national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

PUBLICATION OF THE 2019 CARBON TAX ACT

The President has signed into law the Carbon Tax Act No 15 of 2019, which comes into effect from 1 June 2019, as announced by the Minister of Finance in the 2019 Budget. The Act was gazetted on 23 May 2019 (Gazette No. 42483), together with the Customs and Excise Amendment Act No. 13 of 2019 (Gazette No. 42480). Climate change represents one of the biggest challenges facing human kind, and the primary objective of the carbon tax is to reduce greenhouse gas (GHG) emissions in a sustainable, cost effective and affordable manner.

Government has outlined its strong commitment to play its part in global efforts to mitigate GHG emissions as outlined in the National Climate Change Response Policy (NCCRP) of 2011 and the National Development Plan (NDP) of 2012. South Africa subsequently set its own domestic targets as outlined in the Nationally Determined Contribution (NDC), which was incorporated as the South African commitment in the Paris Agreement (convened by the United Nations Framework Convention on Climate Change (UNFCCC). South Africa ratified the Paris Agreement in November 2016. The carbon tax forms an integral part of ensuring that South Africa meets these targets.

The Carbon Tax Act gives effect to the polluter-pays-principle for large emitters and helps to ensure that firms and consumers take the negative adverse costs (externalities) into account in their future production, consumption and investment decisions. Firms are incentivized towards adopting cleaner technologies over the next decade and beyond.

The carbon tax will initially only apply to scope 1 emitters in the first phase. The first phase will be from 1 June 2019 to 31 December 2022, and the second phase from 2023 to 2030.

The design of the carbon tax also provides significant tax-free emission allowances ranging from 60 per cent to 95 per cent in this first phase. This includes a basic tax-free allowance of 60 per cent for all activities, a 10 per cent process and fugitive emissions allowance, a maximum 10 per cent allowance for companies that use carbon offsets to reduce their tax liability, a performance allowance of up to 5 per cent for companies that reduce the emissions intensity of their activities, a 5 per cent carbon budget allowance for complying with the reporting requirements and a maximum 10 per cent allowance for trade exposed sectors.

The introduction of the carbon tax will also not have any impact on the price of electricity for the first phase. This will result in a relatively modest carbon tax rate ranging from R6 to R48 per tonne of CO_2 equivalent emitted, which is a relatively low tax rate to further provide current significant emitters time to transition their operations to cleaner technologies through investments in energy efficiency, renewables and other low carbon measures.

A review of the impact of the tax will be conducted before the second phase, after at least three years of implementation of the tax, and will take into account the progress made to reduce GHG emissions in line with our NDC Commitments. Future changes to rates and tax-free thresholds in the Carbon Tax will follow after the review, and be subject to the normal transparent and consultative processes for all tax legislation, after any appropriate Budget announcements by the Minister of Finance.

The 2019 Customs and Excise Amendment Act and Memorandum on the objects of the 2019 Customs and Excise Amendment Bill are also published. This Act contains provisions related to the administrative arrangements for the collection of carbon tax revenues by SARS. It was split from the Carbon Tax Act as a separate Act for technical legal reasons related to money bills not containing administrative provisions in terms of section 77 of the Constitution.

Annexure A below sets out the extensive consultation process of over 9 years before the Carbon Tax Act was passed by Parliament, as well as the complementary measures announced by Government to mitigate any adverse impact of the Act. Engagements also took place between key stakeholders within NEDLAC to develop a jobs mitigation and creation plan and ensure a just transition to a low carbon economy.

The Final Response Document on the 2018 Carbon Tax Bill and the Explanatory Memorandum to the 2018 Carbon Tax Bill are also published on the National Treasury website. The Final Response Documents take into account inputs made by stakeholders, the Standing Committee on Finance and Portfolio Committee on Environment and the Select Committee on Finance, submissions and decisions made following further consultation during the NEDLAC process.

The Acts can be found on the National Treasury (www.treasury.gov.za) and SARS (www.sars.gov.za) websites (but also on the normal government printing works website, where all gazettes are officially published).

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ANNEXURE A: CONSULTATION PROCESS AND COMPLEMENTARY MEASURES GOVERNMENT HAS CONSULTED EXTENSIVELY ON THE CARBON TAX

The process of consultation initiated by Government for a comprehensive carbon tax to reduce GHG emissions has taken place over 9 years, following the 2010 Budget announcement, following South Africa's commitments to the 2009 UNCCC Copenhagen Conference. The formal process of consultation commenced after the publication of the Carbon Tax Discussion Paper on 13 December 2010.

Further processes of public comments and revisions were made after the publication of the second Carbon Tax Policy Paper on 2 May 2019, and the first draft of the Carbon Tax Bill was published on 2 November 2015 following Cabinet approval.

Cabinet approved the 2017 Draft Carbon Tax Bill again in August 2017, noting the carbon tax as an integral part of the system for implementing government policy on climate change. Further public comments were requested before the bill was submitted as a draft bill to Parliament's Standing Committee on Finance (SCOF) in early 2018. Public Hearings on the Bill were held in Parliament jointly between the SCOF and the Portfolio Committee on Environmental Affairs during 2018. The Bill was revised thereafter by SCOF, to take account of all the public comments received by Parliament.

The Minister of Finance tabled the final Carbon Tax Bill on 20 November 2018, giving effect to the announcements made in the 2017 and 2018 Budget and 2018 MTBPS and the above consultation processes. The tabled bill was further considered again by the Standing Committee on Finance, and thereafter the Select Committee on Finance. Additional submissions from stakeholders and verbal inputs on the tabled bill were considered by both committees until March 2019.

Government, business and labour had also established a Carbon Tax Bill Task Team in NEDLAC to develop a Jobs Mitigation and Creation Plan in 2018. At least seven meetings of the task team were held from July to November 2018. A report outlining proposals for the plan as submitted by constituencies was finalised and submitted to the Joint Committee in December 2018. This will be implemented as part of the Presidential Jobs Summit Agreement which already includes agreement on the need for a Just Transition. The just transition was also a recommendation made in the National Development Plan (NDP), to ensure an equitable transition to a low carbon economy.

COMPLEMENTARY MEASURES WITH THE CARBON TAX

The implementation of the carbon tax will be complemented by a package of tax incentives and revenue recycling measures to minimise the impact in the first phase of the policy. To cushion the potential adverse impacts on energy intensive sectors such as **mining and iron and steel**, the introduction of the carbon tax for the first phase will **not have an impact on the price of electricity**. This will be achieved through a tax credit for the renewable energy premium built into the electricity tariffs and a credit for the existing electricity generation levy.

An extension of the Energy Efficiency Savings tax incentive, which will further provide sectors with flexibility to transition their activities through investments in energy efficiency, renewables and other low carbon measures, was announced in Budget 2019. Initial analysis also shows that the mining and iron and steel sectors will qualify for a further 10 per cent tax-free trade exposure allowance to address potential competitiveness impacts. As the implementation of carbon pricing schemes expands globally, the impacts on competitiveness are likely to be reduced and create the appropriate incentives for the growth of lower carbon cleaner industries.

These revenue recycling measures will help to mitigate any possible short-term negative impacts on the economy and jobs. In light of efforts to progress towards more fully internalizing the costs and impacts of GHG emissions and to help achieve our GHG emissions goals outlined in the NDC, the National Treasury will review the interaction between the carbon tax and the electricity generation levy at the beginning of the second phase of the carbon tax.

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