailouts. Particularly the R56 billion bailout to Eskom in 2020/21, which was flagged as the "single largest quantified subsidy" for that year and supported the combustion of coal in the country.

Budget allocations from the Department of Mineral Resources and Energy to its nuclear entities are also identified as subsidies by the authors, with support for the nuclear industry increasing from R590 million in 2017/18 to R920 million by 2020/21 - this was mainly attributed to direct transfers to the South African Nuclear Energy Corporation.

Oil and gas subsidies have come in the form of VAT exemptions on products like diesel and illuminating paraffin - which increased by 45% to R34.67 billion between 2017/18 and 2019/20.

There are subsidies for renewable energy, but these were difficult to quantify due to a lack of data, explained Chido Muzondo - one of the report's authors, who spoke at a webinar launch.

Generally, subsidies in the energy sector are dominated by fossil fuels and coal-fired electricity.



While there are subsidies for renewables, a lack of publicly available data made it difficult for researchers to quantify their value. Chart: IISD.

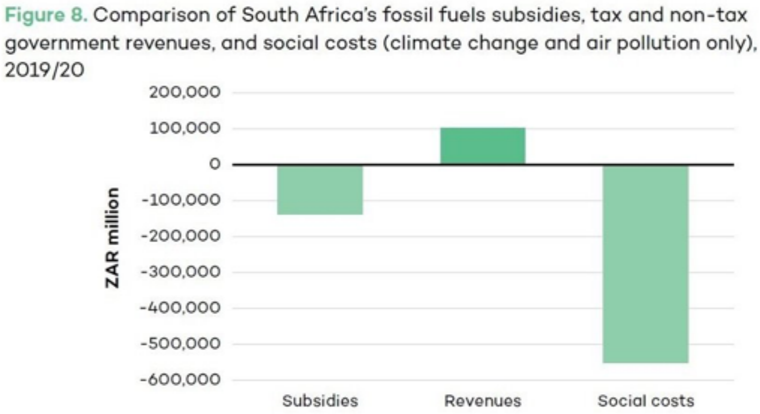
While fossil fuels are an important source of revenue for government - such as the general fuel levy which accounts for the biggest share (81%) of total revenue from fossil fuels, overall social costs linked to fossil fuel use outweigh the revenues.

Air pollution and greenhouse gas emissions from fossil fuels come at a cost of an estimated at R550 billion each year, according to the IISD. By comparison, in 2019/20, the total revenue from fossil fuels was R100.5 billion.

"The cost of fossil fuels to communities is higher than revenue they can generate," Muzondo said.

Social costs include mortality and diseases linked to air pollution as well as climate change impacts.

"Fossil fuel prices are too low to reflect their costs on society," the report read.



Social costs outweight government revenue from fossil fuels. Chart: IISD

The prices of fossil fuels need to reflect their environmental and social costs, according to the IISD.

Revenue generated from effectively priced fossil fuels can in turn be targeted at supporting vulnerable households which face high energy prices.

> **"Increasing fossil fuel taxes is an important stage in the energy transition. Revenue generated from fossil fuel subsidies and taxation can be invested into the energy transition in ways that stimulate jobs and economic growth while funding a just transition for fossil fuel sector workers and communities."**
>
> **IISD**

The IISD also puts forward that fossil fuel subsidies are too high, and government needs to phase out exemptions to the carbon tax, increasing transparency on energy fiscal policies and reducing bailouts provided to Eskom. The bailouts "distort" the price from coal-generated electricity, which may seem cheaper than it really is.

Dr Memory Machingambi, senior economist of environmental and fuel taxes at National Treasury, noted the findings of the report and emphasised that government is committed to reducing greenhouse gas emissions through carbon pricing and reducing or phasing out fossil fuel subsidies.

South Africa is one of the top 20 global emitters of greenhouse gas emissions.

Machingambi explained the carbon tax is one of the most important among government's suite of policies supporting climate action. It took 10 years to develop the tax, which was introduced in 2019.

READ | Carbon tax key in reducing emissions to respond to climate change - Treasury official

The carbon tax essentially penalises emission-intensive goods compared to those which are less emissions intensive. The aim is for consumers and businesses to adjust their behaviour - mainly by reducing emissions. Currently the carbon tax pricing is low, but the aim is to implement inflationary increases and phase out tax-free allowances. Treasury's modelling -

dating back to 2016 - expects the carbon tax to significantly reduce emissions by 13% to 14.5% by 2025 and 26% to 33% by 2035.

More announcements on phase two of the carbon tax will be made by Finance Minister Enoch Godongwana in the upcoming budget.

But South Africa's environmental taxes have been "woefully inefficient," according to Gaylor Montmasson-Clair, senior economist on sustainable growth at Trade and Industrial Policy Strategies.

At the webinar on Monday, Montmasson-Clair contended that only two environmental taxes seemed to have worked: on plastic bags and incandescent light bulbs. These taxes worked because alternatives were available, industries were on board with them and it was easy for consumers to make the shift, he explained. Environmental taxes which haven't worked were either too low, like that carbon taxes on cars, or no alternative products were available, he added.

"Globally evidence shows carbon pricing to date has not really had an impact because it is often too low, not implemented properly and not part of a bigger package," said Montmasson-Clair.

Carbon pricing (such as carbon taxes) alone can't address the problem. It must be coupled with a shift in systems too, he said. For example, there should be support for the electrification of the transport system - subsidies should be provided for electric vehicles and public transport, as opposed to vehicles dependent on fossil fuels.

He also criticised the current carbon pricing for being "extremely complicated."

"For me, it hides a lot of things behind this complexity... If you want an upfront price, make it simple and clear, and that is not hard to do."

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