Annexure A

The Carbon Tax Bill will form part of the measures government is implementing to enable South Africa to meet its nationally-determined contribution (NDC) commitments in terms of the 2015 Paris Agreement, and to reduce our greenhouse gas emissions in line with the National Climate Change Response Policy and National Development Plan.

South Africa ratified the Paris Agreement in November 2016 and endorsed its NDC, which requires that our greenhouse gas (GHG) emissions peak in 2020 to 2025, plateau for a ten-year period from 2025 to 2035 and decline from 2036 onwards. The Paris Agreement comes into operation in 2020, which means that efforts to reduce our GHG emissions and meet our commitments cannot be further delayed. The NDC noted that the carbon tax is an important part of the package of measures to reduce emissions, complemented by appropriate regulatory measures and incentives.

Policy Alignment of the Carbon Tax and Carbon Budgets

The Department of Environmental Affairs (DEA) and the National Treasury embarked on a process to ensure that the carbon tax is aligned with the proposed carbon budget system. A study on the options for alignment and integration of the carbon tax and carbon budget policy instruments post 2020 was undertaken by the Department of Environmental Affairs and the National Treasury through the Partnership for Market Readiness project implemented by the World Bank.

To ensure alignment of the carbon tax and carbon budgets, the National Treasury and Department of Environmental Affairs agreed that emissions within the carbon budget will be taxed at a lower rate (all tax-free allowances applicable). A higher tax rate will be applied on those emissions above the carbon budget (no tax-free allowances apply) where the carbon budget will serve as the maximum level of emissions allowed.

This interface option will help to ensure a credible price signal to encourage behaviour change over the medium to long term, emission reduction certainty through a carbon budget, and provide the required regulatory policy certainty.

Revisions to the draft Carbon Tax Bill based on stakeholder comments

The bill is the culmination of an extensive stakeholder consultation process conducted over the past 8 years on the 2010 Carbon Tax Discussion Paper, the 2013 Carbon Tax Policy Paper and the 2014 Carbon Offsets Paper; and the initial 2015 Carbon Tax Bill. The Bill takes into account the substantive comments received in writing, and from meetings and workshops with a wide range of stakeholders, including business, non-governmental organisations, civil society, labour, state owned entities, government line departments and other spheres of government.

The main comments received on the first and second draft Carbon Tax Bills published in November 2015 and December 2017, respectively, led to revisions relating to:

- Electricity prices, electricity generation levy and the renewable energy premium
- Competiveness and the design of the trade exposure allowance
- Policy alignment of the carbon tax and carbon budgets
- Energy efficiency savings tax incentive extension

- Taxation of domestic aviation fuels (alignment with global Carbon Offsetting mechanism)
- Technical legal and administrative aspects

Substantial changes were made to the bill to reflect refinements to the carbon tax policy taking into account comments received during the consultations from 2011 and the parliamentary hearings in 2018. This includes:

- **Tax rates and thresholds** for phase 1 and 2 of the carbon tax - To provide policy certainty, Section 5 of the bill was amended to include the headline, marginal tax rate of R120/tCO_2e; and specifies the annual increase to the nominal carbon tax rate.
- **Alignment of the carbon tax policy with the voluntary carbon budgeting system of the DEA** - Introduction of the 5 per cent carbon budget allowance in 2014
- **Carbon tax pass through** allowed for regulated sectors – liquid fuels
- **Process and fugitive emissions –** provision of the 10 per cent additional tax-free allowance
- **Offset allowance –** expansion of the scope of offsets to include certain renewable projects
- **Sequestration** – deduction for sequestered emissions including from forestry plantations and carbon capture and storage
- **Application of thresholds –** Aligning reporting and classification of greenhouse gas emissions for tax purposes with mandatory emissions reporting to the Department of Environmental Affairs. Only emissions above the thresholds for reporting are subject to the tax.

The process of consultation is ongoing. Government, business and labour have also established a Carbon Tax Bill Task Team in NEDLAC to develop Jobs Mitigation and Creation Plans. A report outlining proposals for the plan as submitted by constituencies is being finalised and will be submitted to the Joint Standing Committee on Finance and Portfolio Committee on Environmental Affairs before the end of the year.

Way forward

The ratification of the 2015 Paris Agreement emphasises the reality that we will have to prepare to operate in a carbon constrained economy over the medium to long term. The Paris Agreement requires that countries, including South Africa, submit more ambitious emissions goals to guarantee a low carbon future.

A business-as-usual scenario is therefore no longer an option and we must take appropriate action to help transition our economy onto a low carbon growth path, as articulated in the National Development Plan. The carbon tax is an important instrument as part of the broader package of mitigation policy measures under the National Climate Change Response Policy to help achieve our NDC target in a cost effective manner and nudge our economy onto a sustainable growth path.