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CARBON MARKET BUSINESS BRIEF

SOUTH AFRICA

SOUTH AFRICA CARBON TAX AT A GLANCE

Years in operation	Phase 1: 1 June 2019-31 December 2022 Phase 2: 2023-30
Overall cap & trajectory	N/A
Target(s)	South Africa's NDC aims to "peak, plateau and decline" its GHG emissions, so that its 202-2035 emissions will be in a range from 398 million to 614 million tCO_2e, then decline in absolute terms from 2036 onwards.
Emissions Reduced to date	Government is yet to release formal figures.
Sectors covered	The carbon tax has a broad coverage based on the IPCC sources and categories (2006) and applies to sources including: • Fossil fuel combustion and electricity generation, • Fugitive emissions such as methane emissions from mining, • Industrial processes: cement, iron, steel, glass, ceramics. All activities that emit GHGs above a specified threshold will be liable. In general, the installed capacity threshold below which tax liability does not apply is thermal capacity of 10MW. The waste and AFOLU sectors are exempt from paying the tax or performing MRV until 2022.
GHGs covered	Carbon dioxide, methane, nitrous oxide, perfluorocarbons, hydrofluorocarbons, and sulphur hexafluoride
# of covered entities	Government is yet to release formal figures
Allocation method	N/A
Trading rules	N/A
Use of offsets and linking	Companies that are liable to pay the carbon tax may offset 5% or 10% of their taxable emissions using carbon credits issued by the Clean Development Mechanism, the Verified Carbon Standard and the Gold Standard. Certain eligibility requirements apply and only offsets originating in South Africa, and from projects that don't receive benefits from other government incentives such as the Renewable Energy Independent Power Producer Procurement Programme or the energy efficiency tax incentive, are eligible.
Other features (eg banking, borrowing, reserves, etc)	Phase 1 (1 June 2019 to 31 December 2022): ZAR120/tCO2e for the period 1 June 2019 to 31 December 2019; ZAR127/tCO2e for 2020; and ZAR134/tCO2e for 2021.

Penalties for non-compliance	The Carbon Tax is considered an environmental levy, not a tax, as contemplated in Section 54A of the Customs and Excise Act 91 of 1964. Thus, the administrative actions, as well as the collection and payment of the levy, are also regulated by the Customs and Excise Act. Penalties for non-compliance with the carbon tax would impose a criminal penalty upon conviction and/or an administrative penalty in terms of the Customs and Excise Act
Use of revenues	The carbon tax will be revenue-neutral during the first phase. Revenue recycling measures complement the carbon tax regime to: • Address concerns about the impacts of the carbon tax on the competitiveness of firms operating on international markets (eg, via tax reductions, tax incentives) • Help address any potential negative impacts on the welfare of poorer households (in particular on the cost of energy and transport).

MAJOR DEVELOPMENTS

In September 2020, South Africa submitted a Low Emissions Development Strategy to the UNFCCC in accordance with Article 4 of the Paris Agreement. This set out an ambition to "commit to ultimately moving towards a goal of net zero carbon emissions by 2050". Domestic legislation to help deliver this long-term ambition is expected in 2021 when a Climate Change Bill will be finalised. This is expected to transition South Africa's carbon budget system from being voluntary to mandatory, and will be aligned with the carbon price. This may include the option of imposing a higher tax rate as a penalty for emissions exceeding the carbon budget.

To support in advising on South Africa's climate change response President Cyril Ramaphosa also established a Presidential Climate Change Coordinating Commission at the end of 2020.

The carbon price is part of a six component Post-2020 Mitigation System, including carbon budgets, M&E, Pollution Prevention Plans (to be renamed GHG Mitigation Plans) and Sectoral Emissions Targets, that is anticipated to be implemented via legislation and regulation before the end of 2022.

MARKET COMMENTARY

The South African carbon tax came into force on 1 June 2019. The tax started at R120/tCO2e and increases each year by 2% plus inflation; after 2022, only increases in line with inflation are expected. In 2020, eligible offset credits have been trading at around 80-85% of the tax rate.

Emitters are eligible for a range of relief measures, which include:

- a basic tax-free allowance of 60% is offered to all emitters;
- emitters with process or fugitive emissions are eligible for a further 10%;
- a variable tax-free allowance for trade-exposed sectors (up to a maximum of 10%);
- emitters with above average performance relating to sectoral benchmarks will be eligible for additional allowance up to a maximum of 5%; and,
- a further 5% can be applied by companies that have developed an annual carbon budget and report it to the government.

USEFUL LINKS

World Bank State and Trends of Carbon Pricing 2019

Media statement on gazetting of offsets regulations

IEA/IRENA Renewables Policies Database

REFERENCES

South Africa's Low-Emission Development Strategy 2050

Carbon Tax Act, 2019

Gazetted Carbon Offset Regulations

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