MAIL & GUARDIAN, Business
08 Mar 2013, p.6

Carbon tax will power SA's drive to clean up its act

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The new carbon tax will drive the growing renewable energy sector and change South Africa's energy mix. Industry experts believe that this will push the country to change the carbon-intensive nature of its economy and meet its international pledges to reduce emissions.

After the tax was announced by Finance Minister Pravin Gordhan, several energy-intensive companies took huge hits on the stock exchange. ArcelorMittal lost 6% on its share price in one day.

Headlines declared that the tax would seriously damage the economy and make companies uncompetitive.

But Alex McNamara, a carbon finance specialist at Camco Clean Energy, said that the current energy mix is not sustainable. It is too expensive and, with its reliance on fossil fuel sources, will only increase the costs of doing business over time. Something has to be done to force a change in energy habits, he said.

At the moment, the country gets most of its energy from coal power. This gives it a huge carbon footprint — 550 million tonnes a year are emitted, half from Eskom.

In its Economic Survey of South Africa 2013, the Organisation for Economic Co-operation and Development had strong criticism for the energy intensity of the local economy: "South Africa is towards the upper end of the international range in terms of greenhouse gas emissions per capita and is among the most intensive middle-income countries." Of 134 countries the International Energy Agency has data on, South Africa is 47th in per capita emissions, it said.

Similar economies had decoupled growth from energy in the past decade, but South Africa has lagged behind. "Primary energy use per unit of gross domestic product is among the highest in the world," the organisation said. The countries in the Bric grouping (Brazil, Russia, India and China) dropped their intensity by 24% in the 2000s, but South Africa managed only 9%.

McNamara said the key would be to move towards funding efficient, renewable, energy. This money boost should come from the carbon tax.

"Oil is our single biggest import, so imagine what it would do to our balance of payments if we relied less on oil," said McNamara.

More money being spent on renewables and efficiency would mean more money for research, meaning cheaper prices, he said. This would constantly drive down the price of energy, whereas a reliance on fossils would drive prices up.

The carbon tax would not be specifically earmarked for renewables, but companies can get an extra 5% to 10% offset on their tax by trading tax credits. Gordhan also said that there would be no tax on profits from trading credits until 2020. This would bring direct funding into renewable energy and other environmentally minded projects, said McNamara.

"There is quite a lot of excitement around in the offset market," he said. "This will directly affect a lot of sectors and, if done properly, could have quite a substantial effect on rural development."

But McNamara said complementary measures should come with the tax and its income used to ease the transition for companies: "It would be great to see a grant for a company that couldn't afford it to modernise and become more energy efficient."

Robbie Louw, a director at Promethium Carbon, said the effect on business will be significantly less than most people think. This is because the levy on nonrenewable electricity, 3.5 cents per tonne of carbon dioxide, will be phased out when the tax is phased in. And with the 60% discount straight up, and other discounts added onto that, the tax liability of a company would be R36 a tonne, he said.

"The company will therefore stop paying the nonrenewable levy at R35 and start paying the carbon tax at R36 — almost the same," said Louw.

Mike Rossouw, who chairs the Energy Intensive Users Group, said Eskom was responsible for South Africa's high carbon intensity ranking. Local companies were among the most efficient in the world and could improve efficiency by only 8% in the medium term. Anything beyond that would require huge investment and changes in their processes.

"The big issue is how to change Eskom," he said. Whatever companies do, they will still be paying for Eskom's coal operations through their energy use, and this change is still a long way off.

Dr Britta Rennkamp, a researcher at the Energy, Environment and Climate Change Unit of the University of Cape Town, said South Africa accounts for 1% of global emissions. "Climate change will increase poverty and compromise on the quality of life of our citizens."

The most important thing will be where the tax money is spent, she said. The treasury does not ring-fence tax money, but it has indicated that this income will have "soft earmarking" and will go to financing sustainable initiatives.

"It needs to come with strong investments into the renewable energy sector and smart grids in order to achieve the energy transition," said Rennkamp.