

**NATIONAL COUNCIL OF PROVINCES**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NUMBER 156 [CW193E]**

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**Mr K A Sinclair (COPE-NC) to ask the Minister of Finance:**

Whether, in light of the United Nations Clean Development Mechanism (CDM), the National Treasury will revisit its decision not to ring-fence carbon tax for green initiatives but will pay it directly into the fiscus; if not, why not; if so, what are the relevant details?

**CW193E**

**REPLY:**

No, the National Treasury does not see the need to revisit its view that carbon taxes should not be ring-fenced. Decisions on earmarking are subject to decisions made by Cabinet and ultimately Parliament, when it considers legislation to give effect to any carbon tax. The Clean Development Mechanism (CDM) is a separate international instrument, which expires in 2012, and is implemented in terms of the Kyoto Protocol. It is independent of the carbon tax initiative; the tax measure will complement the CDM and create incentives through the price mechanism to further encourage the reduction of greenhouse gas emissions domestically. Proposals have also been made to reform the CDM and / or implement measures such as sectoral crediting that are currently subject to international negotiation.

The carbon tax discussion paper entitled *“Reducing Greenhouse Gas Emissions: The Carbon Tax Option”* which was published for public comment on 13 December 2010, as well as the National Treasury Environmental Fiscal Reform Policy Paper (2006), clearly spell out that earmarking of taxes is not supported as a general policy, as earmarking of any tax introduces rigidities into the budgetary process and often results in the misallocation (either under or over-allocation) of public funds for a specific purpose. Therefore, the carbon tax and the use of the revenues generated from the tax should be delinked. The carbon tax discussion paper does support the funding of environmental and social programmes that are prioritised by government, as part of the normal budget allocation process.