

## Media Release

October 2022

### RE: JOINT POSITION ON PROPOSED AMENDMENTS TO THE CARBON TAX ACT 2019 (CARBON TAX ACT)

As a multi-representative body of the South African carbon market, we are committed to its long-term development and the benefits that it brings to the country. We take note of recent public comments on the Taxation Laws Amendment Bill, 2022 (TLAB). Through this statement, we wish to express our support for the changes proposed by the TLAB, noting the beneficial impacts it will have on the domestic carbon market; the ability of South Africa to achieve a climate resilient green economy; and for the nation to make a fair contribution to the global mitigation effort.

Since its enactment in 2019, the Carbon Tax Act and associated Offset Regulations have fostered an exponential growth in the carbon market by increasing the demand for domestic carbon offset that meet the relevant eligibility requirements. We are pleased to see that the changes proposed by the TLAB will continue to support this trend.

Carbon pricing is not only a driver of the domestic carbon market, but if designed robustly, can foster the achievement of South Africa's Just Transition, and its Nationally Determined Contribution under the Paris Agreement. To this end we support the proposed increases in the Carbon Tax rate, however we recommend that National Treasury consider further increasing these rates in the period between 2025 and 2030. We also support the continued implementation of the timeframes proposed in the TLAB, noting that any delay in implementation is unwarranted. In this regard we note the following:

- 1. Proposed increases are less than global benchmarks and recommendations:** National Treasury has proposed increases on the Carbon Tax rate well below the recommendations of the Intergovernmental Panel on Climate Change, and existing trading partners (Figure 1). A strong carbon price not only incentivises domestic emission reductions, but it also has multiple co-benefits such as the mobilisation and leveraging of in-country and external revenues and finance (which could be used for NDC implementation and the Just Transition), the application of state-to-state peer pressure, improvements in health, mobility, climate resilience and other environmental outcomes, and creating employment opportunities in new sectors.

Furthermore, the Taskforce on Climate related Financial Disclosure recommends that business accounts for the real costs of climate change in their pricing structures. Closely aligning the Carbon Tax with the true price of carbon, has the co-benefit of enabling business to accurately plan and implement mitigation strategies and to reduce their climate change transition risk. Robust carbon

pricing is also essential for attracting and mobilising capital under the Paris agreement for capacity building in public- and private sectors to develop bankable projects.

A carbon price aligned with global benchmarks will also safeguard the domestic export market which is currently vulnerable to evolving trade mechanisms that seek to penalise carbon intensive goods at the border. These include the European Carbon Border Adjustment Mechanism and similar instruments contemplated by developed countries.

South Africa also stands to benefit from Article 6 of the Paris Agreement which governs international carbon markets, and a robust carbon price is instrumental in being able to harness these benefits. Development projects under carbon standards such as VERRA, the Gold Standard and the Article 6 mechanism provide complementary frameworks for the rapid expansion of high impact projects that reduce unemployment and support sustainable development, while securing international investment. To realise these benefits, the price signal for domestic carbon offsets, which signal is effectively pegged to the domestic carbon tax rate, needs to be sufficiently high to compete with international markets. Carbon pricing aligned with international pricing recommendations will be critical in the centralized market approach under Article 6.4 of the Paris Agreement, enabling South Africa's offset market to trade with other global markets.

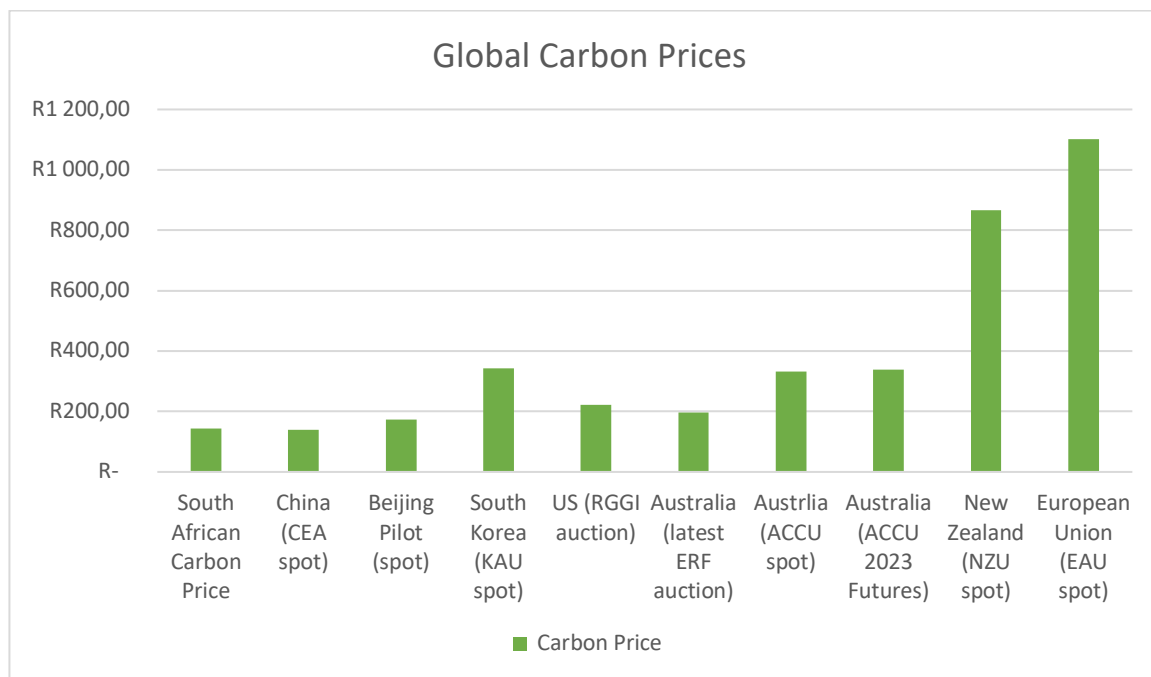


Figure 1: Sources: Carbon Pulse | CER | Jarden | ICE | KRX | Commtrade

Price dates: China ETS, Aus Spot, EU, Aus Auction, New Zealand (2022/09/09) | UK, Aus Futures (2022/09/12), Beijing (2022/09/08) | South Korea (2022/08/10) | South Africa (2022/01/01)

**2. A further extension is unwarranted :** It took just over nine years to move from the 2010 Discussion Paper on Carbon Taxes, to the promulgation of the Carbon Tax Act in 2019. Further, the provisions of the Act are designed to be introduced incrementally in phases over a subsequent decade. Mindful of the urgency of the required response and the carbon intensity of South Africa's economy, a further delay is unwarranted. Expedited implementation timelines will also increase liquidity for both private sector development initiatives and government programmes.

The South African carbon tax has been in gestation for a considerable period and is on the cusp of delivering on its full potential in the coming years. We support efforts by National Treasury to enhance the effectiveness of this domestic pricing instrument both through the timeframes of the implementation period, and through increases in the carbon tax rate. To fully harness the potential of the tax, not only in relation to South Africa's just transition and domestic mitigation ambitions, but also in respect of global trade, reducing business transition risk, and the ability of the South African carbon market to compete globally on international platforms, we encourage the further strengthening of the carbon tax rate. We recommend that it be increased to be in line with global benchmarks and the recommendations of the World Bank's High-Level Commission on Carbon Prices, namely to a rate of \$40/t to \$80/t by 2025 and \$50/t to \$100/t by 2030.

On behalf of the Southern African Carbon Market Association (SACMA)

Yours Faithfully

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