

Stakeholder workshop on the Carbon Offset

Draft Regulations on the Carbon Offset: Summary of Consultations and Overview of Comments

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Background

- The **initial draft Carbon Tax bill** was published for public comment in **November 2015** following Cabinet approval in October 2015.
- **Cabinet adopted the second Draft Carbon Tax Bill and approved the submission of the draft bill to Parliament on 16 August 2017** noting the carbon tax as an integral part of the system for implementing government policy on climate change.
- **National Treasury published the second Draft Carbon Tax Bill** in December 2017 for public comment, introduction in Parliament, and convening of public hearings by Parliament in early 2018.
 - The closing date for public comments on the Bill was 9 March 2018. **Fifty nine (59) written comments** was submitted to the Treasury
- Budget 2018 announcement that implementation will be from 1 Jan 2019 - Minister of Finance announced **postponement in the implementation date** of the carbon tax to **1 June 2019** in his MTBPS speech.
- **Carbon Tax Bill tabled on 20 November 2018** and **submitted to the SCoF for finalisation.**

2018 Carbon Tax Bill and Parliamentary Meetings

- The **policies reflected in the 2018 Carbon Tax Bill is a refinement of the 2013 Carbon Tax Policy Paper, the initial 2015 Draft Carbon Tax Bill and 2017 Bill.** 2018 bill incorporates public comments received on these earlier documents.
 - **Informal briefing of the Joint Committee** – 13 February 2018
 - **Public Hearings on the Bill** – 14 March 2018
 - **National Treasury Response to Public Comments Hearings** – 7 June 2018
 - **Carbon Tax Bill Workshop** – 27 November 2018
 - **Carbon Tax Bill Meeting** – 4 December 2018
 - NEDLAC Carbon Tax Bill Task Team Report (July to November 2018)
 - Carbon Tax Bill main changes and Overview
 - NT meeting with Industry (30 November 2018)
 - **Carbon Tax Bill meeting** – 5 December 2018
 - **Carbon Tax Bill Finalisation and Voting, SCoF** – 5 February 2019
 - **Customs and Excise Amendment Bill meeting** – 12 February 2019
 - **National Assembly** – 19 February 2019
 - **Briefing of the Select Committee on Finance** – 6 March 2019
 - **Public Hearings by SeCoF** – 12 March 2019
 - **Carbon Tax Bill Finalisation and Voting, SeCoF** – 19 March 2019



Stakeholder Consultations – Carbon Offsets

- **Extensive stakeholder consultation process**
 - **Publication of the Carbon Offsets paper** – 24 May 2014 (77 sets of comments);
 - **Carbon Offsets Workshop** – 2 October 2014;
 - **Publication of the 1st Draft Regulation on the Carbon Offsets** – 20 June 2016 (65 sets of comments);
 - **Carbon Offsets Workshop** – 25 November 2016;
 - **BUSA consultation** - 2 February 2018;
 - **Publication of the 2nd Draft Regulation on the Carbon Offsets** – 12 November 2018 (26 sets of comments);
 - **Carbon Offsets Workshop** – 27 March 2019.
- **Carbon Offset Administration System (COAS) Roadshows with the DoE** – 12, 14, 19, 26 October 2016.

2016 Draft Regulation - Key issues raised by the stakeholders (1)

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. Renewable energy - REIPPPP projects
- e. Energy efficiency savings tax incentive (12L) projects
- f. Geographical scope beyond South Africa
- g. Development of local South African carbon offset standard
- h. Criteria and scope for positive and negative lists

2016 Draft Regulation - Key issues raised by the stakeholders (2)

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.

Summary of Comments on Carbon offset policy design – 1st Draft Regulation

- a. Need to **incorporate carbon offset principles** of “real, additionality and permanence” and eligibility criteria into the regulation;
- b. **Objection to carbon offsets** as an alleged mechanism to reduce GHG emissions as it undermines an already low carbon tax;
- c. There should be **no cap on the carbon offset allowance** or the limit should be increased from the current 5 – 10%;
- d. Projections of insufficient offset credits supply to meet demand, **allow use of existing credits from early action projects**;

Summary of Main New Comments on Carbon offset policy design – 2nd Draft Regulation

- a. **Public education programme on climate change** needed for holistic understanding and acceptance by stakeholders;
- b. **Comprehensive guidance** on how emission reductions can be developed and utilised by taxpayers;
- c. **Deal with non-permanence** – build national reserves in case of reversals;
- d. **Eligibility and non-eligibility criteria**
 - a. positive and / or negative list
 - b. Eligibility – expand scope of renewable energy and allow certain electrical efficiency projects
- e. Allow **offsets only to entities with no other mitigation option**;
- f. **Phase out of carbon offset allowance** - Clarity on whether the offset allowance will be phased out in the 2nd phase of the carbon tax;

Changes from 1st to 2nd Draft Regulation

- **Section 1: Definitions** – following new definitions included
 - Attestation of voluntary cancellation
 - Cancellation of carbon credit
 - Extended letter of approval
 - List
 - Listing confirmation
 - Retire
- **Section 2: Eligibility Allowance of offset in respect of approved project**
 - 2(2) amended – for existing offsets from approved projects extension provided for use of offsets until the end of the first phase – previously only until Dec 2017 ie. year tax is implemented
 - 2(3) for approved projects without offsets – offset can be used until one year after the end of the first phase – previously allowed for use only for a period of 6 months after the offset has come into existence
- **Section 3: Offset utilisation period**
 - Previously defined as offset duration period – changed to offset utilisation period to reflect stakeholder comments

Changes from 1st to 2nd Draft Regulation (2)

- **Section 4: Limitation on allowance – non-eligibility**
 - (a) **renewable energy** – previously blanket exclusion for renewable energy - limitation applies to PPAs signed under IPP programme on or before 9 May 2013 (bidding window 1-2)
 - (b) insertion of this section to clarify that renewable energy projects exceeding 50MW will not be eligible ie. Below 50MW renewable energy projects could qualify as an offset
- **Administration provisions**
 - **Section 5** – clarification that the administration of the offset allowance will be undertaken by the Department of Energy under the Clean Energy Programme which hosts the Designated National Authority
 - **Section 6 – creation of offset registry.** Insertion of 6(2)(a) – offset registry must consist of project database and ownership repository
 - **Insertion of Section 8 on the procedure for claiming the allowance**
 - **Section 9** – expansion of the duties of the administrator
 - **Insertion of Section 10** – requirements for extended letter of approval
 - **Amendment to Section 11(c)** - name of manager on certificate changed to identity of person

Draft Carbon Offset Regulations, 12 November 2018

- 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
 - Part III: Non-eligibility
 - Part IV: Administrator
 - Part V: Offset registry
 - Part VI: Claiming of allowance
 - Part VII: Requirements for documents
 - Part VIII: Miscellaneous

Thank you

