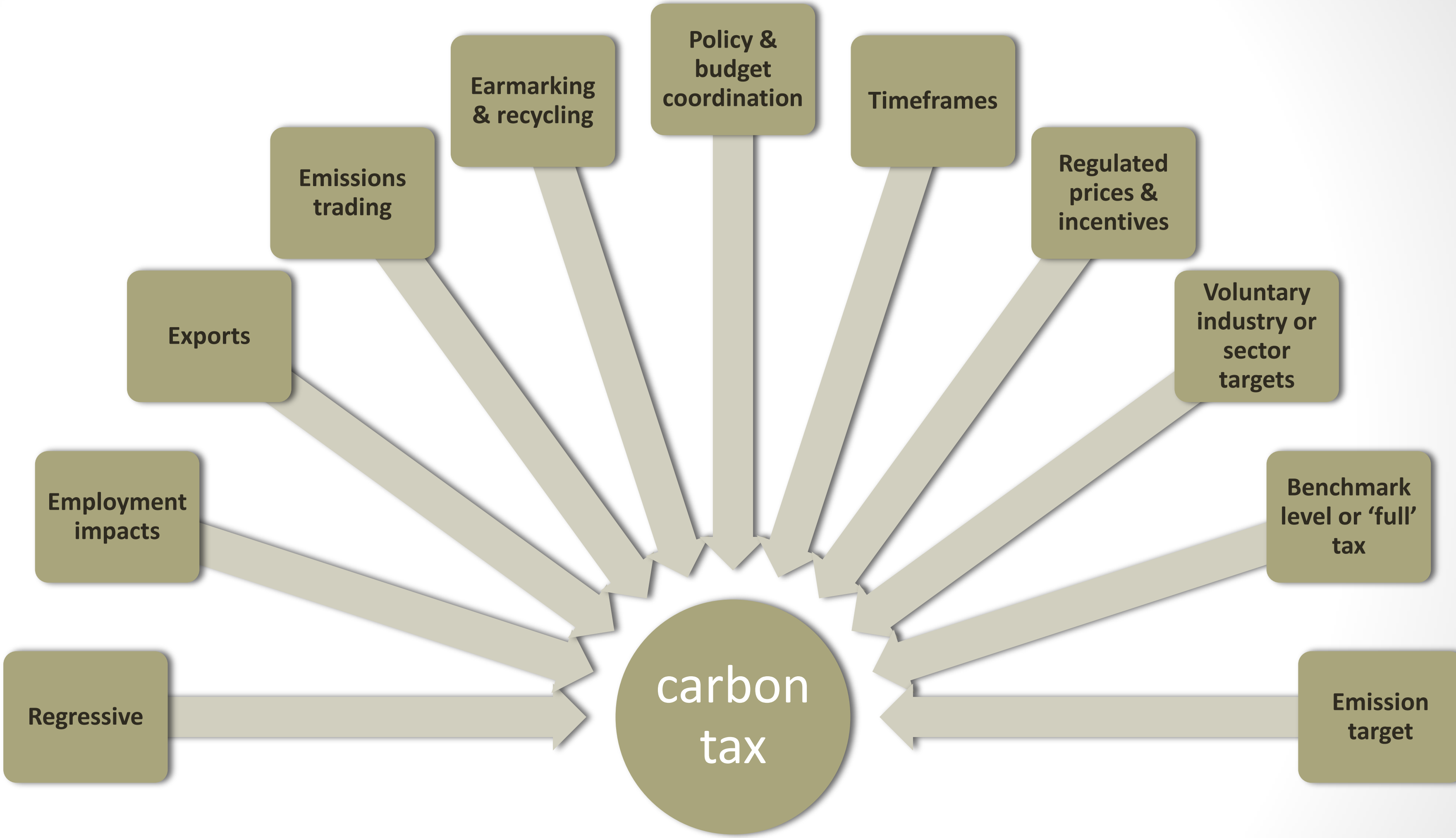
Carbon Tax Consultation Workshop

Summary of Discussion

M Goldblatt

- Agreement on the need for a carbon price
- Disagreement on
  - Timeframe
  - Scale
  - Global responsibility / national cost
  - Mechanism
- Various alternative pricing approaches presented
  - Implicit (regulation and agreements)
  - Explicit (carbon trading)
  - None comprehensive
- Carbon pricing has to be part of a package of government (and private sector) response measures
  - Is necessary but not sufficient
  - Effectiveness is limited by the absence of other measures


Regressive
Employment impacts
Exports
Emissions trading
Earmarking & recycling
Policy & budget coordination
Timeframes
Regulated prices & incentives
Voluntary industry or sector targets
Benchmark level or ‘full’ tax
Emission target
carbon tax

- Regressive
  - There are regulatory mechanisms to manage electricity prices
  - There are welfare transfer mechanisms to address general price impacts – relatively well targeted (grants, VAT etc..)
  - Small impact on emissions, behaviour and investment

- Earmarking and recycling
  - Tax offsets and recycling approaches need to be defined
    - Opportunities for supporting the industrial sector. Arguments for supporting Energy Intensive Trade Exposed Industries through recycling (if not exempted)
  - Aligned budget allocations may be required
  - Revenue neutrality possible and can displace worse taxes

- Exports
  - Major policy and philosophical decision
  - SA has a very high level of embodied emissions in exports (approx. 44%)
  - Should SA bear global costs fully
  - Should sector exemptions be implemented
  - Carbon tax does provide some export protection

- Employment impacts
  - Adjustments in exposed industries – energy intensive and fixed technologies
  - Support measures possible
    - Exemptions (see exports) – could include links to international benchmarks for key sectors. Does increase burden on others.
  - Acceptance of change from an energy intensive, low value added economy
    - Carbon pricing timing can take into account fixed investments
  - There will be change to a green economy which implies structural adjustment and hardship. Very mixed message from government.
    - Does not only mean an "intellectual economy" – agriculture, tourism, services, public transport

- Emissions trading
  - Alternative policy option
  - Should be considered alongside a carbon tax rather than as a later process
  - Hybrid options are possible and should be considered – can get some benefits and negatives of both approaches

- Timeframes
  - Timeframes are not clear in the document
  - Timeframes are key for adjustment – there is a good definition of the long run which is the time required for capital turnover – new choice of technologies and processes
  - Includes clearer understanding of the price path

- Regulated prices and incentives
  - Relationship of a carbon price to regulated energy prices
  - Carbon tax (or other price) cannot be a pass through if it is to have a major impact on generators in a non-competitive market
  - NERSA cost base determination rules may need to change to provide the correct incentives to the System Operator
  - A pass through still provides consumer and producer incentives – there are some substitution and consumption options

- Voluntary or sector targets
  - Negotiated targets possible and clearly appealing to industry
  - Akin to direct regulations
  - Concerns relate to administrative complexity, lobbying/regulatory capture
  - No dynamic incentives
  - Very difficult to make trade-offs between sector and within sectors
  - Loses efficiency gains of an economic instrument if no trading and is an emissions trading scheme if trading allowed. Possibly with the tax acting as a ‘safety valve’.

- Benchmark level or full tax
  - Should the tax be imposed from the first unit of emissions or from a specified emissions threshold
  - Threshold level appealing but administratively complex. Relates closely to the sector or industry target option – effectively part of the same government

- Emissions target
  - General agreement that some target should underpin the tax
  - Tax is not linked to a target at present in any defined way