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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 2025-30 emissions will be in a range from 398 million to 614 million tCO_2e, then decline from 2036 onwards.
Emissions Reduced to date	N/A
Sectors covered	The carbon tax has a broad coverage and applies to most stationary and specific non-stationary GHG 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 threshold is thermal design capacity of 10MW. The waste and AFOLU sectors are exempt from paying the tax or performing MRV until 2022. From the above, it is quite clear that the aim of the Carbon Tax Act is to include the largest emitters of GHG, which is in line with the "polluter-pays" principle (on which the Act is based).
GHGs covered	CO2, methane, N2O, PFCs, HFCs, and SF6
# of covered entities	No data available
Allocation method	N/A
Trading rules	N/A
Use of offsets and linking	Companies that are liable to pay the carbon tax may offset between 5% or 10% of their taxable emissions using credits issued by the Clean Development Mechanism, the Verified Carbon Standard or the Gold Standard. Only credits originating in South Africa and from projects that don't receive benefits from other government incentives, such as the renewable energy procurement programme or the energy efficiency tax incentive, are eligible. The government will consider developing a national carbon standard and assessing other standards.
Other features	The rate for first tax-period is R120/tCO2e (US$6.90/t): a modest rate coupled with tax-free allowances of 60-95%. The rate will increase annually while the free allocation will gradually fall away to facilitate a structural transition in a cost-effective manner.

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). The introduction of the carbon tax will also not have any impact on the price of electricity during the first phase.

MAJOR DEVELOPMENTS

South Africa's National Treasury decided to implement a carbon tax instead of an ETS because of the oligopolistic structure of industries (few large emitters) and for cost reasons.

The rules on the types of eligible offset credits under the carbon tax were finalised in December 2019. Eligible projects will mainly focus on the transport, waste and AFOLU sectors. Some renewable energy (up to 50MW) and energy efficiency projects are also in the scope.

Carbon credit eligibility depends on several factors:

- No restrictions for carbon credits issued under one of the approved standards after June 2019.
- Carbon credits from projects registered or implemented before the introduction of the carbon tax will be accepted subject to certain conditions.
- Offsets issued prior to 1 June 2019 from already registered projects are eligible provided they are transferred from the relevant international registry to local registry within phase 1 (ie, by 31 Dec 2022).
- Offsets issued after 1 June 2019 from already registered projects are eligible provided they are transferred and used within one year after the end of the first phase (ie, by 31 Dec 2023).

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; accordingly, the tax rate in 2020 is R127/tCO2e. After 2022, only increases in line with inflation are expected.

However, during the first phase of the carbon tax 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 a further 5%; and,
- a further 5% can be applied by companies that have developed an annual carbon budget and report it to the government.

In the second phase of the carbon tax the above allowances, except for the offset allowance, will fall away.

USEFUL LINKS

State and Trends of Carbon Pricing 2019; World Bank

REFERENCES

Government media statement on gazetting of regulations

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