Comments on the Draft Regulations on the Carbon Offset

Economic Tax Analysis

25 November 2016

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Outline

- Objective and structure of the Draft Regulations on the Carbon Offset
- Overview of Carbon Offset Programs – PMR, Technical Note 6, January 2015. World Bank
- Public comments on the Draft Regulations
  1. Design issues of the carbon offset component of the carbon tax
  2. Eligibility and non-eligibility criteria
  3. Definitions, Clarification of Terminology and Principles
  4. Administration of the carbon offset scheme
- Questions

Draft Carbon Offset Regulations, 20 June 2016

Carbon Offset Policy Paper – April 2014

- Objective - A regulatory framework for the development and administration of the carbon offset scheme under the carbon tax.

- Structure of the draft Regulations:
  - Part I: Definitions
  - Part II: Eligibility & Offset duration period
  - Part III: Non-eligibility, limitation of allowance
  - Part IV: Administration
    * Designation and functions of Administrator
    * Responsibilities of Administrator
    * Procedure for claiming the offset allowance
    * Offset registry
    * Obtaining a certificate
    * Content of certificate

- 65 comments received.

Tax free allowances

	GHG Emissions			
	Combustion	Process	Fugitive	
Tax free allowances				
Basic	60	60	60	
Process emissions	n/a	10	n/a	
Fugitive emissions	n/a	n/a	10	
Trade exposed	10	10	10	Max = 10
Performance based (Z - factor)	5	5	5	Max = 5
Carbon budget	5	5	5	
Offsets	10	5	5	
Total	**90**	**95**	**95**	

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Overview of Carbon Offset Programs, PMR, Technical Note 6 (a)

- Over almost two decades, a rich body of experience with offset mechanisms has been gained, which, in turn, is informing the considerations, design, and regulation of existing, proposed, and planned offset programs.
- This Technical Note documents a mapping exercise that outlines the key elements and design features of offset programs. It discusses the essential differences and similarities between programs. It identifies the main elements and design features of 11 different offset programs and discusses how these programs address key issues including efficiency, environmental integrity, applicability, and transaction costs. (p.1)

Overview of Carbon Offset Programs, PMR, Technical Note 6 (b)

- Offset programs with a more selective scope are able to restrict eligibility of project types to those activities where demonstration of additionality is more straightforward and where double-counting risks are lower.

- … a selective scope can have the positive effect of limiting the ambiguity surrounding emissions reduction calculations as well as lowering costs and risks for project developers. For example, entities covered by the California ETS or by the Quebec ETS may use offsets to cover up to 8 percent of their compliance obligation under the ETS. To avoid double counting, no offset can be issued in sectors covered under the ETS or in those that fall into specific regulation (e.g. landfills in California).

- All offset programs state environmental integrity and economic efficiency as their main goals for achieving mitigation action. (p.8)

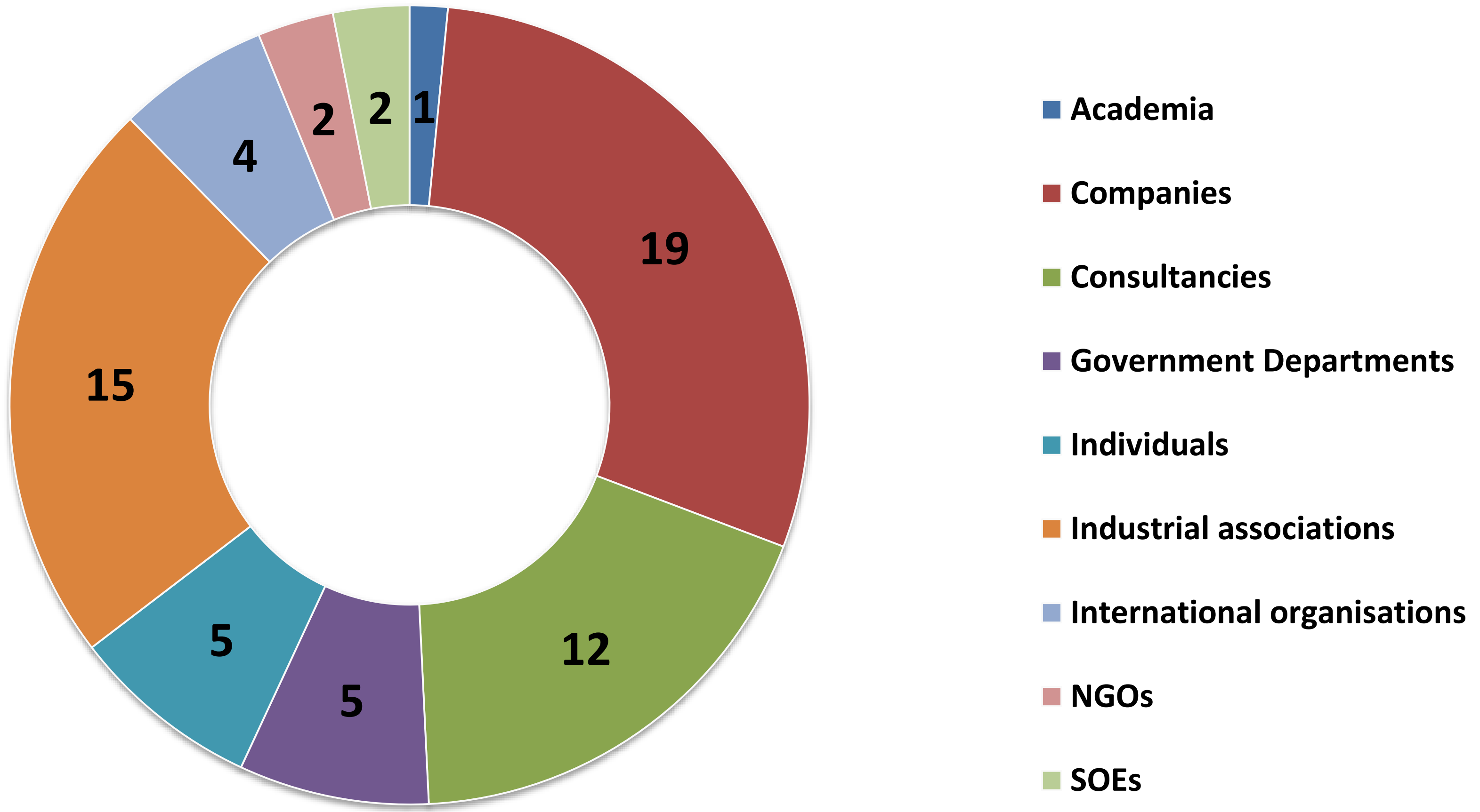
Overview of Carbon Offset Programs, PMR, Technical Note 6 (c)

- Clarity of rules and guidance and predictability in decision making are important elements to encourage investment in an offset program. (p.14)
- All offset programs aim to balance the goal of quality assurance (i.e. safeguarding environmental integrity) with the need to keep costs and risks for programs and project developers minimal and to provide clear and predictable rules and guidance. (p.21)
- Principles and Goals of Programs (pp. 29 to 36, Table A.2)
  - Stated purpose
  - Environmental integrity
  - Conservativeness
  - Transparency
  - Sustainability
  - Avoidance of double counting

Overview of Carbon Offset Programs, PMR, Technical Note 6 (d)

- Environmental integrity
  - Real
  - Additional
  - Permanent
  - Verified / verifiable
  - Owned unambiguously
  - Quantifiable
  - Enforceable
  - Irreversible
- Conservativeness
  - Conservative assumptions, values and procedures should be used to ensure that GHG reductions are not overestimated. (p.33)

Comments on the Draft Regulation on the Carbon Offsets by entity / organisation



Key issues raised by the stakeholders (a)

1. Design issues of the carbon offset component of the carbon tax

a. Mitigation policy landscape

b. Cost effectiveness of the carbon offset system

c. Cap on the carbon offset allowance

d. Domestic aviation sector emissions

e. Income tax exemption for sales of offset credits

2. Eligibility and Non-eligibility Criteria;

a. Tax base (activities within the tax net)

b. Early action projects and potential supply of carbon offset credits

c. Energy efficiency and fuel switch projects on activities owned or controlled by taxable companies

d. <u>Renewable energy - REIPPPP projects</u>

e. Energy efficiency savings tax incentive (12L) projects

f. Geographical scope beyond South Africa

g. <u>Development of local South African carbon offset standard</u>

h. Criteria and scope for positive and negative lists

Key issues raised by the stakeholders (b)

3. Definitions, Clarification of Terminology and Principles;

a. Offset crediting period

b. Offset validity period

c. Offset generation

4. Administration of the Carbon Offsets Scheme;

a. Functions of the administrator

b. DNA capacity

c. Timelines for DNA responses

d. Provision for offset credit revocations and stakeholder appeal process

e. Procedures for international credits transfer to local registry, offset registration, listing of credits and transfer to taxpayer

f. Steps on how to claim the allowance

g. Registry - establishment concerns

h. Certificate form, content and timelines for retention.

1. Design issues of the carbon offset component of the carbon tax: a. Mitigation Policy Landscape

Issues raised by stakeholders

a. Mitigation policy landscape

- Request for policy alignment across mitigation instruments both locally and internationally to highlight the climate change responses that will be implemented as part of South Africa's nationally determined contribution (NDC) under the Paris Agreement;
- concern that uncertainty on the alignment between the DEA's carbon budget system and the carbon tax post 2020 will impact offset allowances post 2020 and could hinder investment required for carbon offset development in South Africa.

b. DNA location in overall mitigation strategy

- may be beneficial for the DNA to be hosted in the DEA not the DoE because of the potential synergies;
- concern that having the administrator within the DoE might limit the oversight of the DEA.

NT's initial response: Mitigation policy landscape

- If relative tax-free thresholds remain for the period 2020-2025, most of the tax-free thresholds will be phased down and the carbon offset limits could be marginally increased. A move to a possible absolute threshold above which the tax will apply (i.e. one of the possible options to align with the carbon budgets) might require a phase out of the tax-free allowances and a redesign of the carbon offsets but no need to abandon the idea.
- National Treasury and the DEA will finalise the final integration of the carbon tax and carbon budgets by 2017 or 2018 for implementation post 2020.

DNA location in overall mitigation strategy

- To facilitate the timely finalisation of institutional arrangements to enable offsets scheme implementation, government has decided to keep the existing arrangements with respect to the location of the DNA within the DoE. There will be close cooperation between the NT, DoE and DEA to ensure the successful implementation of the carbon tax and carbon offset.

1. Design issues of the carbon offset component of the carbon tax: b. Cost effectiveness of carbon offset system

Issues raised by stakeholders

- request to assess the cost effectiveness of using carbon offsets in reducing carbon tax liability because of the time, costs and complexity involved in developing carbon offset projects;
- suggestions of doing a business case with respect to the registration and implementation of a carbon offset project in order to determine if the benefits justify costs.

NT's initial response

- proposal noted, however presence of voluntary offsetting activity in South Africa before introduction of a mandatory compliance instrument already confirms a business case for the implementation of offset projects;
- Wang-Helmreich et.al. 2016 study on the economic feasibility of offset project types and cost ranges required for the continuation of existing clean development mechanism (CDM) projects by project type in relation to the envisaged carbon tax rate in South Africa shows positive results.

1. Design issues of the carbon offset component of the carbon tax: c. Cap on the carbon offset allowance

Issues raised by stakeholders

- Requests that the caps should be increased beyond the current 5 or 10% since offsets are a flexibility mechanism that will enable industry to deliver least cost mitigation at a lower cost than within their own operations;
- Suggestions that there should be no maximum limit for this allowance.

NT's initial response

- objective of the carbon offsets scheme is to complement the carbon tax and to help deliver least cost mitigation;
- the limit on the offsets allowance is to ensure that taxable entities reduce emissions within their scope of activities first and foremost - offsets should therefore always be limited;
- current supply and demand modelling shows that the 5 % (for process emissions) or 10% (for energy combustion emissions) limit on carbon offsets is appropriate and reasonable;
- international practice - California, EU ETS, South Korea, China also limit the amount of offsets which can utilized within a mandatory instrument.

Examples of offset caps within a carbon price

Offset Program	Offset limits
California and Quebec	8 % of compliance obligation
South Korea	Phase 1 & 2 - Up to 10% of each entity's compliance obligation. Phase 3: Up to 10% of each entity's compliance obligation with a maximum of 5% coming from international offsets.
Beijing	5%, but at least 50% must be located within the Beijing municipality
Chongqing	8%
Guangdong	10%, but 70% of the total amount must be located within Guangdong province
Hubei	10% for new entrants* 15% for pilot ETS participants
Shanghai	5% companies' actual emissions
Shenzhen	10% companies' actual emissions
Tianjin	10% companies' actual emissions

1. Design issues of the carbon offset component of the carbon tax: d. Domestic aviation sector emissions

Issues raised by stakeholders

- the aviation sector emissions should be dealt with through The Global Market-Based Measure (GMBM) agreed to at the tri-annual Assembly of the International Civil Aviation Organization (ICAO) in October 2016;
- this would encourage uniformity of regulation for the aviation sector and provide an opportunity to harmonise South African legislation with the global market based measure for international flights.

NT's initial response

- proposal noted - detailed technical rules to put the system in place at the national level are still work in progress. Will have follow-up discussions with the DoT and the industry;
- South Africa did not opt into the voluntary pilot phase or Phase I (2021-2026), its participation in the scheme might only be during the mandatory Phase II (as of 2027), there might be a case for keeping the domestic sector in the carbon tax net;
- South Africa's domestic carbon offset system should be compatible with the fundaments of ICAO's GMBM.

1. Design issues of the carbon offset component of the carbon tax: e. Income tax exemption for sale of offset credits

Issues raised by stakeholders

- the exemption provided in terms of section 12K of the Income Tax Act for income derived from the sale of certified emission reduction credits under the CDM should be extended to credits from other international standards;
- income tax deduction/allowance could be made available to taxpayers on capital expenditure spending on offset projects;
- companies should be allowed to offset the entire taxable income by purchasing carbon offsets from verified sources in line with government standards set out in the draft carbon offset regulations. This would ensure all carbon tax proceeds are used to reduce GHG emissions.

NT's initial response

- An extension of the tax relief in terms of section 12K of the income tax act to credits generated from other carbon offset standards will not be considered.
- The 12K relief was considered necessary at the time due to the slow uptake of CDM projects in SA, this consideration does not hold in the case of carbon offsets against a local carbon tax liability.
- We will consider deleting 12K as the circumstances under which it was introduced no longer holds.
- No need for additional incentives.

2. Eligibility and Non-eligibility criteria:
a. Tax base (activities inside the tax net)

Issues raised by stakeholders

- Criteria for offset eligibility should be on activities not subject to the carbon tax instead of on whether a taxable company controls or owns the activity to equally incentivise companies for the same offset activity;
- activities “not liable for” or “not subject to” the carbon tax which qualify to generate carbon offset credits;
- offsets mitigation (R120 per ton) and carbon tax mitigation (R12-R48 per ton) are subject to different effective carbon prices so a taxpayer implementing a project within the tax net should be given the flexibility to use the resultant carbon reduction either towards reducing its tax liability, or towards generation of offsets but not both.

NT’s initial response

- eligibility criteria for carbon offsets - any activity not subject to the carbon tax that results in verifiable reduction in GHG emissions;
- tax liable companies and third parties can implement a carbon offset project as long as the project meets the eligibility criteria;
- proposal to implement offset projects within the tax net should not be accepted, it would undermine the objective and environmental integrity of the carbon offset scheme.

2. Eligibility and Non-eligibility criteria:
b1. Early action projects

Issues raised

- because early action projects have contributed to sustainable development in South Africa, they should be rewarded for the time, investment and business confidence shown;
- crediting early action would establish the required carbon offset project pipeline given the likely supply concerns in a nascent market in the first phase;
- clarifications on whether the timelines for transfers of credits and their use in the carbon offsets system should be based on registration date of project or issuance date of an offset credit.

NT's initial response

- Provision has been made for carbon offsets registered prior to the implementation of the carbon tax to be transferred onto the South African Registry.
- **early action projects <u>(prior to say 30 November 2015)</u> "within taxable" activities would be considered as offsets BUT going forward, offsets in taxable activities will be not be allowed;**
- eligibility of credits will not be based on the date of their issuance (because projects can simply delay the issuance of credits), but on a <u>cut-off date (say 30 November 2015)</u> to avoid creating a perverse incentive.
- Also note that the performance based or Z-factor allowance was designed as a reward mechanism for early action within taxable activities;

2. Eligibility and Non-eligibility criteria:
b2. Potential offset supply

Potential offsets supply

- recommended to start the carbon tax offsets mechanism with a more open eligibility structure than is currently proposed to encourage supply;

- tighter additional eligibility criteria could be introduced should supply outstrip demand in the medium term.

Potential offsets supply

- Not accepted

- Carbon offsets supply and demand studies by Promethium Carbon, 2014, The National Carbon Sinks Project, 2015 and others provide a good indication of the potential market size.

2. Eligibility and Non-eligibility criteria:
c. Taxable entities' energy efficiency and fuel switch projects

Issues raised by stakeholders

- objections to the exclusion of energy efficiency and cogeneration projects implemented on activities that are owned or controlled by tax liable companies as this limits the pool of eligible offsets on projects that fall outside the carbon tax net;
- allow energy efficiency and co-generation projects which reduce a company's indirect emissions as they do not impact on its fossil fuel consumption (carbon tax liability) hence the risk of double counting is minimised because the scope of these projects does not overlap with fossil fuel combustion;
- recognise fuel switch and energy efficiency projects implemented within taxable activities since they reduce fossil fuel combustion.

NT's initial response

- emissions reduction within taxable activities is encouraged / incentivised by the carbon tax;
- To avoid double counting, the scope of offsets is limited to those direct emission sources that are not covered by the carbon tax;
- no projects implemented within taxable activities will be eligible as carbon offsets.

2. Eligibility and Non-eligibility criteria:
d1. Renewable energy projects – small scale

Issues raised by stakeholders

- there is support for the reconsideration of the blanket exclusion of renewable energy projects because of their contribution to sustainable emission reduction;

- there is preference for small and medium sized projects that impact the domestic / household level as well as Public Private Partnership projects.

NT's initial response

- scope for inclusion of renewable energy projects not benefitting from another incentive will be considered as long as accounting for emissions reduction is clearly communicated. Need to deal with and guard against double-counting;

- Criteria for the inclusion of small scale non REIPPPP renewable energy projects under consideration.

2. Eligibility and Non-eligibility criteria:
d2. REIPPPP projects

Issues raised by stakeholders

- REIPPPP projects are procured under competitive auctions, won by the bidder offering the lowest price, there is no benefit or subsidy from government;
- revenue from selling carbon offsets will lower the bids offered by investors, attract a wide range of investors which could contribute to lowering the resulting tariffs further benefitting society;
- only REIPPPP projects registered after the 31st of December 2012 (they would not be eligible under the EU ETS) and therefore determined their emission reduction benefits on the carbon offsets should be allowed as eligible carbon offset projects as the concern of double accounting of emission reduction benefits and financial incentives does not exist.

NT's initial response

- Still under consideration. We have concerns about lack of additionality and possible double benefits.
- We will have additional consultations with all relevant stakeholders, including the custodians of the CDM, VCS and GS and DEA, DoE, the IPP office at the DoE & investors in REIPPPP projects.

2. Eligibility and Non-eligibility criteria:
e. Energy efficiency savings tax incentive (12L) projects

Issues raised by stakeholders

- companies should be allowed to utilise both offset and 12L for projects that achieve both energy efficiency improvement and emission reductions as these relief measures meet different objectives;
- the 12L incentivises energy efficiency improvement and is applicable for only one year whilst the offset allowance incentivises emission reductions for the duration of the project.

NT's initial response

- if the 12L incentive is claimed, the project cannot be implemented as a carbon offset.
- the 12L incentive was developed as "*a way to improve energy use and as one of the measures to deal with the challenges relating to climate change and energy security*." (EM and Regulation , Pre-amble)
- the 12L incentive should be seen as a part of the package of tax instruments designed to incentivise industry behaviour and contribute towards climate change mitigation.

Energy Efficiency Savings Tax Incentive: Regulations, Pre-amble

- **SINCE** it has become necessary to promote the efficient utilisation of energy to safeguard the continued supply of energy and to combat the adverse effects of greenhouse gas emissions related to fossil fuel based energy use on climate change;
- **AND SINCE** energy efficiency saving may be considered as a potentially successful method to guarantee the efficient utilisation of energy;
- **AND SINCE** the intended purpose of a carbon tax is to mitigate greenhouse gas emissions and also to utilise (recycle) some of the revenue to be generated from such a tax to finance incentives to advance the further efficient utilisation of energy;
- **THEREFORE** a tax incentive as contained in section 12L of the Income Tax Act, 1962, and these Regulations is devised to encourage the efficient utilisation of energy.

2. Eligibility and Non-eligibility criteria:
f. Geographical scope beyond South Africa

Issues raised by stakeholders

- Requests to expand the geographic scope of projects to Sub-Saharan Africa or countries connected to the Southern African Power Pool (SAPP) as climate change is considered a global challenge;

- Expanding the geographic scope of offsets will increase the supply of credits, help find suitable markets for various projects and project sizes, create a wider market for green jobs in the region and support the region in moving towards a low carbon economy.

NT's initial response

- South African companies should first explore mitigation opportunities domestically before looking across our borders;

- Extending the geographical eligibility to the SADC and Africa region, will only be considered at a later stage once the scheme is operational in South Africa and there is a better reflection of the supply and demand dynamics;

- An extension to include offsets from the SADC region could be considered during phase three of the carbon tax.

2. Eligibility and Non-eligibility criteria:
g. Development of a local carbon offset standard

Issues raised by stakeholders

- the proposal of developing a local standard was welcomed by stakeholders;
- the criteria for a local standard should be defined and the due process for its adoption stated;
- since the major certification standards have experience and developed clear processes to assess and support the development of methodologies, the DNA should outsource and advise project developers to develop new methodologies under these existing standards;
- Developing methodologies under existing standards would help government avoid evaluating piecemeal approaches that may undermine the credibility of the system or divert resources from other activities.

NT's initial response

- The use of international carbon offsets (e.g. CDM, VCS, GS etc.) will be the reference to provide specific project methodologies according to which GHG accounting can take place as well as maintain appropriate checks and balances;
- the process of establishing both criteria and assessing domestic standards will take a while to complete. The two or three existing "domestic standards" should approach the DoE so that a process can be initiated that would provide clear guidelines for their recognition or not. (DoE, DEA, NT, SABS & SANAS)

2. Eligibility and Non-eligibility criteria:
h. Criteria and scope for positive and negative lists

Issues raised by stakeholders

- the eligible project list should not be included in the regulations as reference to the approved standards results in positive lists but the eligibility criteria should be clearly set out in the regulations supported by guidelines;
- having both a negative and positive list is advised against due to the confusion and absence of clarity it brings to projects that fall outside of both lists;
- starting with an indicative list of eligible projects makes it seem, that offset project types (and supply) will be constrained, a concept that will likely be challenged by an entrepreneurial private sector.

NT's initial response

- the intention is to be as comprehensive as possible to give direction to what type of projects would qualify under the carbon offset scheme;
- all project types eligible under the international standards (i.e. CDM, VCS, GS) that meet the South African specific criteria will form the basis of the list.
- Procedures to add other projects will be developed. Such an approach would be less burdensome administratively as it would require fewer changes over time.

3. Definitions, clarification of terminology & principles

Issues raised by stakeholders

- commentators indicated that the distinction between offset crediting, and offset validity periods, and offset duration was not clear as well as the definition of carbon offset generation.

Offset crediting period

The criteria used by the various standards to investigate and validate the credits and is used to ensure that offsets continue to be real, permanent and additional.

Offset credit validation

Is a process for determining whether a project is eligible and meets the requirements of the standard for which it subscribes and is done by an accredited third-party organization.

Offset generation

This refers to the date when the offset/ credit is actually issued into the respective international registry.

Offset credit duration

This is applicable for emission reductions that are not permanent (e.g. forestry), ensures credits from such projects take into account the limited time period in which real emission reductions are occurring.

4. Administration of the carbon offsets scheme:
a. Functions of the administrator

Issues raised by stakeholders:

- tasks of the Administrator should be aligned with the Standard Operating Procedure including to administer and oversee the offset registry, process and approve applications for projects with respect to the eligibility of projects for use in the SA system and process and approve the listing of credits in the SA system;
- a regular forum to facilitate clear and transparent channels of communication between the DNA, project developers, taxpayers, verifiers and other professionals to assess progress, consider issues and develop solutions should be formed. This would help provide transparency to the market and manage expectations.

NT's initial response

- in line with the COAS framework, the functions of the DNA will be aligned with the developed Standard Operating Procedure;
- the suggestion to develop a forum is noted and will be considered.

4. Administration of the carbon offsets scheme:
b. DNA capacity

Issues raised by stakeholders

- Concern was raised that the DNA did not have adequate capacity and resources for this highly technical and specialised field to avoid significant delays in the processing of offset registration applications and meet the cost-containment goals of the regulation;
- the DNA should consider outsourcing some of the activities to ensure both cost effective, and timely processing of the required offset related activities. An alternative was to consider what Brazil is proposing for the registration and issuance of offsets from local REDD (Reducing Emissions from Deforestation and Forest Degradation) projects; having a non-governmental organisation take on the role of administrating the offset program.

NT's initial response

- government through the Partnership for Market Readiness (PMR) funding will enhance the administrative framework and capacity of the DNA to ensure it is capable to carry out the role of administrator of the carbon offset scheme;
- outsourcing of some activities will be considered.

4. Administration of the carbon offsets scheme:
c. Timelines for DNA responses

Issues raised by stakeholders

- there is need to include the timeframe in which the administrator has to convert eligible carbon credits into carbon tax offsets including notifying the taxpayer as to whether their request for registration of an offset project has been successful or not and including the reasons for the decision;

- Regulations should set out a timetable for compliance and when carbon offsets need to be surrendered;

- clarity on when it will be possible for project developers to apply for an Extended Letter of Approval (ELoA) from the DNA to confirm domestic eligibility, and how long it's expected to take to issue one.

NT's initial response

- manual on the carbon offset scheme is being developed which outlines how project developers must register and obtain an extended letter of approval before commencing on projects as well timelines within which the DNA is supposed to respond to the client. The COAS's SOP include some suggested timelines.

4. Administration of the carbon offsets scheme:
d. Provision for credit revocations & appeals process

Issues raised by stakeholders

- no provision has been made for a taxpayer to appeal the Administrator's decision in the event that the Administrator declares that a specific project may not be registered;
- the Regulations have not addressed the management of failed/aborted registered projects;
- there is need to confirm that there will be no negative implications to those companies that purchase offset credits in good faith and also ensuring corporations who have created invalid credits are penalised appropriately.

NT's initial response

- a manual on the carbon offset scheme is being developed which outlines how project developers must register and obtain an extended letter of approval before commencing on projects;
- management of failed or aborted registered projects will be addressed;
- modalities on how to deal with corporations that have created invalid credits will be dealt with in the Act and subsequent Regulation

4. Administration of the carbon offsets scheme:
e. International credit transfer to local registry & listing

Issues raised by stakeholders

- the procedure, form and manner specifying how a non-tax paying entity can register offset project credits which they will 'sell' to the tax payer to be retired must be provided for in the regulations;
- clarify the actual details in respect of an offset, which should be entered in the registry and specifically provide for a transfer mechanism through the registry, the claiming process of an offset as an allowance against carbon tax liability and the subsequent retiring/cancellation of the offset to provide an audit trail for the retiring / cancellation of an offset;
- the regulations should clarify the process that would apply in a scenario if not all offsets are registered in an offset registry.

NT's initial response

- a manual on the carbon offset scheme is being developed which outlines how project developers must register and obtain an extended letter of approval before commencing on projects, administrative procedures for international credits transfer to local registry (transaction log), offset credit listing in local registry (transaction log) and transfer to taxpayer, certificate form and timelines for retention, and steps on how to claim the allowance;

- the non-registered offsets will not form part of the registry, can only be utilised in the South African system once they get registered in the local registry.

4. Administration of the carbon offsets scheme:
f. Steps on how to claim the allowance

Issues raised by stakeholders

- the Regulations should specify the procedure to be followed when claiming an allowance to provide certainty to the potential claimant and prevent arbitrary changes to the process;

- the Regulations should deal with the process of the offset allowed against the carbon tax liability, and the subsequent retiring / cancellation of the offset utilised;

- the Regulations / Legislation should specifically require retirement of the credit against the name of the claiming entity, and issuance of a certificate of retirement before ceding the allowance.

NT's initial response

- a manual on the carbon offset scheme is being developed which outlines steps on how to claim the allowance, retirement and cancellation of offset credits.

4. Administration of the carbon offsets scheme: g. Registry establishment concerns

Issues raised by stakeholders

- lack of registry development contributes to uncertainty as to when the system will be finalized for implementation;
- a properly functioning registry will help build public confidence in the offset scheme;
- the registry should be overseen by an independent entity, as the operation of the registry requires very specific expertise and skills. Having the registry separated from the administrator would provide a more rigorous accountability system;
- outsourcing of the registry should be considered;
- since the process of credits transfer in the South African registry is similar to what is done in California, this process should relied on initially.

NT's initial response

- The DoE has made progress with the COAS and government will consider outsourcing the Registry function;
- A South African specific registry will build on the transaction log mechanism in the COAS;
- The DoE has held roadshows in October 2016 to engage stakeholders on the developed COAS framework (including the transaction log will keep a record of all offset credit transactions) that will be used to administer the carbon offsets.

4. Administration of the carbon offsets scheme:
h. Certificate form and content

Issues raised by stakeholders

- certificates should be created, transferred and maintained in an electronic format from initiation of the registry and listed credits in the registry should lie under unique serial numbers;
- the name of the manager of the activity in respect of which the offset is created should not feature on the certificate but rather the company or organisation or designation;
- definition of the "commencement of the activity" should be provided;
- the specific geographical location of the activity for which offsets are being sought should be recorded so that one can verify the extent to which the offset ameliorates the damage caused by these emissions.

NT's initial response

- concerns with regards to putting the name of the manager of the project on the certificate have been noted but there is a need to create a transparent audit trail in cases of market abuse;
- if credits are classified as a financial instrument, the name of manager will not be needed as it will be hard to distinguish between trading companies within the market;
- if credits are classified as an intangible fixed asset, the name of the manager would be important to identify the owner as the credit may be banked for later economic benefit;
- The geographical location of the project will also be required.

4. Administration of the carbon offsets scheme:
h. Timelines for certificate retention

Issues raised by stakeholders

- significance of 15 years retention for certificates when the duration is circumscribed to a maximum of 10 years should be clarified;

- requirement for retention of certificates for 15 years is insufficient in this respect, since some credit periods run for longer than 15 years.

NT's initial response

- a manual on the carbon offset scheme will outline the certificate form and timelines for retention. Retention of certificates is for auditing purposes and this does not have reference to the offset duration period;

- for auditing purposes, credit certificates have to be retained, the 15 years are in line with international practice in other jurisdictions.

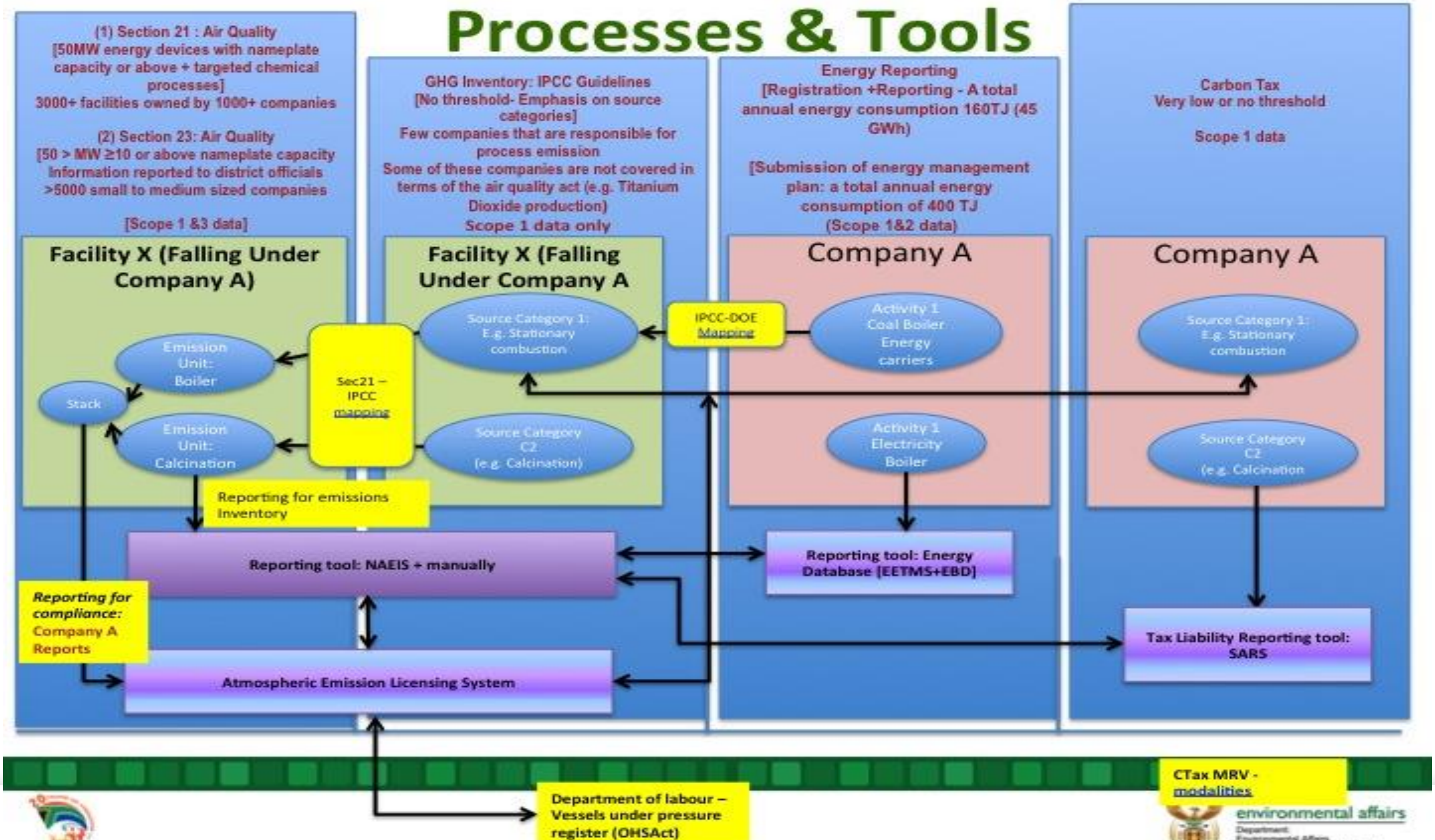
In summary

- The comments and suggestions have been very helpful and will inform the revised draft Carbon Offset Regulations;
- The DoE has made progress with the COAS and the feedback from the recent roadshow / workshops will help to refine the proposed procedures, structures and institutional framework;
- The capacity and capability of the DNA will be further enhanced through support from the PMR project;
- We think that we are not out of line to place limitation on the use of offsets to reduce tax liability;
- The possible inclusion of renewable energy projects under the REIPPPP is still under consideration and we are engaging relevant stakeholders;
- A process to give recognition or not to existing "domestic standards" can be initiated;
- Consultation with the aviation sector and the DoT will take place next week.

Thank you

Questions?

Mandatory GHG Emissions Reporting & Carbon Tax Audit process



Summary of comments on the 2014 Carbon Offsets Paper – 77 written submissions

- 53.2 per cent support (yes) the design of carbon offset scheme as outlined in the carbon offsets paper with some minor suggestions;
- 40.3 per cent support the use of carbon offsets, but propose amendments to the design features (yes-but).
- In total 93.5 per cent of the submissions either fully (yes) or with some conditions (yes-but) support the carbon offsets scheme;
- 6.5 per cent of respondents felt that carbon offsets scheme would undermine the declared objective of the carbon tax and should thus be scrapped (no).