A PRELIMINARY EVALUATION OF SOUTH AFRICA'S NEW CARBON TAX AGAINST THE 'FASTER' PRINCIPLES FOR SUCCESSFUL CARBON PRICING

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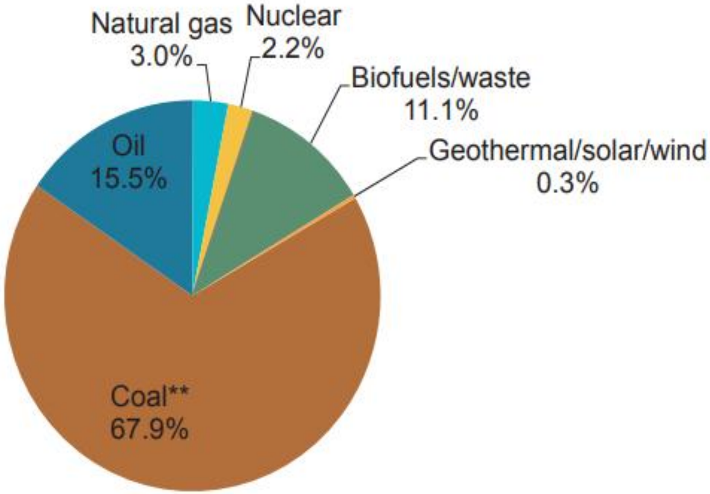
Research question and method

- Q: How does South Africa's new carbon tax measure up against the FASTER principles for successful carbon pricing?

- Method: Exploratory qualitative research design

South Africa’s energy context

- Energy supply dominated by coal
- SA accounts > ⅓ of CO_2 emissions in Africa
- Among the top 20 CO_2 emitters globally
- Peak, plateau and decline trajectory
- Paris Agreement commitments



South Africa’s new carbon tax

- Implemented on 1 June 2019
- A phased implementation approach
- Manufacturing, construction, mining and transport sectors will be affected.

- Requires accurate system for monitoring, reporting and verifying emissions
- South African Revenue Service (SARS): tax liability assessment
- Department of Environmental Affairs: assist SARS in audits

Tax rate and tax liability

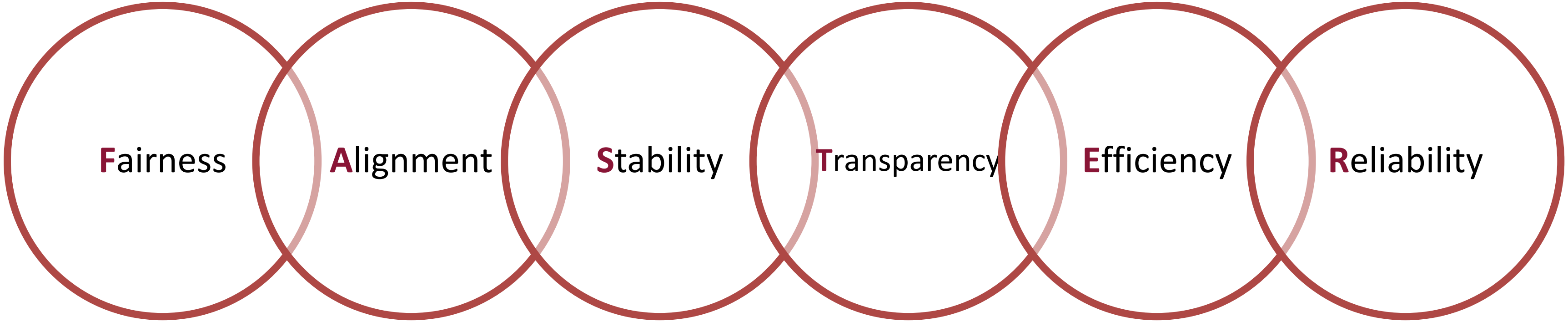
- Tax rate
  - Headline carbon tax is R120 *(Euro 7.30)* per ton of CO_2 emissions
  - Taking into account tax-free thresholds = R6 to R48 per ton of CO_2 emissions *(or Euro 0.36 to Euro 2.92)*

- Tax base
  - total quantity of GHG emissions from combustion, fugitive and industrial processes
  - Proportionately reduced by tax-free allowances

- Tax liability = tax base ✕ carbon tax rate

FASTER model

- Jointly developed by OECD and World Bank Group in 2015
- For successful and cost-effective design of carbon pricing schemes



Fairness

- “polluter pays” principle
- Relative competitive position of firms may change
- Employment is very reliant on emissions-intensive industries, thus more vulnerable to carbon price increases
- During the transition period, increasing carbon prices may translate into increased energy costs

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Alignment of policies and objectives

- Carbon pricing is the cornerstone of a package of policy measures designed to achieve emissions reudctions at lowest cost
- Complementary policies are particularly important for energy efficiency
- Aligned carbon pricing policies improve the implementation of other policies

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Stability and predictability

- Predictable and consistent climate policy and market framework
- How to ease transition to carbon pricing?
- National carbon budgets can also assist in reducing long-term uncertainties.

Transparency

- Public dialogues with affected stakeholders
- Establish independent and public reviews
- Robust monitoring and verification system and reporting on performance.
- A systematic communications and stakeholder engagement program.

Efficiency and cost-effectiveness

- Ability to achieve environmental protection at lower overall cost to the eocnomy
- Also consider political and equity concerns
- Lower admin burden compared to direct regulations
- Revenue recycling

Reliability and environmental integrity

- Comprehensive coverage of fuels, sectors and gases
- Narrowly targeted policies may be easier to implement initially than broader mechanisms in view of political challenges
- CO_2 emissions from fossil fuel combustion are generally easier to price than other GHGs and are the largest source of emissions

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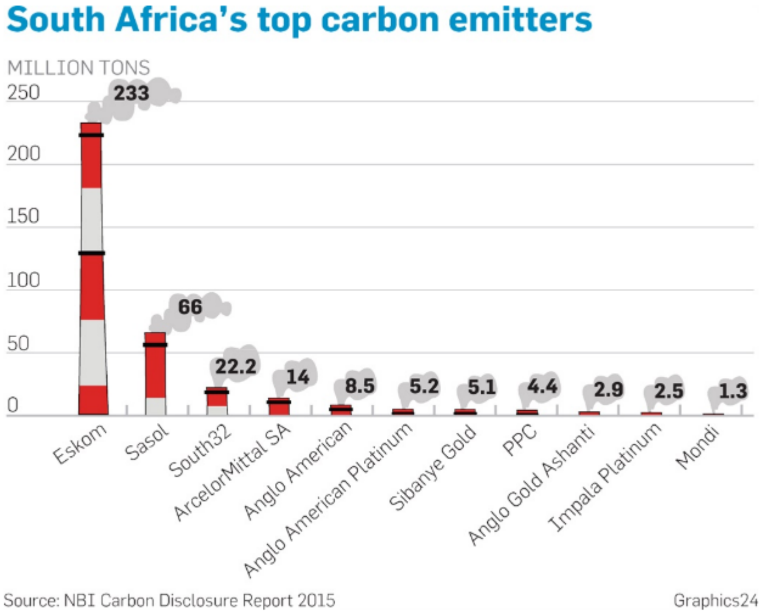
Preliminary findings

Electricity sector

- Sector contributes 48% to SA's carbon emissions
- Disconnect between a carbon tax and emission reduction in this sector
- Cost passed on to consumers



Preliminary findings

Inflation

- Severe impact on poor households
- Mitigating measures will be borne by over-taxed middle class to subsidise the poor
- Detrimental effect on economic growth and job creation
- Double tax

Preliminary findings

Regulatory uncertainty

- Regulations to enable the implementation of the performance allowance, carbon offset, carbon budget and trade exposure allowances are not yet finalised
- So, how to determine the effective tax rate?
- Uncertainty over the carbon tax regime to be followed after 2022
- Failure to align it with SA’s other climate change instruments
- Tax base not aligned with carbon budgets

Questions or comments?

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