

Summary Note

South Africa Carbon Pricing Dialogue

11 November 2015

Johannesburg, South Africa

Objective and Background

The objective of the South African Carbon Pricing Dialogue was to engage the business community and other stakeholders on the proposed carbon tax and facilitate a discussion of key policy design issues, such as competitiveness concerns. The World Bank Group's Carbon Pricing Leadership Coalition (CPLC),¹ brought a global perspective to the discussion by showcasing action around the world to price carbon; featured new Principles for Successful Carbon Pricing that have been captured from the collective government experience in pricing carbon; and shared new analysis around competitiveness and leakage associated with carbon pricing. The National Business Initiative (NBI) convened the workshop. Over 70 attendees from business, government and civil society participated in the workshop, including international experts from the CPLC network.

Overview of Presentations

Tom Kerr (Principal Climate Change Specialist, World Bank Group) presented the *State and Trends of Carbon Pricing* report's latest statistics on carbon pricing around the world,² and provided an overview of the FASTER Principles for Successful Carbon Pricing³ as part of an overall message around the global context and clear momentum to support—and act on—carbon pricing policy.

Cecil Morden (Chief Director, Economic Tax Analysis, National Treasury) then provided an overview of South Africa's proposed carbon tax. The National Treasury leads the carbon tax policy design and implementation process in close collaboration with the Department of Environmental Affairs, which is responsible for GHG data monitoring, reporting and verification for the companies, and the Department of Energy.

¹ For more information on the CPLC, see www.carbonpricingleadership.org.

² Access at: <http://documents.worldbank.org/curated/en/2015/09/25053834/state-trends-carbon-pricing-2015>.

³ Access at: <http://documents.worldbank.org/curated/en/2015/09/25060584/faster-principles-successful-carbon-pricing-approach-based-initial-experience>.

Grzegorz Peszko (Lead Economist, World Bank Group) followed with a presentation on competitiveness and carbon leakage associated with carbon pricing, work conducted in collaboration with the World Bank Group's Partnership for Market Readiness.⁴

Highlights from the Panel Discussions

Panel 1: Carbon pricing principles and South Africa's carbon tax

The first panel discussion provided a robust debate on carbon pricing as a tool to shift South Africa's growth onto a lower-carbon pathway. There was consensus on the use of a carbon price as a key mechanism, but different viewpoints on the tax proposal. There were questions about how South Africa can align the tax with other energy-related and capital investment policies, as well as other policies aimed at reducing its emissions intensity (e.g., renewable energy development initiatives and energy efficiency measures). The sense was that South Africa is already in a transition phase, but given that companies are seeing higher electricity prices, lower commodity exports and challenges building new infrastructure, the tax needs to work within this larger context.

Workshop participants that support the proposed carbon tax emphasized the medium- and long-term benefits to the economy associated with creating a price signal that drives low carbon development and promotes investments to transition and diversify the South African economy. Furthermore, from the perspective of making sound investments, participants commented that implementing mitigation policies now, such as the carbon tax, will reduce the cost to innovate in the future and potentially soften the demand for (and cost of) adaptation measures in the years to come.

Panel 2: Global experiences and perspectives from South Africa regarding competitiveness and leakage in carbon pricing systems

The second panel discussion focused on potential impacts of the carbon tax on South African businesses, relative to international competitors, and on policy design options that could minimize the cost of compliance for affected companies. Participants identified 'transition assistance' initiatives the government could provide, funded by recycling carbon tax revenue, to facilitate changes toward low carbon production processes and business investments in clean technologies. Additionally, some participants commented on the proposed tax exemptions that deliver relief from the nominal tax rate, such that the effective rate should not result in additional costs that cause South African business to become uncompetitive.

Several participants provided input about the proposed offset mechanism. Companies are eligible to apply offset credits to relieve a portion of their tax burden. The National Treasury informed participants that the development of offset protocols would occur through a subsequent process and will be administered by the Department of Energy. Lastly, a few participants noted the rising electricity costs in South Africa, and urged the government to avoid burdening low income communities with additional increases to their electricity bills.

⁴ Access at: <http://documents.worldbank.org/curated/en/2015/10/25189663/carbon-leakage-theory-evidence-policy-design>.

Next Steps

Many workshop participants requested more opportunities for public/private discussions on the carbon tax. Additionally, the National Treasury will undertake additional stakeholder engagement in early 2016 on the carbon tax prior to a Parliament Committee hearing on the Draft Carbon Tax Bill, which could take place as early as mid-March.

Possible follow up actions to be facilitated by the NBI and the CLPC could include:

- Conducting focused dialogues with key industry sectors in early 2016. This will include, over the next two months, engaging the chemicals, mining and minerals, metals and cement, finance/investors and cleantech industries, for instance. Discussions would address opportunities and challenges to pursuing a transition to a lower-carbon path, as well as identify other policies that may impact the sector's transformation, and create links to the country's carbon tax. The sector-focused dialogues could involve short roundtable discussions with businesses in these sectors, international experts, and government representatives.
- Exploring options to support capacity building among local business groups in South Africa to facilitate industry learning and engagement with international counterparts. This would address the technical/mechanical issues related to design and implementation of the carbon tax, including working with government on offsets protocols as well as other items.

In addition, the World Bank will, in consultation with the South African Government (e.g. National Treasury, the Department of Environmental Affairs and the Department of Science and Technology), prepare a scoping study for a Clean Technology Fund that could potentially be seed-funded by existing South African government funds, and possibly augmented with development finance from the World Bank Group and other donors. The purpose of the Fund would be to address the technology investment requirements to smooth the industrial transition in South Africa toward a low-carbon pathway.

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