WWF BRIEFING ZA 2018

Q&A

EVERYTHING YOU DIDN'T KNOW YOU SHOULD ASK ABOUT THE CARBON TAX

In the 2018 budget speech, the Minister of Finance announced that a carbon tax will come into effect in January 2019. A Carbon Tax Bill has been drafted and public hearings were held in Parliament on Wednesday 14 March 2018. Many of us in South Africa already experience the impacts of climate change and we need to do our fair share to reduce our carbon emissions which cause climate change. A carbon tax is widely accepted by economists as a cost-effective and economically efficient means of achieving this.

1. What is a carbon tax ?

A carbon tax is a way for government to 'put a price' on carbon emissions, and to shift the costs from society to the companies creating the emissions. The more a company emits, the more tax it must pay. The more action a company takes to reduce its emissions, or if it is by nature low-carbon, the lower its tax.

2. Why would it matter to me ?

If properly designed, over time the tax will drive changes in the economy. These include:

- Investments and lending flowing to companies, products and services which don't cause emissions or that help to reduce them.
- Opening opportunities for such businesses, including innovators and small businesses.
- Job creation in greener industries.
- Slow shrinking of coal, oil, petrol and diesel sectors in South Africa, from mining through processing to combustion, with fewer jobs in these and related industries.
- Price increases on products and services from high-emitting companies.

THE JARGON UNPACKED:

Carbon emissions: Shorthand for all greenhouse gas emissions, not just carbon dioxide. These are the gases that cause global warming, which causes climate change.

Externalities/social cost: Costs created by private sector activities, which are paid by society and the public purse. A good example is acid mine drainage, where gold mining companies left the state with a R10 billion bill to clean up polluted water. The costs are sometimes financially invisible to us, e.g. the physical impacts of polluted water on local communities and food production.

Put a price on carbon: The social costs paid by government on our behalf and by society are given a financial value per tonne of the emissions that are causing the costs.

Low-carbon economy: An economy which produces few carbon emissions. One way to measure how low-carbon an economy is, is by carbon intensity – the amount of emissions produced in creating a Rand of GDP.

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3. How does the tax work to drive a lower-carbon economy ?

Innovative companies that avoid emissions by using new technologies, or producing new products or providing services in a new way, are at a relative advantage compared to heavy emitters. Investors, lenders and consumers start to find lower-carbon options relatively more attractive, because they are subject to less tax.

Some companies will add the carbon tax they are paying to the prices they charge customers, whether those be other businesses or consumers. Customers will tend to choose cheaper lower-carbon goods and services.

Over the medium to long term - the tax serves to reorientate the whole economy to be lower carbon. This is its purpose.

4. Why do we need a carbon tax ?

For two reasons:

- Through impacts of climate change to water, food prices, health, infrastructure, disasters and conflicts, the public purse and the public are already paying the costs the tax intends to shift to polluters.
- The global economy is shifting to be lower-carbon and if we don't keep pace, we risk losing our export markets or being left stranded with business models that no-one wants.

Increasingly, the demand for our high-carbon exports will fall – i.e. thermal coal, locally produced iron and steel, combustion engines. According to a 2016 OECD study, there are 41 OECD and G20 countries putting a price on carbon in their domestic products. Such countries are starting to put up trade barriers against products from countries which don't have such measures in place. The EU has announced it will refuse to sign trade deals with countries that do not take steps to combat global warming; 17% of our exports go to European countries.

Most importantly, the costs of climate change impacts will be much higher than the cost of reducing emissions through mechanisms like the carbon tax. For example, the impacts of changing rainfall and crop disease patterns, droughts and extreme storms, and higher temperatures are forcing agriculture to change – and this leads to higher food prices, whether or not we tax emissions.

Numerous economic studies have demonstrated that the cost of early action to reduce the causes of climate change considerably outweighs the later cost of having done nothing – this refers to the cost to the economy as a whole, as opposed to the cost to those with an interest in maintaining business-as-usual.

5. What is Treasury proposing?

The carbon tax will be levied on companies and state-owned enterprises, not on individuals.

Only companies emitting more than a certain level of emissions will be taxed. Some sectors, e.g. agriculture, are not going to be taxed at all as of yet.

Companies will pay a tax rate of R120 for every tonne of carbon emissions released. Companies are already required to report their emissions.

Up to 2022, the tax rate increase will be inflation + 2%. From 2023, the rate will increase only by inflation every year.

A company can get from 60% to 95% tax allowances (like rebates or exemptions). This brings the tax rate down to between R48 and R6 a tonne.

One of these allowances is a primary rebate of 60% to 100%.

6. What does WWF recommend?

With such a low tax rate and all the allowances, we are concerned that this leaves us with the **worst possible outcome**: An extra cost on companies which they pass on to their customers without doing anything serious about their emissions, because it is cheaper to pay the tax than to act. We calculated the top 10 emitting companies will only pay from 0.1% to 0.5% of their turnover.

We recommend:

- A meaningful tax rate of R162 to R433 per tonne – this matches Treasury's own research as to what an effective price would be.
- There must be a means to increase the rate as we see whether it is reducing our emissions sufficiently or not. Just using inflation is the same as keeping the rate static.
- The basket of allowances reduces an already ineffective price to a token, and they need to be cut back. For example, the primary rebate: while it makes sense that some agriculture sectors get a 100% primary rebate, for others, the primary rebate serves only to pacify heavy emitters.

In 2020, two things come into play: domestic policy with a compulsory Mitigation System, and our commitment under the international Paris Agreement. The carbon tax needs to be up-and-running by then, and improving the tax design should not lead to further delays. The carbon tax has been on the cards since 2010, fossil fuel and heavy emitting companies have had a lead time to bring in new technologies, reduce their energy consumption and start adapting their business models.

7. How can we buffer people against unwanted effects of the tax ?

The draft Carbon Tax Bill says the tax will be revenue neutral, in other words Treasury will adjust other taxes and levies, and provide incentives, so that overall business is not paying more tax. Additional funds will be used for pro-poor programmes in the energy and transport sectors.

***Public spending*:** WWF advocates that the revenue be spent on things that support people through the economic shift, particularly the poor. E.g. better and cheaper public transport, increased free basic allowances of electricity and water, a better basket of zero-rated goods for VAT.

***Labour market*:** Fossil fuel and other high-carbon companies will shrink over time (and not just because of the tax). So in the long term there will be job losses in those sectors, at the same time as jobs in the low-carbon economy grow. We have at least 36% unemployment and do not want to lose a single job. There must be a process of managing the growth of jobs in lower-carbon sectors, even before the fossil fuel sectors slowly shrink. These sectors are shrinking for reasons that have nothing to do with the carbon tax i.e. the planned closure of old coal-fired power plants (as new ones are built), mechanisation, and global markets. The coming Presidential Jobs and Investment Summits must enable a low-carbon economy to flourish, supporting innovation, industrialisation, education and skills training and job creation, while protecting workers in sunset industries.

***Opportunities*:** Let us not lose sight of the economic growth and job creation opportunities in a 'green' economy. WWF's Climate Solvers are examples of proudly South African companies producing innovative products that are part of the solution. See

www.youtube.com/watch?v=o-ktTw7JeNc, www.youtube.com/watch?v=BcwD15uhvT4, www.youtube.com/watch?v=12RWuWnrSQk, www.youtube.com/watch?v=QPkpsU8l3lg, www.youtube.com/watch?v=5mmY5pF-WNk, www.youtube.com/watch?v=PUYA-8ghJpc, www.youtube.com/watch?v=oD6VWVHqhx8&list=PLHAkoQwloiZ2wkxVXh-j1RQJT6G4XLGqi, www.youtube.com/watch?v=tHMUBGAGYuI, https://youtu.be/HhqCURiWXSo

8. What can I do about it?

If you

- agree that South Africa needs to be preparing its economy for the 21st Century, sooner rather than later
- endorse the polluter pays principle
- accept the economic thinking that says a carbon tax is a cost-efficient and effective way to reorientate from a high- to low-carbon economy, and want to help us get there, **you could:**

1. Reorientate your lifestyle and the economy now. Choose energy-saving appliances; implement energy savings in your home and workplace; choose locally produced foods and proudly South African products; if you have a car, think about how to make your car trips more efficient by combining trips or sharing lifts.

2. Join the carbon conversation. Parliament is planning a further workshop and public hearings on the carbon tax. It's your Parliament, come and attend. Ask one of the Finance Committee Secretaries (Teboho Sepanya tsepanya@parliament.gov.za or Allen Wicomb awicomb@parliament.gov.za) to put you on the mailing list.

3. Lobby for a higher tax rate, adequate to doing the job it is meant to. Write to Treasury (Memory.Machingambi@treasury.gov.za).

4. Ask Treasury that carbon tax revenues be used to enable sustainable socio-economic-environmental development. Think of creative ways to do this, and propose them.

5. The tax can't do the whole job by itself, and the biggest problem is our coal-based electricity. Push for more and more renewable energy in South Africa's electricity supply plan, the Integrated Resource Plan. Write the Department of Energy. d

6. Review the Carbon Tax bill. Treasury documents for public comment are at www.treasury.gov.za/public%20comments/CarbonTaxBll2017/\. WWF can send you our submissions to Treasury on the tax.