SOUTH AFRICA
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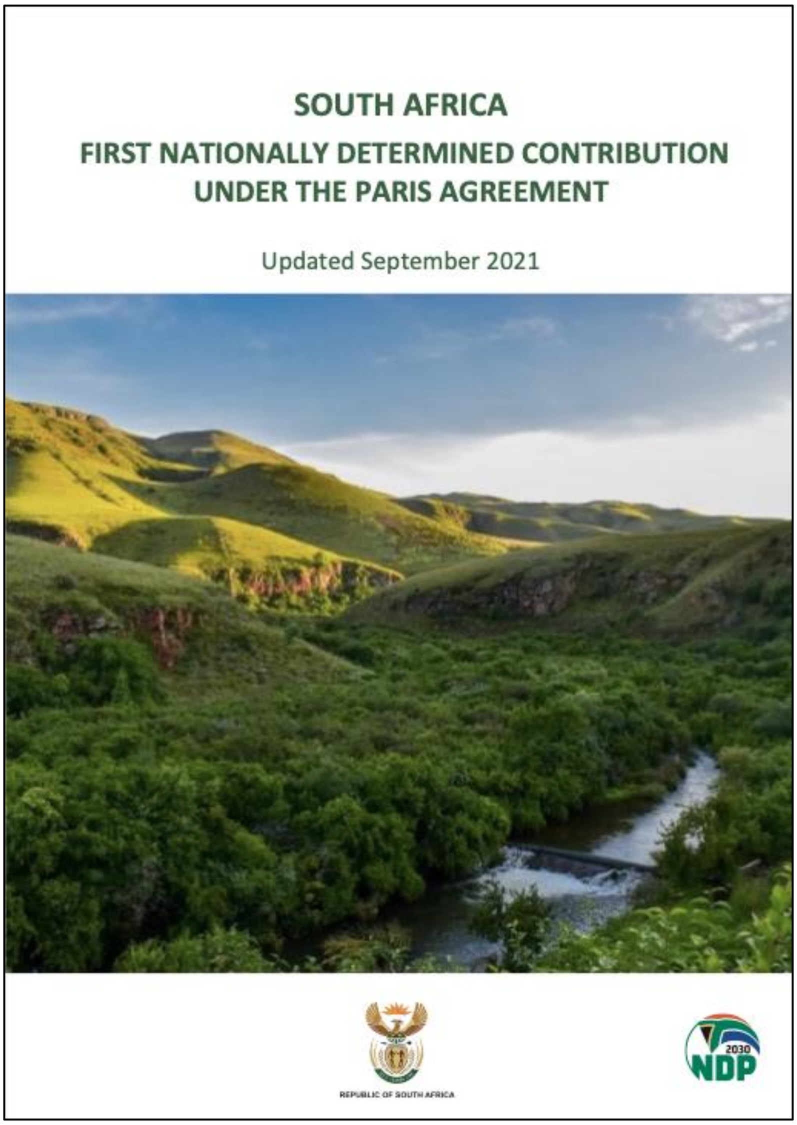
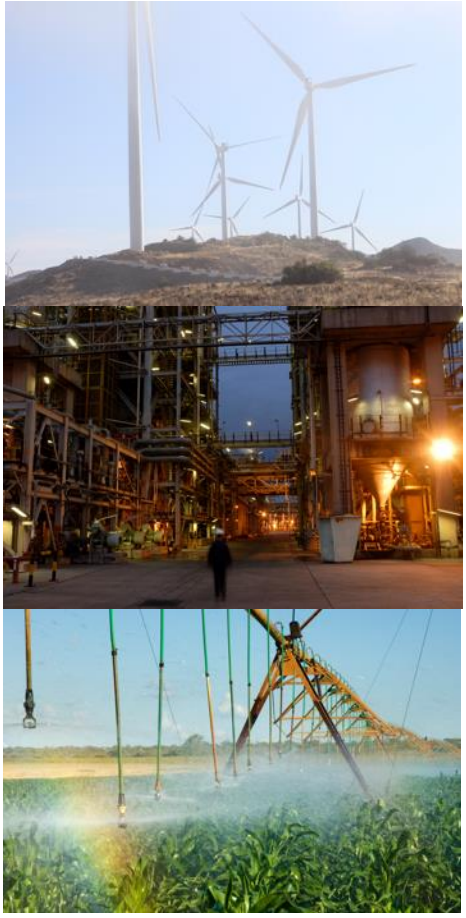

SOUTH AFRICA
FIRST NATIONALLY DETERMINED CONTRIBUTION
UNDER THE PARIS AGREEMENT

Updated September 2021

REPUBLIC OF SOUTH AFRICA



Transition Risk Analysis Support Toolkit – Element 5

South Africa's International and Local Climate Commitments

The Green House

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1. Introduction

The United Nations Framework Convention on Climate Change (UNFCCC)[1] is an international treaty established towards minimising human-induced climate change, and the impacts thereof on societies, ecosystems and economies. South Africa is a signatory to the UNFCCC, and as part of its commitment has pledged to reduce its greenhouse gas emissions, and implement actions to adapt to the inevitable impacts of climate change on the country. At the same time several regulatory instruments are being developed and rolled out to ensure South Africa meets its international commitments. These instruments have direct implications for both the private and public sectors. **Asset managers, investors, pension fund managers and other stakeholders in the financial sector would benefit from keeping track of the evolving international and local climate change policy space, as it will play an increasingly significant role in strategic investment decision-making**.

This briefing document has been prepared as part of a Toolkit to support the asset management and retirement fund industries in improving their climate-related financial disclosures, and increasingly take climate considerations into account in investment decisions. For an overview of the toolkit and a description of its other components please see *Introduction to the Transition Risk Analysis Support Toolkit* available from here. The Toolkit has been developed under a broader UK-Pact[2] funded project on Climate Related Financial Disclosures. Further outputs from this project, including other elements of the Toolkit, are available online[3].

2. What are South Africa's international climate commitments?

The negotiations held under the UNFCCC have led to a number of agreements over time, including the Paris Agreement, adopted in 2015, which marked a turning point in global climate action. The Paris Agreement is a legally binding treaty which aims to **keep global warming at well below 2°C above pre-industrial levels, and pursue efforts to limit warming to 1.5°C**, through reducing greenhouse gas emissions to the atmosphere (**mitigation**). It also makes provision for strengthening the ability of countries to deal with the impacts of climate change (**adaptation**), and for providing technical, financial, capacity and other **support** to

Paris Agreement: A global agreement to limit the extent of global warming; strengthen the global response to inevitable impacts of climate; and provide technical, financial and capacity support to countries that need it.

[1] http://unfccc.int/
[2] Partnering for Accelerated Climate Transitions. For more information see https://www.ukpact.co.uk/country-programme/south-africa
[3] http://www.dnaeconomics.com/pages/sa_climate_disclosure/

countries that cannot afford to implement mitigation and adaptation actions. The Agreement was adopted by 196 Parties to the Convention at the Congress of the Parties (COP) in Paris in December 2015, and entered into force in November 2016. Subsequent to the Agreement, the Intergovernmental Panel on Climate Change (IPCC) Special Report on Global Warming of 1.5°C[4] has highlighted the importance of aiming for this as being the target for climate action, resulting in increased public and private sector commitment to contributing to this greater level of ambition.

One of the requirements of the Paris Agreement is that countries put forward the contributions that they intend to make towards fulfilling the overall aims of the Agreement. These contributions are contained in **Nationally Determined Contribution (NDC)** submissions to the UNFCCC. NDCs are to include, amongst others, national emissions inventories and commitments to mitigation and adaptation, and details of financing. Countries are able to make unconditional and conditional commitments, with the latter being contingent on receiving support for implementation.

Tracking global climate action

The Paris Agreement makes provision for a Global Stocktake every five years during which the collective effort as put forward in NDCs is reviewed to determine whether there is sufficient commitment to achieve the overall aims of the agreement. The first stocktake is likely to be in 2023.

In addition, a number of organisations track emissions, the NDC and Long Term Strategy submissions to the UNFCCC and their implementation.

www.climatewatch.org

www.climateactiontracker.org

At the time of writing this document in 2021, countries were submitting new or updated NDCs in advance of the 26th COP. The Agreement makes provision for countries to update NDCs over time, with every new submission from 2025 and every five years thereafter committing to enhanced ambition. All submitted NDCs are available on the UNFCCC website[5].

[4] https://www.ipcc.ch/sr15/
[5] https://www4.unfccc.int/sites/NDCStaging/Pages/All.aspx

In line with the requirements of the Paris Agreement, **South Africa submitted its NDC[6,7] in September 2021**. The mitigation commitment is expressed as follows:

South Africa's NDC Mitigation Commitment

Annual GHG emissions in **2025** will be in a range from 398 to 510 Mt CO_2-eq.

Annual GHG emissions in **2030** will be in a range from 350 to 420 Mt CO_2-eq.

"…meeting these targets will require South Africa to implement a range of policies and measures, including a very ambitious power sector investment plan as set out in the 2019 Integrated Resource Plan, the Green Transport Strategy, enhanced energy efficiency programmes, and the carbon tax."

In addition to the NDC, which sets targets to 2030, South Africa has submitted its long-term 2050 Low Emissions Development Strategy (LEDS)[8]. The submission of the LEDS is a further requirement of the Paris Agreement, and represents "the beginning of our journey towards ultimately reaching a net zero carbon economy by 2050," a requirement for alignment with the global 1.5°C efforts.

3. How could South Africa's international commitments evolve over time?

As noted above, South Africa has just submitted its updated NDC. With the next NDC only required in 2026, there is little formal indication of how South Africa's commitments will evolve beyond 2030. However, if the LEDS indication of pursuing a net zero economy is to be formalised into policy, each subsequent NDC submission

What is "net zero"?

To meet the global 1.5°C climate target, it is recognised that net CO_2 emissions will need to be zero by around 2050, while net GHG emissions will need to reach zero in the 2060's. The term "net" recognises that there will still be some emissions from hard to abate sectors by this time. These will need to be offset by carbon sinks, which remove CO_2 from the atmosphere. This includes through including land and forestry activities, as well as through engineered carbon capture, utilisation and storage technologies.

6 https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/South%20Africa%20First/South%20Africa%20updated%20first%20NDC%20September%202021.pdf

7 The NDC represents an update of its Intended Nationally Determined Contribution (INDC) submission of 2016.

8 https://unfccc.int/sites/default/files/resource/South%20Africa%27s%20Low%20Emission%20Development%20Strategy.pdf

will need to adopt increased mitigation ambition to reflect this, particularly as analyses suggest that current contribution commitments to the global effort are insufficient[9]. This trend of increased emission reductions will inevitably reflect in increasing pressure on sectors and companies to decarbonise.

South Africa's NDC targets have been criticised for not providing policy certainty to sectors and companies. Two possible ways that this could be resolved in future NDCs include:

- **Adopting a single value target rather than a range and providing longer term signals:** As shown in the previous section, South Africa has expressed its 2025 and 2030 commitments as a range. In future, it may be the case that targets are not set as a range but rather as a single value. Longer-term targets may also be provided. This is the approach taken by many countries around the world. A single figure rather than a range will provide a much clearer signal to all parties who are responsible for contributing to meeting South Africa's commitments, thereby helping to support mitigation planning.

- **Mapping out a trajectory rather than providing targets for specific years:** Previous articulations of South Africa's international commitment showed an upper and lower bound pathway indicating how emissions could evolve over time towards meeting a future target (the so-called Peak-Plateau-Decline or PPD emissions trajectory, see Figure 1). Although not in the current international commitment, the trajectory articulation of an emissions target is still captured in the Climate Change Act, described further below. Providing a trajectory rather than single year targets or target ranges enables the setting of a national carbon budget, or the total emissions that can be emitted over a specified period of time, in addition to an end target. This avoids the situation where, say, emissions rise rapidly and drop off at the end of the commitment period to meet single year targets. Setting a carbon budget is consistent with the objectives of limiting global warming, in that the global temperature

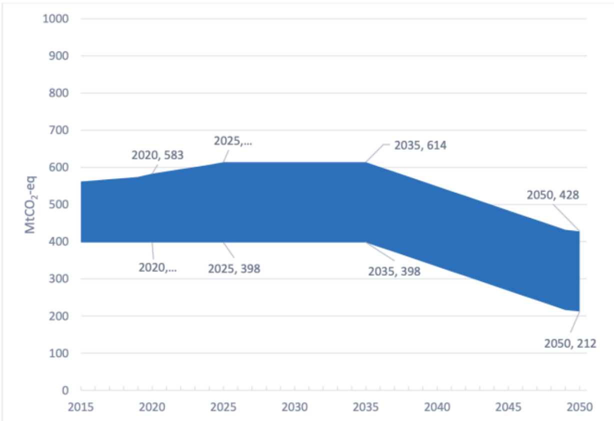

Figure 1: South Africa's PPD trajectory

[9] https://climateactiontracker.org/countries/south-africa/

increase is linked to cumulative levels of greenhouse gas emissions in the atmosphere. A trajectory also provides more certainty on greenhouse gas emissions for sectors and sub-sectors.

4. What legal and regulatory instruments have been introduced to address greenhouse gas emissions?

Two key Acts have been introduced in South Africa that contribute to South Africa's climate response, including reducing emissions towards meeting international commitments.

The Carbon Tax Act makes provision for charging a tax on greenhouse gas emissions.

The Climate Change Act seeks to coordinate the country's climate change response, thereby ensuring "a long term, just transition to a climate resilient and low carbon economy and society for South Africa in the context of sustainable development."

The Carbon Tax Act was introduced in 2019. Entities undertaking certain prescribed activities are required to pay a carbon tax (R134/tonne in 2021), although a number of allowances are applied which reduce the effective tax rate. The aim is to lead to an overall reduction in national emissions.

The Climate Change Act, , which went before parliament in 2021, makes provision for two key national instruments that will be used to contribute to meeting the country's international commitments, that have relevance in the context of this document and are discussed further below:

- **Sectoral Emissions Targets (SETs):** Quantitative or qualitative goals, which are informed by sectoral policies and measures, that may lead to greenhouse gas emissions reductions for a sector or sub-sector over a defined time period.
- **Carbon budgets:** An assigned amount of greenhouse gases that may be emitted by a person from a set of pre-defined activities in a particular time period.

Supporting the two key Acts is the **National Greenhouse Gas Emission Reporting Regulations**[10,11], which requires entities undertaking certain energy, industrial, forestry and waste related activities as specified in the Annex to the Regulations to annually report on levels of emissions and associated activity data (data which in turn is required to calculate the carbon tax liability). Furthermore, the **National Pollution Prevention Plans Regulations**[12] require the submission of a plan for reducing greenhouse gas emissions by entities to whom a carbon budget has been allocated.

5. How could the international commitments be allocated to sectors?

As indicated above, the Climate Change Act makes provision for allocating targets to sectors or sub-sectors[13] for reducing greenhouse gas emissions over a certain period of time (Sectoral Emission Targets or SETs). The Act states that the allocation and regular updating of the SETs are to be based on a number of factors, including:

- monitoring and evaluation results;
- technological advances;
- the best available science, evidence or information;
- South Africa's international commitments and obligations;
- the strategic importance of the sector or sub-sector as a catalyst for growth and job creation in the economy; or
- the agreed approach to the just transition.

Whilst the details of the SETs allocation approach were still under development at the time of writing of this document, some indication of how the sectoral allocation might evolve is provided in the NDC, which suggests that "long-term decarbonization of the South African economy will in

10 https://www.environment.gov.za/sites/default/files/legislations/nemaqa39of2004_nationalgreenhousegasemissionreporting_gn40762_0.pdf

11 Amended in 2020: https://www.environment.gov.za/sites/default/files/legislations/nemaqa_greenhousegasemissions_reportingregulationamendment_g43712gon994.pdf

12 https://www.gov.za/sites/default/files/gcis_document/201707/40996gon712.pdf

13 The sectors had not been defined at the time of writing, but would likely be aligned with economic sectors rather than emitting sectors as per the IPCC.

the 2020s focus primarily on the electricity sector; in the 2030s, a deeper transition will take place in the electricity sector, coupled with a transition in the transport sector towards low emission vehicles; while the 2040s and beyond will be characterized by the decarbonization of the hard-to-mitigate sectors."

Individual government departments will be required to establish or adjust existing policies and measures to align with and include the SETs. This may have implications for the economy more broadly, including the private sector. However, the SETs are primarily viewed as targets for government departments and are not intended to be cascaded down to companies as there are other more appropriate mechanisms for that, namely carbon budgets.

6. What are the implications for companies?

The Climate Change Act makes provision for allocation of carbon budgets to entities undertaking certain specified activities which give rise to greenhouse gas emissions. Carbon budgets will be allocated for three five-year periods at a time, on a rolling basis. While the detailed approach to allocating carbon budgets is under development, the Act states that a number of factors are to be taken into account in the allocation of Carbon Budgets, including:

- the socio-economic impacts of imposing the carbon budget;
- the best available science, evidence and information;
- the best practicable environmental options available and alternatives that could be taken to mitigate the emission of greenhouse gases;
- national strategic priorities;
- the alignment of the carbon budgets with the national greenhouse gas emissions trajectory, noting that the cumulative amount of greenhouse gas emissions which the carbon budgets represent are not equivalent thereto; and
- progress on the implementation of the greenhouse gas mitigation plans.

The Act indicates that the enforcement mechanism for ensuring that entities remain within their budgets is that a higher carbon tax rate will be charged on emissions that exceed the carbon budget. In other words, two tax rates will apply, one for emissions below the budget and one for emissions exceeding the budget. The high tax liability outside of the budget allocation is thus intended to be a significant driver for reducing greenhouse gas emissions, and could result in material financial implications for entities who fail to remain within their budget allocations.

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