CARBON MARKET BUSINESS BRIEF

SOUTH AFRICA

SOUTH AFRICA CARBON TAX AT A GLANCE

Years in operation	Phase 1: 1 June 2019-31 December 2025 Phase 2: 2026
Overall cap & trajectory	N/A
Target(s)	South Africa's NDC aims to "peak, plateau and decline" its GHG emissions, so that its 2020-35 emissions will be in a range from 398 million to 614 million tCO_2e, then decline in absolute terms from 2036 onwards. South Africa revised its NDC in 2021 to a target range of 350-420 $MtCO_2e$ by 2030.
Emissions Reduced to date	The 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 above a specified threshold will be liable. In general, the installed capacity threshold below which tax liability does not apply is thermal capacity of 10 MW. The waste and AFOLU sectors were exempt from paying the tax or performing MRV until 2022.
GHGs covered	CO_2, methane, N_2O, PFCs, HFCs, and SF_6
# of covered entities	The 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	The price started Phase 1 (1 June 2019 to 31 December 2025) at ZAR120/tCO_2e and is gradually increasing each year. In 2022, the levy is set at ZAR144/tCO_2e.

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 is 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 in international markets (eg, via tax reductions, tax incentives) • Help address any potential negative impacts on the welfare of poorer households (in particular for 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 was published on 11 October 2021 – the National Climate Change Bill. This Bill transitions South Africa's carbon budget system from being voluntary to mandatory, and will be aligned with the carbon price. Section 24 (3) imposes a higher tax rate as a penalty for emissions exceeding the carbon budget. Further, there is no provision to permit unused budget to be carried forward to the following tax year.

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 Glasgow COP in 2021 saw South Africa secure a concessional finance commitment of $8.5 billion to support a just transition to a low-carbon economy. The funding was secured through a partnership with the US, UK, France, Germany and the EU, and will enable South Africa to access these funds in the next two to three years to support NDC targets.

A further development was the launch of a consultation in January 2022 on a 'Draft Framework for Approval of Domestic Standards', which is seen to support job creation, develop local capacity and importantly cater for small-scale and micro community projects and unlock potential in the AFOLU sector.

MARKET COMMENTARY

The South African carbon tax came into force on 1 June 2019. The tax started at R120/tCO2e and the first phase was due to end in 2022. However, on 23 February 2022, Finance Minister Enoch Godongwana announced in the Budget Speech that the carbon tax rate will be increased by R10 to R144, and that Phase 1 is extended to December 2025. The intent is that the tax rate will reach $20 per tonne (around ZAR 310/t) during Phase 1 and $30 by 2030. Further, the Minister announced the importance of a just transition and that the Presidential Climate Finance Task Team would be working on accessing international finance.

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

- a basic tax-free allowance of 60% is offered to all;
- 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

AUTHORS

Andrea Abrahams
Managing Director, ICROA
abrahams@ieta.org

Franz Rentel
Country Director, Climate Neutral Group
Franz.Rentel@climateneutralgroup.com