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Directors: S Govender, R Haffeejee, AL Lottering, CT Somyalo, SA Uys
D Hayes-Powell (DHP), GW Young (Chairperson)

9 March 2018

TO: Hon. Mr. Yunus Carrim (MP)
Chairperson: Standing Committee on Finance
National Assembly
Parliament of the Republic of South Africa
PO Box 15
Cape Town
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ATT: Mr. Allan Wicomb
Committee Secretary: Standing Committee on Finance
National Assembly

BY: Email – awicomb@parliament.gov.za

RE: 2018 DRAFT CARBON TAX BILL

Dear Hon. Carrim

This submission by the South African Tyre Manufacturers Conference (SATMC) pertains to the 2018 Draft Carbon Tax Bill, as published by National Treasury on 14th December 2018 and the invitation by the Standing Committee on Finance for stakeholders to submit written comments hereon.

The South African Tyre Manufacturers Conference (SATMC) is the official industry body and trade association for the domestic tyre manufacturing industry. We represent and comprise all of the four local tyre manufacturers in South Africa, namely:

- Bridgestone Tyres South Africa (Pty) Ltd
- Continental Tyre South Africa (Pty) Ltd
- Goodyear South Africa (Pty) Ltd
- Sumitomo Rubber South Africa (Pty) Ltd

We put forward this submission on behalf of our members, detailing our rationale, commentary and proposals/recommendations on the Bill.

Cognisant of the phased approach to be adopted in the implementation of the carbon tax, accordingly are comments are intended to contributing to contribute the monitoring and review of the effectiveness of the first phase of implementation from 2019 – 2022, with view to shaping and informing the post-2022 implementation regime and considerations for finalisation of the second phase.

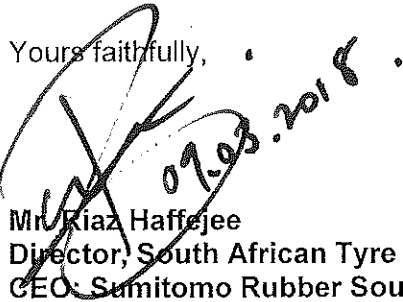
We formally request your consideration hereof and the opportunity to make an oral submission to the Standing Committee on Finance during its public hearings schedule for Wednesday 14th March 2018.

Furthermore, we request and welcome the opportunity to engage you on the substantive nature of our submission in this regard.

We look forward to receiving your feedback and response in this regard.

Thanking you in advance and with appreciation.

Yours faithfully,



Mr. Riaz Haffejee
Director, South African Tyre Manufacturers Conference (SATMC)
CEO, Sumitomo Rubber South Africa



Submission by:

South African Tyre Manufacturers Conference (SATMC)

DRAFT CARBON TAX BILL FOR PUBLIC COMMENT

9 March 2018

1. Executive Summary

The South African Tyre Manufacturers Conference (SATMC) is the official local trade and industry body for the domestic tyre manufacturing sector in South Africa, comprising all of the four local tyre manufacturers in South Africa, namely:

- Bridgestone Tyres South Africa (Pty) Ltd
- Continental Tyre South Africa (Pty) Ltd
- Goodyear South Africa (Pty) Ltd
- Sumitomo Rubber South Africa (Pty) Ltd

As the leading manufacturers of locally produced pneumatic passenger and select models of commercial tyres in South Africa and key exporters thereof into the rest of the African region, the South African tyre manufacturing process is an energy intensive process.

The South African tyre manufacturing industry strives to be sustainable sector. As such we are not opposed to the principles of setting a price on carbon.

However, we recognise that in order to reduce South African and global CO₂ emissions and the industry supports a gradual, predictable and transparent reduction in South Africa's carbon emissions over the next 50 years. Furthermore we understand the need for a transparent and predictable carbon price on a global basis which will incentivise a less carbon intensive economy.

We recognise the need for a predictable and gradual transition to a climate change resilient economy in South Africa and supports South Africa's national & international climate change objectives and obligations.

Whilst the SATMC recognises and support the socio-economic need and sustainability development imperatives to improve the GHG emissions profile of the South African economy, we are opposed to the implementation of a carbon tax as currently proposed in the Draft Carbon Tax Bill at this point in time and within the context of the prevail socio-economic factors pertaining to the local tyre manufacturing industry - as highlighted herein.

Overview of SATMC proposals on the Bill

Our submission in this regard, is based on the following rationale and arguments, informed by the imperative to differentiate the distinct nature of the local tyre manufacturing industry in South Africa.

These are detailed in the following proposals:

- **Proposal 1: Emissions intensity of the tyre manufacturing process**
- **Proposal 2: Design and structure of the carbon tax**
- **Proposal 3: Raw material composition of locally manufactured tyres**
- **Proposal 4: Revenue neutrality and revenue recycling**
- **Proposal 5: Competitiveness - Capturing import emissions**

These proposals are summarised as follows:

- The nature of the tyre manufacturing process and the resultant product, means that the industry could by default reside in multiple sector categories as currently provided for in Schedule 2 of the Bill, failing which the tyre manufacturing industry would have to comply with the "Other" category as currently provided for in the Bill.
- Recognition for the sector in Schedule 2 of the Bill via a dedicated category for tyre manufacturing as a key economic, manufacturing and industry sector that is integral to the overall automotive components industry and a significant contributor to exports and South Africa's balance of trade

through export earnings; localization; industrialization and job retention in a specialized sub-sector of the broader automotive and auto-components industry.

- Factoring in existing environmental tyre levy paid by tyre manufacturers, to contribute to lessening the overall imposition of the tax on the sector, whilst enabling the sector to afford the continued imposition of various taxes already imposed and complied with, as well as a carbon tax.
- Whilst the introduction of the Bill seeks to position South African as an early adopter of carbon tax, it is a fact that the South African tyre manufacturing industry was the first key economic sector to contribute to an environmental fiscal instrument through the environmental levy on waste tyres. This is a legislative mandatory environmental tax compliance obligation, which the tyre manufacturing industry collectively values approximately at R250m – R300m per annum. Over the past five years, South African tyre manufacturers have contributed to R1.5bn – R2bn in fulfilment of their environmental obligations.
- Providing a reduction in the amount in respect of the carbon tax for which the industry is liable, through the provision of a percentage allowance (Maximum total allowances percentage in Schedule 2) which takes into account the existing tyre levy tax regime, but does not exceed 95% of the total greenhouse gas emissions (GHG).

Introduction

The SATMC notes the tax proposals put forward in the National Treasury 2018 Budget Review tabled by the Minister of Finance in Parliament on 21st February 2018, namely that:

- *“The 2018 Budget tax proposals are designed to increase revenue collection. Environmental and health considerations also play a role in the amendments put forward.”*
- *“In addition to raising revenue, tax policy supports efforts to protect the natural environment and promote sustainable use of limited resources.”*

This includes the proposed tabling in Parliament during 2018 of the Cabinet adopted Draft Carbon Tax Bill 2018 (hereinafter referred to as “the Bill”), with the anticipated enactment thereof by the end of 2018, in order to meet Government’s proposed date of implementation of 1 January 2019.

The SATMC has previously participated in the National Treasury led consultation processes on the 2015 Draft Carbon Tax Bill. This includes the submission of detailed written comments and attendance of the National Treasury facilitated carbon tax workshops.

Purpose

This submission encapsulates the SATMC positions and comments on the current Draft Carbon Tax Bill, which we understand will form the basis for the finalization of the Draft Bill for tabling in Parliament by the Minister of Finance.

On the basis of this submission, the SATMC seeks to engage National Treasury on the supporting rationale for the SATMC’s comments on the Bill. This includes the SATMC’s proposal for the inclusion of a dedicated category for tyre manufacturing, which should take into account the production process and the total basket and composition of the tax liability for the tyre manufacturing industry.

This includes the South African tyre manufacturing industry's high level of financial contribution to existing environmental taxes and levies, based on our continuous industry-wide commitment to environmentally responsible tyre production and waste management.

As such our legislative proposals on the Draft Carbon Tax Bill are underpinned and informed by contributing to a legislative framework for the implementation of the carbon tax during its first phase, through design of a carbon tax model specifically in relation to its applicability to the tyre manufacturing industry, in a manner which will ensure tyre manufacturing industry contribution to future phases of the carbon tax on a sustainable basis.

High-level Socio-economic Overview: South African tyre manufacturing industry

Employment and job creation

Collectively, the local tyre manufacturing industry employs around 7 000 people, with an additional approximate 4 000 indirectly employed through our industry's value chains.

Local beneficiation, value-addition and manufacturing

Combined, our industry accounts for 80% of natural and synthetic rubber used in South Africa, through the manufacturing activities of six operating tyre manufacturing factories in South Africa:

SA Tyre Manufacturers Manufacturing Facilities		
Province	City	Manufacturers
Eastern Cape	Port Elizabeth	• Continental; Bridgestone; Goodyear
KwaZulu-Natal	Ladysmith (Uthukela District)	• Sumitomo Rubber; Dunlop
North West	Brits	• Bridgestone

Annual tyre sales volume

The four local tyre manufacturers in South Africa, account for 60% of all replacement tyre sales in the South African market. Replace tyre sales is comprised of approximately 11.8m tyres. Local tyre manufacturers also supply 2.5m tyres to local automotive manufacturers of vehicles in South Africa, in fulfilling their local procurement requirements.

A further 5 million are imported into the local market, largely as a result from global competition from approximately 200 importers of various tyre brands from, approximately half of which are from the Far East.

Over the past 8 years, the local tyre manufacturing industry has experienced a steady decline in sale as a result of imports. Members of the SATMC have already made declaration and historical data available to the Department of Trade and Industry, on the performance of the local tyre manufacturing industry in response to the Department's request for information for the Department's Tyre Industry Analysis.

Contribution to the South African automotive sector value

As recognised by Government itself, the local tyre manufacturing industry is a strategic and positive contributor to the global competitiveness of the South African automotive industry as a result of:

- Locally manufactured tyre being designated as a key Automotive Production and Development Programme (APDP) local content component requirement by the Department of Trade and Industry.
- Meeting local tyre demand, resulting in stimulating local tyre manufacturing
- Downstream retail manufacturer-supported and independent dealerships
- Accounting for R26bn local economic contribution by manufacturers and retailers combined.

The socio-economic impacts of the introduction of the carbon tax in the context of our country's developmental objectives and economic trajectory must therefore be fully understood, so that the impact on the local tyre manufacturing industry as a specific sector of the economy within the automotive industry value chain, is comprehensively assessed and planned for by both Government and the key economic actors in the sector.

In this regard, it should be recognised that the South African tyre manufacturing industry is a distinct energy intensive, sub-sector of the country's broader manufacturing and industrial development sector, as a key component in the automotive manufacturing value chain.

While the manufacturing sector generally is under strain, Government is seeking to further enhance and propel the competitiveness and industrial development of the automotive sector through the recently concluded DTI Automotive Production and Development Programme (APDP) Review and the South African Automotive Masterplan 2035.

The imposition of a carbon tax at this time must therefore be sustainable for the competitiveness of the tyre manufacturing industry in the long run, so that further investment in expanding tyre manufacturing output is not made less attractive than in other emerging economies and neighbouring states in Southern Africa.

The economic performance of the local tyre manufacturing sector will also be affected by the ability of the carbon to effectively avoid making the cost of locally manufactured tyres uncompetitive against the already large volume of imports of various brands of tyres that are not captured by a carbon tax in the country of origin and which are inadequately captured by a carbon tax in South Africa.

Doing so, is also key to the regional and international cost competitiveness of South Africa as a tyre manufacturing hub with existing high levels of exportation into the South African Development Community. The carbon tax therefore directly affects our trade and balance of payments in so far as the local tyre manufacturing industry is concerned.

Protecting the environment by following set standards for tyre waste management and reduction

The South African tyre manufacturing industry is already subject to a range of income, trade, compulsory standards and environmental related taxes.

The South African tyre manufacturing is and remains committed to and operationalizing the promotion of sustainable and responsible tyre manufacturing in South Africa. This includes the responsible and legally compliant disposal, waste management and recycling of tyres.

We are therefore demonstrably committed to protecting the environment through subscribing to set standards for reducing and managing tyre waste.

To date, the local tyre manufacturing industry has been complying with the legislative and regulatory requirements for waste tyre recycling, through levies paid by the industry to the South African Revenue Service (SARS).

We are thus the major contributor for the funding of the Government approved Tyre Waste Management Plan.

Given that the tyre manufacturing process is an energy intensive exercise and that the industry is obligated and has committed to fulfil its statutory extended producer responsibility in respect of tyre waste management as a priority waste stream, the tyre manufacturing industry understands and appreciates the need for economic instruments as provided for in National Treasury's policy "Framework for considering Market-based Instruments to support Environmental Fiscal Reform in South Africa", as approved by Cabinet in 2010.

In the light of the introduction of the carbon tax and changing market and economic conditions, the South African tyre manufacturing industry also support the review of this policy framework as announced by the Minister of Finance in the 2018 Budget Speech on 21st February 2018.

SATMC Legislative proposals on the Draft Carbon Tax Bill

Overview

Given the unique attributes and dynamics of the tyre manufacturing industry, including its material, chemical and resource input composition, the sectoral classification of the carbon tax according to Schedule 2 of the Bill does not make provision for tyre-specific manufacturing and production.

This makes the calculation and determination of the local tyre manufacturing industry's carbon tax liability subject to the multiple manufacturing, industrial, transport and resource input categories. This absence overlooks the unique dynamics, characteristics and attributes of the tyre local manufacturing industry and the tyre manufacturing process, whilst it places an incentive premium on taxing carbon emissions at the end of the tyre life-cycle through the categorisation and provision made for incineration and open burning of waste.

Proposal 1: Emissions intensity of the tyre manufacturing process

Background

The Socio-Economic Impact Assessment Study (SEIAS) on the Bill published in conjunction with the Bill by National Treasury and undertaken by the Department of Planning, Monitoring and Evaluation (DPME), provides a detailed assessment of the policy, legislative and regulatory proposals.

The SEIAS describes the groups that will benefit from these proposals and the groups that will incur the costs and losses thereof.

The categories contained in the latter group are labelled as emission intensive sectors. Accordingly, the following is put forward in respect of how the identified group will incur the costs or loss:

" Emissions intensive activities such as energy related emissions associated with electricity generation, petroleum refining; process from emissions from iron and steel, cement, glass and ceramic, chemicals; and emissions from pulp and paper, sugar and fugitive emissions from coal mining will be liable for the carbon tax. Emission intensive activities will face higher costs and may experience to varying degrees decline in outputs and exports.

The modelling analysis suggest that sectors projected to see noticeable declines in exports include the coke oven and iron and steel sectors, although in the latter case the sector's exports continue to

grow over the period to 2035, just at a lower rate than if there were no carbon tax. The annual growth rate in exports from the coke production sector falls from 3.9 percent to -0.3 percent, leading to a change in exports in 2035 of more than 50 percent relative to the baseline in the case of coke. The annual growth rate in exports for iron and steel falls from 3.3 percent to 1.4 percent, leading to a change in exports in 2035 of more than 30% relative to the baseline in the case of iron and steel.

This is likely to be a result of the carbon tax making it more challenging for sectors to compete internationally. It should be stressed, however, that this modelling assumes that no other jurisdictions change their climate policies between today and 2035. The analysis may exaggerate the competitiveness impacts experienced by these sectors.

Coal generation is likely to become much less cost-competitive and, as a result, its output is expected to be 46 percent lower in 2035 than it would be without the tax.

*Other sectors that see substantial declines in output (greater than 15 percent), relative to the base line, include petroleum refining, **other manufacturing**, coke production, electricity supply, iron and steel production and the **transport services sector**.*

The small decrease in output for these sectors is a result of higher costs, which are at least partly passed through to prices and which, in equilibrium, lead to less production of carbon intensive goods and services and reduced demand. These price increases, especially for instance in the electricity sector, are likely to stimulate improvements in energy efficiency which would allow consumers and firms to undertake the same activities as before, while using less electricity.

It should also be stressed that all of these declines reflect a relative decline in output compared with the situation in which there is no carbon tax. In the first phase, the cost will nevertheless be mitigated by high tax-free emissions allowances of up 95 percent of their total emissions and they may be able to take advantage of incentives for improved energy efficiency. ”

Commentary

The emissions intensive sectors group does not specifically include any references to the tyre manufacturing process and/or industry, individually or collectively. Per the SEIAS extract above, it only considers the manufacturing sector broadly as well as the transport services sector. Since the specific impact on tyre manufacturing output and export is not addressed or accounted for in detail in the SEIAS and therefore in the Bill, it leads to an open-ended interpretation of the sector that tyre manufacturing would or should subscribe and therefore the degree to which carbon tax would impact on the tyre manufacturing sector.

Recommendation

Therefore, the SATMC proposes that the SEIAS takes into account the tyre manufacturing, including sector specific unique output and export factors. In this regard, the tyre manufacturing industry will work with National Treasury and DPME during the finalization of the Bill and in preparation for the first phase of implementation, to expeditiously undertake the necessary modelling of the tyre manufacturing industry production process, export and emissions profile. On the basis of the logic and methodology on the Bill, this will be imperative in order to understand the impact of the application of this logic on the designation of the tyre manufacturing industry as an emissions intensive sector.

Proposal 2: Design and structure of the carbon tax

Background

The SATMC supports the development of a carbon market in South Africa, and the inclusion of offsets into any carbon pricing mechanism is a good start as it will significantly enhance the effectiveness of the carbon tax to achieve a reduction of the country's emissions as it allows tax payers to have direct access to least cost mitigation options.

Commentary

Insufficient detail is provided to allow firms to assess the potential use of offsets. As carbon offsets are a critical part of the tax design, this aspect needs to be clearly set out in future documentation.

Although the Bill is only intended to provide for the first phase of implementation (2019-2022) designed to be revenue neutral, little detail on how this is planned to be achieved post 2022 within the context of emission intensive sectors such as the tyre manufacturing industry with its unique process, output and export profile not having been accounted for in a dedicated manner during this foundational phase of the tax.

Recommendation

If this foundation phase for the introduction of the carbon tax is to shape and inform the sustainability of the carbon tax design principles beyond 2022, it is critically imperative that the recognition and categorization of the tyre manufacturing industry is provided within the first phase of the Bill.

This is important for business as it affects the planning cycles in the long run and the timing of any future productive investment decisions in the industry. This requires a well-developed measurement and reporting framework for the tyre manufacturing to be formulated.

Proposal 3: Raw material composition of locally manufactured tyres

Background

The Bill does not adequately recognise and cater for the specific nature and attributes of the tyre manufacturing process in South Africa. This includes the associated raw material and chemical inputs that contribute to the make-up and composition of manufactured tyres.

Commentary

Depending on the brand, design and specifications of the tyre and manufacturer concerned, these are all variable factors that may result in various brands and manufacturers of tyres that are of a similar standard, absorbing different carbon tax liabilities that ultimately results in some brands and manufacturers becoming uncompetitive.

Furthermore, the cost of some of these raw material inputs are subject to international commodity referencing pricing, which makes up the total costs of tyre manufacturing.

Recommendations

Table 3 of Schedule 1 "Source category activity / raw material / product" of the Bill, should appropriately reflect the nature of tyre production including the raw material inputs which contribute to the summation of the cost burden and implication for the tyre manufacturing industry.

Proposal 4: Revenue neutrality and revenue recycling

Background

The provision that the carbon tax will be revenue neutral during the first phase of implementation (2019 – 2022) and revenues will be recycled by reducing the current electricity generation levy, credit rebate for the renewable energy premium, and a tax incentive for energy efficiency savings, does not provide certainty or benefit for the tyre manufacturing industry. This includes a commitment to prioritise and enhance allocations for free basic electricity (or alternative energy) and funding for public transport as well as initiatives to move freight from road to rail.

Commentary

While we appreciate and understand the need for the introduction thereof and related incentives at this stage, the proposed measures will have an adverse impact on the sustainability of the tyre manufacturing in South Africa.

The provision of revenue recycling incentives such as those associated with investing in renewable energy and energy efficiency measures that reduce greenhouse gas emissions, the South African tyre manufacturing industry is at this stage unable to fully access and derive the benefit of these incentives.

Under the current structure of the carbon tax, the tyre manufacturing industry cannot become carbon tax neutral even if the industry invests in 100% renewable fuels.

This is due to the fact that the very nature of the tyre manufacturing process is energy intensive and therefore any significant efficiency gains in energy usage will have to be the result of investment into new manufacturing equipment and production technologies.

It is also due to the limited impact of any mitigation actions as a result of the high basic free tax threshold and the low allowance for process emissions. Under the current structure any mitigation actions that reduce the fuel related carbon emissions only carry dramatically reduced reduction per ton CO₂.

Recommendation

There should be a specific basket of incentives which are applicable and can be accessed by the tyre manufacturing industry, recognizing the limitations and constraints of the tyre manufacturing industry's current production process, including its ability to transition to full scale renewable energy.

As a sub-sector of the broader automotive and automotive components industry, the tyre manufacturing is currently incentivized by Government policy to invest in increasing the scale and volume of tyre manufacturing output and exports. Namely the well-established Automotive Incentive Scheme (AIS) and Automotive Production and Development Programme (APDP) under the aegis and

iterative annual enhancement of the Department of Trade and Industry.

These incentives do not qualify any condition for shifting the energy mix for driving such investments and manufacturing activities to increase the competitiveness of the sector.

Therefore, an appropriate mechanism should be provided for the tyre manufacturing industry, to apply to be considered for an exemption and/or negotiated reduction in the initial first of carbon tax implementation, based on the lifespan and value of committed investments by tyre manufacturers which Government has incentivized in order to increase the scale and volume of tyre manufacturing output and exports.

In the absence of such a mechanism the objectives of automotive sector policy and carbon tax policy, will undermine and contradict each as an unintended consequence during the first phase of the carbon tax, at the expense of tyre manufacturers whose current supported by Government were not designed and negotiated with the imposition of a carbon tax in mind.

Such a mechanism will enable the transition to greater policy convergence and alignment beyond the first phase of implementation of the carbon tax. Failing to do so, significant alter the financial and business models underpinning these investments and incentives.

Proposal 5: Competitiveness - Capturing import emissions

Background

The South African tyre manufacturing industry currently faces severe challenges from the import of subsidized tyres particularly through coastal ports of entry, as a result from global competition from approximately 200 importers of various tyre brands from, approximately half of which are from the Far East.

Commentary

Section 54A of the Bill - "Imposition of environmental levy", 54A(a) "Imported goods" does not specifically capture imported tyres as specified in any item of Part 3 of Schedule No. 1.

The carbon tax as currently structured does not protect energy intensive trade exposed industries such as the local tyre manufacturing sector, from imports that originate from countries that do not have a carbon price and which do not impose a carbon liability on tyres exported from those destinations of origin.

The design and structure of the proposed carbon tax does not provide for the capture emissions profile of the large volume of 5 million imported tyres into the local market as a result of from global competition from approximately 200 importers of various tyre brands from, approximately half of which are from the Far East.

Similarly, whilst the waste tyre levy imposed under the Customs and Excise Act captures imported tyre waste entering the waste stream at the end of the tyre life cycle, it does not capture the emissions profile of imported tyres entering the border of South Africa from destinations of origin who do not impose a carbon tax on tyres manufactured in these jurisdictions. Thus, resulting in a cross-subsidising effect that is disadvantageous to the local tyre manufacturing industry.

The result is an unfair and un-level playing field between domestic manufacturers and importers of waste, that significantly disadvantages and erodes the domestic and international costs

competitiveness of locally manufactured tyres, whilst simultaneously not capturing and internalising the cost of their environmental and emissions footprint.

This un-level playing field significantly increases the negative trade of exposure of locally manufactured tyres to foreign imports, with the cost being carried by domestic manufacturing and customers.

Should more effective border exchange controls, that address these, not be put in place, the South Africa tyre manufacturing industry's survival could be threatened, resulting in carbon leakage across South Africa's borders.

In the absence of a global carbon price, any domestic carbon pricing policy must be accompanied by measures to ensure a level playing field for energy intensive industries such as the local tyre manufacturing industry. In the absence of such measures, emissions would not be avoided, but simply moved out of the country as consumers purchase cheaper goods produced in markets that do not face a carbon tax.

Effective Border Exchange controls related to the import of tyre from countries that do not impose a carbon tax are absolutely necessary to protect local tyre manufacturers from unfair competition.

The South African manufacturing industry also faces the challenge of undeclared imported tyres by international tyre importers.

Over the period 2012 – 2017, the tyre industry has experienced a significant increase in imported tyres. Tyre importers have been under-declaring tyres that they bring into South Africa due to mechanisms currently in place that are not punitive enough. The practice of importing under-declared tyres, has had a detrimental impact on the market share of local tyre manufacturers. Due to the low prices that has flooded the industry, it has become increasingly challenge to be competitive and maintain sustainable operations.

Recommendation

The SATMC therefore proposes:

- A trade protection regime that imposes a carbon tax on imported tyres. This is practical and realistic to operationalize, implement and enforce from a compliance and administrative point of view if undertaken within the similar parameters such as the approach to the implementation of the waste tyre levy under the Customs and Excise Act, which is understood to be applicable to both locally manufactured and imported tyres.
- As previously articulated, the local tyre manufacturing industry requires a dedicated category provided for in Schedule 2 of the Bill.
- Due to the large volume of imported tyres coming into the South African market, there is an immediate need for further distinction within the tyre industry for those tyres which are not manufactured locally and are not subject to a carbon tax in their jurisdiction of origin but which contributes to vehicle usage emissions.

Adjustments to the provisions contained in the Bill in line with these recommendations will therefore contribute to a level playing, by making a clear distinction in the carbon emissions liability of the local tyre manufacturing industry and the imported tyre market. This will result in the avoidance of local tyre manufacturers carrying the costs and loss burden of both local tyre manufacturer and tyre importers. This will not only avoid carbon leakage on the part of importers, but also cater for the facts that local tyre manufacturers are also importers of select specifications of tyres whose dimensions and volume are not feasible to manufacturer locally.

From the perspective of the local tyre manufacturing industry, this is imperative so that carbon tax rationale as articulated by National Treasury i.e. *"a carbon tax at an appropriate level and phased in over time to the 'correct level' will provide a strong price signal to both producers and consumers to change their behavior over the medium to long term"* is attained.

A carbon pricing mechanism which does not account for the carbon emissions liability of the local tyre manufacturing industry and the imported tyre market, will result in adverse incentives for increased demand and supply for imported tyres.

Conclusion

The SATMC would like to encourage the refinement of the Bill so that through its implementation the South African tyre manufacturing industry can become carbon tax revenue neutral while maintaining its commitment to offsetting its emissions liability in the most socio-economically sustainable manner. The SATMC believes that the window arising from the finalization of the Bill, provides the final opportunity to ensure the design of a carbon tax, ready for first phase implementation in 2019 that will ensure the local tyre manufacturing industry contributes towards a climate resilient industrialized economy.