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The Carbon Tax and Equity

Input to NT Workshop

Not for quotation - Personal views only

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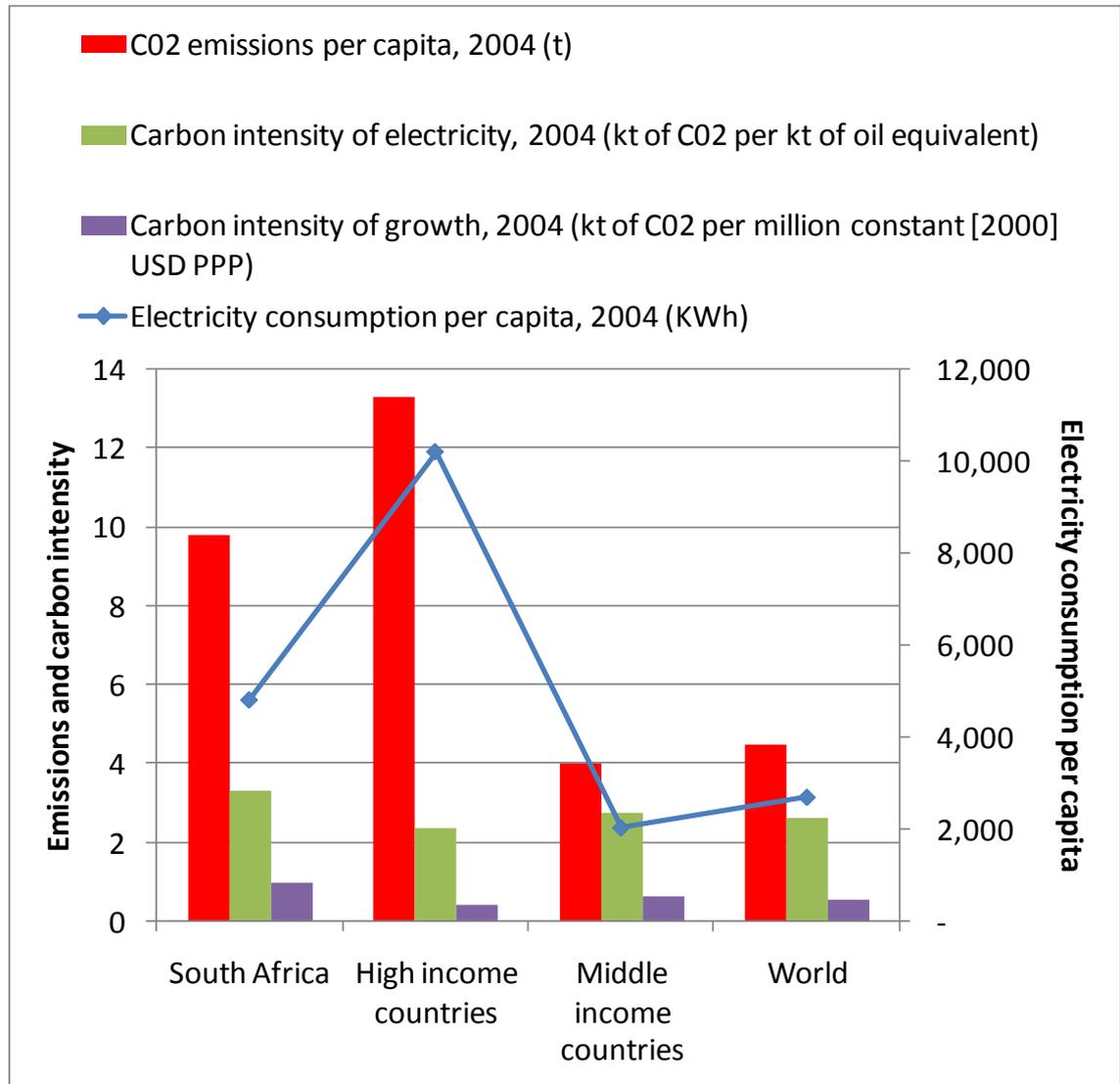
The challenge

- South Africa is extraordinarily emissions intensive
- That is primarily due to dependence on mining, smelting and refining, rather than huge inefficiencies or unusually high reliance on fossil fuels
- How to restructure the economy in ways that
 - Avoid pushing the burden onto the poor through higher costs or joblessness?
 - Maintain exports and long-term growth as far as possible?
- There are real trade offs
 - Speed of implementation affects costs as well as emissions
 - Who bears the cost of change?
- Given extraordinarily high joblessness and inequality, we need to manage any increase in costs carefully

Emissions



- Emissions in SA are 2,5 times as high as normal for middle-income economies
- Mostly due to high electricity intensity of industry, so that electricity consumption per capita is twice the norm for middle-income economies
- 80% of electricity in SA is used by industry, mostly in the mining value chain, compared to half worldwide



But also...

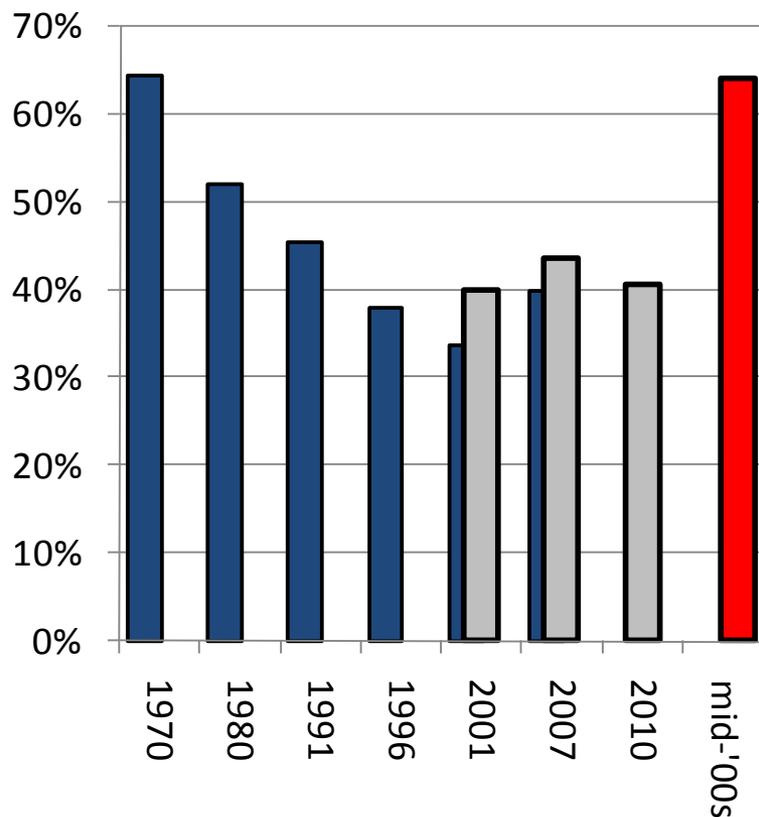


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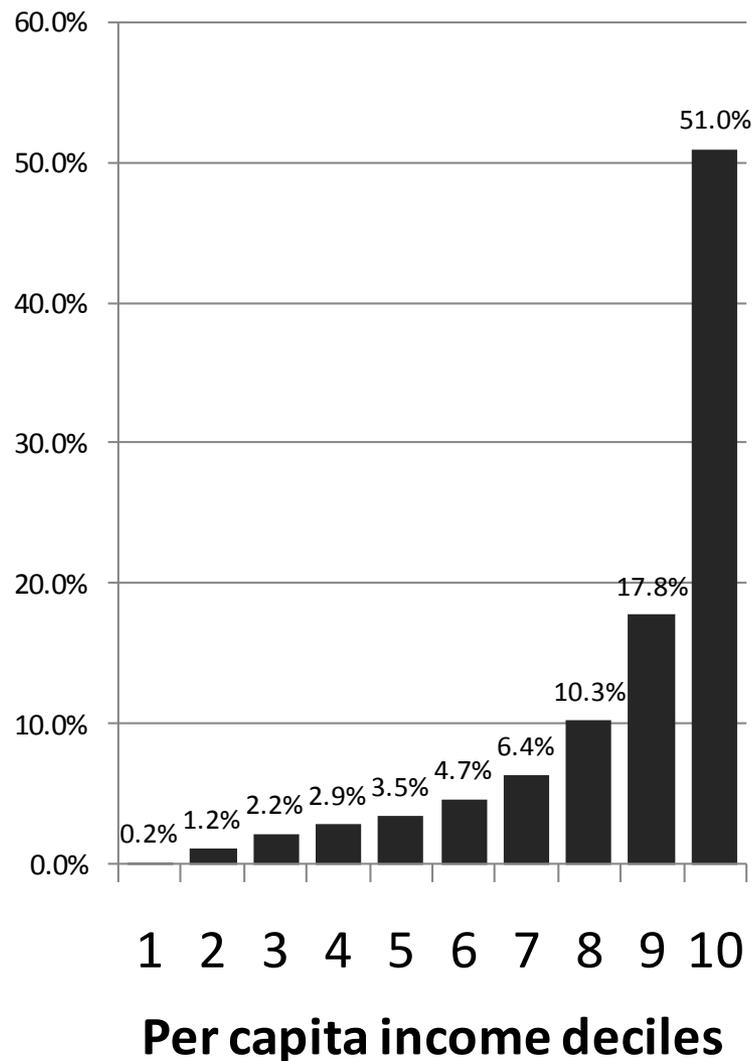
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Share of adults with employment

- Estimate based on Census/Community Survey
- Labour Force Survey
- International norm



Share of household income





Transition costs

- Standard economic models can assume away transition costs
 - In the long run...
 - Or assume factor mobility and good information
- Too often leave mitigation
 - To separate measures that never happen (eg: free basic services; municipal electricity charges)
 - To broad proposals that are not political viable or that depend on heroic assumptions (eg: wish away labour market rigidities while assuming strong global demand for non-mining exports)
- Particularly given fragmented state, need a real package
 - not one strong measure that is implemented while others depend on different agencies and more complex institutional interventions



The impact

- HSRC estimates the proposed carbon tax would initially raise the cost of electricity by between about 10% to 19%, and eventually by 20% to 30%.
- This is a big hit, given prices of electricity already soaring
- Implications for equity, competitiveness and employment

Proposals from the NGP standpoint



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- In line with electoral mandate, we are bound to prioritise employment creation and equity above other economic aims
- The current carbon-tax proposal:
 - Would be regressive (poor households spend a larger share of their incomes on electricity)
 - Would raise costs to the economy without offsetting reductions unless there are much stronger incentives for energy efficiency
 - Does not contain specific measures to manage consequences for employment, growth and inflation



Policy coherence

- The proposals do not take into account
 - Other developments in electricity reflected in the IRP
 - Broader processes around emissions and the green economy
- In effect, then, we end up charging twice for externalities
 - IRP imposes much higher prices to make clean energy (renewables and nuclear) viable
 - Renewable and nuclear energy to account for over half of all new generation
 - The new pricing structure thus effectively includes externalities already
 - Treasury has also imposed a 2c/KWh tax already - how does that relate to carbon tax?
- What is the cost of externalities and how is the entire pricing/tax strategy addressing it?

Managing the transition



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- Cabinet lekgotla required that all departments assess the impact of their measures specifically on employment, equity, growth and emissions
- We need specific proposals, with business plans and monitoring mechanisms:
 - For assisting with capital costs of reducing emissions
 - For reducing taxes in other areas to offset emissions taxes
 - For assisting poor households
 - For minimising the cost to workers in affected industries
 - For sustaining competitive exports and overall investment and growth

In sum



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- Proposal may well form part of a strategy
- But must not be pushed through in the current form
- Critical that we align policies to green the economy much more carefully with the over-riding priorities set by Cabinet – above all, ensuring more inclusive growth