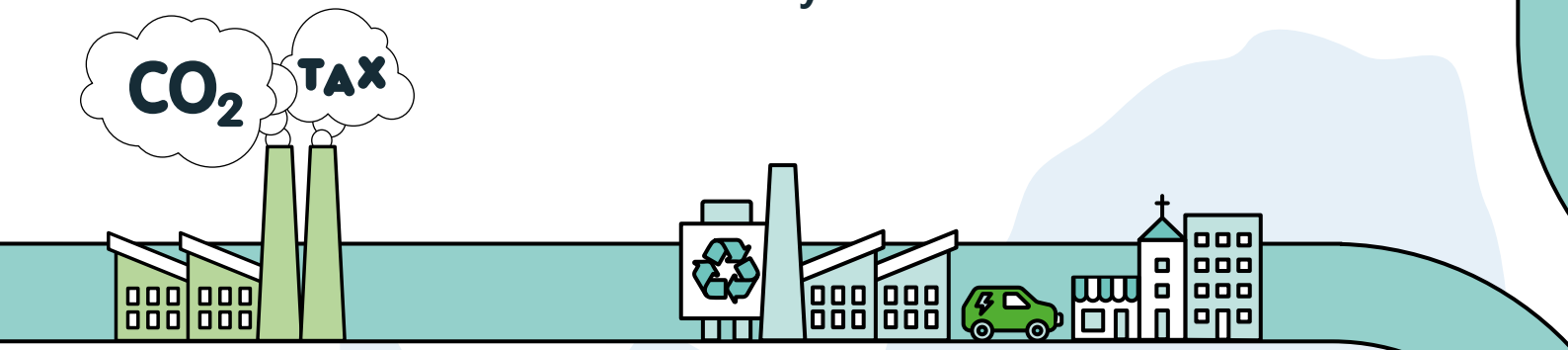
South Africa Carbon Tax
Policy Case Studies

Rethinking Decarbonisation Incentives

South Africa is on a decade long journey to implement an ambitious carbon tax to reduce economy wide GHG emissions.



Policy Type: Carbon Tax

Key Features

The carbon tax policy includes a basic tax-free threshold for all entities, and further rebates based on sectoral characteristics. Other key features include mechanisms to recycle revenues raised and an offsetting mechanism, which allows entities covered by the tax to surrender emission reduction certificates instead of paying the tax (up to a limit).

Sectors Covered

Power, Industry, Transport, Buildings.

Sectors Not Covered

Agriculture, Forestry, Waste.

Emissions Covered

Carbon Price

R12

/tCO_2e in 2019

(~£7.00)[1]

Point of Regulation

Mixed Approach. The tax will be applied both upstream on the fuel suppliers and at the point of emissions for process and fugitive emissions for some of the large industrial entities.

Key Dates

Initial policy papers published in 2006, the date of implementation is planned for 1 January 2019.

> "The use of offsets allows regulated entities to finance mitigation activities outside the jurisdiction covered by the carbon pricing instrument to count against its requirements"
>
> Climate Reality Project

[1] Exchange rate forecast January 2019: R1: £0.058. Source: http://poundf.co.uk, accessed 19/07/2018

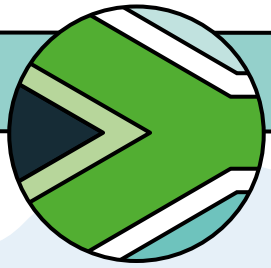
Introduction

The South African Carbon Tax highlights the challenges of designing a decarbonisation policy that aims to introduce a uniform carbon price throughout the economy.

Three elements were developed to address the concerns over the impacts of costs on industrial competitiveness and households. First, in the initial phase, obligated entities will have a basic tax-free allowance of 60% of the carbon tax rate, but many additional tax-free allowances will also apply (for process emissions, trade exposed sectors, top performers, and those subject to the carbon budget,). Second, a carbon offsetting scheme reduces the compliance costs for covered entities, by giving them the opportunity to purchase cheaper offset credits rather than pay the tax.

Third, the revenues will be recycled into a number of areas, including neutralising increases in electricity prices and funding energy efficiency and renewable energy projects.

In the future, the tax will sit alongside another newly implemented climate policy, the Carbon Budget System. The budget will limit the amount of greenhouse gases an entity is allowed to emit in a period of time. Although both policies have similar objectives, their implementation mechanisms are very different. With the first trial phase of the carbon budget already underway, the government has still to provide clarity on the alignment of the carbon tax and carbon budgeting system post 2020.



Key Findings

Policy Objectives

- For over a decade South Africa has sought to formulate a carbon tax that is effective in its operation, equitable in its impact across different sectors, and minimal in its adverse impacts.
- The design of the carbon tax is intended to provide a price signal to encourage the transition to a low-carbon economy. It aims to balance South Africa's climate change mitigation goals with the need to reduce poverty and maintain trade competitiveness.

Tax Design

- The tax design has evolved significantly, incorporating a number of exemptions, phasing, offsetting and revenue recycling. Exemptions from the single tax rate were granted as a result of the sectoral differences noted during the policy consultation process, such as for trade exposed sectors, or those producing process emissions for which there are fewer abatement options.

Exclusion of AFOLU and Waste Sectors

- Agriculture, forestry and other land uses (AFOLU) and waste are not included in first phase due to difficulties in measuring and verifying their emissions.
- Nonetheless, while these sectors are not covered by the carbon tax they can be a source of offsets. If in the future they are covered by the tax, the development of new offset projects will not be permitted.

The Future of Climate Policies

- While South Africa has the vision for a low carbon transition, the lack of coherence in mitigation policy creates uncertainty for stakeholders. Work is yet to be done to design policies with clear frameworks and timeframes to aid stakeholder decision making.

Definitions

Carbon Tax
A tax on carbon dioxide and possibly other greenhouse gas emissions.

Offsetting
A reduction in emissions of greenhouse gases made in order to compensate for or to offset an emission made elsewhere.

Point of Regulation
The point in a chain of emission producing activities at which a regulator places the obligation to comply with emission reduction policy. The point is defined relative to the point of emission, either up or downstream from this.

Revenue Recycling
The use of funds raised by a policy (e.g. a tax or sale of emission allowances) for another policy purpose (e.g. reducing other taxation or funding a public investment project).