

Response to World Bank-Eskom Panel Report and Fact Sheet

Background: On February 18th a panel of 3 individuals issued a report to the World Bank Group about a proposed \$3.75 billion loan to the South African utility Eskom for which the bulk of the financing would go to develop a 4,800 MW coal-fired power plant. Their charge was to determine whether the project fully met the six criteria of the World Bank for financing such dirty energy projects pursuant to the Bank's Development and Climate Change Strategic Framework. Despite this charge, the panel's report failed to provide any analysis of the cost of viable alternatives including environment externalities, and no approach to incorporating environmental externalities in project analysis was developed. In many cases the panel simply accepted Eskom statements without additional examination. Of the criteria actually studied, the panel did identify two for which the proposed loan fell short:

Criterion 2 – “Therefore, as described more fully in our general conclusions, to meet the spirit of this criterion the Bank must demonstrate that its sustained commitment to South Africa's low carbon energy development strategy matches up to the scale of its commitment to Medupi.”

Criterion 3 – “The World Bank must commit itself to supporting the South African government's efforts to improve energy efficiency on a scale that matches its commitment to Medupi.”

Although the panel recommends proceeding with the financing, nothing in the proposed loan or panel reports demonstrates that the World Bank's own criteria will be fully met.

Response: More than 65 South African civil society organizations, joined by 99 of our colleague groups in Africa and around the world, have opposed the proposed World Bank loan to Eskom. These include some of the leading community-based organizations, NGOs, citizen groups, social movements, environmental groups, academic institutions and trade unions. The groups have begun protests at Eskom offices, specifically targeting the Bank loan, and unions are threatening strike action due to the high price increase Eskom is imposing – which combined with previous hikes will more than triple some rates from 2007 to 2013 - in part so as to meet Bank repayment requirements.

We believe that it is clear that the proposed loan does not meet the World Bank's own internal goals of alleviating poverty and mitigating the harmful effects of global warming. The panel's report reinforces civil society concerns, and even incorporating some of the panel's recommendations for longer term financial support and assistance to South Africa for clean energy does not change the fact that financing Medupi is completely inconsistent with the World Bank goals and criteria.

Neither the proposed loan nor the panel report addresses the severe damage Eskom's unjust rate hikes will do to the African economy or affordable access to electricity for

the poor. This damage includes a decline in the South African economy and a rise in general inflation which lead to far less affordable access to electricity for low-income South Africans during a time of continuing economic crisis. Alarming, the panel report is also completely silent on the failure of Eskom management to renegotiate long-outdated contracts with major industrial users of energy, despite repeated requests by Eskom's own board. It is these contracts, which give aluminum smelters and other industrial users unconscionably low electricity rates, that are responsible for increasing rates, decreasing affordable access for lower-income households, and creating the supposed demand Medupi purports to serve.

Finally, there was an almost complete lack of effort by Eskom and the World Bank panel to evaluate clean energy alternatives, including demand side management, especially in regards to the special pricing agreements for industrial users. We believe that the panel is absolutely correct when it argues "it is essential that every effort be made to develop these low carbon energy resources, and to improve the efficiency of delivering energy services to the regional economy." However, nothing in the panel report or the proposed loan indicates that the World Bank has or will commit to ensuring such effort to advance a clean energy future takes place, or that more South Africans get access to affordable electricity.

Specific Responses to the World Bank Fact Sheet:

WB Claim: Without increasing its energy supply, South Africa will face economic losses and hardship for the poor.

Increasing energy supply does not necessarily entail increased access for poor people. If the supply increase is accompanied by a price increase from \$50/month to \$120/month from 2009-12, as is envisaged by Eskom, then the opposite is true: more supply and more hardship for the poor.

WB Claim: A rigorous analysis of the alternatives to coal-fired power plants was conducted; domestic or regional alternatives cannot meet the required base load capacity (9600 MW over five years).

A year ago, Minister Buyelwa Sonjica said the opposite: "There is a huge technical potential for wind energy estimated to be in the region of 64,000 GWh. This potential presents an investment opportunity to achieve a more ambitious target for renewable energy beyond the current modest 2013 target of 10,000 GWh." The current CEO of Eskom (P M Makwana) stated, under oath (22rd of Jan. 2010) to the National Energy Regulator of South Africa (NERSA), that in four years we could have 7000 MW of renewable energy capacity, including 2000 MW of solar base load, for R200bn:

"The entire Cape's electricity or energy requirement (Eastern Cape, Western Cape, including Namibia) is approximately 5000 MW. The largest wind turbine produces 2 MW and 2500 wind turbines would be required to supply the entire Cape. Such a plant would take about 4 years to build on a 900km²

piece of land at an estimated cost of R100bn. Lessons from countries like Germany are that when the wind does not blow consistently one then has to revert to more dependable energy sources like coal, nuclear and solar. Equally, a base load solar energy power station generating approximately 2 000MW would require CAPEX of about R100bn to R120bn, although it would take up to four years from construction to commissioning...."

WB Claim: The two Eskom power plants are the first in Africa to use the cleaner coal "supercritical" and "carbon capture storage ready" designs, the same technologies used in OECD countries.

This is dubious, untested technology, as acknowledged in the panel report: "At this stage in the international development of carbon capture and storage (CCS), and of geological studies in South Africa, it is hard to tell whether retrofitting with CCS will ever be a realistic option for Medupi." Even Eskom's own officials show skepticism about CCS, as Steve Lennon, MD of Eskom, discussing Medupi, indicates: "One of the plants we are building is CCS ready, although to be quite frank no one really knows what that is at the moment." Further, sequestration is estimated to have a 25% energy penalty (i.e. energy required to sequester carbon emissions), so Medupi would have real capacity of 3600MW, if the entirely theoretical CCS were to be implemented before the government's 2025 deadline for emissions peaking, which is highly optimistic.

WB Claim: The project will finance new low carbon technologies, including wind and solar power.

This is tokenistic, for the Bank's Eskom financing for coal is more than 20 times as much generating capacity as for clean energy, as explained in the panel report: "The immediate CO₂ savings that will be attributable to these renewable projects will be modest by comparison to the emissions of Medupi, bearing in mind that the total generating capacity is less than 5% of Medupi." The energy efficiency investments certainly can't be counted, since they are designed for the coal plant fuel delivery system rather than for end-use customers and represent no benefit if the coal plant is not built.

WB Claim: South Africa has developed robust Long-Term Mitigation Scenarios.

South Africa's LTMS document is neither robust nor ambitious, for it includes dramatic short-term emissions expansion including massive coal fired generators and coal-to-liquid (Sasol). The government is not implementing the LTMS at this stage, and has signed no global or bilateral agreements that will definitively cut emissions. The Government insists on waiting for transfers of finance and technology before making a commitment to cut from the extremely high, unrealistic 'Business as Usual' levels in the LTMS, which it will not reach in any case because of the 2008-09 world recession and low level of commodity and especially metals prices. Moreover, South Africa has no domestic legislation for emissions reductions, and its Air Quality Act does not even recognize greenhouse gases as pollutants. Essentially, the LTMS is

simply a government-funded research document discussed in cabinet but with no bearing in reality.

WB Claim: By 2013 the Renewables Strategy aims to add 1,667 MW of energy led by the private sector.

This is only 10,000GWh, extremely low, given the potential identified by Eskom's own executives and other power developers.

WB Claim: The railway line in this project will substantially reduce the GHG emissions from moving coal in trucks.

This has nothing to do with an Eskom desire to reduce global warming pollution, it is simply a cheaper transport option and a poor greenwashing attempt by the World Bank. Neither the pollution from the trucks nor the pollution from the railway line would be created if the coal plant were not built, so it is not an efficiency savings as compared to a viable alternative scenario.

WB Claim: After full consideration of viable alternatives, coal is still the least-cost and most viable option for meeting the base load required by Africa's largest economy.

In NERSA's own studies (e.g. NERSA's Record of Decision on REFIT II, Sept. 2009, pg. 14), the main SA government agency regulating electricity has illustrated the cost of various technologies up to 2030. Fossil fuel and nuclear energy are increasing in cost, while renewable energies are decreasing in costs, with biomass, wind, biogas, and landfill gas all considerably cheaper by 2030. All renewable technologies would be cheaper than oil, coal and gas technology by the end of 2015 on NERSA's own calculations, and would not be subject to the admitted volatility of fuel costs. On these purely economic terms and excluding calculations on jobs and environmental costs and savings, it is obvious that a generation mix heavily favouring renewable energy is in the longer-term economic interest of both Eskom and the nation. If jobs are included as a factor (which is a Government priority), then the case for renewables grows (source: <http://www.earthlife.org.za/wordpress/wp-content/uploads/2009/03/job-creation-potential-of-re-in-sa-holm.pdf>).

The Bank and Eskom have not picked the capacity plan that maximises job creation, or at the very least, they have not justified capacity choices in terms of jobs in relation to alternatives. This is an important point that deserves consideration, since Eskom is asking South African society to fund its capital expenditure programme, largely through tariffs.

Finally, as an alternative to Medupi, the Bank did not consider the Demand Side Management strategy, especially the ending of Eskom Special Pricing Agreements. On 24 February 2010, Eskom filed court papers alleging that Mr Jacob Maroga, the Eskom CEO with whom the Bank negotiated the loan (subsequently fired by the

Eskom Board of Directors in November 2009), had not fulfilled his contractual responsibility for renegotiating these Special Pricing Agreements, with the likes of BHP Billiton, Anglo American, Arcelor Mittal, Alcan and other huge corporations. Most were originally negotiated during apartheid, and can be considered in the category of Odious Contracts. Without renegotiating the contracts to the Energy Intensive Users Group – 38 firms which receive 40% of South Africa's electricity at extremely low (undisclosed) rates – the Bank did not properly exhaust non-coal options for addressing South Africa's electricity crisis.

Conclusion: In sum, the World Bank is repeating one of the world's most tragic episodes: apartheid empowerment of corporations and whites, and impoverishment of black South Africans. From 1951-67, the Bank financed \$200 million in loans to Eskom for coal-fired power plant construction that provided electricity to large, exploitative corporations and rich white South Africans, which impoverished black people, for whom there were no electricity connections. Black people were part of the economy that in its entirety had to repay the Bank loans. The Bank neither apologized nor provided reparations for this travesty; and interest and profits were distributed to shareholders, mainly wealthy Western governments. The Bank is attempting to repeat exactly the same outcome, at a time the environmental crisis also demonstrates the extreme damage associated with coal fire plants to South Africans, and at a time South Africa is being called to repay its huge Climate Debt to the continent. The Bank now proposes to add vast amounts of new debt, both in financial terms to the West, and in climate terms to the victims of climate change, including low-income South Africans, so that those with access to the world's cheapest electricity – industrial corporations – can continue expanding production, while low-income black South Africans will suffer dramatic increases in price and disconnections. There is probably no better example in the world today of financing that damages the environment and people so decisively.