

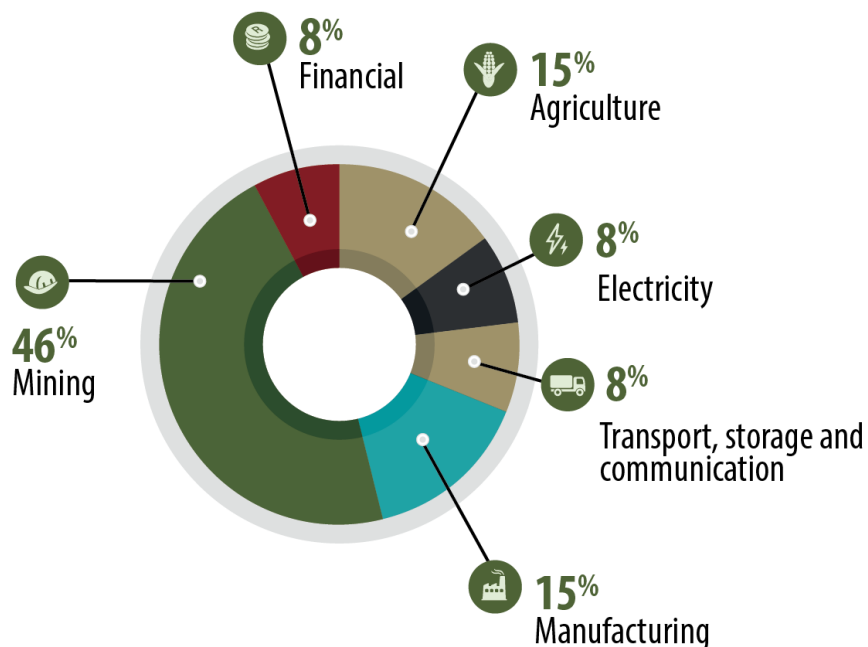
# Implications of the Carbon Tax

29 February 2016

# Industry Task Team on Climate Change

The Industry Task Team on Climate Change (ITTCC) is a voluntary, non-profit association made up of a number of large companies whose activities together play a material part in the nature and scale of South Africa's carbon footprint.

## Current ITTCC members represent the following sectors\*



There is no sector limitation for membership; we endeavor to have as diverse representation as possible. \*Some member organisations operate across multiple sectors. Reflects full ITTCC members only.

### No of Companies



### No of Employees per Sector: (direct contributions)

Agriculture & Forestry	869 462
Mining & Quarrying	445 781
Chemical & petrochemical	152 795
Basic Metals	110 817
Paper, pulp & printing	102 389
Non-metallic minerals	97 055

### SA operations turnover

R585 Billion

### Total Emissions (SA)

32 mil Tons  
CO<sub>2</sub> equivalent

### Electrical Energy Usage (SA)

42 264 GWh

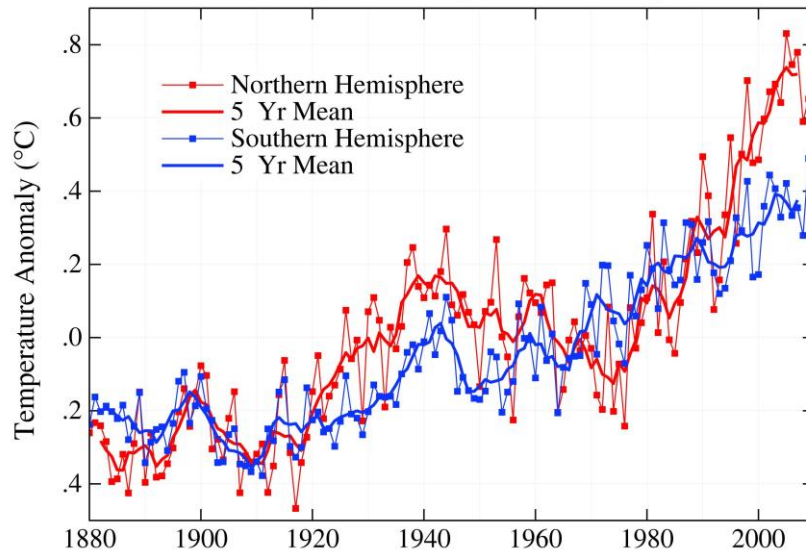
### % Members with EE Projects

89%

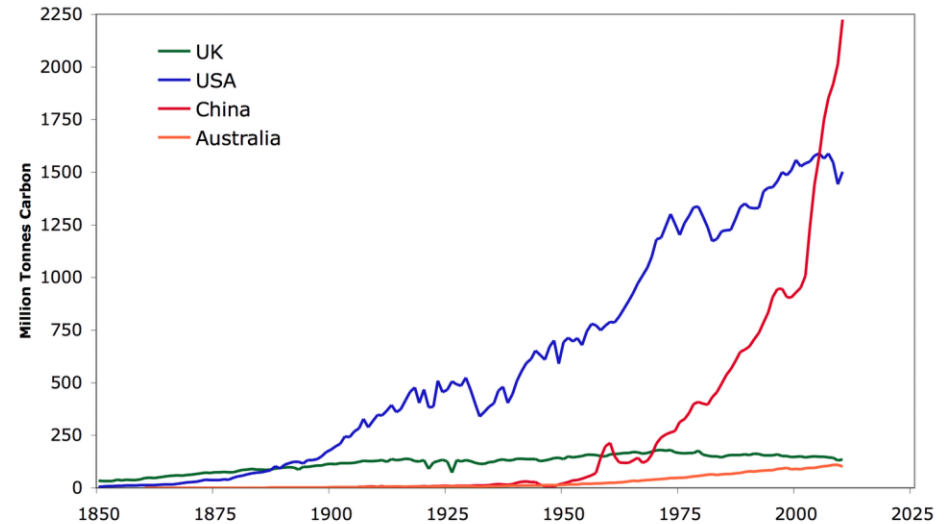
# The climate is changing and it is a problem

- The climate is changing.
- Humans have caused/exacerbated the problem

Hemispheric Temperature Change



Carbon Emissions, Key Countries 1850-2010



**South African corn withers amid worst drought on record**

Emiko Terazono in London and Andrew England in Johannesburg

# The world is putting a price on carbon

## Locations of Existing, Emerging & Considered Carbon Pricing Instruments

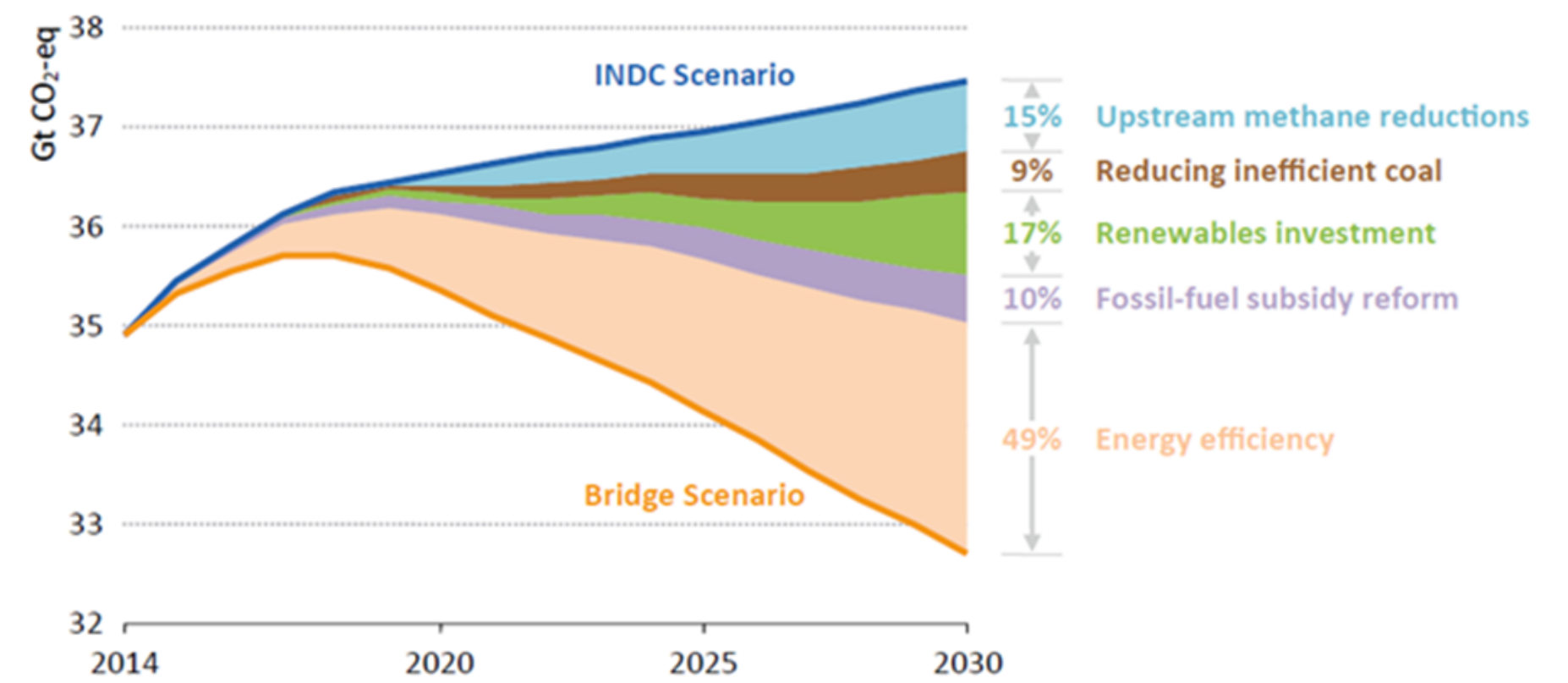


Source: State and Trends of Carbon Pricing 2014

# South Africa, including business, has a role to play

**Energy efficiency** – in all its forms – will be a key enabler of a transition towards 2°C

IEA calls it “the invisible powerhouse in IEA countries and beyond” ... “essential to meeting our climate goals while supporting economic growth”



Source: IEA World Energy Outlook Special Report

# However...



SA's competitors (Australia, Brazil, Peru...) don't price carbon

- *Only about 40 jurisdictions have implemented a carbon price, most of them being European countries. Moreover, South Africa would constitute one of the first developing countries (with Mexico, Costa Rica and part of China) to implement a carbon tax.*

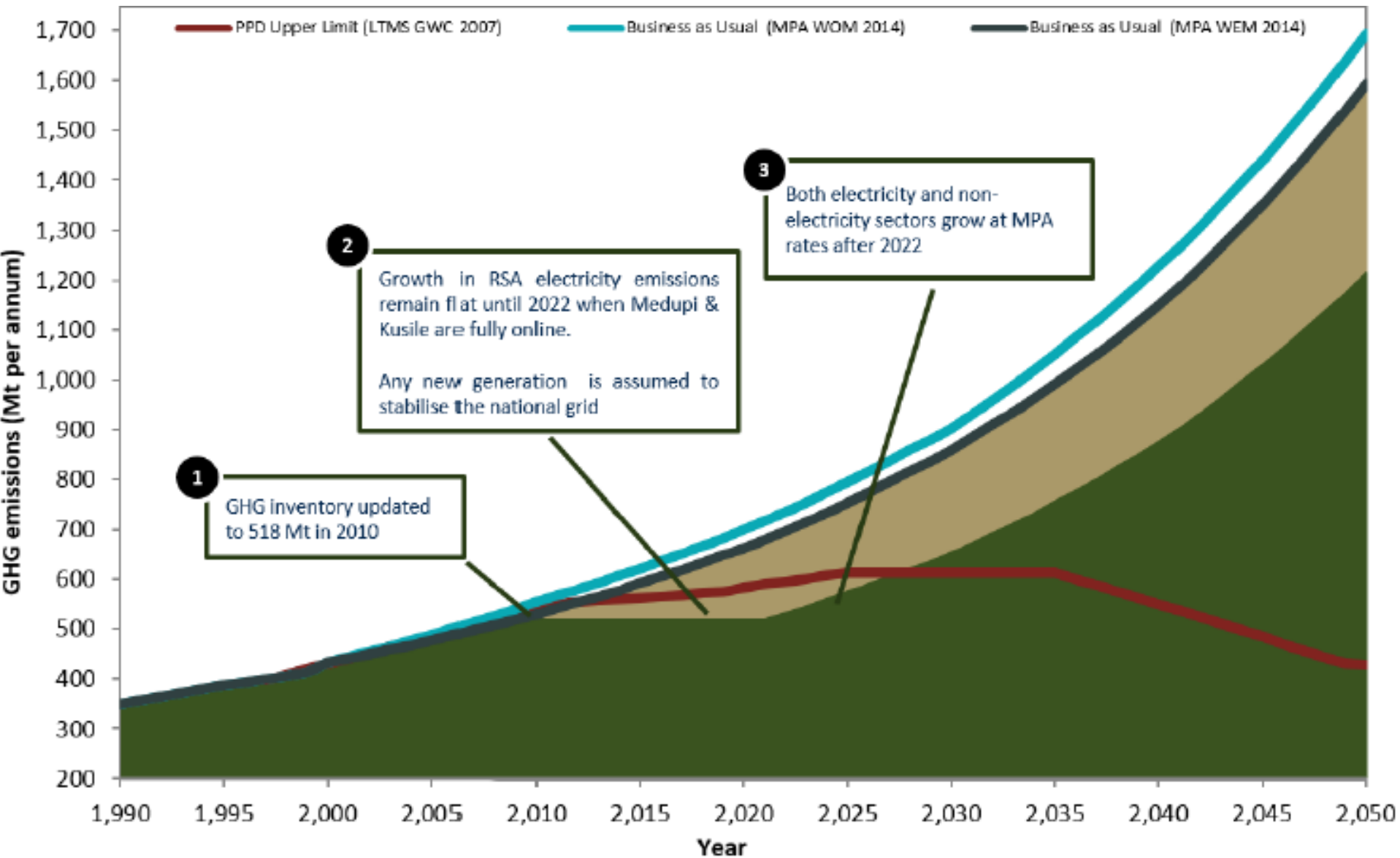
Trade & Industrial Policy Strategies, *Carbon Tax Brief*, quoting World Bank and Ecofys, 2015

The trade exposure allowance only applies to Scope 1 emissions, yet many electricity-intensive companies export 100% of their product.

The carbon tax will increase liquid fuel prices, which will have an inflationary impact on the economy.

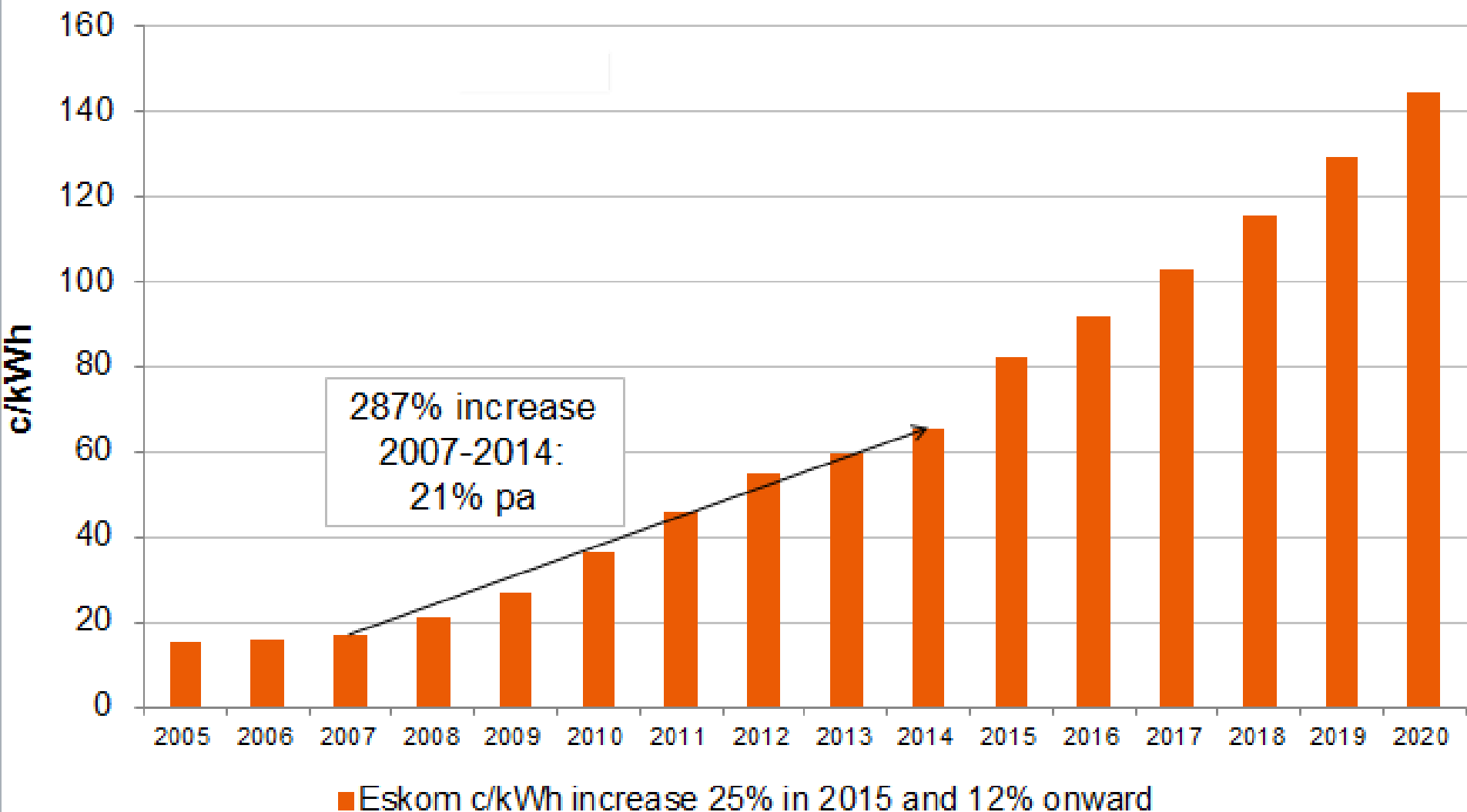
SA accounts for about 1% of global emissions so cuts will have no material impact.

# SA is already well below the PPD





## Industrial Electricity Tariffs



There is a 7c/kWh gap between the electricity levy and the carbon tax on Eskom in year 1.

Eskom's emissions are regulated through the Integrated Resource Plan.

*The behavioural consumption changes sought by the imposition of the tax on Scope 2 emissions are unlikely to materialise as cumulative electricity price increases of the past decade far outstrip the Scope 2 carbon tax price impact.*

Genesis Analytics

*...a combination of regulatory, technical and financial factors makes it difficult for companies to switch from Eskom to cleaner electricity sources ...As a result, they cannot adapt efficiently or rapidly to the higher cost of carbon-based energy, which means the tax as a whole could have a more negative impact than anticipated on the real economy.*

Trade & Industrial Policy Strategies (TIPS), *The Real Economy Bulletin*, 2015

*Given the manifest uncertainties,... and notwithstanding the laudable objective of reducing carbon emissions, it may be that such a tax should initially be introduced with a zero liability in order to ensure that problems of reporting can be addressed and to assist with gathering relevant information.*

Davis Tax Committee, 2015

Is the first phase 4 or 5 years? What will happen in phase 2 of the tax?

What will happen to electricity prices after year 1?

How will the carbon tax and carbon budgets be aligned?

*The headline carbon tax will be introduced at a rate of R120 per ton of CO<sub>2</sub>e. The actual rate will be confirmed by the Minister of Finance through the annual budgetary process.*

Carbon Tax Explanatory Memorandum

Scope 1 emissions taxed as per tables

Hopefully, no net increase in the electricity price

Need to engage suppliers on cost increases

Government uses IPCC, not WBCSD, reporting methodology

Hopefully, alignment between NT and DEA emissions factors

No indications whatsoever on post-2020 regime



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