
The Just Transition Energy Partnership in South Africa: Vehicle for Reform and Economic Transformation?

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The paper argues that while Africa's contribution of greenhouse gas emissions is low compared to the rest of the world, Africa can seek mutually beneficial outcomes by linking decarbonization with its future development trajectory and economic diversification needs. This paper explores the Just Energy Transition Partnership (JETP) in South Africa as a model for facilitating large-scale energy transitions that not only transform the energy sector in South Africa, but also deliver positive socio-economic outcomes. This paper also looks at the implications of such partnerships for oil- and gas-producing countries. This paper's primary thesis is that diversifying African economies is a definite pathway to reducing climate risks and building new types of climate-aligned infrastructure.

BACKGROUND

Initiatives such as the Just Energy Transition Partnership (JETP) deal that South Africa signed in 2021 at COP26 with international partners such as the United States, the United Kingdom, France, Germany and the European Union, are changing the landscape as far as transformative climate finance deals are concerned.¹

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The JETP is a climate finance deal developed in South Africa as a way for the country to achieve greater carbon emission reduction with international support, largely consisting of low-cost concessional loans and grants. South Africa's National Determined Contribution (NDC) to the Paris Agreement will require international climate finance support from global partners and funds to catalyze its low carbon journey. The scale of the JETP enables international partners, essentially the G7 members, to demonstrate their continued political commitment to dealing with global emissions.

The JETP has five key elements: the transformation of South Africa's carbon-intensive, coal-dependent electricity sector over the next twenty years toward cleaner energy; provisions for a hydrogen economy; the scaling up of production of electric vehicles; and—most pertinent—ensuring the energy transition is a just transition, especially with regard to the coal mining sector. And, the JETP also comes at a time when South Africa has to attract more investments in energy infrastructure to deal with its power crisis.

South Africa's NDC is unique in that provisions for justice are at the cornerstone of its transition vision.² By including the concept of justice, it is implied that South Africa's transition must be inclusive, leaving no one behind. This is why there is a strong focus not only on the future of work in the coal mining sector, but also on ensuring that investments in clean energy create new jobs and more sustainable local economies.

The decarbonization deal is worth \$8.5 billion over a five-year period.³ It is a mere kick-starter to the long-term process that South Africa has elected to embark upon in order to keep itself on the path to net-zero. South Africa submitted an ambitious new NDC in 2021, but does not have a formal net-zero target. The fully estimated cost of reaching net-zero emissions in South Africa is approximately \$250 billion.⁴

At the start of COP 27, South Africa and its international funding partners published the final Investment Plan.⁵ Later in the conference, a \$20 billion JETP deal was announced with Indonesia.⁶ An \$11 billion JETP is expected to be announced with Vietnam in December.⁷ Others to be finalized include Senegal and India.⁸

There is always a difference between words finessed in elite gatherings—such as the UN Framework Convention on Climate Change (UNFCCC) Conference of Parties (COP) meetings—and changing the reality on the ground. While the JETP is a way of interlocking global collective action, it also enables sovereign initiatives to expand through international support.

THE JUST TRANSITION AND HISTORICAL OBLIGATIONS

Interestingly, the notion of a “just transition” has a long historical pedigree, originating as a product of environmental justice debates in the U.S. during the 1970s.⁹ These were catalyzed as the United States transitioned to more stringent environmental policy systems that impacted job prospects in high polluting industries, such the chemicals and petrochemical sectors.

With the establishment of the U.S. Environmental Protection Agency (EPA), more stringent rules were accompanied by the liberalization of global finance. This aided and abetted the offshoring of dirty industries and production to Low Income Countries (LICs), especially China.

High Income Countries (HICs) that have offshored their carbon budgets to new centers of production – in particular LICs – have imposed an externality cost on these countries through higher levels of pollution and unfettered contribution to climate change. Offshoring has also meant that corporations – both private and public – have been able to increase their profitability and returns due to lower emissions standards overseas.

The issue of a just transition is no longer just a local issue, but a global one. The way industrial development and manufacturing has globalized in the last five decades in emerging economies makes the issue of climate justice and responsibility more complex: the shift in carbon budgeting from rich to poor countries has meant that externality costs have been transferred to countries with low labor costs and weak environmental standards. This is the global context in which the issue of the just transition must be discussed.

JETPS ARE REAL ECONOMY SOLUTIONS

The world needs a Green Marshall Plan.¹⁰ However, it is yet to be seen whether such a plan can be implemented in a global context in which the political economy of global finance is extractive rather than developmental, and during an intense era of heightened great power rivalry that will determine the nature of global collective action on climate, especially for poorer countries.

For LICs, this entails more than throwing aid and money at the problem and, instead, transforming the nature of their economies.¹¹

The solution to climate issues must be located within a paradigm of economic resilience. Economic resilience leads to climate resilience. LICs’ needs for energy and other investments can also be tied to solving their vulnerability to climate change and their need to invest in cheaper

renewable energy solutions. Climate issues have to be part of the national economic development agenda and investment program.

At the core of the JETP is the idea of turning NDCs into a vehicle for a structured large-scale investment in clean energy and other technologies that reduce the national emissions trajectory over time. These plans can take the form of expanding the electricity grid; scaling up of renewables; repurposing coal plants; catalyzing green hydrogen; and increasing production of electric vehicles.

The JETP has catalyzed a broader conversation about South Africa's economy, future development pathway, and issues of justice in the energy sector. The work done in South Africa showcases how NDCs can be instruments that combine development and climate goals. JETPs can increase the pace for reforms undergirded by concrete investment plans that contribute to a country's growth in fixed capital formation—the percentage growth of public and private investments in productive assets.

THE OBLIGATION OF RICH COUNTRIES

Even in HICs, debates over justice require revitalization. This has become more apparent in Europe, where the energy crisis is making people poorer.¹² It would be disingenuous to describe the notion of a just transition purely as a climate issue in a world where wealth is concentrated in the hands of a few.¹³ This begs the question: what are the obligations of HICs and how should they make amends?

First, a just transition will require HICs to considerably reduce their emissions and carbon budgets. Second, HICs have an obligation to support the generation of global public goods by providing cheap sources of finance for energy transitions and decentralizing the availability of technology, allowing manufacturing countries access to clean technologies. If anything, there should be more grants for transitions. JETPs are potential ways to deliver these global outcomes as high emitting countries take, and share, responsibility for creating this collective good. Third, HICs should create a collective global investment pool for fresh innovations that can not only rapidly decarbonize our economies, but also protect developing and emerging economies from climate risks. Taking these steps would help achieve justice within HICs while leveling the global playing field.

NEED FOR AN EXTENDED VERSION OF THE JUST TRANSITION

The just transition cannot be a vision held solely by climate groups or the net-zero lobby. It must be enriched with a wider framing. Existing

levels of inequality in developing and emerging economies are so high that, by necessity, an extended version of the just transition is needed, or what I would coin an extended just transition, or e-JT. Traditionally, the justice aspects of JETPs tend to focus only on the energy aspect of the transition, not on the economy-wide effect. But in emerging economies with high levels of inequality, the justice aspect must consider the challenge of inequality on a broader scale in order for the just transition to be meaningful and relevant. The justice aspects of the energy transition cannot be solved without the development of JETP investment strategies that also seek to align with a broader inclusive economic vision – hence the notion of an e-JT.

Under an e-JT, first, pre-colonial and post-colonial economies must be examined before the possibilities for a just transition are considered. A pre-colonial economy is a formal economy controlled by those in power and is purely extractive with the aim of servicing HICs and global industrial hubs' need for cheap commodities. The post-colonial economy is often accompanied by a large informal economy that exists on the margins of the formal; unproductive, unconnected, and unable to experience the benefits of an integrated global economy.¹⁴ Hopefully, in countries that are highly resource dependent, especially oil and gas economies, just transitions will produce more integrated economies that are self-reliant and connected. In this ideal situation, eventually the informal sector will not feed off a secluded globalized extractive sector, but over time will become the formal sector in and of itself due to its size and value-add to the overall economy.

Meeting the daily needs of people currently suffering from climate-induced disasters is a priority. But even where communities and economies are ravaged by climate change, continued dependence on foreign aid (which is already on the decline) is not a long-term solution for solving climate risks.¹⁵ The key to climate resilience is economic resilience. For this, a whole economy approach is needed: climate solutions have to be embedded in the macro-economic strategy of a country.

JETPS SHOULD BE CONTEXT-DRIVEN SOLUTIONS

The solutions to climate risks can only happen if the formal, one-sided, and unjust extractive economies that produce very little benefits for the majority are better integrated into the rest of the economy. Yet the climate and development trajectory of an extractive economy will be, paradoxically, dependent on how the country escapes the resource-dependency trap to build a more resilient future economic pathway that is also decarbonized.

Therefore, developing countries face two challenges: one is the need for the extractive sector (oil and gas) to generate economic resources to fund the solution; and the other is the issue of debt. To find ways of repurposing the proceeds from oil and gas windfalls, developing economies must build a non-extractive, less resource-dependent economy that is industrialized and globally connected in ways that guarantee better prospects for social justice and household welfare.

As an example, Nigeria is currently facing this dual problem. Its oil resources are declining and after five decades of oil exports and usage, Nigeria remains poor. It is the most populous country in Africa and will have the fourth largest population in the world by 2050, with just over 50 percent of the population between the ages of eighteen to thirty-five.¹⁶ Nigeria cannot rely on oil and gas in the future for its economic well-being. It faces a conundrum and a slow creeping external shock: countries driving demand for Nigeria's oil and gas want to be net-zero by 2050. Whether this will happen depends not only on where demand comes from, but also the route of decarbonization that China and Southeast Asia take in the next two decades. Demand for oil and gas from the West and Asia will reduce over time as they pursue their own decarbonization goals. The decrease in demand for fossil fuels will have implications for oil and gas economies, especially new and aspirant producers, as these countries will likely sit with assets that are stranded and of low value, with the result that they may not be able to finance their fiscal needs and debt.

A DISPLACEMENT EQUIVALENT STRATEGY IS KEY FOR SUCCESS

In emerging and developing countries, phasing out fossil fuels will largely be dependent on the cost effectiveness and economic value of replacements or alternatives. This is not just the displacement of energy and technology, but also the displacement of fossil exports. An example will illustrate this phenomenon and what I would call the “displacement equivalent.”

Country X sells oil to the global market: it generates investment flows in the oil sector. Infrastructure is then built to extract and process the oil—usually financed through foreign funds. Some of the oil is used domestically for fuel and perhaps even the production of other petroleum-based products like plastics. The majority is exported to generate foreign currency.

The expansion of infrastructure needed for extractives involves borrowing money from elsewhere, which is usually costlier than borrowing in the U.S. or Europe. Exports in resource-dependent countries tend to

produce profligate elites that borrow and spend on consumption rather than build a productive base. This is often described as the resource curse problem, and extensive literature about this exists.¹⁷

Country X can buy other goods and services based on its foreign earnings. If it is purely consumptive and not productive, the country will grow poorer, since its long-run poverty is measured by its rate of resource consumption and the revenues generated from that resource. If the resource's life is fixed, Country X's wealth will decline. Country X's decline of wealth is also determined by the rate of savings and investments it makes from the revenues generated by commodity exports.

Countries that have diversified economic bases and exports can not only better handle the resource curse problem, but can also modulate resource exports based on future growth projections and balance of payments needs.

If Country X were to substitute oil with renewables, it could pay for these investments from the proceeds of its oil or gas sales.

But if the electricity generated from renewables is not generating exports, Country X must export more oil to support its consumption driven economy. In that case, renewables alone may not lead to sources of new production and exports, but will merely serve as a replacement for oil and gas while sustaining the consumptive side of the economy. New clean energy solutions need to be linked to other forms of manufacturing and industrial production for these countries to have more viable diversified economies that over time substitute for dependence on oil and gas.

As this thought experiment illustrates, countries with more diversified economies and exports will be able to pay for their transitions as opposed to countries that are highly resource dependent and use all of their proceeds to fund consumption. A country that has windfalls from oil and gas and retains reserves in some form of sovereign wealth fund has the capacity to finance its imports, or it can invest its capital in other industrial economies. It can repatriate its investment returns to its sovereign funds and strengthen its national budget. Norway does exactly this with its sovereign fund and Japan does this as well by exporting surplus capital to investment destinations with higher returns.

CONCLUSION

Extractive economies are not sustainable economies. Extractive economies that can diversify their capacity for wealth generation by producing diverse goods and services other than raw material exports will show more

economic resilience and will be able to increase their national income and wealth. In countries where extractive wealth is consumed rather than invested in new forms of production, people will, in the long run, be poorer and more vulnerable to climate change and other external shocks.

Consumptive economies tend to carry larger debt burdens because their productive sectors do not generate the high value goods needed to generate surpluses to pay off debt and expand the fiscal space.

The case study illustrated above demonstrates that societies embarking on clean energy transitions need a much more enlarged version of the just transition rather than a narrow, climate-based just transition in order to understand that transitioning from fossil fuels alone is insufficient to deal with the challenge of economic resilience. If the underlying economic base remains extractive, climate ambitions may well increase inequality rather than solve them. Wealth generation will continue to be monopolized by a few.

JETPs can turn NDCs into real-economy solutions. JETPs, if done properly and democratically, have the power to be the pillars of a global green deal, especially for developing countries. They ought to be extended to issues of adaptation, resilience, and loss and damage.

The South African JETP is focused on coal phase-out in an already highly industrialized economy. In oil and gas countries, the approach to just transitions will have to not only include support for phasing out oil and gas, but also for diversifying the economy. The interdependent nature of these changes mean that these countries will face far greater and complex challenges in building just transitions. For enclave oil and gas economies we cannot only focus on transitioning away from fossil fuels, but must take a whole-economy approach: this is where the notion of e-JTs is crucial.*f*

ENDNOTES

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