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Climate debt

Western diplomats offer rotten climate carrot, and wield broken sanctions stick

- Features -

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In recent weeks, Western climate deal-makers have, as well, wielded their own carrot and stick, but unless withdrawn and reconsidered, they will provide only a continuation of – rather than break from – a future of rising greenhouse gas emissions, massive loss and damage due to extreme weather, and the polluters' refusal to acknowledge, much less reimburse, the historic climate debt they owe. The two cases we have seen up close, are the Just Energy Transition Partnership carrot and Carbon Border Adjustment stick. So, what's rotten and what's broken?

Amsterdam revelations

We looked into a future of climate injustice last Tuesday, during a debate in Amsterdam at the cultural venue De Balie, sparring with lead Dutch climate diplomat, Jaime De Bourbon. Persuasive and charming, nevertheless De Bourbon's inability to defend the Sharm El-Sheikh blahblahblah27 – the United Nations Framework Convention on Climate Change Conference (UNFCCC) of the Parties (COP) – was palpable: "If we go to this COP and we don't have to, we don't make steps back from the Glasgow Agreement, we've already won. I mean, meaning that, so, standing still was an achievement already."

Is standing still an achievement, as the world burns, dries, melts and drowns? Actually, the balance of forces, witnessed in the proto-fascist Egyptian host regime's relegitimation, justified Greta Thunberg refusing to attend: "The COPs are mainly used as an opportunity for leaders and people in power to get attention, using many different kinds of greenwashing." And Naomi Klein suggested that for the blahblahblah28 in Dubai next year, "Civil society should announce a boycott and instead hold a true people's summit."

On the positive side, there was a much-celebrated new "Loss & Damage Fund" to compensate victims of climate chaos. But De Bourbon admitted it was an empty box – like so many the UNFCCC has provided poor countries – and that it was pushed through only after the U.S. and China "freaked out." Yet the lead European Union diplomat heroically persevered, according to De Bourbon:

"Frans Timmermans had a beautiful moment during the negotiations, where he realised we have to go forward after discussion with EU ministers that were there. He decided, let's go for it and he didn't have time to talk to the U.S. or China or anybody else. He went to the meeting and said, 'Guys we're going to do this but we have two conditions.' And by the way when he said it, the U.S. went freaked out. They said, 'what's happening, why are we moving on this, why didn't we know about this? China freaked out, because Frans Timmermans put two conditions.

"He said, one, it has to go to the most vulnerable states, so not the rich states which already have access to finance, like Egypt or others. But it has to be those states that have difficulty accessing finance and are ultra-vulnerable.

"And second, the funder base has to change. We've decided in the 90s which countries in the world at that time were developed countries, and which were developing countries, and that - within the UN structure of climate - has remained exactly the same in the last 20 plus years. In the meantime, do you think that South Korea is a developing country now? you would say, 'no way, it's one of the top economies in the world.'

"But at that time, they were a developing country. Now they're a developed country. I would say, in fact, same for Saudi Arabia. Is that a poor country? Qatar. Is that a poor country? There's many countries that are still labeled developing country, that should be labeled as industrialised countries, and they're contributing to climate change, and should should also contribute to the efforts for the solutions for it.

"And the big one is China. China is right now the biggest polluter. Then you think, well but historically they weren't. Well if you look at historical data they are the third biggest polluter. And then you say, well, it's a huge country so per capita it's probably not that bad. But per capita they're just above the average of Europe. So there's no way the second economy of the world – with huge tech advantage nowadays – so he couldn't say that China nowadays is still a developing country. But that's still in the mindset and in the organisation. So they're smack in the middle of developing countries.

And when Timmermans said the funder base needs to be brought into all industrialised countries, he meant all these. So China got really nervous because of that, but it came, because the decision was made. And I would say that's progress."

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We would too: not only are Western societies but also the BRICS (Brazil-Russia-India-China-South Africa – to be hosted here next year as Saudi Arabia, Iran, Algeria and Egypt also apply to join "BRICS+") and a few other 'emerging economies' are surely climate debtors. And that is the case not only in terms of absolute emissions, but also if we correct for 1) trade-related 'emissions outsourcing', 2) per capita responsibility and 3) historic pollution levels.

At times strikingly frank, De Bourbon remarked about one of his main negotiating partners from Pretoria, Mineral Resources and Energy Minister Gwede Mantashe:

> "The minister of energy in South Africa calls himself 'minister of coal,' just to tell you where the mentality is. Not the minister of energy: 'We say, I don't care where it comes from, as long as it delivers energy.' He calls himself the minister of coal. So it is a very difficult thing, if you look at South Africa, the emissions are so huge, the largest in Africa. So it's not a victim. It's part of the problem as well. So that's why we need to work with South Africa. That's why the finance is going that direction."

Ah, but doesn't that point contradict the earlier one (funding must "go to the most vulnerable states," not those with access to finance already, which South Africa does thanks to extremely deep credit markets)? Never mind, for now – but the dilemma of further *debt financing* arises, especially when Europeans lent South African borrowers far more in despicable *fossil loans* over the past dozen years.

We gained this opportunity to debate mainly because our allies at the University of Amsterdam-catalysed "Leave Fossil Fuels Underground" project – including from Quito's Simon Bolivar University and Accion Ecologica, drawing especially on their pathbreaking Yasuni proposal – recognise South Africa's centrality as a primary target of carrot and stick climate diplomacy.

Speaking of the carrot, the Just Energy Transition Partnership (JETP), De Bourbon was ebullient about the potential for escaping the constipated United Nations process:

> "We made a deal already in the last year with South Africa for $8.5 billion, on the energy transition. And the same happened during the COP with Indonesia: $20 billion for the energy transition. So then you see that shift of money, and there's a new way of working. We're seeing it's going to happen with India, perhaps maybe Vietnam, maybe Senegal. We're seeing if we can have these kind of things separate.'

Does South Africa deserve help in decarbonising its energy parastatal Eskom's 40,000 MegaWatts of coal-fired power capacity? Already on a typical summer day, a third of that capacity is out of commission due to old-age infirmities and endless accidents, causing widespread blackouts (i.e. several hours of "load shedding" daily). Yes, Eskom desperately needs funds for the coal-fired stations' maintenance, repairs and return to service. But the parastatal utility is perpetually broke, unable to repay its $24 billion in debts.

In urgent search of funding in November 2021, at the outset of the Glasgow COP26, an $8.5 billion "Just Energy Transition Partnership" (JETP) side deal was breathlessly announced by the Pretoria government and Eskom CEO Andre de Ruyter with partners from Paris, Berlin, London, Washington and Brussels. The final JETP package, finally unveiled a year later in Sharm El-Sheikh, aims to not only begin closing down the coal-fired power plants more rapidly, but will also subsidise production of electric vehicles and green hydrogen. But we need to look more closely at this gift.

A rotten carrot looks tasty to a desperate fossil addict

The core idea of the West's JETP carrot reflects a long-standing demand in the climate justice movement to leave fossil fuels underground in exchange for Western finance. This is absolutely necessary for the survival of humanity. But it would really make sense if the funding is considered a *downpayment on climate debt owed by the high-emitting countries to extreme-weather victims*.

In JETP negotiations since mid-2021, several problems surfaced: non-participation of affected communities and workers; bad-faith South African negotiators, insofar as decarbonisation of Eskom coincided with a last-gasp search for more fossil fuels and methane-gassification opportunities; Eskom's propensity to redirect incoming funding towards methane gas plants; ongoing repayment of loans to Eskom that financed corrupt coal-fired power plants; and implicit endorsement of Eskom's many appalling business practices, including racist disconnections.

The JETP was established top down, without meaningful civil society consultation. At the same time negotiations were beginning, the South African state was encouraging two Big Oil firms – London-based Shell and Paris-based TotalEnergies (and several local small-fry partners) – to explore offshore for methane gas in water more than 4 kilometres deep. Consistent with Mantashe's ideology, Pretoria has also been promoting ongoing coal digs and spending hundreds of millions of dollars to improve rail transport for coal exports. Plans have proliferated for Liquified Natural Gas generators and other gas infrastructure.

As negotiators took their time through most of 2022 figuring out how $8.5 billion would best be raised and allocated, business-as-usual marked the shallow post-Covid recovery: reliance on coal and diesel for more than 90 percent of energy generation; transport based entirely on internal combustion engines; electricity-guzzling deep mining, smelting and industrial production; a revival of long-haul (high-emissions) tourism; fertilizer-intensive agriculture; renewed construction of sprawling suburbs, commercial office space and truck-centric transport-logistics nodes; and landfills whose non-sorted organic waste spews methane.

Other massive fossil-centric projects continue: a $10 billion Chinese metallurgical Special Economic Zone, and nearby, a $50 billion expansion of the coal-export rail line to the Richards Bay port terminal, where the main coal customers are now European, Chinese and Indian. And large-scale methane gas generation will be introduced through three Turkish Karpowerships costing $12.5 billion for a 20-year contract, a World Bank-promoted Liquefied Natural Gas (LNG) terminal, two Eskom gas-fired power plants costing $5 billion, and a $10 billion port-petrochemical expansion in Durban.

Most worrying, more than 1000 South African army troops were deployed by Pretoria in mid-2021 up the coast, in the Cabo Delgado region of Mozambique, against a guerrilla army known as Al-Shabaab. The troops are meant to facilitate "Blood Methane" extraction by Total, ENI, ExxonMobil and China National Petroleum in a region where already one million people have been displaced by fighting and nearly five thousand have died. Massive cyclones have hit northern Mozambique, one in 2019 ravaging Cabo Delgado with winds of 225kph.

De Ruyter is not alone, for one of the most influential corporate lobbies, the National Business Initiative, supports more methane. And the Eskom CEO is promoting his own plan for coal-to-LNG replacement – using 44 percent of the JETP funds – using the spurious argument that the gas is transitional.

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But nowhere in the JETP is any of South Africa's high-carb maldevelopment prohibited and indeed because of the "fungibility" of money, as De Ruyter receives more than $8 billion in new finance for alleged decarbonisation, he can redirect other revenues to his desired meth addiction.

Against a rotten EU carrot and resulting methane addiction, protests surge

Resistance simultaneously emerged in South Africa, with one progressive network – the Climate Justice Charter Movement – calling on international allies to begin a JETP boycott. And far more painfully for Shell, Total and allied fossil addicts, hundreds of protests began on the beaches, at their petrol stations and at the allies' other companies just as the JETP was announced. A unique combination of coastal villages, subsistence fisherfolk, marine conservationists, eco-tourists, surfers and climate activists kept offshore seismic blasting in the news all along the Indian and Atlantic Ocean shorelines.

Aligned with protesters, on seven occasions in late 2021 through September 2022, public interest lawyers filed court injunctions against Big Oil's offshore seismic-blasting, winning six of them. The cases culminated when Shell and Impact Oil&Gas – led by local casino-hotel-media-transport entrepreneur (and ex-Marxist labour leader) Johnny Copelyn – were banned by a High Court from further offshore blasting, on grounds partly of Copelyn's flawed local consultations (e.g. no notices in the main local language, isiXhosa), partly due to the anticipated disruption to black shoreline communities' spiritual connections to the Wild Coast ocean, and partly because of the firms' flawed climate and environmental reasoning. (On November 28, Shell and Copelyn went to court again to appeal the case.)

Meanwhile, thanks to whistle-blowers from both ruling African National Congress (ANC) party and President Cyril Ramaphosa's specific 2017 leadership campaign, it became clear that critics were up against not just the oil firms' 'economic development' claims, but also substantial gifts to both the ANC (Shell's $1.1 million) and Ramaphosa (Copelyn's $140,000). Ramaphosa's own mishandling of his financial affairs – specifically $600,000 in animal sales at one of his ranches – also threatened, by late November, to result in the first impeachment of a South African president.

And the chairman of the financially-chaotic ANC (which as an employer, is five years behind on paying tax and unemployment insurance) is Mantashe. In early 2022 his own alleged personal corruption – and proximity to the notorious Watson brothers' firm Bosasa – led to a call for his prosecution from the Zondo Commission into State Capture, an official body mandated to uncover graft that took place during Jacob Zuma's 2009-18 presidency, when Mantashe was ANC Secretary General.

Hidden loan costs and conditions do economic harm

The JETP will also 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. ($1 billion) and British ($500 million) loans are to be provided by for-profit banks at market rates, the European state credit agencies will offer slightly 'concessional' debt. However, because the loans are in hard currency and South Africa's currency is declining, Eskom will face onerous repayment in coming years. In April 2022, the Rand/$ 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 should not continue to privatise electrification via outsourced contracts for solar and wind power. It should shake the 2010s' reliance upon multinational renewable energy corporations which repatriate profits and dividends to their home countries.

JETP funds Eskom's methane switch, allows corrupt-loan repayment and

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. On the other, one immediate danger is that de Ruyter has proposed a methane gas investment programme – for which he anticipates using 44 percent of JETP funds – including 1000 MW at the site of the decommissioned Komati coal-fired power plant. On November 6, World Bank President David Malpass – who six weeks earlier had been told by Al Gore he should resign out of shame for his climate denialism – gave Eskom a $500 million loan to speed the process and visited Komati.

Eskom's other gas plant is proposed for the coal export city of Richards Bay, with a World Bank LNG terminal processing Mozambique's Blood Methane. The South Durban Community Environmental Alliance, with a new Richards Bay office and backed by the Centre for Environmental Rights, is already in the courts challenging the plant.

Using EU money aimed at decarbonisation instead for methane gas is likely, but it is also certain that Eskom's existing hard-currency debt will be serviced using these funds. It is nearly entirely due to just two oft-broken coal-fired power plants – Medupi and Kusile (at 4800 MW each, the largest coal-fired power plants under construction anywhere) – whose lead contractor, Hitachi, donated 25 percent of its local subsidiary to the ANC in 2007. As a result, in 2015, Hitachi was successfully prosecuted under the U.S. Foreign Corrupt Practices Act, paying Washington a $19 million fine (and none to South Africa where the Tokyo firm has so far escaped prosecution).

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.

Eskom urgently needs new renewable supply, but the "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 should immediately be shut down, with urgent Just Transition support provided affected communities and workers.

Eskom policies and practices need an overhaul

To contemplate Eskom's agenda as having any sort of "Just Energy" component is truly impossible. Eskom remains riddled with staff corruption, by all accounts. The two main CEOs during the 2010s – Brian Molefe and Matshele Koko – were arrested for billions of dollars worth of graft in October. And the disconnection policies De Ruyter imposed on black neighbourhoods in mid-2020 (during winter amidst the initial Covid-19 pandemic lockdown) – which he terms "load reduction" and critics call "energy racism" – were amplified by his mid-2022 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, with De Ruyter refusing to comply with court orders to either close the generators or install anti-emissions scrubbers, resulting in what are among the world's most noxious hotspots of SO_2 and NO.

Other much smaller JETP components are also poorly conceived. Subsidies for electric vehicles – provided via Western (especially German and Japanese) car companies – will be unaffordable to most South Africans, and there is no refueling infrastructure in place. The JETP also provides funding to boost Sasol's green hydrogen hype. But this is very likely to redirect South Africa's future renewable energy capacity – e.g. solar chimneys which should feed the national grid – into the firm's proposed Saldanha export-oriented H_2 production facility, instead of meeting local needs.

Will climate sanctions be a painful sjambock – or instead, a splintered twig?

It often appears that South Africa's rulers are really only making the small moves towards renewable energy because of climate sanctions bearing down on the ruling party's allied exporters. There is enormous potential for the sanctions to take the form of a sharp, sustained beating from the proverbial South African sjambock (whip) – but it is becoming clear that EU officials would rather use a broken stick, indeed a twig.

International commerce was once absolutely vital to a South African capitalism whose trade/GDP had reached 73 percent in 2008, when the commodity super-cycle peaked. But that ratio shrunk in South Africa (to a low of 51 percent in 2020) and nearly everywhere else during the era of "deglobalisation" (or as *The Economist* puts it, "slowbalisation"), with a combination of capitalist overreach, China's turn to inward infrastructural investment, Western protectionism (such as rose in 2016 with Donald Trump and Brexit) and environmental lobbying that has increased the likelihood of widespread climate sanctions against *high-carbon exporting countries.*

Imposition of climate sanctions will mainly come from the U.S., Europe and the UK, responsible for buying ?? percent of South African experts. The EU will be first, with its Carbon Border Adjustment Mechanism (CBAM) launching on January 1.

Even though it reeks of Western imperialist power, CBAM as an environmentally-sensitive trade policy does make perfect sense. Without it, higher CO_2 levels from dirty-energy countries would logically "leak" into the EU as firms outsource their production once they face serious climate regulation and, to stay competitive, search for less expensive industrial and raw-material inputs from abroad.

South Africa and other exporting economies with very high shares of CO_2 embedded in their products – either directly or via dirty energy and transport – should be incentivised to more rapidly shift to renewable sources. One way is through higher EU tariffs imposed on SA exports to Europe, and during the 2020s also to other Western economies which will adopt CBAM.

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The main affected SA exports will initially be aluminium and steel, but many others – other mined and smelted products, petrochemicals, automobiles and high-carbon production systems – will all eventually be brought into the CBAM net, both due to their direct and indirect emissions.

The only defense mechanism for South Africa is raising its own carbon tax to the level of the EU carbon market, i.e. from what Eskom and Sasol (by far the two largest polluters) now pay – a tokenistic \$0.35/tonne of CO_2 emitted – to European levels. To illustrate, the price is \$93/tonne on the European Emissions Trading Scheme carbon market, and \$130/tonne to cover the Swedish carbon tax.

Pretoria won't anything close to this rate, given power relations in South Africa epitemised by the extremely influential Energy Intensive Users Group: three dozen mainly-foreign mining and smelting firms which use more than 40 percent of electricity while generating less than 20 percent of the country's economic output.

Joining forces with a larger network – Business Unity South Africa – the energy mega-consumers recently argued that "business and the SA economy cannot accommodate the steepness of the carbon tax rate increase" that is now scheduled: a rise to only \$30/tonne in 2030 (which is 1 percent of what recent "Social Cost of Carbon" estimates suggest it should be).

Even so, the politicians and high-carb capital are apparently terrified by CBAM. Ramaphosa revealed deep worries about CBAM in a presidential newsletter in October 2021: "As our trading partners pursue the goal of net-zero carbon emissions, they are likely to increase restrictions on the import of goods produced using carbon-intensive energy. Because so much of our industry depends on coal-generated electricity, we are likely to find that the products we export to various countries face trade barriers and, in addition, consumers in those countries may be less willing to buy our products."

Major firms like BHP Billiton (South32) and Anglo American have also begun looking for renewable energy sources so as not to fall afoul of export taxes. Nerves are so fraught that in November 2022, South Africa's environment minister Barbara Creecy endorsed a Brazil-South Africa-India-China critique: "Unilateral measures and discriminatory practices, such as carbon border taxes, that could result in market distortion and aggravate the trust deficit amongst Parties, must be avoided."

CBAM seen from SA Treasury.jpg

The CBAM stick splinters

Given this fear, punitive CBAM sanctions will be helpful to environmental justice advocates, *but only if they are advocated with integrity,* especially when it comes to compensating workers and communities which undergo involuntary economic suffering due to the corporations' inability to decarbonise.

CBAM with integrity requires at least three reforms. First, *the most absurd recent EU climate policy was the July 2022 decision to label methane gas and nuclear as "green"* within the EU's energy "taxonomy." That stance must be immediately reversed in keeping with sound climate science, since methane is 85 times more potent than CO_2 and nuclear energy remains extremely dangerous.

Second, another reform entails the CBAM price. Unfortunately, the level of import penalties will, from 2026, be tied to the bloc's Emissions Trading Scheme, which has suffered exceptional price volatility since 2005. In early March

2022, after Putin's invasion, it crashed 40 percent, from near $100 to $60 per tonne, and again in September it crashed from $88 to $72/tonne as Putin cut off gas supplies. To expect financial markets to provide a realistic price signal is foolish given that these markets are themselves chaotic and subject to global financiers' whimsies.

Third, to counter charges of "imperialism!", Europe should make a downpayment on its vast climate debt by sending CBAM revenues back to adversely-affected *workers and communities* whose exports are taxed – in some cases to the point of their companies' closures. This would be consistent with not only solidarity ethics, but also with ideals of a Just Transition.

A movement to refresh the carrot and toughen the stick

Protests and court challenges against further fossil fuel extraction and combustion in South Africa will continue and so far are the most encouraging process within a progressive regroupment that has been hampered by labour movement divisions and social movement fragmentation. However, these will certainly slow down but probably not halt the variety of high-carbon projects, given the reluctance of courts to challenge private property rights and state economic policy prerogatives.

Climate justice activists need further solidarity when facing relentless gas, oil and coal attacks. Europeans of good will supported South Africans' freedom struggle by imposing economic sanctions against firms making profits from a crime against humanity, which by 1985 reached a decisive stage in ending apartheid as the tight alliance of white business and the racist state was finally broken. The same logic applies: with South African climate justice, social and labour movements often exhibiting vibrancy and scoring small wins, nevertheless it is, once again, through international solidarity that the critical leaps forward will be made.

European elites have long back-slapped themselves for taking rhetorical and often genuine leadership on the climate front, even if the results are tiny compared to the task at hand. At least in the case of South Africa, there may be a chance in coming months to offer a fresh not rotten carrot and pack a bigger stick, not the broken twig now on display.

Source CADTM.

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