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## carbon tax in South Africa –

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ELA Conference, Salt Rock, 27 July 2013

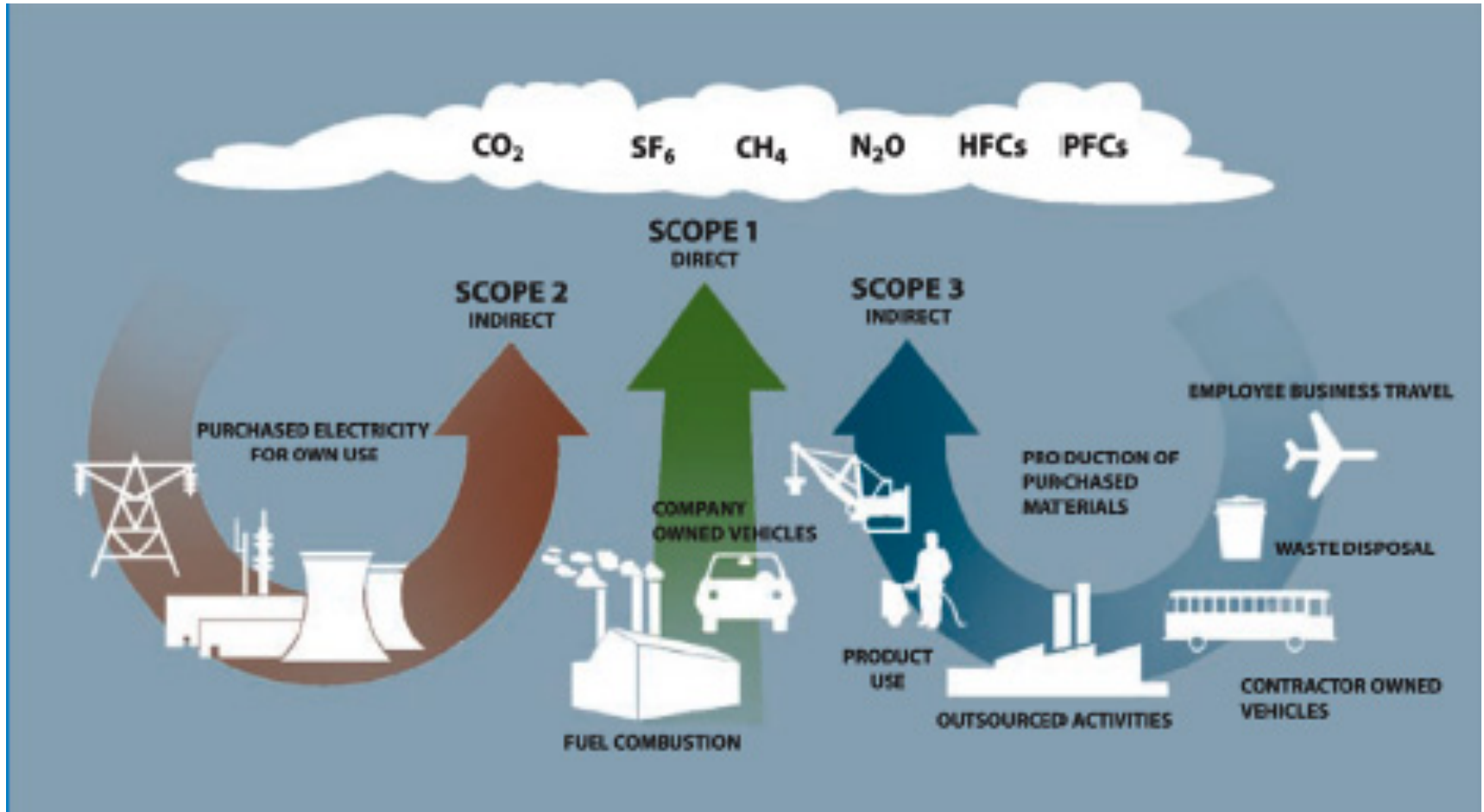


# agenda and outline of presentation

- background to the proposed carbon tax:
  - South African environmental legal and carbon tax policy development
  - evolving environmental and climate change business
  - applying the carbon tax revenue
  - national climate change response policy



# overview – emissions included



Source: Greenhouse Gas Protocol



# overview - covered sectors



Sector <sup>1</sup>	Phase 1 Basic Tax Free Threshold	Maximum trade exposure allowance	Process Emission Allowance	Total	Maximum offset percentage
Electricity	60%	-	-	60%	10%
Petroleum (coal / gas to liquid)	60%	10%	-	70%	10%
Petroleum - oil refinery	60%	10%	-	70%	10%
Iron & steel	60%	10%	10%	80%	5%
Cement	60%	10%	10%	80%	5%
Glass & ceramics	60%	10%	10%	80%	5%
Chemicals	60%	10%	10%	80%	5%
Pulp & paper	60%	10%	-	70%	10%
Sugar	60%	10%	-	70%	10%
Agriculture, Forestry and Land Use	60%	-	40%	100%	10%
Waste	60%	-	40%	100%	-
Fugitive emissions: Coal mining	60%	10%	10%	80%	5%
Other	60%	10%	-	70%	10%





- rapid expansion and refinement of environmental statutes since approximately 1998, including:
  - National Environmental Management Act (NEMA)
  - NEM: Waste Act
  - NEM : Integrated Coastal Management Act
  - NEM: Air Quality Act
  - NEM: Biodiversity Act
  - NEM: Protected Areas Act
  - National Water Act



- More recently – increasing attention to compliance monitoring and enforcement via the Compliance Directorates of the Department of Environmental Affairs (“Green Scorpions”) and of the Department of Water Affairs (“Blue Scorpions”)
- A rapidly changing context for the practice and application of environmental law:
  - King III
  - UN Global Compact
  - Equator Principles
  - Renewable Energy Independent Power Producer Procurement Programme (REIPPP)
  - Section 28 of NEMA (duty of care) and directors’ liability



# development of climate change policy in SA

- National Climate Change Response Strategy (September 2004)
- National Climate Change Conference (November 2005)
- Long Term Mitigation Strategy Scenarios (2006 and beyond)
- ANC Polokwane Declaration (December 2007)
- Climate Change Policy Summit (March 2009)
- Green Economy Summit (May 2010)
- National Climate Change Response Green Paper (November 2010)
  - *Reducing Greenhouse Gas Emissions: the Carbon Tax Option (December, 2010)*
  - *Budget Speech, 2011*
- National Climate Change Response White Paper (November 2011)
  - *Budget Speech, 2012*
  - *National Development Plan 2030 (NPC)*
  - Budget Speech, 2013
  - (Unofficial carbon tax paper), August 2012
  - Carbon Tax Policy Paper, May 2013





# national climate change response policy (NCCRP)

- National Climate Change Response White Paper (November 2011):
  - “Effectively manage:
    - inevitable climate change impacts
    - through interventions that build and sustain
    - South Africa’s social, economic and environmental **resilience** and emergency response capacity”.
  - “Make a fair contribution:
    - to the global effort to stabilize GHG concentrations in the atmosphere
    - at a level that avoids **dangerous anthropogenic interference** with the climate system
    - within a timeframe that enables economic, social and environmental development to proceed in a sustainable manner”.

## South Africa's attitude to mitigation

- Statement by South Africa to the UNFCCC COP13 Plenary (121207)
  - “some of our partners say that we will not get a climate deal without developing countries”.
  - “let’s be clear on that...as a developing country we **will** take ambitious **mitigation** action”.
  - South Africa **will** contribute its fair share towards our common responsibility for the future”.
  - “our actions **will** be measurable, reportable and verifiable”.
  - “given the urgency indicated by science, there is no longer a plausible excuse for inaction by any country”.



- NCCRP (November 2011):
  - Mitigation mapping - mapping of research information, institutions and instruments relevant to the mitigation elements of the NCCRP - background document:
    - National Greenhouse Gas Inventory
  - Grouping of sectors for which mitigation potential will be assessed
  - National carbon sinks assessment
  - South Africa's 2050 Pathways Calculator
  - Desired Emissions Reduction Outcomes (“carbon budget”)
  - **Carbon tax** (carbon budget interface)



- Assess risk and impact scenarios in key sectors
- Assess costs
- Agree adaptation responses per sector
- Mainstream in sector plans
- Catalyse implementation

- Assess mitigation potential
- Assess costs / benefits
- Agree DEROs and mix of measures to achieve
- Mainstream in sector plans
- Catalyse implementation

Adaptation

Mitigation

DEA, November 2012

Monitoring  
and  
evaluation

Resource  
Mobilisation

- Assess current mitigation and adaptation outcomes
- Design M&E system
- Track progress to lower carbon, climate resilient society

- Financial resources
- Science and technology platform
- Human resources
- Outreach and communication

- *A Framework for Considering Market Based Instruments to Support Environmental Fiscal Reform in South Africa* (Draft Policy Paper, April 2006, National Treasury, Tax Policy Unit):
  - “...to outline:
    - the role that market-based instruments, specifically environmentally-related taxes and charges, *could* play in supporting sustainable development in South Africa; and
    - ...a framework for considering their potential application...”.
  - explore how environmentally-related taxes and charges:
    - could assist in achieving environmental goals cost effectively
    - are able to contribute to revenue-raising requirements.



- Application of revenue raised from the imposition of environmentally-related taxes:
  - generally speaking, there are no clear-cut criteria to dictate when revenue hypothecation is appropriate or not.
  - full earmarking of selected tax revenues is not a preferred option:
    - due to the constraints placed on the budget process; and,
    - the rigidities that tend to follow from earmarking can lead to the inappropriate allocation of resources.
  - earmarking practices may also limit the extent to which environmentally-related tax revenues can be used as part of a possible tax shifting exercise.
  - requests for earmarking will, therefore, have to be evaluated on a case-by-case basis.



## the national emissions reduction voluntary pledge

- President Jacob Zuma's statement of the country's greenhouse emissions mitigation ambition – just prior to COP 15, Copenhagen, Denmark, December 2009:
- SA's voluntary pledge to the UNFCCC (29 January 2010):
  - 34% reduction against a business as usual emissions growth trajectory by 2020.
  - 42% reduction against a business as usual emissions growth trajectory by 2025.
- *South Africa's Carbon Chasm* (August 2011): gap between business as usual greenhouse emissions in 2020 and South Africa's voluntary pledge of 34% below this level of emissions is estimated as **253 million tonnes** of carbon dioxide equivalent.



# National Climate Change Response Policy, November 2011

- “...environmental resources can be largely classified as a “public good” which are accessible by all and can be consumed in infinite quantities”.
- “Climate change and its effects are the result of GHG emissions that impose external costs or an ‘externality’ on society”.
- “.. these negative external damage costs of an economic activity are not reflected in the prices of goods and services...”.
- “...the prices of environmental goods and services that generate excessive levels of (greenhouse gas) emissions should be adjusted to reflect the full costs of production and consumption”.
- “Carbon taxes can help to internalise these negative externalities and create the correct incentives to stimulate behavioural changes among producers and consumer in favour of:
  - cleaner, lower-carbon technologies,
  - promoting the uptake of energy efficiency measures and
  - research, development and technology innovation”.





## national climate change response policy (NCCRP) (contd)

- “... carbon tax does not set a fixed quantitative limit on GHG emissions over the short-term”,

### **BUT**

- “...such a tax - at an appropriate level and phased-in over a period to the “correct” level - will provide a strong price signal to both producers and consumers to change their behaviour over the medium- to long-term”.
- The national treasury’s carbon tax policy will seek to:
  - (primarily) stimulate behaviour change through the price mechanism, and
  - (secondarily) benefit generate a revenue stream that may allow fiscal decisions over time that support:
    - climate change policy; and,
    - broader sustainable development objectives



# An ongoing intelligence gathering exercise (1)

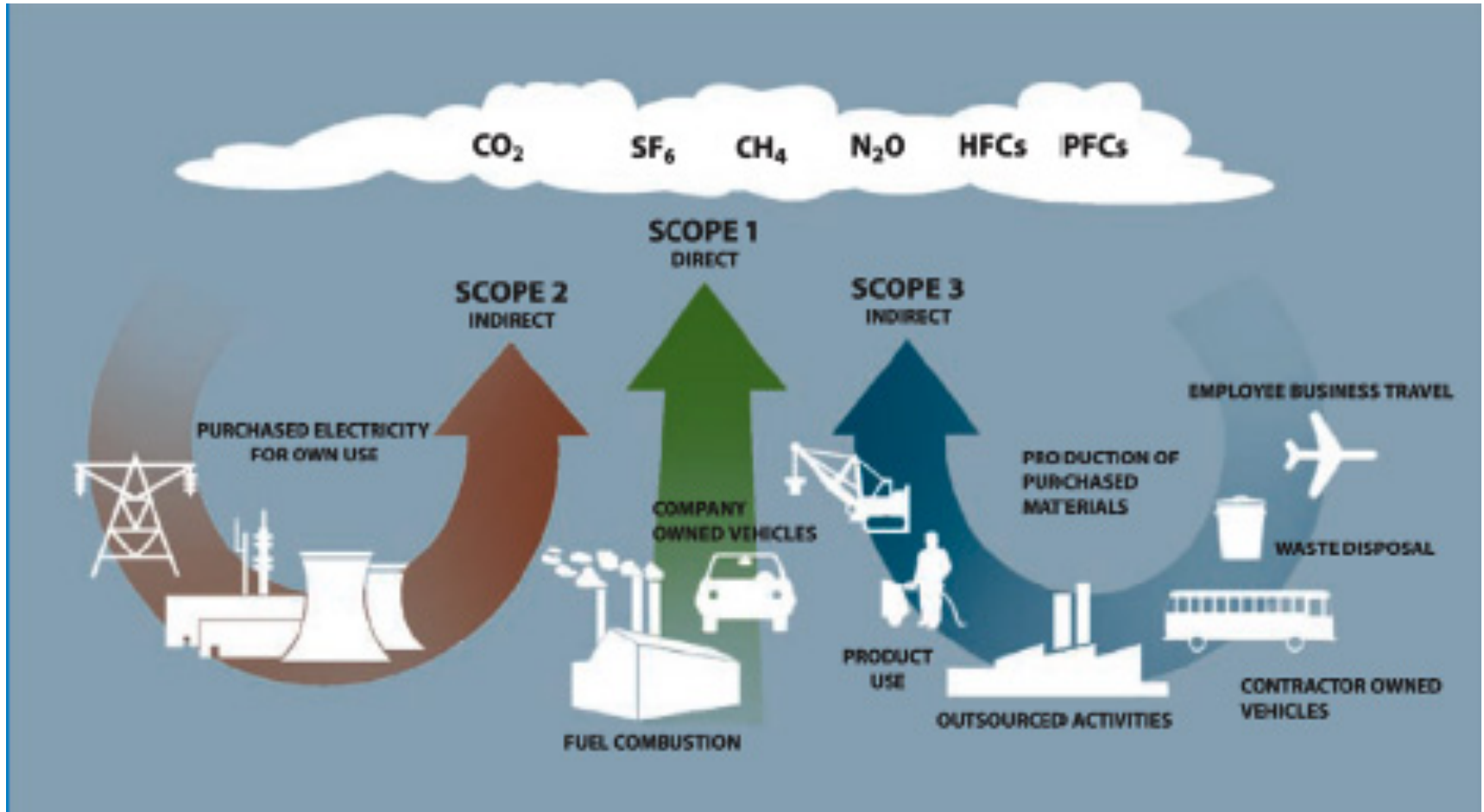
- On impacts:
  - Direct: those entities with their own Scope 1 emissions.
  - Indirect: supply-chain pass-on most particularly from Eskom and in respect of electricity costs.
- On ringfencing / earmarking and recycling:
  - Treasury's stance has softened slightly over time, but the policy is still that full earmarking is contrary to sound fiscal governance.
  - Notwithstanding this stance, Treasury also acknowledges that taxpayers should always expect that the imposition of a tax is coupled with means to recycle funds raised and mechanisms to ameliorate the impact of the tax.
  - Potential mechanisms in the Income Tax Act.
- On the notion that the carbon tax is simply a revenue raising exercise:
  - There exist much simpler ways in which Treasury could have gone about this, e.g., increasing the VAT rate or corporate tax rates

## An ongoing intelligence gathering exercise (2)



- On design:
  - Scope 1: unlikely to be a measurement of stack emissions but rather a calculation done taking into consideration the volume of fossil fuel used, the quality of the fuel (calorific value) and corrected using a sector specific emissions intensity benchmark (the “Z” factor).
  - Strong reliance on the Greenhouse Gas Inventory and, consequently, IPCC benchmarks for monitoring.
  - Self-assessment with verification undertaken by the Department of Environmental Affairs (DEA).
  - Not necessary for the full design to have been elaborated before the January 2015 start due to the fact that initial period will be monitoring and self-assessment.
  - Currently uncertain as to whether the DEA’s pending reporting requirements to be imposed upon emitters of more than 100 000 tCO<sub>2</sub>e (which use power that requires more than 100 000 tCO<sub>2</sub>e are linked to the carbon tax.

# overview – emissions included



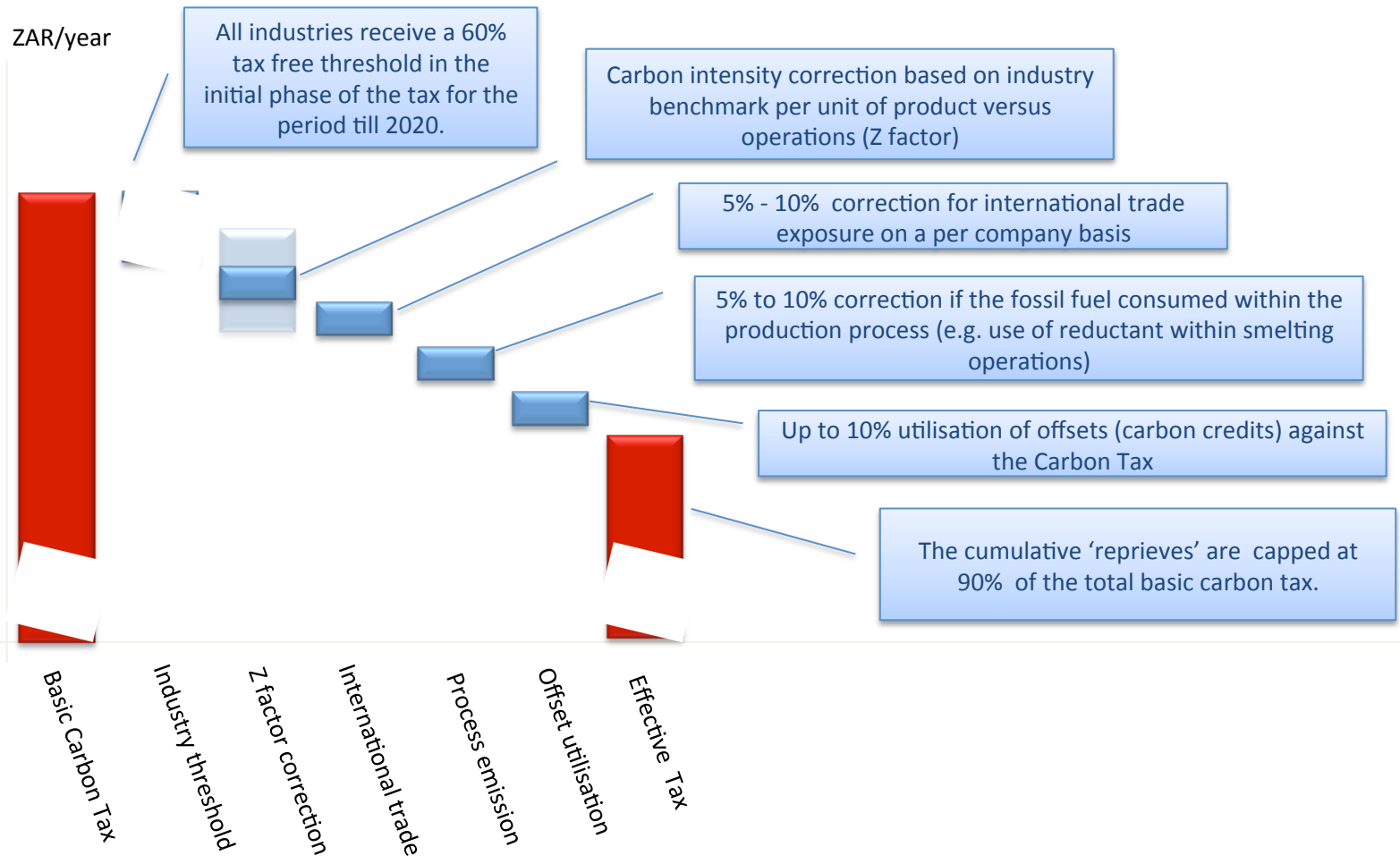
Source: Greenhouse Gas Protocol



## An ongoing intelligence gathering exercise (3)

- On allowances:
  - A percentage-based threshold of 60 per cent on actual emissions is applied, below which the tax will not be payable during the first five years.
  - Allowance for process emissions – initially: cement, iron and steel, aluminium and glass sectors.
  - Graduated relief to trade-intensive / exposed sectors.
  - Carbon offsets can be used by firms to reduce their carbon tax liability up to a limit. Variable offset limits are proposed based on the mitigation potential of the sector.
  - The overall maximum tax-free threshold (including the offsets and possible adjustments to the basic 60 per cent tax-free threshold for carbon intensity) is limited to 90 per cent, except for those sectors that have been completely excluded during the first five-year period.

# tax free thresholds



Source: National Treasury, 2012. Tax proposal: <http://www.treasury.gov.za/documents/national%20budget/2012>

questions?



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