South Africa

G20 coal subsidies

South Africa’s public energy utility Eskom **relies heavily** on coal-fired power

### Key findings

- State-owned utility Eskom provides significant support for coal in South Africa – as a result of Eskom’s heavy involvement in coal, and in particular the major spending on the Kusile and Medupi coal-fired power plants in recent years. This state-owned enterprise support is among the highest in the G20, averaging R49.2 billion (US$3.4 billion) per year (2016–2017 average).
- Coal mining in South Africa received annual average subsidies of R855 million (US$60 million) (2016–2017 average).
- In 2017, the South African Export Credit Insurance Corporation provided R5,544 million (US$400 million) of financing for a coal transportation project in Mozambique.

### Prominence of fossil fuels and subsidy phase-out commitments

- Coal accounted for 90% of South Africa’s electricity generation in 2016, with renewables only making up 4% (the remainder being nuclear) (IEA, 2019).
- The yet-to-be-approved 2018 update to South Africa’s Integrated Resource Plan would see coal-fired power decline as a share of South Africa’s energy supply by 2030, and renewable electricity-generating capacity would scale up significantly, reaching nearly 30 gigawatts (GW) by 2030.
- As a member of the G20, South Africa has committed to phase out inefficient fossil fuel subsidies over the medium term (as agreed in 2009) (G20, 2009). As a signatory of the Convention on Biological Diversity (Aichi Target 3), it has committed to phasing out environmentally harmful subsidies, including those to fossil fuels, by 2020 (UN, 1992).
Government support to coal production

• Government support for coal mining is provided in the form of government funding for water transportation projects serving coal mining operations. Fiscal support identified in this analysis totals R855 million (US$60 million) per year (2016–2017 average).
• We also find evidence of support for coal internationally, by South Africa’s export credit agency, South African Export Credit Insurance Corporation, which provided R5,544 million (US$400 million) of financing for a coal transportation project in Mozambique in 2017.

Government support to coal-fired power production

• Eskom, South Africa’s state-owned utility, allocated the majority of its capital expenditures in recent years to two major coal-fired power projects – the Medupi and Kusile plants, which were planned to have a total capacity of nearly 10 GW. The plants, both significantly delayed and over budget, have featured prominently in discussions about Eskom’s financial woes (Government of South Africa, 2018; Burkhardt, 2019).
• The government is currently considering whether to abandon completion of units at these two plants, given that costs to date for both plants have totalled R258 billion (US$19 billion) and the additional cost to complete both projects is estimated at another R87 billion (US$7 billion) (McKay, 2019). Independent analysis has indicated that it would be cheaper to abandon than complete the last two units at Kusile (Steyn et al., 2017).

Government support to coal and coal-fired power consumption

• The subsidies that support coal consumption in South Africa are generalised subsidies for electricity consumption below a certain threshold level, which apply to electricity from all sources. This research estimates the coal-related portion of subsidies to electricity consumers at R8,271 million (US$570 million) per year (2016–2017 average).
• Subsidies to basic levels of electricity consumption have seen slight increases in 2016 and 2017, in the context of significant tariff increases by Eskom – and a dramatic increase in the last decade (Gosling, 2019), driven in part by the large debts incurred in building the Medupi and Kusile coal plants.

South Africa’s government support to coal and coal-fired power production and consumption

R millions, 2016–2017 annual average

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Coal production</th>
<th>Coal-fired power</th>
<th>Coal consumption</th>
<th>Transition support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal support (budgetary transfers and tax exemptions)</td>
<td>855</td>
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<td>8,271</td>
<td>none identified</td>
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<td>Public finance</td>
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<td>none identified</td>
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<tr>
<td>Domestic</td>
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<td>–</td>
<td>none identified</td>
<td>–</td>
</tr>
<tr>
<td>International</td>
<td>2,772</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>State-owned enterprise investment</td>
<td>none identified</td>
<td>49,177</td>
<td>none identified</td>
<td>none identified</td>
</tr>
</tbody>
</table>

Note: for more detail and sources see the South Africa data sheet available at odi.org/g20-coal-subsidies/south-africa.

1 This category includes support for coal exploration, mining, processing and transportation.
2 This category includes support for consumption of coal-fired power, and of coal other than for its use for coal-fired power generation (or for co-generation of power and heat).
3 This category includes support for closing down mining sites, and for workers and communities in their transition away from coal and coal-fired power.
Government support to the transition away from coal and coal-fired power

- Recent analysis indicates that, while a transition away from coal is already underway in South Africa, and despite being the only country to explicitly mention a Just Transition in its nationally determined contributions (NDCs), the government lacks credible plans to support workers at coal plants slated to be closed and for communities in coal mining areas where mining jobs are already decreasing.
- Government support has focused more on keeping Eskom solvent than on ‘supporting workers and regional development initiatives’, particularly in regions where the economy is currently heavily dependent on coal, such as Mpumalanga (Burton et al., 2018: 6).

References


