



MEDIA STATEMENT

RELEASE OF CARBON TAX BILL FOR INTRODUCTION IN PARLIAMENT AND PUBLIC COMMENT

The National Treasury has today published the Second Draft Carbon Tax Bill for introduction in Parliament, as well as public comment and convening of public hearings by Parliament, which is expected to be early in 2018. Following that process, a revised Bill will be formally tabled in Parliament, which is expected to be by mid-2018.

The publication of the Bill follows on the announcement made in the 2017 Medium Term Budget Policy Statement, by the Minister of Finance, giving effect to the announcement made in the 2017 Budget in February. The first draft Carbon Tax Bill was published for public comment in November 2015.

Carbon tax bill will enable South Africa to meet its nationally-determined contribution (NDC) commitments in terms of the 2015 Paris Agreement (on climate change), and to reduce our greenhouse gas emissions in line with the National Climate Change Response Policy and National Development Plan. Cabinet approved the submission of the draft bill to Parliament on 16 August 2017 and noted Decarbon tax as an integral part of the system for implementing government policy on climate change.

South Africa ratified the Paris Agreement in November 2016 and endorsed its NDC, which requires that our greenhouse gas (GHG) emissions peak in 2020 to 2025, plateau for a ten-year period from 2025 to 2035 and decline from 2036 onwards. The Paris Agreement comes into operation in 2020, which means that efforts to reduce our GHG emissions and meet our commitments cannot be further delayed. The NDC noted that carbon tax is an important part of the package of measures to reduce emissions, complemented by appropriate regulations and incentives.

The actual date of implementation of the carbon tax will be determined through a separate and later process by the Minister of Finance through an announcement during 2018, or at the Budget 2019, taking into account the state of the economy. This announcement on the implementation date of the carbon tax will be complemented by a package of tax incentives and revenue recycling measures to minimise the impact in the first phase of the policy (up to 2022) on the price of electricity and energy intensive sectors such as mining, iron and steel. The impact of the tax in the first phase is designed to be revenue-neutral in terms of its

aggregated impact, when assessed together with the complementary tax incentives and revenue recycling measures. Further, in order to ensure a minimal impact on the price of electricity in the initial phase, a credit for (or reduction in) the electricity generation levy and the renewable electricity premium (built into the current price of electricity) will also be introduced. Some revenue recycling measures have already been introduced, such as the energy efficiency savings tax incentive (introduced in 2013) to help with the transition to a lower carbon economy. The effective recycling of revenues to be collected will mitigate any possible short-term negative impacts on the economy and jobs.

Beyond the first phase, a review of the impact of the tax after at least three years' implementation will be conducted. The review will take into account the progress made to reduce GHG emissions, in line with our NDC Commitments. Future changes to rates and tax-free thresholds in the Carbon Tax will only follow after the review, and be subject to the same transparent and consultative processes for all tax legislation, after any appropriate Budget announcements by the Minister of Finance.

This draft bill is the culmination of an extensive consultative process on carbon tax policy since the publication of the Carbon Tax Discussion Paper in 2010, the 2013 Carbon Tax Policy Paper, and the 2014 Carbon Offsets Paper. This Bill has been revised to take into account the substantive comments received in writing, and from meetings and workshops with a wide range of stakeholders, including business, non-governmental organisations, civil society, labour, state owned entities, government line departments and other spheres of government.

Summary of Comments Received on the First Draft Carbon Tax Bill

The main comments received on the first draft of the Carbon Tax Bill, released in November 2015, led to revisions relating to:

- Electricity prices, electricity generation levy and renewable energy premium
- Competitiveness and the design of the trade exposure allowance
- The tax rate and thresholds for phases 1 and 2 of the carbon tax
- Carbon offset and performance allowances
- Policy alignment of the carbon tax and carbon budgets
- Technical legal and administrative aspects

A Response Document of initial responses to the submitted comments has been compiled (**See Annexure 3**).

Carbon tax seeks to give effect to the polluter pays principle by ensuring that the real cost of GHG emissions to the environment and society are explicitly incorporated into the prices of carbon intensive production activities. The carbon tax will assist, in a least cost manner, in reducing GHG emissions and ensuring that South Africa will meet its NDC commitments. The tax aims to encourage companies to change their future behaviour by taking steps now to gradually change their fuel inputs, production techniques and processes by encouraging investments in energy efficient, low carbon technologies to lower their emissions. It helps to ensure that firms and consumers take these costs into account in their production,

consumption and investment decisions. The carbon tax will also ensure that emission reductions are delivered while sustained economic growth is realised. The carbon tax will have a significant impact on reducing South Africa's GHG emissions, and would lead to an estimated decrease in emissions of 13 to 14.5 per cent by 2025 and 26 to 33 per cent by 2035 compared with business-as-usual.

Alignment of Carbon Tax and Carbon Budgets

A study on the options for alignment and integration of the carbon tax and carbon budget policy instruments post 2020 has been completed by the Department of Environmental Affairs and the National Treasury. The mandatory carbon budgets regime will be introduced in a way that is fully-aligned with the carbon tax, and designed to ensure no double penalty. An integrated review process to assess both instruments will be done after three years of implementation of the carbon tax, and will inform any significant changes in the tax rate and the implementation of the carbon budgets.

Process for Adoption of the Carbon Tax Bill

The Carbon Tax Bill is a Money Bill in terms of section 77 of the Constitution. The process and practice for money bills is governed by the Money Bills Amendment Procedure and Related Matters Act read together with the rules of Parliament. This allows for the current process (as applies to the annual tax bills such as the Rates and Monetary Amounts and Amendment of Revenue Laws Bill and Taxation Laws Amendment Bill), whereby

- i) Tax bills are first published as draft bills, following announcements in the Budget by the Minister of Finance;
- ii) National Treasury calls for public comments, and comments are submitted to National Treasury;
- iii) Submission of the draft bill to the Standing Committee on Finance (SCoF) for consideration;
- iv) SCoF calls for public comments;
- v) Public hearings are held by the SCoF;
- vi) NT submits a Response Document to formally respond to all comments received;
- vii) SCoF completes its process with recommendations for changes to the bill where necessary; and
- viii) The Minister of Finance tables the bill to the National Assembly.

Due date for comments

Stakeholders are hereby invited to submit written comments on the draft Carbon Tax Bill by close of business on **9 March 2018** to carbontaxbillcomments@treasury.gov.za. Kindly email any queries to Sharlin Hemraj (sharlin.hemraj@treasury.gov.za) or Dr Memory Machingambi (memory.machingambi@treasury.gov.za).

Annexures

Enquiries: Communications Unit
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The Draft Carbon Tax Bill together with the following annexures is available on the National Treasury website: www.treasury.gov.za

- Annexure 1: Explanatory Memorandum
- Annexure 2: Socioeconomic Impact Assessment Report
- Annexure 3: First Draft Carbon Tax Bill 2015: Response Document

Issued by the National Treasury

Date: 14 December 2017

