9 March 2018

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Good Day

CAIA supplementary submission on the Draft Carbon Tax Bill

INTRODUCTION

The Chemical and Allied Industries' Association (CAIA) represents the interests of a large proportion of the chemical industry in South Africa; **throughout its value chain**. The chemical sector contributes about 2.8% to the Gross Domestic Product (GDP) and 21% to manufacturing in South Africa, thereby contributing strongly to our economy.

Chemicals, chemical products and technologies are used in almost every area of life as well as in most facets of the world economy, thereby contributing to almost every value chain, even outside of the industry itself. In South Africa, the chemical sector therefore supports a range of other manufacturing sectors, other sectors such as services and transportation of goods, and plays an indispensable role in the provision of essential services, as well as in economic growth.

Economic growth increases the demand for products of the chemical industry, and this growth in turn drives product innovation; an outcome that is desperately needed in South Africa and internationally. The contribution that the sector is making to the economy is being threatened due to, amongst other factors, the rising cost of doing business in South Africa that includes the increasing imposition of regulatory and economic instruments. The imposition of any further economic instruments, whether they be environmentally motivated or otherwise, should be very carefully considered prior to implementation, in terms of the socio-economic consequences that may result.

The importance of a healthy, sustainable and growing chemical sector is key to many economies of the world. This is due to the upstream and downstream opportunities which are offered that are reflected in:

- the diversity and complexity of operations that the chemical industry is directly involved in; and
- the strong multiplier effects the chemical industry has on employment and Gross Domestic Product. In South Africa, in 2014, these multiplier effects were 7.00 times and 4.72 times, respectively.

CAIA is the custodian of the Responsible Care® Initiative in South Africa that is the sector's commitment to sustainability, and for members it is mandatory to commit to its principles. The Responsible Care® Initiative is the global chemical industry's initiative to continuously improve safety, health and environmental performance. These investments and commitments are made generally in the absence of incentivising, regulatory and/or economic instruments and need to be recognised by Government. This will contribute to the understanding of the risk that is being placed on such projects, due to increasing costs of doing business in South Africa.

BACKGROUND AND POSITION

CAIA appreciates the further opportunity to provide input on the second draft of the Carbon Tax Bill. CAIA has been a key stakeholder during the development of the policy and draft legislation over the years, including during that of the Department of Environmental Affairs relating to greenhouse gas emissions mitigation. As such, CAIA has contributed greatly to policy and technical discussions on the matter of the proposed Carbon Tax; including having made submissions to the Davis Tax Committee.

Throughout, CAIA has been opposed to the introduction of a Carbon Tax in South Africa at this time; the reasons for which have been reflected on by CAIA and/or others for some time. Three of the most important reasons why CAIA does not to support the proposed tax are:

- the punitive nature of the tax where there are no suitable alternatives available to effect behaviour change (technology- and/or input-related);
- lack of appropriate recognition of the voluntary investment and commitment to responsible production that has been demonstrated through emissions reductions of close to 100% in some cases; and
- the irrational consideration of the need for multiple instruments to attempt to achieve the same purpose; in a developing country with economic growth uncertainty and unaligned policy.

Having insight into the status of i) the development of legislation, systems and alignment, ii) the nature and importance of outstanding policy to be finalised and iii) the ongoing studies that need to feed the development of informed policy – by all competent authorities sharing the mandate - it was with surprise and disappointment that the public were informed through the 2018 Budget Speech of the intended implementation of the proposed Carbon Tax from 1 January 2019.

CAIA supports the Business Unity South Africa (BUSA) submission

CAIA has not only engaged with Government bilaterally on the proposed Carbon Tax, but has engaged multilaterally as a member of Business Unity South Africa. CAIA has had sight of the draft BUSA submission on the Carbon Tax and supports the principles and positions contained therein.

CAIA emphasis

CAIA raises the following matters for emphasis.

- CAIA's support of the BUSA submission and the provision of input must not be deemed to indicate support for the proposed Carbon Tax. The BUSA submission also argues against the need for the tax in the current collective circumstances of South Africa.

- The need for further consultation and engagement is clearly evident. Policy is not finalised, studies are still being undertaken by Government and the private sector, legislation is still being drafted, alignment across Government has not been achieved even at the policy level, and there is disagreement on a number of matters including those of principle and policy.

- The punitive nature of the tax in certain cases, industries and sectors can also not be supported. For example; there are industrial sectors that have voluntarily mitigated industrial greenhouse gas emissions by over 90%. The taxing of emissions where there are no feasible options to reduce emissions further is not a fair nor effective mechanism to mitigate national emissions. Similarly, the tax is punitive where alternative fuels and combustion technologies are unavailable to drive the behaviour change that is the stated objective of the proposed Carbon Tax. Challenges rest with infrastructure and innovation limitations.

- The latter example is of further concern due to the economic implications that are expected through an increase in the fuel price due to the addition of the proposed Carbon Tax at the pump. The Carbon Tax will be implemented at two levels at the pump – firstly through the pass-through from the production of liquid fuels by the sector, and secondly through the addition of the proposed tax to cover the combustion of the purchased fuel. CAIA's member companies also comprise those companies that transport goods by road – however the impact that will be felt on the consumer of all goods transported by road as increases in fuel taxes (without alternatives) will most certainly negatively impact inflation. Such an increase in inflation cannot be tolerated by a country showing weak economic growth, investment uncertainty and leakage, high poverty and unemployment levels, political uncertainty, increases in taxation, and challenges with Government's socio-economic modelling that has been undertaken on the effect of the proposed Carbon Tax.

CONCLUSION

CAIA trusts that the principles raised in this written submission as well as that of BUSA will be considered and that there will be further calls for more detailed submissions, consultations and engagements; so that the proposed implementation of the Carbon Tax can be rationally reconsidered for South Africa at this time. As outlined above and in the BUSA submission, there is a need for further consideration of a number of matters prior to the potential further development of policy and legislation in the future.

Kindly make contact with CAIA should there be queries or a need for additional information.

Yours sincerely

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