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**The Minister**

**Department of National Treasury**

**Attention: Dr Memory Machingambi and Sharlin Hemraj**

**Per email: [carbontaxbillcomments@treasury.gov.za](mailto:carbontaxbillcomments@treasury.gov.za).**

**Copied to: [sharlin.hemraj@treasury.gov.za](mailto:sharlin.hemraj@treasury.gov.za) and**

**[memory.machingambi@treasury.gov.za](mailto:memory.machingambi@treasury.gov.za)**

**9 March 2018**

Dear Sir/Madam,

**WRITTEN SUBMISSIONS BY THE PAPER MANUFACTURERS ASSOCIATION  
OF SOUTH AFRICA ON THE DRAFT CARBON TAX BILL (AS INTRODUCED IN  
THE NATIONAL ASSEMBLY (PROPOSED SECTION 77))**

**1. INTRODUCTION**

- 1.1. The Paper Manufacturers Association of South Africa ("**PAMSA**") thanks the Department of National Treasury ("**NT**") for the opportunity to make written submissions, on behalf of its members, on the draft Carbon Tax Bill ("**CTB**")
- 1.2. As will be explained in our submission, PAMSA sees no need for implementation of this tax to achieve the country's nationally determined contribution ("**NDC**") to the reduction in greenhouse gas emissions at this point in time.
- 1.3. Since our sector is uniquely positioned, as a vertically integrated forest products industry, we appreciate the inclusion of a credit for sequestration of carbon in company owned plantation forests, but propose a few changes to the calculation and definition of "S" in the formula provided in Section 6(2) of the CTB.
- 1.4. PAMSA was involved in the development of the submission by BUSA and fully supports its submission.

**2. The need for the tax**

- 2.1. PAMSA is of the opinion that there is no need to introduce this tax as a means to achieving the NDC of the country. The contribution of the pulp and paper industry to South Africa's national greenhouse gas emissions equates to 0.8%. The energy sector contributed 83% (47% by Eskom) of the total country's greenhouse gas emissions in 2012 according to the 2012 national

greenhouse gas inventory. To achieve a real reduction in emissions all focus should be on the energy sector. If Eskom's electricity supply transitions from non-renewables to more renewables, the NDC will be achieved without the need for this tax.

### **3. The timing of the imposition of the tax**

3.1. PAMSA notes the proposal in the Budget Review (2018) that the Bill should be implemented with effect from 1 January 2019. PAMSA believes that this is premature due to the uncertainties surrounding the performance allowance and sequestration calculations and the carbon offset regulations, none of which have been finalised or are unlikely to be finalised timeously.

### **4. Definitions**

#### **4.1. Carbon Budget:**

PAMSA proposes the existing definition be replaced with the following definition: "carbon budget" means a limit on total greenhouse gas emissions which may be emitted from a specific company, over a specific period of time;

#### **4.2. Fugitive Emissions:**

PAMSA proposes the following definition: "fugitive emissions" means emissions that are not emitted through an intentional release through stack or vent including during the extraction, processing, delivery and burning (for energy production) of fossil fuels.

#### **4.3. IPCC Code:**

The proposed definition: "IPCC code" means the source code in respect of an activity resulting in the emission of a greenhouse gas as stipulated in the Guidelines for National Greenhouse Gas Inventories (2006) issued by the IPCC. The technical guidelines indicate that the global warming potentials from the 3<sup>rd</sup> assessment report should be applied. This definition requires the 4<sup>th</sup> assessment report (2006) should be used, which is supported by PAMSA.

### **5. Calculation of amount of tax payable**

5.1. Section 6(1) of the CTB proposes the formula for the calculation of tax payable, as follows:

$$X = \{(E - D - S) \times (1 - C) \times R\} + \{P \times (1 - J) \times R\} + \{F \times (1 - K) \times R\}$$

where:

"S" represents the number in respect of greenhouse gas emissions,

expressed in terms of carbon dioxide equivalent that were sequestered in respect of that tax period as verified and certified by the Department of Environmental Affairs. A stipulation is included as follows: Provided that where the number in respect of the determination of the expression "(E – D - S)" in the formula is less than zero, that number must be deemed to be zero. PAMSA proposes that the expression "(E-D-S)" be allowed to drop below zero, with the proviso that Treasury is not required to pay the entity for tax owed by Treasury to the entity, but that the negative value is carried forward as a tax credit for the purposes of tax calculations in the following year. It is further proposed that S be determined as a five year moving average, for the following reasons:

- i. Plantation forests are relatively slow growing compared to other crops. Changes in pulp production due to swings in demand for pulp and paper can result in relatively large increases or decreases in plantation carbon stocks over the period of a year. A moving average will smooth out these short term impacts.
- ii. It follows that during some seasons the sequestration value (S) will be high and in others the sequestration value (S) will be low. By smoothing out the swings, using a moving average and allowing companies to claim a credit in periods when harvesting is low as a result of lower demand, will result in a more equitable application of the tax.
- iii. The vagaries of drought, fires, pests and diseases result in sudden and extensive losses in plantation stocks. Stocks can become massively depleted in a single year as a result.
- iv. Expansion of forest areas is difficult due legislative requirements that must be complied with, making it difficult to increase sequestration significantly, much as the forestry sector needs to expand to adequately supply future wood requirements.

PAMSA therefore proposes that the sentence at the end of Section 6(1) (p16 &17):

"Provided that where the number in respect of the determination of the expression "(E– D - S)" in the formula is less than zero, that number must be deemed to be zero" should be deleted and replaced with:

"If X is negative this amount should be allowed to be used as a credit to offset future debits."

- 5.2. The definition of sequesterate for has been provided in Section 6(3) of the CTB as: ***"sequesterate" means the process of increasing the carbon content of a carbon reservoir other than the atmosphere.***" This definition is broad and will allow all forms of carbon sequestration that conform to DEA verification to be claimed by any sector liable for tax under the Carbon Tax

Bill. In principle PAMSA supports the deduction of sequestered carbon by other sectors who by the nature of their business or by particular intent reduce their net carbon emissions through carbon sequestration, however PAMSA request a more explicit statement relating to the inclusion of plantations in any qualifying statement relating to carbon sequestration.

We request that the definition of sequestration above is changed to the following, (or words to that affect), to accommodate plantation farming where sequestration of carbon via the sustainable cultivation of trees is of enormous importance and benefit to the environment:

***"sequesterate means the process of storing a greenhouse gas or increasing the carbon content of a carbon reservoir which includes forests and sustainable plantations in particular and all other verifiable forms other than the atmosphere in general."***

For the sake of clarity we suggest "carbon reservoir" be defined.

A definition of a carbon reservoir is:

***"Carbon-storing natural feature (including but not limited to, forests, sustainable plantations or, land masses) that exchanges carbon with other reservoirs."***

## **6. Tax-free allowances**

- 6.1. In terms of section 11 a tax payer that has implemented "additional measures" to reduce its emissions is entitled to an allowance under the CTB. PAMSA requests clarity as what would constitute additional measures.

## **7. Persons subject to tax: Section 3**

- 7.1. Entities that are liable for carbon tax are defined in the Explanatory Memorandum (Annexure 1) as those entities engaged in activities within the indicated IPCC source categories and above the threshold, which are those entities with a combined boiler capacity equal to or above 10MW heat input. ***"Liability for the tax arises for every entity that conducts an activity and emits GHG emissions above the threshold, which is listed in Schedule 2 of the Bill."***

Certain entities that fall within the pulp, paper and printing sector have operations, which engage in activities which fall under a different source code, but which are owned by the same entity. For example, a linerboard and fluting manufacturer which owns conversion facilities, for producing cardboard boxes. In such a case, would the boiler capacities of the operations within this entity but outside of the sector, be excluded from the combined boiler capacity calculation, when determining the threshold?

In addition, there are boilers owned and operated by entities that are standby boilers. They are only operated for a small percentage (10 to 20%) of the

time when there is a boiler failure in one of the continuously operating boilers. Are these boilers taken into account when determining the combined installed capacity?

7.2. Certain of the entities within a sector will be excluded from the tax by virtue of their combined boiler capacity being below the threshold. If these operations are producing the same products as other entities in the sector that are liable for the tax, then they have a cost competitive advantage.

## **8. Conclusion**

8.1. PAMSA appreciates that the NT intends to consult meaningfully with industry and PAMSA commits to making itself available to NT to discuss any of its submissions.

Yours sincerely

A handwritten signature in cursive script that reads "Jane Molony". The signature is written in dark ink and is positioned to the left of a vertical line.

Jane Molony  
Executive Director  
**PAMSA**