SUNDAY TIMES, Business Times
23 Jun 2013, p.5

Climate Change | South Africa may not be ready to proceed with its legal framework to impose punitive measures on carbon dioxide emitters by 2015

Carbon tax regime faces hurdles

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BIGGEST POLLUTER: Sasol in Secunda is the largest synthetic fuels facility in the world, and it produces about 35% of South Africa's liquid fuel needs, including petrol. The plant is also the single largest emitter of carbon dioxide on the planet Picture: GETTY IMAGES

IT SEEMS increasingly unlikely that South Africa will finalise legislation and regulations in time to impose a carbon tax from January 2015.

The new law will make South Africa the first developing country to impose a comprehensive tax to cut carbon emissions blamed for climate change.

But critics say it will have a limited effect on global emissions and will render the economy uncompetitive, costing jobs and investment. The biggest carbon emitters are electricity generation, petroleum producers and makers of steel and cement.

"We hope to have the regime in place by January 2015, but things may happen that force us to push it out by a month or two or three. It is not up for discussion at this stage, but we won't implement something that is not workable," Cecil Morden, chief director: economic tax analysis at the Treasury, said this week.

"I don't think there is any chance government will back down, but I'll be very surprised if they can get everything in place by January 2015," an environmental expert said.

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Treasury's Carbon Tax Policy Paper, published last month, is open for public comment until August and follows the Carbon Tax Discussion Paper issued in December 2010.

A new study by the World Bank to determine the macroeconomic effect of the tax on the country is expected to be finalised only by mid-2014.

According to Treasury research, the proposed tax will have a "limited negative impact on economic growth and will assist in nudging the economy onto a more sustainable and low-carbon growth path".

But questions remain over the proposed tax, including the way emissions will be measured and verified, how offsets will be calculated and the effect on electricity prices. It is expected that Eskom — the tariffs of which are seen by many as uncompetitive and unaffordable — will transfer the cost of the carbon tax to customers. Over 90% of South Africa's electricity is generated by coal.

Concerns were also raised as to whether imported products from countries without carbon taxes will face an additional import tax in South Africa to ensure a level playing field, and what measures will be taken to prevent carbon leakage — relocation of companies to countries without carbon taxes — as this would leave total global carbon emissions unchanged and would defeat the purpose of the tax.

In an acknowledgement of technical difficulties in imposing the tax, the Treasury has proposed excluding the agriculture, forestry, land use and waste sectors during the first five-year period, largely due to administrative difficulties in verifying emissions from these sectors.

"These are uncertain times, and I can't give you all the answers. We won't change behaviour overnight," Morden said as he faced a flood of questions from representatives from big companies, including ArcelorMittal South Africa (Amsa), Sasol, AngloGold Ashanti and Exxaro.

Siegfried Spänig, group manager: environment at Amsa, was particularly outspoken about the tax, which he described as a revenue-gathering exercise that would have dire economic consequences.

The steel-maker has limited room to lower its emissions as existing technologies do not allow for lower carbon alternatives.

Amsa has estimated the financial effect of the tax on its operations, which are now unprofitable, at as high as R650-million a year. As the tax is on emissions, companies will be liable for the payment even if they are not profitable.

"Even if you tax us to death, we cannot change our behaviour. We should ask if we — as a developing country facing a number of challenges including unemployment, air pollution and water scarcity and with a focus on beneficiation to grow the economy — should be at the forefront of implementing carbon tax," Spänig said.

Morden said South Africa made global commitments to cut its carbon emissions by 34% by 2020 and 42% by 2025 to address climate change, and that it could be done in a way that grew the economy. By introducing the tax, South Africa would make a "contribution to convince the powers of the world like the US and China to address an issue that really is affecting emerging countries much more than developed ones".

The policy paper proposes a tax of R120 a ton of carbon dioxide above the basic tax-free threshold of 60%, plus various other offsets if certain requirements are met

By contrast, consumers pay an emissions tax of R90 a gram of carbon dioxide over the limit of 120g/kilometre for new vehicles.