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Treasury slow on carbon taxes

New policy paper details tax exemptions that will spare steel 80% of nominal burden

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Treasury significantly toned down on carbon taxes, releasing a new policy paper detailing wide-ranging exemptions, offsets and allowances to spare sensitive sectors like steel 80% of their nominal burden.

The policy paper, which was released for comment, is the first major update on the long-promised new tax since a white paper in December 2010.

South Africa will introduce a carbon tax in 2015, but until 2019 it will be a transitional regime involving a "relatively modest net carbon tax".

Treasury is even considering "revenue recycling" to tie carbon taxes to environmental programmes.

That is probably the closest it has ever come to ring-fencing taxes – a policy that has been anathema in SA for some years.

It also holds out the possibility of neutralising the tax as the policy also suggests the existing environmental levy on electricity will get phased out.

According to carbon consultancy Promethium Carbon this week, that levy is between R50 and R60 per ton of emissions from Eskom.

The initial tax is R120 per ton of CO_2 equivalent, but every sector gets an exemption on 60% of its emissions.

On top of that, sectors with little short-term hope of actually reducing their emissions get an extra 10% exemption. This would include steel, cement, aluminium and glass.

ArcelorMittal South Africa has for some time called the proposed carbon tax a virtual death sentence for the country's steel mills.

A multitude of sectors get another 10% exemption because they are particularly vulnerable to foreign competition from countries that don't have a carbon tax burden.

All in all, the effective carbon tax is at most R48 per ton, and for some it is as little as R12.

As a rough guide, the country's baseline estimate for greenhouse gas emissions in 2000 was about 460 million tons. The tax would probably amount to about R8 billion to R30 billion, and rise by 10% yearly.

The central question remains how Eskom's emission will be taxed. The power utility accounts for 39% of all the country's emissions and will have to pass the cost on to consumers.

After Eskom, the major emitters are the six oil refineries who together emit about 9%. That is matched by car emissions, which also contribute 9% and "fugitive emissions" from coal mines – another 9%.

Business Unity South Africa has already dismissed the suggestion that the new proposals will not hurt economic growth, although the business lobby has created a task team to scrutinise the details before making any detailed comments.