

Speech by Malusi Gigaba MP, Minister of Public Enterprises, to the DBSA Knowledge Week on Greening Infrastructure Programmes in Johannesburg on 13 October 2011

I would like to applaud the Development Bank of Southern Africa (DBSA) for organising this important Knowledge Week on Greening Infrastructure Programmes, and to thank you inviting me to address you on this occasion.

The South African Government has recognised the vital importance of greening our economy for the purpose of building a life for our life, as well as the particular role a green economy can play in creating jobs, fighting inequality and eradicating poverty.

South Africa is the most industrialised country in Africa today, with a population of about 50 million people.

The national economy is built on the so-called minerals-energy complex and is extremely energy intensive, which reflects our historical industrial policy of building on our comparative advantage of being able to build power stations directly above our large coal reserves to generate extremely cheap electricity.

Coal provides 75% of the fossil fuel demand and is responsible for 91% of electricity generation.

To a significant extent, our industrial economy is built on "cheap coal"

As a consequence, South Africa is one of the 30 largest emitters of greenhouse gases globally but is amongst the highest per capita carbon emitters.

The bulk of Greenhouse Gas (GHG) emissions in South Africa comes from the energy sector, which contributed 78% of South Africa's total Green House Gases in 1994, and more than 90% of carbon dioxide emissions.

In this energy-intensive, coal-dependant, high emission context, government has adopted a proactive approach towards South Africa playing its part in combating the global challenges associated with climate change.

Our policy objective is to make a fair contribution to the global effort to stabilise greenhouse gas concentrations.

At the COP 15, President Jacob Zuma conditionally committed South Africa to achieving a 34% deviation below the "business as usual" (BAU) emission trajectory by 2020, and 42% deviation by 2025. This commitment is conditional upon Annex One

countries providing appropriate and adequate resources to support our mitigation efforts.

A key principle that needs to guide our efforts to reduce carbon emissions is to ensure that these initiatives and programmes have a sound economic logic and are integrated into our national economic strategy.

In the absence of this discipline, it is unlikely that the transition will be sustainable or receive broad-based support. We cannot impose undue burdens on our population and economy in a context of high levels of unemployment and poverty.

Consequently, the New Growth Path (NGP) and the Industrial Policy Action Plan (IPAP) have identified the transition to a 'green economy' as an opportunity to develop new industrial and technological capabilities to support economic growth and employment.

Sectors associated with the green economy and emission mitigation include renewable energy technologies, bio-fuels, energy conservation technologies and forestry.

Green technologies can also enable the economic development of spatially remote areas which have a renewable resource and can enable infrastructure development and integration in the region as a whole.

A key programme in support of the Industrial Strategy and the Growth Path, and one that my Department is integrally involved in, is that of the South African Renewables Initiative.

This programme is has the objective of enabling the development of renewables related industrial capabilities through defining a funding mechanism to leverage international climate finance so that a critical mass of renewable energy can be procured without imposing unacceptable incremental cost burdens on the fiscus or South African consumers.

As the shareholder ministry, the Department of Public Enterprises has started a process of defining a policy to guide State-Owned Companies (SOC) in our portfolio in their engagement with the climate change and green economy challenge.

The policy is still in draft form and being discussed with the SOCs, but it is useful to give you some insight into our thinking in this area. There are three key design principles informing the policy:

1. Firstly, the SOCs need to focus on optimising the overlap between commercial, economic, developmental and environmental objectives whilst carefully managing areas where these objectives conflict;

1. Secondly, it is expected that over time, climate change, broader environmental and green economy considerations will be integrated into the heart of SOC planning, procurement and operational processes -however this will be an on-going process or learning and continuous improvement, rather than a big-bang; and

1. Thirdly, each SOC requires flexibility in the way it responds to the challenges of climate change given the diversity of sectors within which the SOC operate.

As a starting point, the Department is concerned to ensure that the SOCs begin a process of systematic and continuous learning around how to engage with the opportunities and risks associated with climate change.

Consequently, the draft policy requires that each SOC will develop and submit a strategic plan around how it will engage with the climate change arena.

Over time, it is expected that this will be integrated into the standard SOC planning cycle. The overall objective of the plan will be to optimise the impact of the SOC on the reduction of carbon emissions and the development of the green economy.

The plan will need to provide an outline of the concrete initiatives that the SOC will take to achieve these objectives in the context of the risks and opportunities related to climate change that they are facing.

In addition, the plan needs to provide an outline of how broader government support and resources can be used to accelerate or enhance the implementation of the plan.

Through our monitoring of the implementation of the plan, the Department will be able to track the SOC impacts and learning process related to the climate change challenge.

In addition, in order to enhance our learning, the Department intends hosting a workshop at the forthcoming COP 17 event, with a number of our state shareholder manager counterparts from key emerging economies on how as shareholder managers and the companies in their portfolio can most effectively engage with climate change.

As part of our preparation to this workshop we have commissioned research into global best practices by public enterprises.

We are hoping through this process to start a continuous dialogue and process of knowledge sharing with our counterparts around the world around optimising the developmental impact of state owned companies.

Finally, let me use this opportunity to concretise some of the areas where our SOCs can play a decisive role in catalysing the movement to a green economy through

- the process of technological diversification within their core businesses,
- providing a critical mass of demand for both operational and capital inputs that can catalyse the development of new industries, and
- enabling regional infrastructure integration.

I am going to illustrate these possibilities.

South African Airways intrinsically operates in the global market and is consequently extremely vulnerable to policies in countries in which it operates that impose penalties and taxes on carbon emissions

In the short term, SAA is exploring the implementation of a voluntary carbon offset project that can support the development of forestry in the region.

Indications are that SAA will require that bio-fuels make up half its fuel supply by 2020 in order to avoid future penalties.

This will create a pressing demand for an extremely large quantity of bio-fuels which can form a base-load against which a fully vertically integrated bio-fuels industry can develop in South Africa and in the region.

To address this challenge will require a coordinated government programme that promotes investment in second generation bio-fuel crops both in Southern Africa.

The South Africa Forestry Company Limited (SAFCOL), an SOC that has considerable experience in forestry, has been developing intellectual property which can support this process.

Eskom, our electricity utility, is playing a leading role in the introduction of renewables to the South African energy mix.

The company is taking the risk of investing in the construction of pilot wind and concentrated solar power generating facilities that will allow the utility and other producers to understand how these technologies operate in South African conditions and the issues associated with ensuring effective integration with the grid.

In addition, Eskom is exploring what is required for a significant quantity of non-

dispatchable renewable power to be integrated into the network and how this power can be optimally operationally employed. This will enable the development of a renewable industry in South Africa and a change in the composition of our energy portfolio.

We are also prioritising making the South African grid accessible to renewable generation projects in neighbouring countries which should play an important role in regional infrastructure integration and unlocking the regions green potential.

Finally, Eskom is also developing cutting edge climate friendly technologies such as under-ground coal gasification.

It is also worth noting that Transnet's rail business is intrinsically environmentally friendly. Rail transport is safer, involves fewer emissions, decreases road damage and congestion and lowers overall transport costs.

Our challenge is to provide capacity to both unlock growth in Transnet's existing key customers and move significant quantity of freight from road to rail. This will require Transnet to accelerate its investment programme, improve operational efficiencies and experiment with new road to rail technologies.

I think development finance institutions can play a key role in supporting this process and, as such, we are having important discussions with the Industrial Development Corporation (IDC) led by both my colleague, Minister Ebrahim Patel, as well as I.

In conclusion, I would like to congratulate DBSA on this initiative to increase our knowledge around what it takes to green our infrastructure programmes and the economy as a whole.

There are no text-book solutions to this challenge – we need to start a learning process which will result in a major transformation programme in the way we think about the economy and the way our SOCs think about themselves and go about planning, procuring and operating.

Although it is a difficult challenge, I, however, think it will be worth it if we can leave a cleaner, more sustainable world for our children.

I thank you.