

NATIONAL ASSOCIATION FOR CLEANER AIR (NACA)

WESTERN CAPE GOVERNMENT SEMINAR

Overview of Carbon Tax Bill

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

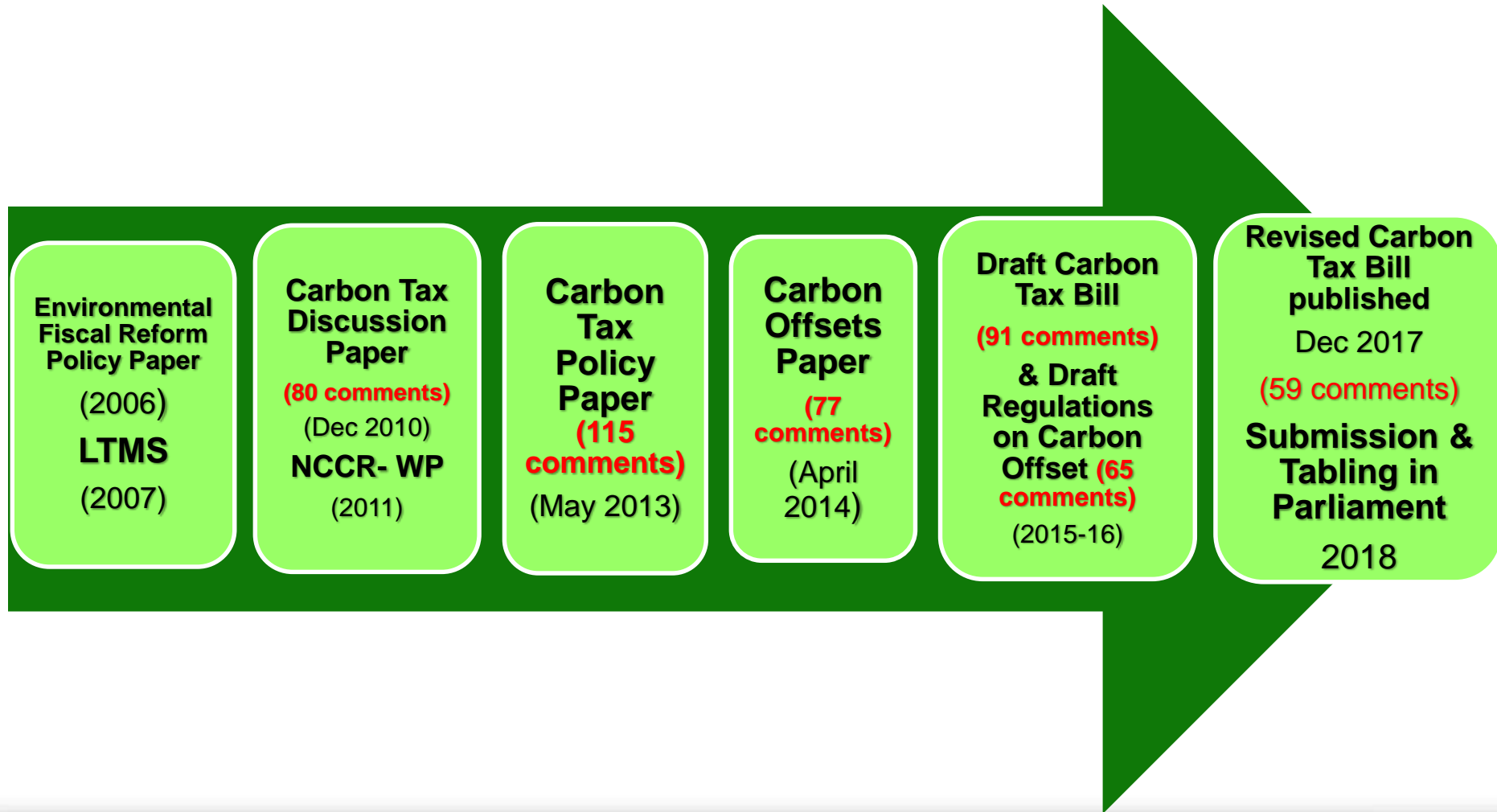
Background

- The **initial draft Carbon Tax bill** was published for public comment in **November 2015** following Cabinet approval in October 2015.
- **Cabinet adopted the second Draft Carbon Tax Bill and approved the submission of the draft bill to Parliament on 16 August 2017** noting the carbon tax as an integral part of the system for implementing government policy on climate change.
- **National Treasury published the second Draft Carbon Tax Bill** in December 2017 for public comment, introduction in Parliament, and convening of public hearings by Parliament in early 2018.
 - The closing date for public comments on the Bill was 9 March 2018. **Fifty nine (59) written comments** was submitted to the Treasury
- Budget 2018 announcement that implementation will be from 1 Jan 2019 - Minister of Finance announced **postponement in the implementation date** of the carbon tax to **1 June 2019** in his MTBPS speech.
- **Carbon Tax Bill tabled on 20 November 2018** and **submitted to the Standing Committee on Finance (SCoF) for finalisation.**

2018 Carbon Tax Bill and Parliamentary Meetings

- The **policies reflected in the 2018 Carbon Tax Bill is a refinement of the 2013 Carbon Tax Policy Paper, the initial 2015 Draft Carbon Tax Bill and 2017 Bill.** 2018 bill incorporates public comments received on these earlier documents.
 - **Informal briefing of the Joint Committee** – 13 February 2018
 - **Public Hearings on the Bill** – 14 March 2018
 - **National Treasury Response to Public Comments Hearings** – 7 June 2018
 - **Carbon Tax Bill Workshop** – 27 November 2018
 - **Carbon Tax Bill Meeting** – 4 December 2018
 - Report on NEDLAC Carbon Tax Bill Task Team (July to November 2018)
 - **Carbon Tax Bill meeting** – 5 December 2018
 - **Carbon Tax Bill Finalisation and Voting, SCoF** – 5 February 2019
 - **Customs and Excise Amendment Bill meeting** – 12 February 2019
 - **National Assembly** – 19 February 2019
 - **Briefing of the Select Committee on Finance** – 6 March 2019
 - **Public Hearings by SeCoF** – 12 March 2019
 - **Carbon Tax Bill Finalisation and Voting, SeCoF** – 19 March 2019
 - **SeCoF voting and passing of the bill** – 28 March 2019

Carbon Tax Consultation Process - timeline



Carbon Tax Policy Context

- South Africa voluntarily committed (at COP 15 in 2009) to curb GHG emissions by 34% by 2020 and 42% by 2025 below the BAU trajectory subject to support from developed countries - climate finance, capacity building & technology transfers.
- South Africa **ratified** the Paris Agreement in November 2016 and **endorsed** the submission of its Nationally Determined Contribution (NDC) which requires that **emissions peak in 2020 to 2025, plateau for a ten year period from 2025 to 2035 and declines from 2036 onwards.**
- **South Africa's emissions by 2025 and 2030 will be in a range between 398 and 614 Mt CO₂-eq, as defined in national policy.**
- **Paris Agreement** will require sizable reductions in energy-related greenhouse gas (GHG) emissions by large emitting countries, including in developing economies. The NDC noted **carbon tax** as an important component of our **mitigation policy** strategy to lower GHG emissions.
- Carbon tax forms an integral part of **climate change** response policy package under the National Climate Change Response Policy (NCCRP) of 2011, and in **National Development Plan (NDP)** as an important cost-effective instrument
- **The Carbon Tax Bill gives effect to the polluter-pays-principle** and helps to ensure that firms and consumers take these costs into account in their FUTURE production, consumption and investment decisions. Assists in reducing GHG emissions and ensuring SA will meet its NDC commitments as part of its ratification of the 2015 Paris Agreement.

Rationale for a carbon tax / price

- A carbon tax is a means by which government can intervene by way of a market based instrument to appropriately take into account the social costs resulting from carbon emissions.
- A carbon tax seeks to level the playing field between carbon intensive (fossil fuel based firms) and low carbon emitting sectors (renewable energy and energy efficient technologies).
- Although this option does not set a fixed quantitative limit to carbon emission over the short term, a carbon tax at an appropriate level and phased in over time 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 introduction of a carbon price will change the relative prices of goods and services, making emission-intensive goods more expensive relative to those that are less emissions intensive. This provides a powerful incentive for consumers and businesses to adjust their behaviour, resulting in a reduction of emissions”.

GHG Inventory, 2010 – Estimates, DEA

2010: GHG Inventory (Estimates) -- Categories	Emissions - CO2 Eq (Gg)	Emissions - CO2 Eq (Gg)	Total Emissions - CO2 Eq (Gg)	Percentage Contribution
1 - Energy			428 368	82.66%
A - Fuel Combustion Activities			402 817	77.73%
1.A.1.A - Electricity		236 798		45.69%
1.A.1.B - Petroleum Refining		2 284		0.44%
1.A.1.C - Manufacture of Liquid Fuels (Synfuel)		28 611		5.52%
1.A.2 - Manufacturing Industries and Construction		41 117		7.93%
1.A.3 - Transport		47 607		
Civil Aviation	3 670			
Road Transport	43 440			8.38%
Rail Transport	497			
1.A.4 - Other Sectors		44 684		8.62%
B - Fugitive emissions			25 551	4.93%
2 - Industrial Processes and Product Use			44 351	8.56%
2.A - Mineral Industry		4 793		
Cement production	4 187			
Lime production	502			
Glass Production	104			
2.B - Chemical Industry		1 011		
2.C - Metal Industry		37 513		
Iron and Steel Production	24 147			
Ferroalloys Production	11 809			
Aluminium production	1 468			
3 - Agriculture, Forestry, and Other Land Use			(25 714)	(4.96%)
4 - Waste			19 806	3.82%
Total National Emissions and Removals			518 239	100.00%
International Bunkers			2 572	

Carbon tax policy framework for SA

- **Tax Base**
 - Electricity generation and fuel combustion
 - Industrial processes – cement, iron and steel, glass, ceramics,
 - Fugitive emissions – e.g. methane emissions from mining
 - Direct (Scope 1) stationary emissions
 - Direct (Scope 1) non- stationary emissions – as an add on to the fuel tax regime.
- **Marginal tax rate**
 - R120/tonCO_{2e}
- **Recycling measures**
 - Reducing other taxes and providing tax incentives
 - If revenues left over, on budget support for pro poor programmes in energy, transport sectors
- **Phased approach**
 - Phase 1: 2019 to 2022
 - Starting off the tax at a relatively modest rate, coupled with generous tax-free allowances, adjusted over time to facilitate a structural transition to a low carbon, climate resilient economy in a cost effective manner.

SOUTH AFRICA'S CARBON TAX DESIGN FEATURES: Rate, Tax-free Allowances and Recycling Measures

Revenue

Carbon tax at R120 per ton of CO₂e

60% basic tax-free threshold

Max of 10% tax-free allowance for trade exposure

10% tax-free allowance for process and fugitive emissions

Up to 5% performance allowance

5% tax-free allowance for complying with carbon budgets information requirements

5 or 10% allowance for Carbon Offsets – to reduce the carbon tax liability

- Tax-free allowances of **60-95%** - effective tax rate of

R6 - R48 t/CO₂e

- No impact on electricity prices in the first phase

Revenue Recycling

Energy Efficiency Savings tax incentive

Credit against Eskom's carbon tax liability for the renewable energy premium built into the electricity tariffs

Credit for the electricity levy

Support for the installation of solar water geysers

Enhanced free basic electricity / energy for low income households

Improved public passenger transport & support for shift of freight from road to rail

Carbon Tax Policy Changes – 2013 to 2017

- 1. Electricity pricing and electricity levy:** Carbon tax (taken with electricity levy) will be revenue neutral in the first phase and have no impact on the price of electricity.
 - **credit for electricity generation levy** and for **renewable energy premium**
 - In addition business already benefits from **energy efficiency savings tax incentive – rate for allowance was increased from 45 to 95 cents/kWh in 2015**
- 2. Tax rates and thresholds** for phase 1 and 2 of the carbon tax: To provide policy certainty, **Section 5 of the bill was amended to** include the headline, marginal tax rate of R120/tCO_{2e}; and specifies the annual increase to the nominal carbon tax rate by a max of inflation plus 2 per cent.
- 3. Alignment of the carbon tax policy with the carbon budgeting system of the DEA:**
 - Phase 1: Introduction of the 5% carbon budget allowance in 2014
 - Phase 2: DEA and NT working on **alignment and integration of the carbon tax and carbon budget** instruments for phase 2, and no double penalty.
- 4. Carbon tax modelling study – modelling of the current design undertaken through the World Bank in 2016** and the socio-economic impact of the carbon tax shows a significant impact in reducing the country's emissions, without a significant impact on growth (negative 0.05-0.15%).

Carbon Tax Policy Changes – 2013 to 2017 (2)

5. **Trade exposure allowance** adjusted from a company to a sector-based trade exposure allowance. Further adjusted the qualifying threshold for the maximum allowance from 50 to 30 per cent trade intensity
6. **Carbon tax pass through** allowed for regulated sectors – liquid fuels
7. **Process and fugitive emissions** – provision of the 10 per cent additional tax free allowance
8. **Offset allowance** – scope of offsets expanded e.g. Inclusion of certain renewable projects and expansion to energy combustion activities
9. **Sequestration** – deduction for sequestered emissions e.g. from forestry plantations
10. **Application of thresholds** – Aligning reporting and classification of greenhouse gas emissions for tax purposes with mandatory emissions reporting to the Department of Environmental Affairs. Only emissions above the thresholds for reporting are subject to the tax (2016).

Carbon offsets under the carbon tax

- In 1st phase, permitted carbon credits should be developed under:
 - Clean Development Mechanism (CDM);
 - Verified Carbon Standard (VCS); and
 - Gold Standard (GS).
- Allowance for potential domestic standard to cover project types not well catered for under international standards e.g. AFOLU.
- Specific **eligibility criteria for carbon offset projects** for effective implementation of the offset mechanism in South Africa includes:
 - Project activities must occur **outside the scope of activities subject to the carbon tax.**
 - **Only South African based credits** will be eligible for use within the carbon offset scheme.
 - **Carbon offset projects registered and / or implemented before the introduction of the carbon tax** regime will be accepted subject to certain conditions.

Carbon offsets under the carbon tax (2)

- The draft Carbon Offset Regulation which sets out the procedure for claiming the offset allowance was developed jointly by the National Treasury, Department of Energy and the Department of Environmental Affairs and published for public comments in June 2016.
- **A revised draft Regulation on the carbon offsets was published for further consultation in November 2018.**
 - **26 sets of comments have been received** and were processed.
 - In finalising the regulation, a **stakeholder workshop was held on 27 March.**

Update on Other Regulations

- **Performance Regulations:**

- Sectors including cement, liquid fuel refining, gold and platinum, ilmenite, clay brick manufacturing, ferro chrome, pulp and paper, iron and steel, coal-to-liquids, sugar milling, silico-manganese and nitric acid producers have developed and submitted benchmark proposals.
- The emissions intensity benchmark values will be published by way of Regulation shortly.
- The National Treasury has initiated a review process through the World Bank Partnership for Market Readiness initiative to ensure that the proposed benchmarks methodologies and benchmark values are robust.

- **Trade Exposure Regulations**

- The trade exposure allowance methodology revised following extensive consultations with BUSA and regulations specifying the allowances for sectors and/or subsectors will be published shortly for public comment and finalisation.

Concluding remarks

- The ratification of the **2015 Paris Agreement emphasises the reality** that we will have to **prepare to operate in a carbon constrained economy** over the medium to long term.
- **A business-as-usual scenario is no longer an option** and we must take **appropriate action to help transition our economy onto a low carbon growth path** as articulated in our **National Development Plan**.
- **The carbon tax is, and will continue to be, an important instrument** as part of the **broader package of mitigation policy measures** under the National Climate Change Response Policy to help achieve our NDC target in a cost effective manner and nudge our economy onto a sustainable growth path.
- **The Carbon Tax Bill takes into account stakeholder comments** on various documents including the 2015 and 2017 draft bills, 2015 Carbon Tax Policy Paper and comments submitted during the Parliamentary process.

Thank you

The Global Commission on the Economy and Climate: New Climate Economy report 2018

- As much as global action will be required, **national action will be critical to limit temperature rise to 1.5 C.**
- **Steeper reductions in emissions from the energy sector with increased efforts channelled towards cleaner, renewable energy alternatives are required.**
- **Action is urgently needed on climate change, and it does not have to come at the expense of economic growth.**
- It is crucial that we scale up our efforts to grow our economy in a manner that decouples economic growth from environmental damages - **Climate Action does not require economic sacrifice.**

IPCC Special Report on Impacts of 1.5 Global Warming

- Human activities are estimated to have caused approximately 1.0 C of global warming above pre-industrial levels, with a *likely* range of 0.8 C to 1.2 C.
- Global warming is *likely* to reach 1.5 C between 2030 and 2052 if it continues to increase at the current rate.
- **Pathways limiting global warming to 1.5 C with no or limited overshoot would require rapid and far-reaching transitions in energy, land, urban and infrastructure (including transport and buildings), and industrial systems.**
- These systems transitions are unprecedented in terms of scale, but not necessarily in terms of speed, and imply deep emissions reductions in all sectors, a wide portfolio of mitigation options and a significant upscaling of investments in those options
- **The latest special report from the Intergovernmental Panel on Climate Change (IPCC) on the implications of global warming of 1.5 C notes that countries in the tropics and Southern Hemisphere subtropics are projected to experience the largest impacts on economic growth due to climate change should global warming increase from 1.5 C to 2 C.**

IPCC Report – Energy Systems transition

- In 1.5°C pathways with no or limited overshoot,
 - **low-emission energy sources are projected to have a higher share, compared with 2°C pathways**, particularly before 2050. In 1.5°C pathways with no or limited overshoot, renewables are projected to supply 70–85% (interquartile range) of electricity in 2050.
 - **the use of CCS would allow the electricity generation share of gas to be approximately 8%** (3–11% interquartile range) of global electricity in 2050, while the **use of coal shows a steep reduction in all pathways and would be reduced to close to 0% (0–2%) of electricity**
- While acknowledging the challenges, and differences between the options and national circumstances, **political, economic, social and technical feasibility of solar energy, wind energy and electricity storage technologies have substantially improved** over the past few years.
 - **Improvements signal a potential system transition in electricity generation**

The Global Commission on the Economy and Climate: New Climate Economy report 2018

- **Major structural and technological changes** in the global economy are now making it possible to achieve both **lower-carbon development** and **better economic growth**.
- The window for making the right choices is uncomfortably narrow because **remedial measures will become progressively costlier**.
- **The next 2—3 years are a critical window** when many of our policy and investment decisions that shape the next 10—15 years will be taken.
- With the scale of investment that will have to be made in the next two decades, **we cannot afford to lock-in polluting technologies** and **inefficient capital**.
- **Priorities for urgent action** are needed through
 - **pricing carbon and**
 - **moving toward mandatory disclosure of climate related financial risks, as part of a broader package of climate policy measures are crucial.**