

INDUSTRY'S VISION FOR A SOUTH AFRICAN CLIMATE CHANGE RESPONSE

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03 MARCH 2009

EMBARGO: TUESDAY 3 MARCH 2009, 16:45

BUSA welcomes the opportunity to participate in this landmark event. It is a particular challenge for us to embark on the development of a comprehensive climate change response policy at a time of unprecedented global economic crisis. BUSA is working with Government and Organised Labour to develop interventions to alleviate the impact of the crisis on South Africa both at a sectoral and individual company level.

There is no doubt that climate change presents us with challenges on a similar scale. The energy intensity of our economy in itself presents a significant challenge not only in the face of climate change but also in the national energy crisis. Numerous research projects have highlighted South Africa's vulnerability to the impacts of climate change. For example the redistribution of rainfall patterns could have a severe impact on the availability of water resources and on agriculture, which in turn could negatively affect our food security. At the same time the redistribution of the prevalence of the malaria carrying mosquito may render the current malaria control programme obsolete thus requiring significant additional resources. These are just two examples of the national adaptation challenges which have to be met to keep our economic and social development objectives on track.

A commitment to working towards addressing the challenges of climate change at a national and global level is not new to Business. In a meeting with the Minister of Environmental Affairs and Tourism in 2008, Business committed to:

- Participate vigorously in debate around instruments which promote cost effective carbon reduction
- Develop company and sector level greenhouse gas inventories for inclusion in the national inventory
- Explore every avenue of energy efficiency in the workplace
- Participate in the BUSA engagement with **the dti** on the incorporation of climate change mitigation into the Industrial Policy Action Plan.

In order to meet these commitments, we are engaged in a range of initiatives both at organised business and company level to contribute to the debate and to mitigation efforts.

In this regard we have undertaken research around the use of economic instruments in achieving mitigation goals; a number of our top companies have participated in the Carbon Disclosure Project and we are confident that next year more will participate. At sectoral level industry associations have initiated collection of sectoral GHG emission data and energy consumption data and have concluded an agreement with the Minister of Environmental Affairs and Tourism on the development of the 2000 GHG inventory for South Africa; we have established a climate change forum with **the dti** and are working with them on the development of sectoral mitigation strategies.

We have recently released our first report on progress towards meeting the 2015 energy efficiency targets set in the National Efficiency Strategy and committed to by Business in the Energy Efficiency Accord concluded with the Minister of Minerals and Energy. We are well on the way to meeting the target and in the light of the energy crisis are now seeking ways to accelerate implementation of energy efficiency projects. In this regard we are active partners with **the dti** in the roll out of energy efficiency audits, particularly in manufacturing.

Our business organisations are working with their international counterparts in a bid to ensure that the private sector makes a strong contribution to the international debates. We are convinced that greater recognition of the role of the private sector in addressing the challenge of climate change will result in a more successful post Kyoto mechanism.

Business recognises the need for the development of strategies to address both adaptation and mitigation, and believes that any climate change response should be co-ordinated across the whole of Government. We cannot afford to promote a fragmented approach and we see the convening of this conference as a sound starting point for a holistic collaborative approach to the challenges of developing an integrated response to climate change.

From a business perspective such integrated response should include a range of elements such as

- Sustainable process for development of sound national negotiating positions for international negotiations
- Building on existing policy instruments and strategies which recognise both social and economic imperatives

- Active participation by all relevant government departments in the development process
- Clear and defined participation process for stakeholders
- Application of regulatory impact assessment to draft policy
- Implementation strategy for any new initiatives.

From a Business perspective, it is essential for a climate change response strategy to be integrated into other relevant policies and strategies and to include recognition of the role of the private sector, particularly the need for recognition of voluntary initiatives.

Some examples of existing strategies that should be used as the basis of sectoral responses are offered to illustrate this approach. A range of energy strategies, covering renewable energy, energy efficiency and co generation already exist. The recently published Energy Act provides for comprehensive energy planning. Given the fact that energy generation and consumption accounts for more than 60% of our greenhouse gas emissions it is clear that energy planning will need to form an integral part of any climate change response. The Agricultural Strategy will also need to be reviewed in the light of climate change vulnerability and adaptation needs. The recently released Water for Growth and Development document also needs to take vulnerability to climate change into account. The Industrial Policy Action Plan review process provides an ideal opportunity to incorporate mitigation strategies as an integral part of sectoral strategies. All such government approaches must be incorporated appropriately into a response.

In addition, provision needs to be made to encourage voluntary initiatives. Industry-led global sector initiatives, public and private innovation and deployment of new technologies as well as the benefits of public-private partnerships need to be given increased attention. Furthermore, it is crucial that in post-Kyoto discussions, there is clarity on the future of mechanisms such as the clean development mechanism (CDM), which needs to remain effective. While standards and building codes have a role to play, in particular in the case of broad international coverage, they should be carefully reviewed for their costs and continued usefulness as standards quickly become obsolete as technology evolves.

A significant body of work on climate change responses already exists both in OECD and non OECD countries and BUSA recommends exploring mechanisms to learn from such experience.

We welcome the increasing references by Government to policy coherence and believe that there are few areas, where this is more important than in this policy process.

Although Business accepted the “Required by Science” scenario as the basis for future work in 2008, we need to recall that the Long Term Mitigation Scenarios were based on the following assumptions about the global situation in which any scenario would operate

- An effective international climate consensus is reached;
- International flows of appropriate technology and finance occur;
- Oil is scarce and expensive, coal prices are high;
- High degree of trade integration and globalization exists.

Unfortunately the assumptions within which the scenario must operate may no longer prevail. International flows of capital will not occur to the extent required until the global economic crisis is over. South Africa is already experiencing constraints on available financing for public infrastructure projects. Protectionism in the developed world will mitigate against the high degree of trade integration assumed, being achieved.

These constraints will make meeting the challenge that much harder, which in turn necessitates greater collaboration.

BUSA recognises the usefulness of the Long Term Mitigation Scenarios in informing South Africa’s preparation for multilateral negotiations. However BUSA believes that it is imperative for South Africa to intensify its process of preparation for multilateral negotiations.

BUSA welcomes the recognition in the so-called Bali Action Plan adopted at the Conference of the Parties in 2007, of the need for greater collaboration between governments and the private sector in addressing climate change challenges and believes greater private sector participation in international debates should be encouraged.

Experience with the Clean Development Mechanism has clearly demonstrated the negative impact excessive red tape can have on climate change thus slowing down investments to reduce emissions. Any future international agreement needs to be much more business friendly. Interventions that enhance the achievement of benefits should be encouraged.

In addition no national policy or regulatory interventions should be introduced which would compromise South Africa’s ability to benefit from the current international instruments like the Clean Development Mechanism.

In this regard, BUSA is happy to be able to report that it has initiated discussions with **the dti** on how the necessary strategic approaches to climate change could be incorporated into the Industrial Policy Action Plan.

Reluctant as Business always is to accept a new tax, this is one area where we recognise the potential usefulness of economic instruments that may include taxes. We believe that it is important to develop a holistic multi faceted approach to economic instruments and look forward to engaging on the development of such an approach as part of the policy. Some potential elements of a holistic policy in this regard were introduced in the 2008/9 budget. Some of these were given more concrete effect in this year's budget and some remain unimplemented. Business welcomes the reference to a variety of instruments but would prefer the development of holistic approach through this policy process than a piece meal introduction of individual elements.

Economic instruments should not be confined to addressing mitigation challenges but should also be used to address adaptation requirements. In particular, innovation funding should focus on areas of adaption.

An economic instrument as is the case with a regulatory or voluntary instrument must be introduced to achieve clear policy objectives and the selection of an appropriate instrument is dependant to a large extent on the nature of the objective.

In OECD countries the overarching aim of climate policy is that those who generate GHG emissions should face the marginal cost of emissions relative to the damage they inflict. These countries support market-based policies that allow for sufficient flexibility and include provisions for broad international cooperation and believe that such instruments will be important in effectively reducing GHG emissions globally with minimum disruption of economic activity.

To deliver reductions at least cost, economic analysis often underlines that a common price signal is required. This can be achieved by taxing emissions or by capping them and allowing emission permits to be traded. However the ways in which such mechanisms can be used in the South African context need careful consideration.

Both taxes and emissions trading have their pros and cons. While taxes have a role to play in the overall policy mix, competitiveness impacts of certain sectors and regions need to be given careful attention when a tax is introduced unilaterally. Overall tax neutrality is important, and using taxes purely as revenue raising mechanism should be avoided.

If one considers the relative competitiveness between solar power and fossil fuel generation in Germany, that country expects solar panels to be competitive with other sources by 2012. Achievement of such an objective in South Africa will require a sound high level commitment to a particular target and aggressive investment in the necessary research and development perhaps in collaboration with German firms.

GHG emissions trading systems are already in place or about to be implemented in several countries or regions. Experience of the EU emissions trading scheme

demonstrates the need for careful design and a sound set of baseline data. The global dimension and potential impacts on energy intensive industries must be given due attention in discussions on regional trading schemes. In this regard it is proposed that once the Greenhouse gas inventory has been established work commence in the feasibility of an emissions trading scheme in South Africa and the region. We would like to see the policy provide a platform for such work.

BUSA has long argued for tax rebates for investment in equipment to improve environmental performance and believes that additional support in this area should be explored. In this regard, BUSA welcomes the enhanced funding which has been made available for the National Cleaner Production Centre which will be used to strengthen the significant work already being done in facilitating energy efficiency in some sectors, should be provided to extend the scope of the centre to more sectors.

The question of import duties also needs to be considered. Import duties are generally used as an instrument of industrial policy, particularly to nurture emerging industries. Key issues currently under debate in this area include the potential to remove import duty on energy efficient motors, which on a preliminary survey are not manufactured in the South African Customs Union. A more difficult debate is underway in respect of compact fluorescent lights (CFLs). In order to meet energy efficiency targets in this respect will require literally millions of bulbs all of which will be imported. In South Africa's interest the current import duty should be removed. However Phillips with support from UNIDO is currently considering investment in a manufacturing plant in Lesotho, in other words in the South African Customs Union and therefore to protect that investment the duty should not be removed. This example highlights the complex nature of the national debate that needs to be held.

BUSA believes that implementation of energy efficiency activities should be aggressively pursued with appropriate support from Government and the policy adjustments to facilitate successful implementation should be included in the climate change response.

BUSA is conscious of the significant demands that the policy and the time pressures on finalising inputs for the multilateral negotiations pose for the country, and therefore proposes the establishment of a high level reference group for the duration of the project.

Although BUSA supports the integrated policy process, implementation of the many existing initiatives particularly in the energy field, should not be delayed as a result of this policy process.

In conclusion BUSA remains committed to working constructively with Government and other stakeholders to develop the necessary response in a manner that achieves not only climate change mitigation objectives but also the national imperatives of economic growth, employment creation and eradication of poverty.