

South Africa pushing ahead with carbon tax

By [Happy Masondo](#)

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South Africa's strategy to make a contribution towards greenhouse gas (GHG) emission mitigation was adopted by government in 2011 when the South African Cabinet approved the Carbon Tax Policy Paper. This was after the commitment made by South Africa at the 2009 Copenhagen Conference of Parties to undertake appropriate national actions to curb GHG emissions by 34% by 2020 and a further 42% by 2025.



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South Africa is ranked among the top twenty countries measured by absolute carbon dioxide emissions, with emissions per capita in the region of ten metric tons per annum. The government is of the view that South Africa needs to reduce its GHG emissions while working to ensure that there is economic growth, increased employment, and reduction of poverty and inequality. At COP17 in 2011, the government, through its various departments of state, reiterated and emphasised South Africa's commitment to support efforts addressing the adverse factors posed by climate change.

The White Paper on the Renewable Energy Policy recognised climate change as one of the major environmental threats facing the world today. In its recognition of this the government has taken concerted efforts as a responsible global citizen to reduce its use of fossil fuels through the implementation of renewable energy programmes aimed at reducing South Africa's significant reliance on conventional fossil fuels.

CSP plants

Eskom, through its renewable programme, supports the development of the utility's first large-scale wind and concentrated solar power (CSP) plants. The Sere Wind Farm project, located near Koekenaap in the Western Cape, will have an approximate installed gross capacity of 100MW. Cumulative emissions savings from this project, based on an expected annual output of 219GWh, will be five million tons of CO₂ over a twenty year life of the plant. CSP is the renewable energy source with the largest potential in South Africa and can provide generation capacity potentially comparable to that of base-load power plants, with the capacity to make the minimum amount of power available to its customers.

According to the carbon policy, the primary objective of implementing carbon taxes is to change current and future behaviour, rather than to raise revenue. It therefore starts with a relatively low carbon price, and then progressively increases significantly after five to ten years and beyond. This approach provides industry and other major emitters sufficient time to innovate and invest in greener technologies for the future.

According to the National Treasury's press release of 2 May 2013, there are at least three ways in which the imposition of a carbon tax will work to drive changes in producer and consumer behaviour and therefore address the adverse effects of climate change. Carbon pricing is the generic term for putting a price on carbon through either subsidies, a carbon tax, or an emissions trading (cap-and-trade) system.

Shift in patterns

Firstly, carbon pricing will encourage a shift in production and consumption patterns towards low carbon and more energy-efficient technologies by altering the relative prices of goods and services based on their emissions intensity and encouraging the adoption of cost effective and low carbon alternatives. Pricing carbon emissions addresses the problem of negative externalities obliging polluters to pay for their carbon emissions. Secondly, carbon intensive factors of production, products and services are likely to be replaced with low carbon emitting alternatives. Finally, a carbon price is envisaged to create dynamic incentives for research, development and technology innovation in low carbon alternatives in order to achieve the reduction and to reduce the price gap between conventional, carbon intensive technologies and new low carbon alternatives.

South Africa is pushing ahead with carbon tax even as businesses say it will impact on the economy, costing jobs and investment. The biggest carbon emitters covered by the carbon tax policy are fossil fuel electricity generators, petroleum producers and manufacturers of steel and cement. The proposed carbon tax seeks to internalise external costs associated with excessive GHG emissions by adjusting relative prices in order to reflect the social costs of carbon intensive goods and services, therefore effective tax requires that the tax base be as broad as possible, covering as many GHG sectors as practically possible.

According to the press release, a carbon tax rate of R120.00 per ton of CO₂ increasing at 10% per annum was to be implemented from 1 January 2015 to 31 December 2019 as the first phase. However, following the national budget speech delivered on 26 February 2014 by the Minister of Finance, Pravin Gordhan, the implementation of the carbon tax has to be postponed by a year until 2016 to allow for further consultation. In the national budget speech the Minister of Finance stated that following 'public consultation, the National Treasury and the DEA agreed on the need to align the design of the carbon tax and the proposed desired emission - reduction outcomes'. The remarks by the Minister of Finance acknowledge that a carbon tax is but one element of the package of measures necessary to address climate change and reduce carbon emissions.

Complimentary function

On 29 April 2014, a carbon offsets paper was released by the National Treasury outlining proposals for a carbon offset scheme to allow businesses to lower their carbon tax liability and make investments that will reduce GHG emissions. The carbon offsets scheme is intended to serve a complimentary function to the carbon tax policy when it is implemented from 2016, by enabling the energy intensive users to offset their carbon tax liability and thus compliment the carbon tax policy. It is difficult to predict how this complementary carbon tax and offsets will be effected in 2016, however, it is envisaged that the EIUs, who are predominantly reliant on fossil fuels and thus facing a very high carbon tax liability, will be in a position to offset and/or reduce such liability through the carbon offsets.

According to the carbon tax policy, pricing energy appropriately is important to ensure that the external costs of climate change and other environmental damages are reflected in the price of energy, and the relative prices of carbon-intensive and low-carbon technologies should be reflected correctly. The energy sector's environmental externalities include GHG emissions, as well as local air pollution damages through emissions of sulphur oxides and nitrogen oxides. In the case of the electricity sector, it may be necessary to phase out high emissions-intensive power stations over time and provide

support for renewables.

With regard to carbon trading in South Africa, the long debated introduction of carbon tax is seen by some as an individualised penalty for polluting the atmosphere. The reduction of carbon emissions is a long-term goal, similarly, carbon tax is slowly being introduced in South Africa as a means of attempting to find a long term solution to assist with reducing the emissions of carbon dioxide and other harmful gases into the atmosphere.

ABOUT THE AUTHOR

Happy Masondo is a director at Werksmans Attorneys.

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