MEDIA RELEASE

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Organised business joint position on carbon tax

The Energy Council of South Africa, Minerals Council South Africa, Business Leadership South Africa (BLSA), Business Unity South Africa (BUSA), the South African Petroleum Industry Association (SAPIA) and Energy Intensive Users Group (EIUG) are jointly proposing improvements to the Carbon Tax proposals of the Taxation Laws Amendment Bill (TLAB).

As the multi-representative bodies of organised business in South Africa, we are committed to a thriving and sustainable energy sector in South Africa and a just and equitable transition.

We are supportive of carbon pricing, including the carbon tax and the development of tools and mechanisms that promote a just transition. We commend the South African government's commitment to decarbonise and sustainably grow low-carbon sectors of the economy.

Our members are firmly committed to reducing carbon emissions and hence believe that the carbon tax should be implemented at a pace and rate aligned to a developing economy that takes into account the challenges in South Africa including low economic growth, energy security and high unemployment.

We believe there are key areas that can be improved on in the TLAB carbon tax proposals in order to avert identified unintended consequences. Our joint recommendations are as follows:

We recommend:

1. **A revised carbon tax rate proposal:** National Treasury has proposed increases in the carbon tax rate for the 2023 to 2025 tax periods by a minimum of US$1, increasing gradually to US$20 in 2026 and at least to US$30/tCO2e in 2030. We welcome the extension of Phase 1 and recognise the need to increase the rate of the standalone carbon tax to ensure that South Africa remains protected against border tax adjustments and can attract financing to enable the Just Transition. This notwithstanding, business and the South African economy cannot accommodate the steepness of the carbon tax rate increase in the proposed short period of time. This is compounded by the slow recovery from the devastating impacts of COVID-19 and an economic downturn, which has resulted in the closure of businesses, job losses and the exacerbation of poverty and other negative socio-economic impacts. **We propose that the annual carbon tax increases continue**

to be based on the current Consumer Price Index (CPI) +2% structure until at least 2030, to allow for reviewing and aligning different policies.

2. **Retaining the current enacted allowances to 2030 and introduce other supporting policies and measures to encourage decarbonisation and growth of low-carbon sectors:** We are concerned that the 2022 Draft Bill does not retain the allowances to mitigate the impact of the rapidly increasing carbon tax proposals. To date, these allowances have been instrumental in assisting business sectors requiring support, such as the mining, petrochemical, steel, cement, and other hard-to-abate sectors, from detrimental financial impacts. There is therefore a need for greater policy certainty around the retention of allowances. **While we welcome the extension of the 12L Energy Efficiency Incentive (Amendment 9) to the end of 2025, we propose that allowances are expanded and retained and, where a phased out is planned, that this be clearly articulated.** Foreign governments have committed to assist taxpayers in transitioning to greener technologies by providing various incentives or forms of financial aid, which is currently not being made available in the TLAB. Carbon prices are high in regions like the EU, Canada, and a few others. However, they are ameliorated by various allowances, such as free allocations, indirect compensation, subsidies, ringfencing of carbon tax revenues, and funding support for innovation, technology, research and development. **For South Africa, such support measures/incentives are currently lacking, and we propose that these be explored and introduced in support of decarbonisation.**

3. **The revision of implementation timelines:** Business cannot afford the proposed tax rates and simultaneously mobilise the capital needed to mitigate greenhouse gas emissions and grow or invest in new low carbon products and services. The timing of the US$20 by 2026 and US$30 by 2030 carbon prices and the potential removal of the tax free allowances will result in very high costs within a short timeframe for business to absorb within a developing country context, particularly given the limitation and costly nature of mitigation opportunities pre-2030. **We propose that a higher carbon price should only be considered post-2035, the exact date of which should be informed by a more detailed analysis of viable mitigation and socio-economic considerations**. Business is ready to work with National Treasury to comprehensively understand the tax's impact on different sectors of the economy.

4. **A bottom-up analysis for hard-to-abate and vulnerable sectors:** Different sectors have different carbon pricing signals against which they will switch to low-carbon energy and feedstock options and will require varying lengths of time to transition. **Business proposes that a detailed bottom-up analysis be conducted for hard-to-abate and trade vulnerable sectors. Such a study should also consider border tax adjustments.**

5. **A study on carbon tax pass-through:** We note the extension for electricity generators to continue including the environmental levy as part of their carbon tax determinations. The proposed end date of 31 December 2025 poses a significant financial risk to our members who rely heavily on electricity and energy-intensive users across various sectors. Furthermore, the pass-through of the carbon tax to electricity consumers and through other input costs, such as construction material in the form of steel and cement, among others essentially leads to an effective double taxation. Industry is already liable for their carbon tax, as well as that of the electricity supplier, and business would not be able to pass the carbon tax onto their customers. The carbon tax from the electricity sector has already been applied for as a pass through in the Eskom electricity price increase application for the period 2022/23 to 2024/25 financial years. Subject to approval, the total projected financial impact is over R24bn starting January 2023 to March 2025 resulting in well over 3% directly attributable to carbon tax increases for each financial year 2023/24 and 2024/25, thereby placing a huge burden onto to electricity consumers. **We propose that a detailed study be undertaken to evaluate the financial impacts of a carbon tax pass-through from electricity generators and other industries that are not able to pass through a carbon tax to customers.**

6. **Enabling a just transition:** An essential part of the transition to low carbon energy is the just transition, which includes localisation to grow the economy and create jobs. We need to allow the space for the current industry not only to transition to low carbon energy but also to help facilitate the transition of suppliers, workers, and skills to the new dispensation. This involves reskilling, managing the change of the current geographical distribution of employees and their families, and creating new meaningful employment. One example is a proposal for the sequestration deduction to be expanded to all sectors. As business, we support the inclusion of the deduction of sequestration activities in the carbon tax formula. **We propose that this not be discriminatory by expanding the sequestration deduction to all sectors, not just the paper and pulp industry.** This will enable companies with land to increase biodiversity, thereby improving sequestration

potential and claiming the carbon dioxide removal benefits against their carbon tax. It would furthermore contribute to employment creation in the agriculture sector, allowing companies to transition fossil fuel-based jobs into the agricultural sector. Business will undertake further work in this regard.

As a collective, we believe that a carefully designed and well-implemented carbon price serves as a key mechanism towards driving positive behavioural change in combating climate change and realising South Africa's Nationally Determined Contribution (NDC).

We are sharing these recommendations to avoid just transition impacts earlier than planned and to avoid unintended and adverse consequences to an already fragile economy. Business's priority is to positively fulfil our role for a decarbonised and sustainable South African economy. We are committed to an energy transition that is just and equitable for the country and look forward to partnering with the South African government to realise this journey.

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