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(REGISTRATION NO. 1916/001498/07)

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Attention: Ms. Teboho Sepanya and Mr. Allen Wicomb
Committee Secretaries - Parliament

By email: tsepanya@parliamant.gov.za and awicomb@parliament.gov.za

Dear Ms. Sepanya and Mr. Wicomb

NESTLÉ SOUTH AFRICA (PTY) Ltd COMMENTS PERTAINING TO THE DRAFT CARBON TAX BILL

Nestlé's purpose "enhancing quality of life and contributing to a healthier future" is how we want to contribute to society while ensuring the long-term success of our company and communities we operate in.

As part of our "Creating shared Value" approach, we have defined three overarching ambitions for 2030, which guide our work and our willingness to support the achievement of the United Nations Sustainable Development Goals:

1. Help **50 million children** live healthier lives;
2. Help to improve **30 million** livelihoods in communities directly connected to our business activities; and
3. Strive for **zero** environmental impact in our operations.

As a Global Leader in Environmental Sustainability, Nestlé recognises the importance of taking steps to mitigate anthropogenic climate change, and to keep global warming below 2°C above pre-industrial levels as set out in the Paris Agreement. We agree in principle with utilising effective, efficient and least cost mechanisms provided by government over and above Nestlé's internal environmental targets.

Nestlé views environmental responsibility as a key pillar to the long-term success of the company. We look forward to engaging in a constructive dialogue on pricing carbon to help the Government implement sustainable policies and solutions across all the sectors of South African economy.

It is in this respect that we have adhered to the Carbon Disclosure Project (CDP) from the beginning and we are ranked as the world leader in this area.

Our commentary on carbon tax bill is broadly structured around the following documents:

1. Socio-Economic Impact Assessment System ("SEIAS") commissioned by the Department of Planning, Monitoring and Evaluation on July 2017;
2. Draft Carbon Tax Bill ("DCTB") issued by National Treasury ("NT") on 14 December 2017; and
3. National Greenhouse Gas Emission Reporting Regulations under the National Environmental Management: Air Quality Act, 2004.

In summary, our main recommendation to the Government is to consider the Carbon Tax holistically across all sectors of the South African's economy. The implementation of a Carbon Budget will help lead action across the board and lower the administrative burden for both the Government and the industry as a whole.

Please find below the detailed comments in respect of the items above.

1. Socio-Economic Impact Assessment System

This report acknowledges that "*poor and low-income household will benefit in the long run if negative consequences of climate change can be addressed*". It further mentioned that "*the increase in energy and transport prices (and their ripple effect) could have a negative impact on households*". Both these statements are quoted from the impact assessment of Carbon Tax on National Priorities of which Food Security is listed as one.

Unfortunately, the report fails to evaluate and assess the impact of Carbon Tax on food and beverage cost inflation. We would encourage that further work is conducted on this to help establish a holistic understanding of the implications of the proposal to all sectors, and in particular to the food and beverage one which touches directly the purchase power of people.

The Carbon Tax impact on food and beverages sector, including Nestlé, will be twofold:

1. Direct taxation of combustions emissions at the processing facility; and
2. Indirect taxation of emissions associated with the entire value chain which will result in an additional pass through cost to the consumer i.e. Carbon Tax on transportation fuels.

The SEIAS reports on the Carbon Tax impact of petrol and diesel prices being 11 and 13 cent per litre respectively, but this only represents the cost implication of direct combustion. Not taken into account is the pass through of Carbon Tax from producers and transporters of fuel, which will further drive up this figure. Calculations have shown that the impact is likely to be closer to 20 cents per litre once these other factors have been considered.

Nestlé has 13 plants situated in Gauteng, KwaZulu-Natal, Western and Eastern Cape from where products are distributed to end consumers countrywide. Road transportation is the only viable means to reach our consumers and distribute our products. As an emissions intensive activity it is important for us and the sector to understand the full Carbon Tax cost-implicating along the value chain, and the impact on the consumer.

This is the rational for us to strongly recommend the government to commission a study specifically for the food and beverage sector and establish the combined impact of both Sugar Tax and Carbon Tax short and medium term both environmentally and financially. We are willing to contribute to such a survey through data sharing and technical knowledge.

2. Draft Carbon Tax Bill

The DCTB is a complex instrument with tax-free thresholds that could quickly change and a tax rate that increases aggressively. We believe that this exposes Nestlé to a high level of forecasting uncertainty and vulnerability, especially in a market sector where the consumer is very cost-sensitive. In this respect, we believe that a Carbon Budget will provide greater certainty to emitters and will result in less of an administrative burden to industry. The advantages of Carbon Budget systems over taxes include increased certainty to meet the environmental objective and allowing for predictability and long term business forecasting. Another advantage is that Carbon Budgets tend to be more economically efficient, whereby the reduction efforts move naturally towards sectors/entities where it is cheaper to reduce emissions, whereas a tax applies the same cost everywhere.

We are also concerned that electricity producers that make up nearly 80% of the country's emissions will effectively not be taxed in Phase 1. There is no encouragement for producers to reduce their emissions and only an increase in the burden on the limited number that would be taxed should South Africa wish to achieve the intended emissions reduction pathway. We therefore believe that the most effective tool for Government to reduce South Africa's GHG emissions is a Carbon Budget system with input from the Integrated Resource Plan for energy.

3. Scope

The previous DCTB indicated that taxpayers would consist of entities that:

"if that person conducts an activity as set out in Annexure 1 to the Notice issued by the Minister responsible for environmental affairs in respect of the declaration of greenhouse gases as priority air pollutants under section 29(1) read with section 57(1) of the National Environmental Management: Air Quality Act, 2004 (Act No. 39 of 2004)".

When referring to Annexure 1, a limited number of heavy industries were listed which include coal mining, cement production, iron and steel, electricity production and a few other heavy polluting industries. These industries are also earmarked for submitting *"Pollution Prevention Plans"* and had been invited by the Department of Environmental Affairs to submit carbon budgets. Many of the pre-carbon tax studies commissions by government including the *"Mitigation Potential Analysis"* and *"Emissions Intensity Benchmarks for the South African Carbon Tax"* only focusses on these industries.

The current DCTB has a far more extensive list of activities or sectors that would be subject to the Carbon Tax as can be seen in Annexure 1 of the Greenhouse Gas Emissions Reporting Regulations. The threshold for most combustion emissions are set at 10 MW thermal capacity and also includes a category for combustion named "Non-Specified" (1A5). According to the response document released as Annexure 3 with the DCTB, the thresholds have been clarified to apply at entity level.

Nestlé would very much appreciate the possibility to engage with the Government to get further clarification and evaluation of thresholds also considering that the tax is based on the amount of emissions emitted and not the installed capacity of the activity or device.

4. Additional Allowances

It is our understanding that the regulations on the performance, carbon offset and trade exposed allowances are still outstanding. We would appreciate having a better understanding of the full context of these regulations to assess the impact on Nestlé and contribute meaningfully to the Government's action.

One allowance of particular concern is the performance allowance. The food and beverage industry would need further time to collectively develop emissions intensity benchmarks for various products and submit these to NT for approval by March 2018. Notwithstanding the fact that a per-product benchmark is impractical for the large variety of products Nestlé produces.

In respect of voluntary participation in the Carbon Budget, a similar problem occurs. Initially, only sectors where at least one participant emitted more than 100 000 tonnes of Carbon Dioxide equivalent ("tCO_2e") were approached to participate. This is a process that has been running for several years. Even so, some of the submitted budgets have not yet been approved. There is significant uncertainty as to whether Nestlé will still be able to successfully submit voluntary Carbon Budgets to receive the allowance.

We are further concerned with limiting the offset allowance to 10%. As an economy that has been built on a legacy of cheap coal energy an immediate re-investment in cleaner technology is not financially viable. Foreign direct investment into cleaner technologies will assist greatly into achieving our emissions objects and therefore belief that there should be no limit on the amount of offsets used.

5. Tier 2 Emissions Factors

The majority of emitters are allowed to report their emissions through a Tier 1 approach for the transitional period of the GHG reporting. However, some sectors, such as food and beverages, are not, and must use a Tier 2 approach. This approach requires country specific emission factors to be used. As no country specific emission factors have been published for South Africa, it is not presently possible for these emitters to report or even determine their Carbon Tax liability.

6. National Greenhouse Gas Emission Reporting Regulations and alignment with Carbon Tax

The purpose of GHG Reporting Regulations is to introduce a single national reporting system for the transparent reporting of greenhouse gas emissions, which will be used amongst other "*to inform the formulation and implementation of legislation and policy*". The regulation further states that the Minister may identify additional greenhouse gases, sources and associated data providers and request them to register and submit data.

It is clear that any changes in the GHG Reporting Regulations would have an immediate impact on the Carbon Tax payer. Adding additional GHG's or changing the reporting thresholds would widen the Carbon Tax net. In such instances, NT would need to make provision for these companies to develop or adopt regulations pertaining to the performance allowance, carbon budgets and trade exposure.

DEA already indicated that new Technical Guidelines can be expected for the GHG Reporting Regulations which leaving industry with very little time to make changes prior to the first submission by 31 March 2018. The alignment between DEA and SARS is imperative to successful carbon pricing mechanism.

7. Clarity on GHG emissions categories

Any person in control of or conducting an activity marked in the Category A column above the capacity given in the threshold column of the table in Annexure 1 to the GHG Reporting Regulations must provide data.

In Annexure 1, Food and Beverages (IPCC code 2H2) is allocated with no threshold or reporting obligation. Nestlé falls in this category but also operate coal steam boilers. This heat production is however not Nestlé "main activity" as eluded to in the naming of "Main Activity Electricity and Heat Production" (IPCC code 1A1a). Clarification is required if companies can fall into multiple categories and specifically if reporting is requirement for emissions related from non-main activities.

Should you wish to discuss any aspect of this proposal, we are at your disposal to reply to any further questions.

Yours sincerely

Gavin Steiner

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