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CARBON TAX

Taxing Battle

Steel producer warns of negative carbon-tax consequences

TERENCE CREAMER | EDITOR

Steel producer ArcelorMittal South Africa (Mittal) has again warned that the National Treasury's proposed carbon tax will have a yearly negative financial impact on the company of between R600-million and R650-million. It has also confirmed that it is preparing a detailed response to the National Treasury's latest policy paper, which will be submitted ahead of the August 2 deadline for written comments.

Finance Minister **Pravin Gordhan** announced in February that the tax would be introduced from January 1, 2015, while the paper, which was released on May 2, provides details for the phased introduction of the tax in an effort to "smooth" the country's transition to a low-carbon economy.

The paper specifies a carbon tax rate of R120/t of carbon dioxide-equivalent (CO_2e) emissions, increasing at 10% a year during the first phase, from 2015 to 2019. However, it also outlines relief measures and tax-free thresholds for various industrial subsectors, including iron and steel, which, it says, will result in an effective tax rate of between R12/t and R48/t of CO_2e.

Group manager: environment **Siegfried Spänig** says Mittal remains deeply concerned about the approach adopted in the latest paper, as well as the scant recognition given to the limitations confronting the domestic steel industry in altering their production behaviour.

The JSE-listed group estimates that it should be in a position to secure a tax-free emissions threshold of between 70% and 80%, with the R600-million to R650-million impact calculated using the 70% "worst-case scenario".

The figures are also based on the group's 2012 financial and production performance – a year during which the group slumped to a R518-million headline loss and output was 7% lower, at 5.1-million tons, than was the case in 2011.

The bulk, or about R400-million, of the carbon-tax impact will arise from direct emissions, also known as Scope 1 emissions. However, a significant portion will arise in the form of Scope 2, or indirect, emissions.

Mittal is also not convinced by the paper's allusions to 'revenue recycling', which the National Treasury indicates could result in the decrease in other taxes and the introduction of tax incentives to mitigate the negative consequences for affected companies.

"At the moment, this tax looks very much like a revenue-raising exercise, with industry in South Africa again being seen as low-hanging fruit," Spänig asserts.

The group's written comments are likely to spell out the limitations faced by its plants in transitioning to more efficient production platforms, such as electric arc furnaces.

They will also raise specific problems with the methodologies proposed for the calculation of carbon taxes in the steel sector, and will point out possible contradictions between the proposed tax and various other government policies, especially those seeking to increase mineral beneficiation and rekindle manufacturing.

Besides its written comments, Mittal will also participate in lobbying efforts being planned by Business Unity South Africa and the South African Iron and Steel Institute.

It also plans to endorse calls for the carbon tax to form part of the broader tax system review being undertake by Judge **Dennis Davis** on behalf of the National Treasury.

It will also use any future consultation sessions organised by the National Treasury to raise its objections.

It may also bring in specialists from the bigger ArcelorMittal group to share international experiences on the treatment of the steel sector in other jurisdictions where carbon taxes have been introduced, or where emission trading schemes are in place. For instance, it plans to highlight the fact that none of the group's European businesses have as yet faced carbon-related expenses, as well as the fact that the tax-free exemption for the steel sector in Australia is higher than the one proposed in the paper.

"What we can say, immediately, is that carbon taxes are really not [appropriate] for us in the South African steel industry," Spänig concludes.

Mittal's statements have been made against the backdrop of fresh questioning by opposition parties about the wisdom of imposing a carbon tax at a time when few others are doing likewise, as well as in the context of South Africa's weak economic performance and outlook.

The Business Day reports that Democratic Alliance finance spokesperson **Tim Harris** has raised doubts about whether South Africa can afford to be a first mover, noting that there is little point in adopting a tax unless all countries did the same.

But National Treasury chief director of economic tax analysis **Cecil Morden** is quoted by the paper as saying that the gradual approach proposed will give companies time to adjust and to invest in cleaner technologies. He even argues that there could be longer-term economic advantages by being among the leading countries in the world to impose such as tax.

Parliament's Standing Committee on Finance has been told that draft legislation providing for the carbon tax will be finalised by the end of 2013, or early 2014.