
Climate Medium-term Expenditure Framework for Seychelles

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Overview

- Proposes medium-term options for ‘climate smart’ expenditures
- Various possible focus themes were considered, but seeks to address ‘climate negative’ expenditures identified by the CPEIR
- Analysis builds directly on the Seychelles CPEIR report
- Components
 - Reviews CPEIR findings on ‘climate negative’ expenditures
 - Lists alternative possible ways to meet these same needs
 - Examines selected alternatives and provides cost estimates
 - Discusses political economy factors and lessons about how to minimise such losses

Explaining this Focus Theme

- CPEIR examined both expenditures that were ‘climate smart’ and those that were ‘negative’ vis-à-vis CC
- One finding was that a large proportion of the country’s climate-related expenditures are ‘negative’ vis-à-vis CC
- These expenditures don’t help cope with or combat CC, but rather exacerbate its climate vulnerability and/or increase its contribution to CC
- While this is no doubt true of many countries, it is still far from ideal, especially for a country that trades on a green image
- Given this fact, the government requested the present analysis

How Analysis Addresses ‘Negative’ Expenditures

- Analysis examines options to address the ‘negative’ expenditures by partially replacing them with ‘climate smart’ alternatives
- The proposed alternatives
 - Fulfil the same economic and social functions as the ‘negative’ expenditures
 - Build on initiatives already underway and respond to established national policy priorities
- Net effect would be gradual shift away from fossil fuels coupled with embracing ‘climate smart’ technologies and investments

____ Proposed Alternatives Examined

Considers potential expenditures in three activity areas

- Electricity: Accelerating shift to securing a greater proportion of electricity for the national grid from renewable energy
- Air transport: Reducing the carbon footprint of air transport and/or enhancing its resilience to climate shocks
- Land transport: Accelerating the shift to 'clean' options for land transportation

Reviewing 'Negative' Expenditures from the CPEIR

- Begins by reviewing CPEIR findings on 'negative' expenditures
 - Which public entities were involved?
 - Their mandate and key activities, i.e., the economic and social needs that they meet
 - How are their expenditures linked to climate change?

Public Enterprises Examined (PEs) by the CPEIR

Entity	Sector	Mandate	Key activities
Seychelles Petroleum Company Ltd (SeyPec)	Energy	Fulfil the country's energy requirements through the supply of fuel	<ul style="list-style-type: none"> • Importing, marketing and distributing petroleum products in Seychelles • Supplying fuel to the domestic market, bunkering of vessels, and aviation refuelling activities • Managing the companies shipping assets
Petro Seychelles Ltd	Energy	Conduct hydrocarbon exploration activities in the Seychelles	<ul style="list-style-type: none"> • Promoting, conducting and supervising activities undertaken to identify petroleum and hydrocarbon deposits in Seychelles' Exclusive Economic Zone (EEZ) • Generating, acquiring and classifying data and information to sustain or further any commercial interest in exploration of petroleum and hydrocarbon deposits in the Seychelles' EEZ
Public Utilities Corporation (PUC)	Energy	Ensure that electricity, water and sewerage services are provided to the country safely, reliably and at affordable rates	<ul style="list-style-type: none"> • Generation, transmission, distribution and sale of electrical energy. Generation includes both fossil & renewable fuels. • Treatment of raw water and supply of potable water • Treatment and safe disposal of waste water to the environment
Air Seychelles	Transportation	In its role as the national airline, support tourism's role as the core pillar of the national economy	<ul style="list-style-type: none"> • Offering international flights to Johannesburg, Mauritius and Mumbai. • Operating daily domestic flights and charter services throughout the archipelago. • Reflecting Creole hospitality, culture and values by treating our guests with unique Creole warmth

Linkages of these PEs to Climate Change

Public enterprise	Significance to CC objectives	Why designated a 'negative expenditure'
Seychelles Petroleum Company Ltd (SeyPec)	<ul style="list-style-type: none"> Meets key fuel needs of the country, but in a way that relies on fossil fuels Supports other countries to rely on fossil fuels by leasing out its fuel tankers Undermines the country's green, pristine image 	This expenditure directly exacerbates climate change by emitting greenhouse gases. It also increases vulnerability by creating a costly dependency on regular purchases of fuel from abroad.
Petro Seychelles Ltd	<ul style="list-style-type: none"> Explores for fossil fuels in the EEZ, and thus deepens the country's emphasis on such fuels Runs the risk of polluting the country's oceans and damaging marine habitats Undermines country's green, pristine image 	“ “
Public Utilities Corporation (PUC)	<ul style="list-style-type: none"> Provides affordable and reliable energy services to the country Generates electricity using fossil fuels and renewable fuels, yet most of its generation relies on fossil fuels 	Continued reliance on fossil fuels to produce electricity is 'negative' vis-à-vis climate change in the same ways as described for SeyPec. A transition to using renewables to generate electricity is underway, but it still has far to go
Air Seychelles	<ul style="list-style-type: none"> Provides critical transport services, yet using a highly climate damaging technology, even if it has plans to purchase fuel efficient planes 	Air transport is major polluter and source of greenhouse gases, but alternatives and compensation mechanisms are emerging.

Alternative Possible Ways to Meet These Needs

- Considered various options, then selected several based on
 - Relevant existing initiatives
 - Input from key stakeholders in Seychelles
 - National policy documents
- Selected options are discussed and costed based on expert input and the relevant technical literature
- Wider costs or benefits of each option are also considered, e.g., those linked to social or environmental impacts
- Expenditure on these alternatives could reduce dependence on fossil fuels while also delivering other benefits to society
- Premise was some of the public funding for these PEs could be spent on ‘climate smart’ activities that meet the same needs

Discussion of Proposed Alternative Expenditures

The discussion is organised around the services associated with the four 'negative expenditures' flagged by the CPEIR report

- Providing fossil fuels (SeyPec, Petro Seychelles Ltd)
 - Alternative: Reallocate funds to alternative measures
- Producing electricity to power national grid (PUC)
 - Alternative: Enhance proportion from renewables
- Providing air transport (Air Seychelles)
 - Alternative: Invest in a project pipeline for CORSIA
- Providing land transport (not linked to a PE, but...)
 - Alternative: Invest in electric buses for SPTC

Supplying Fossil Fuels to Seychelles

- Analysis does not examine alternatives for SeyPec and Petro Seychelles Ltd, since it assumes they're tied to fossil fuels
- Discussion of these two PEs focuses instead on reasons why Seychelles may wish to accelerate its embrace of alternatives
- Reiterating, key problems with fossil fuels include
 - Contribute directly to climate change
 - Regular fuel purchases are costly and create dependencies that could undermine resilience
 - Adverse social, environmental and reputational impacts

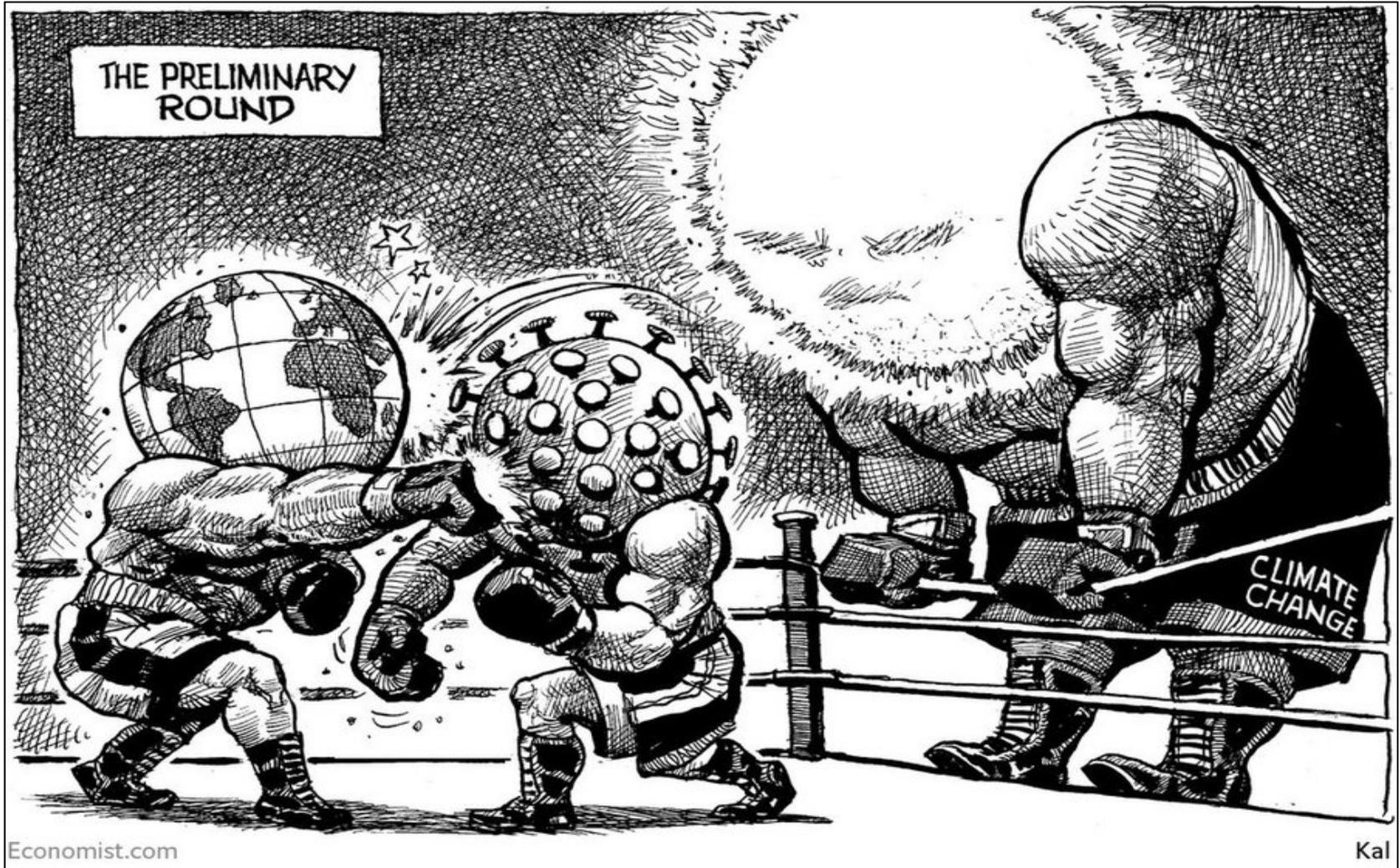
Downsides of Fossil Fuels Continue to Mount

More and more public and private investors are deemphasising or declaring moratoria on such investments

E.g., CEO of BlackRock, world's largest asset manager

- “Climate change has become a defining factor in companies’ long-term prospects... and I believe we are on the edge of a fundamental reshaping of finance.”
- “Investors are increasingly recognizing that climate risk is investment risk. Indeed, climate change is almost invariably the top issue that clients around the world raise with BlackRock.”
- “These questions are driving a profound reassessment of risk and asset values... In the near future – and sooner than most anticipate – there will be a significant reallocation of capital.”
- “Our... conviction is that sustainability- and climate-integrated portfolios can provide better risk-adjusted returns to investors.”

Cartoon from The Economist, 25 April 2020



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Alternatives are Becoming More Attractive

- Green and 'climate smart' technological alternatives are becoming progressively cheaper and more effective
- Can entail significant start-up costs, but operating costs tend to be lower and the initial investment costs are falling rapidly
- Also typically deliver additional benefits, including tendency to be more resilient to climate change impacts
- Given such developments, this analysis is timely...
- Yet any eventual reallocation of public funds would be disruptive, creating both 'winners' and 'losers'
- Possible ways to address this problem based on experiences from other countries are briefly discussed

Summarising the Climate MTEF

- The proposed measures offer alternatives to the expenditures flagged as 'negative' vis-à-vis climate change in the CPEIR
- They meet the same economic and social needs while accelerating transition to a green, 'climate smart' economy
- Levels of expenditure envisaged assume political will to move decisively towards a more 'climate smart' national budget
- The proposed measures are cost neutral, since they involve partial reallocation of existing budgets

Summarising Proposed Alternative Expenditures

Cost category	Cost estimate (\$)	Description
SeyPec	- \$109,923,000	A small fraction of SeyPec's large budget is reallocated to 'climate smart' expenditures that either reduce the need for fossil fuels or compensate for the adverse impacts of their use
PUC	+ \$101,625,000	This investment accelerates the transition of PUC to generating electricity using renewable power
Air Seychelles	+ \$548,000	This investment enables the country to actively engage with the CORSIA scheme by developing a pipeline of eligible projects and programmes in the blue and green economies that provide carbon offsets while also delivering concrete benefits to Seychelles
SPTC	+ \$7,750,000	This investment funds a pilot programme to assess the efficacy of electric buses for Seychelles.
Net spend	-	