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Climate change law mindsets

Mapping the deep implications for business, finance and the economy of the Climate Change Act 2024

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Climate change law mindsets

The Climate Change Act, which was signed into law on 23 July 2024, is South Africa's first comprehensive legislation to guide the country's transition to a low-carbon, climate-resilient economy. Once it comes into effect, it will establish a national agenda of necessary actions and empower the government to enforce ambitious measures across both the private sector and government departments. The question is if stakeholders fully grasp the level of change the bill implies and mandates over a sustained period.

The climate change law unifies the nation's climate response by setting out the functions of the Presidential Climate Commission (PCC), including providing advice on South Africa's climate change response and developing financing mechanisms for the just transition. It also integrates climate governance at provincial and local levels. This approach shifts the view of climate change from a national environmental issue to a broader, integrated concern. As such mindsets need to start shifting given how broad reaching it is.

By embedding climate action in law, the government commits to a coordinated response and gains authority to implement measures outlined in the Nationally Determined Contribution (NDC), which sets greenhouse gas emissions reduction targets under the United Nations Framework Convention on Climate Change (UNFCCC). South Africa is among the few countries to legislate sector-wide emission targets and private sector carbon budgets, allowing the Minister of Forestry, Fisheries, and the Environment (DFFE) to set and enforce these targets, enhancing policy alignment and certainty, especially for the energy sector. This supports the Just Energy Transition Partnership (JETP) though problems remain on the funding side as we have commented on elsewhere.

The law also features detailed chapters on adaptation, requiring the FFE Minister to develop national adaptation objectives, indicators, scenarios and strategies. These provisions improve inter-departmental coordination and could attract investment in adaptation projects.

Successful implementation depends on the government's ability to establish robust mechanisms and meaningful penalties for exceeding carbon budgets, such as higher carbon taxes. Financial support for provinces and municipalities is crucial, and the Minister must define mechanisms to finance and support the Bill's implementation.

This briefing document unpacks the next steps required to implement aspects of the Bill, the various stakeholders that will be affected and assesses various emerging challenges that still require attention. It also examines the Bill's relationship to the Carbon Tax Act and international carbon trading (both of which will accelerate the Climate Change Act pathway) and unpacks the impact of these legislative developments on the banking sector in South Africa.

This is a special bumper version of our ongoing insights series into Just Energy Transition and Infrastructure issues and their implications for clients – pulling together our expertise in this area, in policy, legislation and financing issues.

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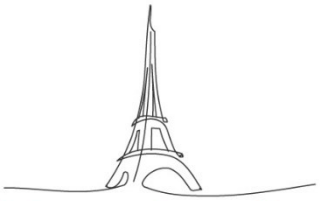
TOPICS
Energy
Just Energy Transition
Climate change

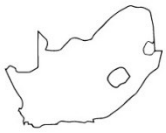
Net Zero emission

2050



Paris Agreement commitment

South Africa is a signatory and has pledged to meet a 1.5°C temperature limit, by ensuring global CO2 emissions decline by about 45% from 2010 to 2030 and reach net zero around 2050.



Steps to reach Net Zero in South Africa

South Africa has actively participated in the United Nations Framework Convention on Climate Change (UNFCCC) and is slowly implementing mitigation steps to ensure it aligns with its pledge, although risks such as delayed decommissioning of coal plants may hamper its efforts.

Key steps taken

Legislation
- Climate Change Bill
- Carbon Tax Act

Legislation
- Integrated Resource Plan
- Gas Master Plan
- Sectoral Targets
- Emission Development Strategy

UNFCCC commitments
- 2015 NDC update
- 2021 NDC update
- JET Implementation Plan

Legislation
- JET Investment Plan
- Carbon Credits
- REIPPPP
- Climate Change Fund
- Green Taxonomy

Highlights of the Climate Change Bill

1 Protect the environment

Ensure that the environment is safeguarded for current and future generations through sustainable development and responsible resource use.

2 Mitigate climate change

Reduce greenhouse gas emissions as part of the global effort to combat climate change, in line with South Africa's international commitments.

3 Adapt to climate change

Implement urgent and appropriate adaptation measures to address the country's vulnerability to climate change impacts, such as extreme weather events and their effects on health, food, water, biodiversity, and infrastructure.

4 Support sustainable development

Align climate change responses with national developmental goals to achieve socio-economic and environmental benefits, promoting a just transition to a low-carbon, climate-resilient economy and society.

5 Enhance governance

Foster a coordinated, cooperative approach to climate change governance, involving national, provincial, and municipal levels, to address the complex and cross-sectoral nature of climate impacts.

6 Drive national policy

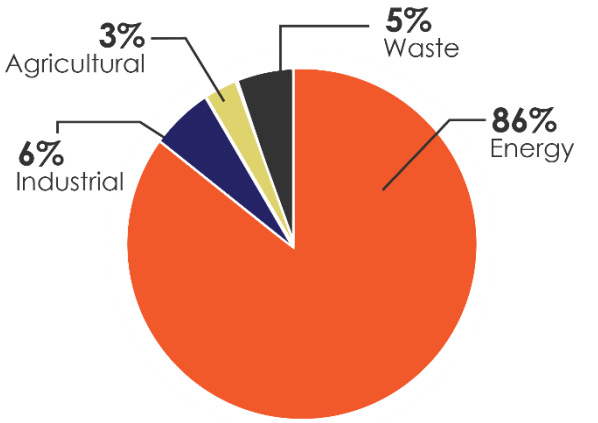
Implement the strategies outlined in the National Climate Change Response White Paper and the Nationally Determined Contribution under the Paris Agreement, ensuring actions are evidence-based cost-effective, and participatory.

SA status to reach Net Zero by 2050

South Africa is making adequate progress in reaching Net Zero by 2050, although the journey there may not be as linear or successful as originally planned. The country's energy system faces a crossroads with an ongoing crisis, moving forward with the Just Energy Transition Investment Plan (JET-IP) and adopting renewable energy, yet still pursuing controversial fossil gas projects.

The energy sector is SA's biggest emitter, responsible for 86% of its greenhouse gas (GHG) emissions, with industrial, agricultural and waste responsible for the rest (Figure 1). This places the focus of SA's effort on Eskom to reduce its coal plant emissions. Its annual GHG emissions have been calculated to range between 398-510 million tonnes of carbon dioxide equivalent ($MtCO_2e$) from 2021-2025 and need to reduce by between 20% and 33% to be in the 350-420$MtCO_2e$ range from 2026-2030. The electricity sector accounts for about 70% of SA's total emissions of which about 80% comes from coal. It will have to cut back emissions from about 177$MtCO_2e$ in 2025 to 125 $MtCO_2e$ by 2030.

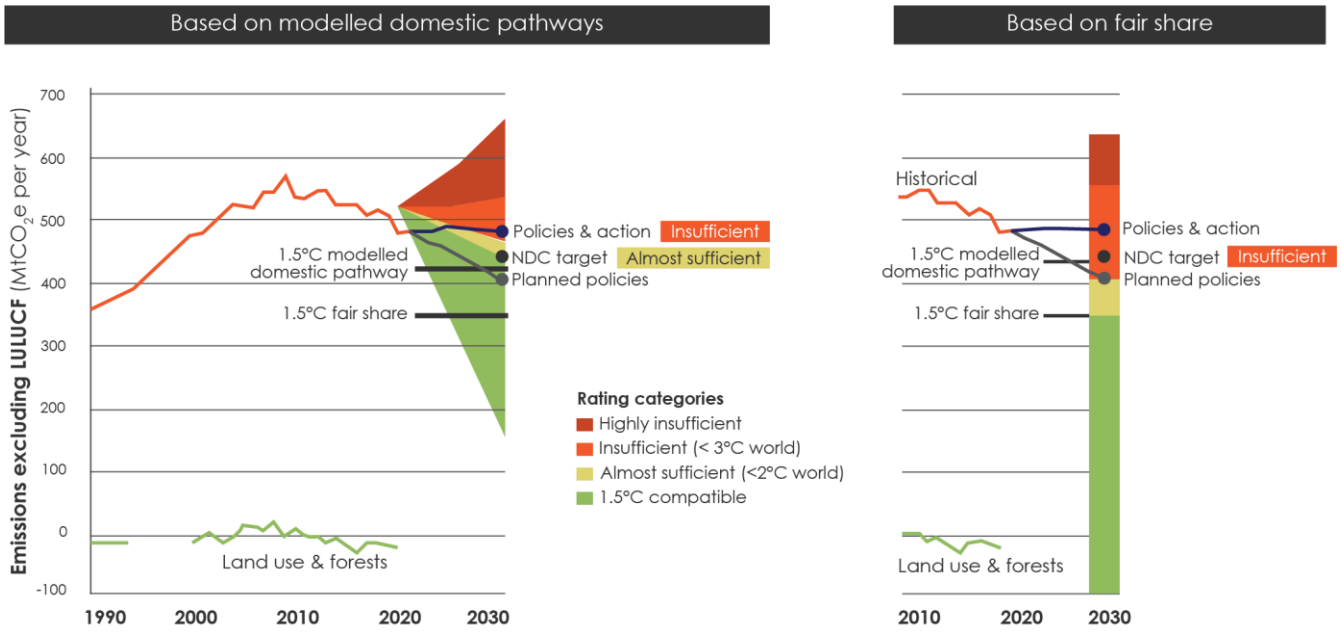
Figure 1: SA emissions – 2020 (%)



Source: Krutham, SA's 5th Biennial Update Report to the UNFCCC, 2023

Eskom and the Cabinet confirmed plans in May 2024 to delay moving away from coal to ensure Eskom can provide an uninterrupted supply of electricity. While the energy crisis will delay coal plant closures, accelerating renewable deployment could close the capacity gap. Renewables are rapidly increasing, with record-high imports of solar equipment in early 2023. However, there is a real risk that Eskom's revised decommissioning plans will result in South Africa missing its 2030 target.

Figure 2: Climate action tracker - South Africa (November 2023)



Source: Climate Action Tracker

The Climate Action Tracker (Figure 2), last updated in November 2023, rates South Africa's climate targets and policies as "insufficient". This rating shows

that South Africa's climate policies and commitments need substantial improvements to align with the Paris Agreement's 1.5°C limit. However, the tracker should show significant progress with implementing the Climate Change Act and the draft sectoral targets. The main hurdle is Eskom's change in approach to decommissioning, something that we will watch closely.

Implementing climate change legislation

In February 2022, Barbara Creecy, then Minister of Forestry, Fisheries and the Environment (DFFE), introduced the Climate Change Bill in the National Assembly (NA), South Africa's first legislation specifically targeting climate change (see Appendix 1 for more background on the Bill). As one of the top 15 synthetic greenhouse gas emitters globally and the largest in Africa, South Africa's legislative move is crucial.

After nearly two years of deliberations, the NA approved the Bill in October 2023, sending it to the National Council of Provinces (NCOP) for review. The Bill's slow passage resulted from constitutional requirements for public participation, involving the NA's Portfolio Committee on Mineral Resources and Energy holding public hearings across all provinces. Organisations like the World Wide Fund for Nature, Eskom, Sasol and others participated in these hearings.

From September 2022 to July 2023, the portfolio committee conducted public hearings, though it is unclear if meaningful participation included remote, rural and poor communities. In April 2024, the NCOP passed the Bill, forwarding it to the president for assent. The NCOP also engaged the public through written comments and provincial hearings.

In July 2024, President Cyril Ramaphosa signed the bill into law (Climate Change Act [No. 22 of 2024]) after the DFFE signalled its readiness and capacity to implement it.

The following key activities should take place:

Finalisation of the 2030 sectoral targets, and development of 2050 sectoral targets. Within a year of the legislation coming into effect, the DFFE minister must publish a list of the GHG-emitting sectors subject to sector emission targets (SETs). Ministers of the respective sector departments will be responsible for implementing SETs which must be aligned with the national GHG emissions trajectory.

Prescribe the timeframes for the allocation of carbon budgets. This will include the development of 2050 sectoral targets.

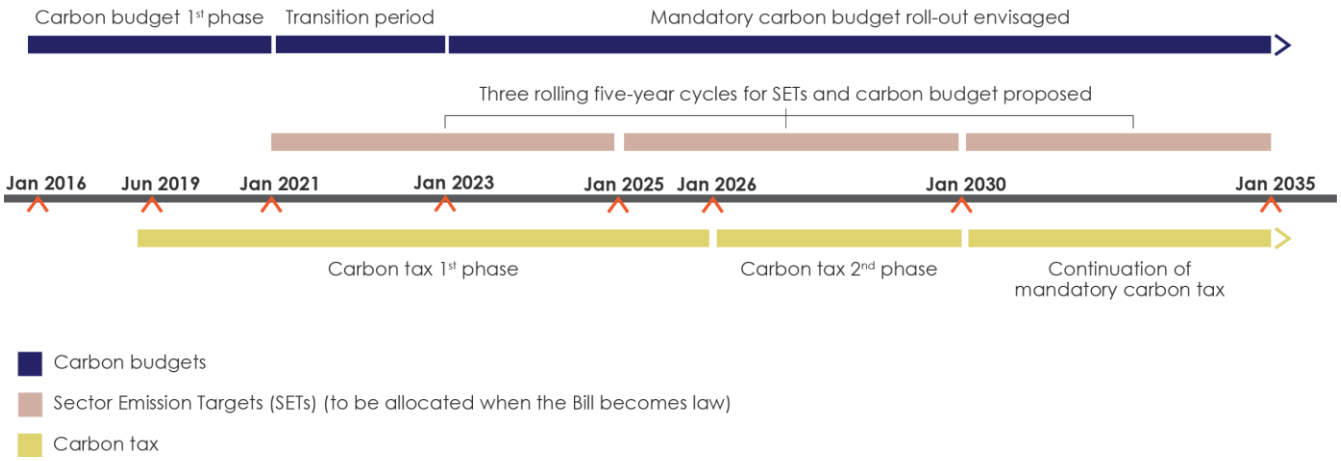
Encourage green industry investment by advocating for policy certainty from the government, attracting investors to this sector. The Presidential Climate Committee (PCC) has assured that South Africa will meet its NDC targets despite potential challenges such as decommissioning.

Enhance inter-departmental coordination by strengthening collaboration between the Department of Minerals and Petroleum Resources, the Department of Electricity and Energy and the DFFE. Aligning policy implementation is crucial to drive effective emission reductions and address the current misalignment between these departments.

Develop comprehensive plans for decommissioning coal plants to avoid issues similar to those experienced at Komati. Effective planning should ensure a smooth transition that considers both environmental, social and economic impacts.

Encourage businesses to advocate for and commit to transitioning to lower-emission energy sources. Fostering public-private partnerships will support the green transition and help achieve national climate goals.

Figure 3: Possible implementation timeline for SA's SETS, carbon budgets and carbon tax



Source: Meridian, 2022

This figure presents a potential timeline for implementing the DFFE's mitigation policy system, showing the alignment of the phases and activities of the carbon budgets and carbon tax. Both the SETs and the carbon budgets have uncertain timeframes as their legislative foundation will be established by the forthcoming Climate Change Act. The DFFE plans to synchronise the SET five-year cycles with the mandatory carbon budget regime once they are allocated.

Challenges to overcome

The legislation lacks urgency on the matter of climate change. It allocates unreasonably long-time frames to implement various provisions. For instance, once it comes into operation, provincial and local governments will be given a five-year period to produce a climate change response implementation plan (section 15 of the Bill). This should be produced at least annually.

The Act makes no mention of the professionalisation of the public services sector. Organs of state have failed to live up to their constitutional mandate. For instance, several municipalities do not achieve clean audits, implying they fail to deliver much-needed services to their communities. The Act places more obligations on provincial and local governments to take a lead on climate change adaptation planning without making adequate provision for capacity building to carry out their duties. Capacity building is fundamental to the implementation of this proposed climate change law.

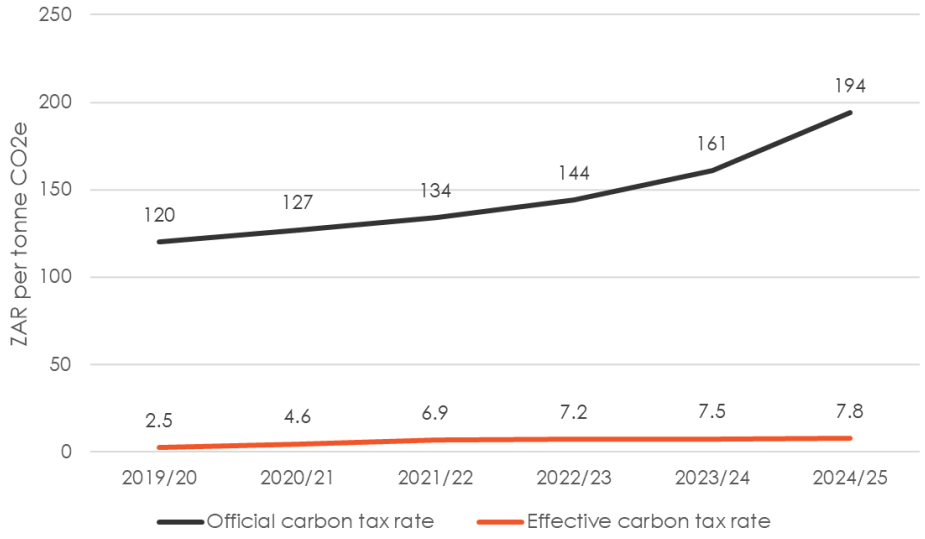
The Act indicates no targets for the DFFE minister on how and when certain obligations need to be filled and resolved.

> "Capacity building is fundamental to the implementation of the proposed Bill

The interface with the carbon tax

South Africa introduced a carbon tax in June 2019. At the time, the official carbon tax rate was R120 per tonne of equivalent carbon dioxide (CO_2e). This increased to R134 by the end of 2022. That said, the IMF believes that the effective tax rate is substantially lower, estimating it at R7.80 per tonne of CO_2e.

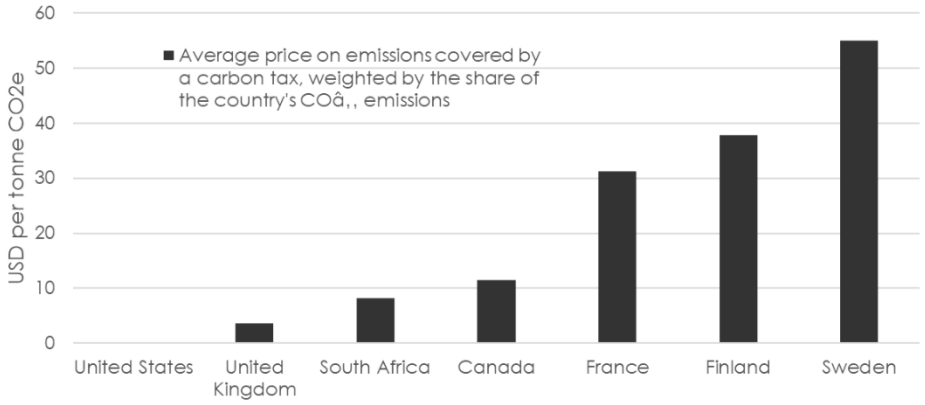
Figure 4: The South African effective carbon tax is low and rising…



Source: IMF (2023)

The carbon tax is expected to rise quite strongly over the next number of years. There has been significant consultation with the industry and the tax has proven (unsurprisingly) controversial among large emitters.

Figure 5: … and remains low relative to other jurisdictions



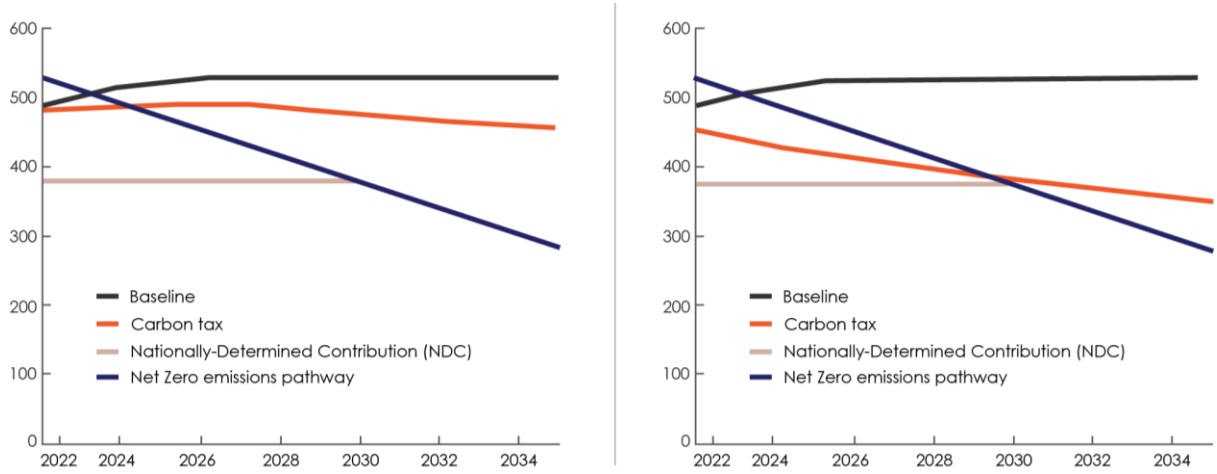
Source: IMF,2023

A complementary carbon trading scheme, similar to that of the European Union Emissions Trading System (EU-ETS), appears to be the obvious next step in the evolution of South Africa's approach to reducing emissions. The EU-ETS operates on a cap-and-trade principle, wherein a cap is set on the total amount of greenhouse gas emissions that can be emitted by covered

entities such as power plants, factories and other industrial installations. These entities are allocated or required to purchase allowances, each representing the right to emit one metric tonne of CO_2 or its equivalent. In SA, there is a risk of dominance by the energy sector hampering a liquid market, therefore implementing an Article 6 type model may prove the better options, compared to an emissions trading system.

The JSE has recently introduced a voluntary carbon credit market. Voluntary carbon credits (VCCs) differ from compliance carbon credits (CCCs). VCCs are purchased voluntarily by organisations or individuals to offset emissions beyond regulatory requirements, whereas compliance carbon credits are mandatory for regulated entities, and are typically used together with legal emission limits set by government schemes (eg, the cap-and-trade schemes). Several differences are set out below.

Figure 7: GHG Emissions under alternative carbon tax scenarios ($MtCO_2e$).
Left: *The current tax proposal ($30 by 2030).* ***Right:*** *Carbon tax needed for NDC ($120 by 2030).*



Source: IMF (2022)

The current trajectory of South Africa's carbon tax rate is insufficient to meet its NDC targets. Even if the tax is raised to planned levels, it will not be enough to achieve the necessary emission reductions. South Africa's NDC aims for a 20% to 30% decrease in GHG emissions by 2030, but the current carbon tax proposal would still result in emissions above the target range. The tax is crucial, but it must be supplemented by additional policies and investments outlined in the NDC, such as the Integrated Resources Plan, the Green Transportation Strategy and enhanced energy efficiency programmes. The Climate Change Act also includes carbon budgets and sectoral emission targets. The Just Energy Transition Investment Partnership is a key initiative aimed at mobilising public and private financing to support South Africa's transition to a low-carbon future – it is planning to set new decommissioning targets for Eskom coal power plants soon.

> “
> The current trajectory of South Africa's carbon tax rate is insufficient to meet its NDC targets.

Table 1: Voluntary versus compliance carbon credits

Aspect	Voluntary carbon credits (VCCs)	Compliance carbon credits (CCCs)
Voluntary or mandatory	Purchased voluntarily by organisations or individuals to offset emissions beyond regulatory requirements.	Mandatory for regulated entities to comply with legal emission limits set by government schemes.
Purchase purpose	Bought willingly to demonstrate environmental responsibility or meet self-imposed sustainability goals.	Acquired to comply with legal obligations and avoid penalties for exceeding emission allowances.
Market participation	Participation is optional; entities buy credits based on their sustainability goals and values.	Participation is compulsory for covered entities under specific government-mandated schemes or cap-and-trade programmes.
Standards and verification	Standards and verification processes may vary; buyers choose projects aligning with their preferences.	Governed by specific compliance programmes, guidance or regulations with standardised procedures and oversight for credit issuance.
Examples of projects	Reforestation, renewable energy, methane capture, energy efficiency and various emission reduction initiatives.	Emission reduction projects certified under regulatory compliance standards such as the EU ETS, California's Cap-and-Trade Program, etc; and potential Article 6 projects
Purpose within market	Enables entities to voluntarily contribute to climate mitigation efforts beyond legal requirements.	Helps regulated entities meet legally mandated emission limits and ensure compliance with government regulations.

Source: Krutham

The German-South Africa energy partnership estimates that the potential size of carbon offset certificates is around 10 million tonnes a year. In contrast, the current certified supply is only around one million tonnes.

Progress towards a comprehensive system has, however, been slow. This is in part because of the relatively low price of carbon. Moreover, the WWF has highlighted that because electricity makes up the biggest component of South Africa's emissions, there are few other types of emissions that can be covered by the carbon trading system. The result could be low demand for trading and a risk of market failure.

One solution often put forward is to open the domestic market to allow for the export of carbon credits – for example, if South Africa were to join one of the international systems for carbon emission trading.

A key concern raised by National Treasury, however, has been the risk of "carbon leakage" – the "onshoring of carbon emissions", ie, used for the relocation of dirty tasks abroad. This is a key risk of a carbon tax – it merely displaces dirty activities to jurisdictions without taxes. Complex systems must be introduced to mitigate against this – typically a form of carbon border tax, which in turn has problems.

However, the opposite may also happen, which is that carbon emissions can be offset by carbon credit purchases from abroad. This has the net effect of reducing the carbon produced *worldwide* but not in South Africa. Carbon offset projects outside of South Africa are simply used to generate carbon credits that can be used to reduce the tax liability in South Africa – with no net in-country reduction. Article 6 requires that any credits used to offset a regulatory requirement must be correspondingly adjusted to prevent double counting. Credits bought to offset the carbon tax can only be bought from the domestic market.

The potential size of carbon offset certificates is around

10 million tonnes

a year, while the current certified supply is only around

one million tonnes.

Concerns in the South African market

There are several constraints, however, to South Africa developing a viable domestic carbon trading system.

Limited number of entities: An active market requires a large, diverse set of entities. As an example, the EU-ETS operates in 31 countries with more than 12,000 installations and 1,400 aircraft operators. In South Africa, there are a handful of major emitters (mainly Eskom and Sasol).

Low rate of the carbon tax: South Africa's carbon tax is at the low end of international carbon tax rates and, because of the number of exemptions, the effective rate is very low. The economics of both a carbon tax system and a cap-and-trade system rely on the company's marginal cost of mitigation – the cost of reducing emissions by 1 tCO_2e. A low carbon tax discourages mitigation.

Interaction between the two systems: Although carbon taxes and carbon budgets can operate together, a carbon tax and carbon trading for addressing emissions reductions can create institutional issues and financial constraints. For many emerging markets, a higher carbon tax to enhance institutional and financial effectiveness is a more effective way of achieving the same goal.

The need to avoid double-dipping: Having both a carbon tax and a carbon trading scheme may at first appear to be optimal – companies can both reduce their carbon tax liability and create a carbon credit. This, however, introduces the risk of "double dipping" where companies receive a double financial gain for the same emissions reduction. For this reason, the exemptions to the offset programme are extensive, so that it is reasonably difficult to create offsets.

From a government-regulated market perspective, promoting an Article 6 market is possibly most conducive. While the introduction of a VCM is a step forward, it will only cover voluntary emissions and will most likely come at a lower cost. Further work needs to be done to assess how to make an Article 6 market workable in South Africa, given the perceived lack of support from the government in this regard.

The risk of a global carbon tax on SA industry

The Climate Change Act and improvements to the Carbon Tax Act should be seen as useful domestic measures to ensure alignment with global legislation and taxation, which can affect South Africa through export prices, access and increased competition in Africa. Research by the UCT Energy Research Centre highlights the risks of the EU's carbon border adjustment mechanisms (CBAM) and potential CBAMs from the US, Canada and Japan. The table below highlights the impact this will have on GDP, employment and export levels across sectors in South Africa.

Table 2: Estimated economic impacts of CBAM

	Scenario one: All countries impose a carbon border tax like the EU's CBAM in design and implementation		**Scenario two:** All countries extend coverage of their carbon border tax to all exports and direct emissions	
	2030	**2050**	**2030**	**2050**
	% difference in level from baseline scenario			
Total GDP	-0.3	-0.9	-1.8	-9.3
Agriculture	0.9	-0.6	0.4	-3.3
Mining	0.8	2.9	-1.4	-17.3
Manufacturing	0.3	-1.4	0.7	-4.8
Electricity	-1.7	-1.5	-3.8	-8.7
Services	-0.4	-1.2	-2.1	-9.5
	Level difference from baseline scenario			
Total employment	-61	-351	-581	-3,999
Agriculture	23	-8	7	-81
Mining	15	55	-12	-213
Manufacturing	6	-56	9	-260
Electricity	-43	-63	-232	-811
Services	-61	-280	-353	-2,635
	% difference from baseline scenario			
Total Exports	0	0.1	0.6	-10.1
Agriculture	3.6	-0.4	-0.9	-1.7
Mining	2.7	6.6	-0.5	-22.1
Manufacturing	-3.8	-6.1	6	4.7
Electricity	-55.6	-16.8	-55	-16.2
Services	2	-1.3	-1.6	-10

Source: Merven et al (2023), SARB (2024).

The initial impact on exports seems small but varies across sectors. Agriculture, mining and services may benefit initially, while GDP could decrease by 0.3% by 2030. South Africa's electricity sector could suffer if neighbouring countries adopt CBAM. Expanding CBAM coverage to all sectors could lead to a 10.1% decline in exports and 9.3% decline in GDP by 2050. Employment could be significantly affected, with potential job losses of up to 2.6 million by 2050. Increased poverty and inequality could worsen household welfare, highlighting the need for mitigating actions.

While industry and banks may have conflicting strategies that involve the need for higher emissions in the medium term, they will need to balance that with legislative targets, as well as increased local carbon tax and the impact of CBAM. In addition, where strategies are clear on meeting net

zero targets, there is a need for collaboration, thought leadership and improved stakeholder engagement to ensure there is consensus and improved ambition to meet the NDC targets. While the 2030 targets may be achievable despite the many obstacles, the road to Net Zero will not be smooth.

Impact on SA's banking sector

Financial institutions are key stakeholders in SA meeting its NDC targets. Through their lending, investment and underwriting practices, banks can take proactive steps to reduce greenhouse gas emissions and support the transition to a sustainable, low-carbon economy.

South Africa's top five banks – which have all set Net Zero targets by 2050 – acknowledge the significance of the Climate Change Act in enabling a transition to a low-carbon and climate-resilient economy, according to statements in their annual reporting and media statements. They all highlight the importance of the legislation in establishing a comprehensive legal framework for regulating SA's climate change response. There is consensus among the banks that the legislation will have far-reaching implications for various sectors, particularly carbon-intensive industries.

Table 3: SA bank-financed emissions in 2022 and 2023 ($KtCO_2e$)

		Nedbank	FirstRand	Absa	Investec	Standard Bank
Residential mortgages	2022		3 446.5	3 000	708*	
	2023	1 664	5 022.4	2 400		
Vehicle finance	2022		1 181.5			
	2023	1 747.1	1 143.8			
Agriculture	2022		524.1	3 340		
	2023		2 534.8			
Property finance	2022		1 401.7	2 000	1 983.4	
	2023		1 253.5			
Thermal coal	2022	8 027	1 661.8	1 896.7		
	2023	5 518.3	938.9			
Upstream oil and gas	2022	3 092.8	220.9	79**		5 630.7
	2023	2 946.6	247.6			
Power generation	2022					
	2023	445				
Other	2022		4 814.6		2 599.8	
	2023	208.2	3 372.6			

Source: Krutham (Banks' annual climate reporting)
** Combined with vehicle finance **gCO_2e/MJ*

The top five banks are under pressure to mature their climate action strategies and improve their ambition to decarbonise, especially as they spend heavily on advertising to position themselves as leaders in climate action. Last year, four of the five banks increased their financing and exposure to fossil fuels. This year, it has improved, with Nedbank and FirstRand showing decent declines in kilotonnes of carbon dioxide

equivalent ($KtCO_2e$). The financed emissions disclosed so far by South Africa's top five banks in 2023 come to about $37MtCO_2e$. This disclosure amount should increase as banks improve their financed emissions calculations, but it highlights the scope within which banks can act to help South Africa meet its NDC targets.

So far, only Nedbank and Absa have set financed emissions targets and will continue to expand on these targets based on geography and sector (see table below). Other banks – which tend to remain close to their peers in disclosure – will likely add similar targets too. Once finalised, the 2030 sectoral emission targets will assist banks in shaping or refining their medium-term targets.

Table 4: Existing financed emissions targets

		2022	2030	2045
Nedbank				
Coal	47% reduction between 2022-2030	7,586 $ktC0_2e$	4,021 $ktC0_2e$	0 $ktC0_2e$
Oil & gas	26% reduction between 2022-2030	6,017 $ktC0_2e$	4,453 $ktC0_2e$	0 $ktC0_2e$
Absa				
Coal	25% reduction between 2022-2030	1,897 $ktC0_2e$	1,422 $ktC0_2e$	Not set
Oil & gas	9% reduction between 2022-2030	79 gCO_2e/MJ	72 gCO_2e/MJ	Not set

Source: Krutham (Banks' annual climate reporting)

While financed emissions target setting is lagging, there has been progress on other forms of target setting that will easily assist banks like FirstRand when they do set targets (see table below). The lag is due to the lack of financed emissions data, a gap that the banks are closing fast. Standard Bank has set many detailed targets in its strategy to reduce loans to fossil fuel sectors and it will need to translate that into financed emissions targets. Investec's target to have no fossil fuel exposure in its loan book by 2027 should also translate positively into a financed emissions target.

Table 5: Banks' targets to reduce carbon footprint – 2025 to 2030

Bank	Target
Nedbank	• 2025: No provision of project financing for new thermal coal mines • 2025: Reduce own operations' carbon emission by >40% (from 2019 levels) • 2025: Generate >30% of own energy needs from renewable sources • 2030: Thermal coal funding to be <0.5% of gross loans & advances
FirstRand	• 2026: R200bn sustainable and transition finance • 2030: Net zero of own emissions for SA operations
Absa	• 2025: Meet sustainable finance target of R100bn • 2030: Meet 51% reduction target in own carbon emissions
Investec	• Continuous: 100% of Scope 2 energy sourced from renewables through the purchase of renewable energy certificates • Continuous: Carbon neutral within our own operations • 2027: Zero coal exposures in loan book • 2030: Zero thermal coal exposure in loan book

Bank	Target
Standard Bank	• 2024: Mobilise R50bn finance & R15bn underwriting for development of new infrastructure • 2026: Mobilise +R250bn sustainable finance across all banking products • 2026: Reduce finance to existing (coal) power sector clients to 0.15% • 2026: Reduce finance to (oil) power clients to 0.03%* • 2026: Limit finance to gas-fired power plants to 0.75%* • 2030: Net zero for newly built facilities (own operations) • 2030: Limit thermal coal exposures of group loans and advances to 0.5% • 2030: Reduce finance to existing (coal) power sector clients to 0.12%* • 2030: Reduce group advances to upstream oil by 5%* • 2030: Reduce finance to (oil) power clients to 0%* * % of total group advances

Source: Krutham (Banks' annual climate reporting)

Table 6: Banks targets to reduce carbon footprint - 2031 to 2050

Bank	Target
Nedbank	• 2035: No new finance for oil production • 2045: Zero exposure to fossil-fuel-related activities • 2050: 100% of lending and investing supporting a Net Zero carbon economy
FirstRand	• 2050: Net Zero financed emissions
Absa	• 2050: Achieve Net Zero targets for Scope 1, 2 and 3 emissions
Investec	• 2035: No finance to any new oil and gas extraction, exploration, or production (by 2035) • 2050: Net Zero carbon emissions
Standard Bank	• 2040: Net Zero for existing facilities (own operations)

Source: Krutham (Banks' annual climate reporting)

Strategy considerations

The banking sector would benefit from embedding key elements required to report in alignment with IFRS S1 and S2. It will require an improved data management programme to assess sustainability and climate-related risks and opportunities on loan books over different time zones. The type of data provided by the SARB via the UCT Energy Research Centre is an example of data sources required to assess impacts. By mapping out the financial impact of climate-related transition risks including the Climate Change Bill, the Carbon Tax and CBAM, banks can build credible medium- and long-term strategies backed by science-based data.

The effective use of carbon markets can support South Africa's climate transition. The national climate debate has focused on mitigation, justice, skills, industrialisation etc, and have loosely created a burning, though unsatisfied, platform of the sheer scale of financing required.

The debate on carbon markets in South Africa is relatively fragmented, and there is a risk of growing two markets – one of voluntary carbon credits and one of statutory carbon credits. The debate has also been stop-start, driven

by different actors for different and often narrow ends while policymakers have not provided leadership to drive it forward. Buyers, sellers and market intermediaries of carbon credits have narrowly talked about their individual issues without finding a consensus between them all. Work on utilising carbon financing flows before JETP was ultimately unsuccessful and parked for the long term.

Krutham believes these two problems can be jointly solved by consolidating the debate on carbon markets to fund the transition. The end goal is a carbon markets policy that aligns with the overall decarbonisation trajectory and stimulates financial flows that can support the just transition.

Relation to other legislation and institutions

The Presidential Climate Commission (PCC)

The Climate Change Act formally establishes the PCC as a separate organ of state with the authority to offer counsel on issues about the just transition. The Presidency will remain in charge of the PCC. The Act offers precise foundations for adaptation, mitigation, and a way to fund and support the nation's response to climate change.

Mitigation aims to address the nation's pressing development issues while ensuring a fair transition from South Africa's present carbon-intensive energy system to a decarbonised economy and society. In keeping with this, the legislation formalises the nation's Greenhouse Gas Inventory, bolstering the data and supporting additional climate action and reporting procedures.

There is debate on whether the PCC should become a ministry under the Presidency or be moved to the DFFE. We believe that the PCC managed to maintain its independence under the Presidency and has influenced policy changes and reforms relating to climate change.

Just transitions and the JET policy

The Climate Change Act fully supports and aligns with the just energy transition agenda. The Act outlines how South Africa will fairly contribute to the international effort to stabilise GHG concentrations, allows for the efficient identification and management of climate change impacts, and highlights the country's commitment to a just transition to a low-carbon economy and society.

Sectorial emissions targets

On 26 April, DFFE gazetted a set of sectorial emission targets. The SETs were released as a follow-up to the SET framework approved by the cabinet on 21 November 2021. The passing of the Climate Change Act by the National Council of Provinces was instrumental in finalising the draft SETs. The Act stipulates that the DFFE minister must allocate SETs to guarantee the country reaches the stated GHG emission target as announced in the NDC.

The SETs are out for public comment, and we expect many challenges in implementing them in the fossil fuel sector, considering the Upstream Petroleum Resources Bill (UPRB), which the NCOP also passed on 25 April.

These two pieces of legislation clash in their objectives, and we think achieving the set targets in the fossil fuel industry will be difficult.

We believe that contributing to public comments and calling to align the draft SETs with the sectors' existing plans will be key. This will remove uncertainty and help with planning and setting realistic targets.

Table 7: Quantifiable SETs allocations per policy and measurement plan ($MtCO_2eq$)

	2025	2026	2027	2028	2029	2030	Total
Agriculture, Land Reform and Rural Development							
Agriculture emission reduction	0.74	0.61	0.53	0.38	0.55	0.57	3.37
Water and sanitation methane capture emission reduction	0	0	0	0	0	0.06	0.06
Mineral Resources and Energy							
Electricity emission level	177.35	165.85	157.72	157.95	148.95	124.73	
National energy efficiency strategy emission reduction	3.28	3.95	5.09	6.58	6.8	7.07	32.78
Electrification strategy emission reduction	0.22	1.1	1.73	1.28	1.51	2.98	8.83
Solar, water & heater emission reduction	0.22	0.37	1.54	1.42	1.35	1.41	6.31
Forestry, Fisheries and Environment							
Carbon tax & carbon budget emission reduction	5.54	8.03	10.37	11.95	12.09	10.45	58.41
National waste management strategy emission reduction	0.15	0.29	1.69	1.79	2.17	2.39	8.49
Forestry emission reduction	1.05	0.78	0.48	0.47	0.76	0.91	4.45
Kigali amendment emission reduction	0.3	0.2	0.92	0.77	1.5	1.46	5.15
Other environment emission reduction	0	0	0.02	0	0	0	0.02
Transport							
Transport emission reduction	0.21	0.87	2.57	4.62	5.24	4.51	18.03

Source: DFFE Draft Sectoral Emission Targets (2024)

Decommissioning schedule

The decommissioning agenda is key to the successful implementation of the climate change policy. However, Eskom will extend the life of some power stations. Instead of sticking to the original plan of closing the Eskom power stations in Camden, Grootvlei and Hendrina between 2027 and 2030, the decommissioning schedule has to be revised and finalised.

The Presidency is in talks with Eskom to close several units at other power facilities to fulfil an annual emission-reduction target of 50m to 71m tonnes of carbon dioxide equivalent, as required by the Climate Investment Fund (CIF).

To respond to the risks posed by climate change, the country needs to have clear mitigation targets, which can be achieved by aligning the DFFE targets with Eskom's decommissioning schedule. South Africa may not be able to secure the billions of rand in concessional financing required if

emissions are not brought within the target band. Therefore, there is a need to fast-track the decommissioning revision.

Advocacy from business

Energy Council South Africa: The council welcomes the climate change legislation and urges all energy stakeholders to work collaboratively towards a Just Energy Transition and support the sector's efforts towards reduced carbon emissions.

National Business Initiative: In December 2021, the National Business Incentive launched a guide to climate change for South African CEOs here. It is meant to guide CEOs through their emission-cutting ambitions from 2021-2023. NBI should develop another guide that will guide CEOs towards 2030 while considering the Climate Change Bill.

Politics of climate

Successful implementation of the Climate Change Act depends largely on the government of the day. Given the government of national unity (GNU) at national level, the views of parties on the legislation matter. Most parties within government have in one way or another identified a need for a coordinated response to climate change. For instance, in its 2022 national conference, the African National Congress (ANC) resolved that all three spheres of government should "…enhance coordination efforts in line with the Disaster Management Act, put in place early warning mechanisms and ensure the availability relief measures to households". In its 2023 policy conference, ActionSA resolved to "prioritise the adoption of the Climate Change Act to ensure that South Africa's legal requirements for climate change response are codified and legally binding". The Democratic Alliance (DA) , in its 2013 (outdated) natural resources policy, registered its support for "the creation of a national registry of mitigation actions that will allow government and stakeholders to obtain an overall picture of the contribution of actions toward attaining certain mitigation targets." This registry would include sectoral targets.

JET and energy mix

The one area of contention that may have an impact on the life of this legislation is the JET and the preferred energy mix, considering load shedding. While all parties agree on the need to transition to cleaner sources of energy, they disagree on how to handle the social aspects of the transition and what the best energy mix would be. The ANC envisages a balanced mix of renewables, coal, nuclear and gas. The IFP's views are balanced, with an unpronounced bias for coal and nuclear. The DA is the only party that demonstrates a pronounced bias for renewables and firm decarbonisation.

JET and the energy mix will be important factors in reducing GHG emissions and ultimately mitigating the severity and impact of climate change. The pace of activities such as Eskom unbundling and coal power plant decommissioning will depend on these. Collectively, these factors could influence the National Adaptation Strategy and Plan, the Sector Adaptation Strategy and Plan and sectoral emissions targets. Given the

nature of the new government, we anticipate a balanced approach to triumph.

The future of the Bill

The Climate Change Act is drafted to survive different political arrangements, including the GNU. This will shield it from vulnerability with the introduction of a new politician. However, the Act will still face several challenges. The biggest of these challenges will be vested interests that operate in high-emitting sectors, especially those linked to fossil fuel-based electricity generation such as coal mining and (road) transport of coal. Considering the high levels of unemployment in the country, the Act may be interpreted as some form of red tape by some sectors, due to the limitations and therefore a need to reconfigure some operations that will be imposed by sectoral emissions targets and carbon budgets. Several parties, including the ANC, speak about the need to (re)industrialise the country to create employment opportunities. Much of these industrial "policies" are anchored on activities that produce significant levels of GHGs. As such, these policies would have to be harmonised with the objectives of the Bill.

Given the powers the Act gives to the minister over the climate change response, the new minister of Forestry, Fisheries and the Environment, the Democratic Alliance's (DA) Dion George, occupies a very important position. He will shoulder a significant part of the responsibility to harmonise industrial policy with the objectives of the Bill. Formulating a common GNU policy proposition has been a key concern for the new government. Having a DA member spearheading the implementation of an ANC government-crafted piece of legislation, although one that the DA voted in favour of, will be a tangible demonstration of GNU policy coherence. That said, there is a possibility that parts of the political economy view the implementation of the Bill, which is bound to elicit some negative reactions, by a DA-member as a reflection of the DA's own policies.

Appendix 1: Climate Change Act details

Objectives

One of the key objectives of the Climate Change Act is to generate a coordinated and integrated response to climate change. It provides for the development of an effective climate change response and a long-term just transition to a low-carbon and climate-resilient economy and society for South Africa. It is critical to implement the country's commitments under the Paris Agreement in December 2015 and the goals set during the United Nations Climate Change Conference of the Parties (COP26) in November 2021. These agreements play a major role in promoting the transition to a low-carbon economy. There are some notable aspects of the Bill. It directs the DFFE minister to allocate carbon budgets and sectoral emissions targets (SETs) as key elements to implement the country's mitigation action. SETs are already being considered to achieve reduction goals in synthetic GHG emissions (as detailed below, the draft document for public comment has been gazetted and public input is due in June/July 2024[1]). Sectoral emissions ceilings will be for seven economic sectors: agriculture, industry, energy, mining, human settlements, transport, and environment & forestry. Each line department[2] will be tasked with developing and implementing policies and measures to ensure emissions from within respective sectors remain within SET allocation.

Institutional arrangements

South Africa's response to the climate crisis requires a whole-of-government approach (national, provincial and local). Enactment of the climate legislation will see the PCC established as a permanent Schedule 3A national public entity in terms of the Public Finance Management Act. This establishes the PCC as the primary driving force behind the climate change agenda.

The President (as chairperson) will appoint about 25 members to serve as PCC commissioners, composed of representatives from government, organised labour, civil society, traditional leaders and business, to advise government on mitigation of climate change impacts. It remains to be seen whether the current commissioners of the interim PCC will be replaced or reshuffled. Nonetheless, commissioners will serve for five years and their contracts will be renewable for a further five years.

Furthermore, to ensure that climate actions are facilitated and coordinated across spheres of government, provincial and municipal forums on climate change will be established. These forums will be tasked with coordinating climate change response activities within the relevant province or municipality. Each municipal forum will provide a report on its climate change response actions to a relevant provincial forum, then provincial forums will send the reports to the PCC.

[1] https://www.dffe.gov.za/sites/default/files/legislations/draft_sectoralemissionstargets2024_g50571gon4763.pdf

[2] Department of Rural Development, Land Reform and Agriculture; Department of Trade, Industry and Competition; Department of Mineral Resources and Energy; Department of Forestry, Fisheries and the Environment; Department of Human Settlements; Department of Water and Sanitation; and Department of Transport

Table 8 provides a summary of the quantitative targets proposed for allocation to sectors, categorised by the respective line departments. It outlines the qualitative SETs, representing policy and measurement outcomes aimed at fostering an enabling environment for sectors to transition towards low-carbon practices over the long term.

Table 8: Policies and measures affected by sectoral emission targets

Sector	Policy and measures affected
Department of Electricity and Energy	Energy Efficiency Demand Side Management
Department of Mineral and Petroleum Resources	Draft Mine Closure Strategy
	Derelict and Ownership Mines Programme
	The Exploration Strategy for the Mining Sector of South Africa and Critical Minerals Strategy
	Sustainable Development Reporting Guidelines
Department of Agriculture, Land Reform and Rural Development	Conservation of Agriculture Resources Act
	Climate Smart Strategic Framework
	Conservation Agriculture Strategy
	Climate Change Sector Plan
	Agriculture Sector Implementation Plan
Department of Trade, Industry and Competition	Green Hydrogen Commercialisation Strategy
	Master Plans (various)
	Industrial finance incentives
	Strategy for Green Trade Barriers
	Green (low carbon) Industrial Strategy
	National Building Standards and Regulations/ SANAS 10400
	National Cleaner Production Centre
Department of Human Settlement	Sector Climate Response Strategy, National Housing Code
Department of Water and Sanitation	Green Drop Report
	Water and Sanitation Sector Policy on Climate Change
Department of Transport	National Land Transport Strategic Framework 2023 to 2028
	White Paper of National Transport Policy
	White Paper on National Rail Policy
	Roadmap for the Freight Logistics System in South Africa 2023
	Draft Comprehensive Maritime Transport Policy, 2017
	White Paper on National Civil Aviation Policy
	Draft Roads Policy
Department of Forestry, Fisheries and the Environment	REDD+ Strategy

Source: DFFE Draft Sectoral Emission Targets (2024)

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