



national treasury

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National Treasury
REPUBLIC OF SOUTH AFRICA

PRESS RELEASE

CARBON OFFSETS PAPER: REQUEST FOR PUBLIC COMMENTS

The National Treasury today publishes the *Carbon Offsets Paper* for public comment. This paper outlines proposals for a carbon offset scheme that will enable businesses to lower their carbon tax liability and make investments that will reduce greenhouse gas (GHG) emissions.

The carbon offsets scheme is meant to complement the carbon tax that South Africa plans to introduce from 2016. The proposed design of the carbon tax policy has been outlined in the the *Carbon Tax Policy Paper: Reducing greenhouse gas emissions and facilitating the transition to a green economy* that was released for public comment in May 2013.

Package of measures to address climate change

South Africa voluntarily committed at the 2009 UN Climate Change Conference in Copenhagen to reduce greenhouse gas emissions from projected “business-as-usual scenarios” by 34 per cent in 2020 and 42 per cent in 2025. In 2011, SA adopted the national climate-change response policy which comprises a comprehensive package of measures to deal with both mitigation (reducing greenhouse gas emissions) and adaptation (ensuring climate-change resilience through public investments).

The carbon tax will be one of the key measures to mitigate climate change. The package also contains a set of climate change adaptation measures to ensure resilience to climate change-related extreme weather events.

The carbon tax design and incentives

The Minister of Finance announced the proposed carbon tax policy package in Budgets 2012 and 2013. Following subsequent public consultation, the Minister announced revisions to the package in Budget 2014.

To ensure a relatively smooth transition to a low-carbon economy, the carbon tax design incorporates a number of relief measures and a gradual phased-in approach to protect households and the international competitiveness of local businesses. The proposed carbon tax policy comprises the following key elements:

- A basic tax-free threshold of 60 per cent below which the tax will initially not be payable.
- Z-factor formula to adjust basic tax-free threshold to reward companies that have taken voluntary actions to reduce their GHG emissions before the introduction of the carbon tax,

- Additional tax free allowances for sectors with limited potential for emissions reduction, i.e. industrial process emissions.
- An additional graduated relief for trade exposed and emissions intensive sectors.
- Carbon offsets that firms can use to reduce their carbon tax liability.
- The overall maximum tax-free threshold is limited to 90 per cent.

Carbon offsets

A carbon offset is a measurable avoidance, reduction, or sequestration of carbon dioxide (CO₂) or other GHG emissions. Carbon offsets are sometimes described as project-based because they typically involve specific projects or activities that reduce, avoid, or sequester emissions.

Carbon offsets will enable firms to cost-effectively lower their carbon tax liability. They will also incentivise investment in least-cost mitigation options in the country, driving investment in GHG-mitigation projects that deliver carbon emissions reduction at a cost lower than the carbon tax. Such projects can generate considerable sustainable development benefits in South Africa, including channelling capital to rural development projects, creating employment, restoring landscapes, reducing land degradation, protecting biodiversity, and encouraging energy efficiency and low carbon growth.

A number of principles must be fulfilled for a project to be awarded a tradable emissions reduction credit under a specific standard. The principles of additionality, real and permanence are pivotal to ensure the credibility of carbon offset projects.

- **Additionality** - GHG emissions reductions are additional if they would not have occurred under a 'business- as- usual' scenario.
- **Permanence** – GHG emissions are permanent and unlikely to be reversed.
- **Real** – GHG emission offsets originate within tangible physical projects with proof that they have occurred or will occur at a specific point in time.

The following eligibility criteria for carbon offset projects are proposed:

- Projects that generate carbon offset credits must occur outside the scope of activities of the entity subject to the carbon tax.
- Only South African based credits will be eligible for use within the carbon offset scheme.
- Carbon offset projects registered and / or implemented before the introduction of the carbon tax regime will be accepted subject to certain conditions and within a specific timeframe.

Initial analysis shows that the development and adoption of an eligible project methodology could focus on the following areas:

- Energy and Energy Efficiency
 - Energy efficiency in the residential and commercial sector
 - Energy efficiency in buildings
 - Small scale renewable energy
 - Community based and municipal energy efficiency and renewable energy
 - Fuel switching projects

- Electricity transmission and distribution efficiency
- Transport
 - Public transport
 - Transport energy efficiency
- Agriculture, forestry and other land uses (AFOLU)
 - Restoration of sub-tropical thicket, forests and woodlands
 - Restoration and management of grassland
 - Small scale afforestation
 - Biomass energy
 - Anaerobic biogas digesters
 - Reduced tillage
- Waste
 - Municipal waste projects

Specific carbon offset project types should be excluded from the scheme to avoid the potential for double counting of financial benefits from GHG mitigation. Projects benefiting from other government incentives should also be excluded. Disallowed projects would include:

- Energy efficiency in companies owned or controlled operations that are covered by the carbon tax.
- Energy efficiency for projects that benefit from the Energy Efficiency Tax Incentive.
- Cogeneration of renewable energy for companies owned or controlled operations that are covered by the carbon tax.
- Fuel switch projects in companies owned or controlled operations that are covered by the carbon tax.
- Renewable energy projects developed under the Renewable Energy Independent Power Producer Programme (REIPPP).

Projects under four different carbon offset standards have been developed in South Africa, including the Clean Development Mechanism (CDM), Verified Carbon Standard (VCS), Gold Standard (GS) and Climate, Community and Biodiversity Standard (CCBS). In order to facilitate the introduction of the carbon offset scheme, it is proposed that carbon offsets developed under these standards will be considered for eligibility if they fulfil specific criteria. It is envisaged that the initial focus will be for projects approved along the lines of the Clean Development Mechanism (CDM).

Comment period

Written comments should be submitted to Peter Janoska, email: peter.janoska@treasury.gov.za by the close of business on 30 June 2014.

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