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TOURISM BUSINESS COUNCIL OF SOUTH AFRICA's (TBCSA) COMMENTS ON THE CARBON TAX BILL

1. INTRODUCTION

The Tourism Business Council of South Africa (TBCSA) is an umbrella organization which represents the unified voice of business for the Travel and Tourism (T&T) private sector.

TBCSA is a non-profit, private organization working to unite and influence the diverse Travel and Tourism private sector behind one core mission to contribute to a competitive, responsible and inclusive Travel and Tourism (and South African) economy. Our mandate is to serve the needs to our members who broadly constitutes 20% of the sector's leading business enterprises and whose output represents 80% of the sector's overall economic contribution. These members are in the main, made up of airline associations, bus operators, vehicle rentals, hospitality and accommodation sector, travel agents, professional hunters and tour operators, to name a few. TBCSA serves to provide a VOICE to this community of businesses and to ensure that they play a constructive role in the country's economic development, growth and transformation: and to create an environment in which businesses of all sizes and in all sectors can thrive, expand and be competitive.

The tourism industry is one which contributes significantly to the GDP of this country. According to the World Travel and Tourism Council (WTTC), the industry directly contributed R 127.9 bn or 3.0% total GDP in 2016. It has also contributed 1 533 000 total jobs or 9.8% of total employment in 2016. This includes jobs indirectly supported by the industry. The industry has also seen R 128.3bn in visitor exports generated or 9.9% of total exports in 2016.

The Carbon Tax Bill is being introduced in order to enable South Africa to meet its nationally-determined contribution (NDC) commitments in terms of reducing greenhouse gas emissions in line with the 2015 Paris Agreement on climate change. Whereas the tourism industry supports efforts aimed at curtailing greenhouse gas emissions, the latter which may at the end of the day have negative consequences for tourism in the country, we are however of the view that government needs to use initiatives that are already in place to address this challenge, rather than through imposing another tax burden on the country that is already experiencing sluggish growth.

Our comments on the Amendment Bill are divided into two sections: General Comments and Specific responses.

2. General Comments

A carbon tax works either through reducing the energy demand due to higher prices or switching to less carbon intensive fuels. Both of these measures come with costs for businesses. The proposed tax will lead to a decrease in output for emission intensive sectors, due to the fact that the tax will be passed on to consumers, which may lead to reduced demand. If the tax is not alleviated through high tax-free emission allowances, the impact of the tax on these sectors will lead to job losses or lower salary increases. Sectors that will be hit hard are car rental companies, shuttle and bus services as well as airlines. South African Tourism has plans in place to realise an increase in tourists by five million within five years from 2016. This target would obviously entail increasing the number of foreign tourist arrivals and thence tourist spend. The proposed carbon tax would thwart this plan and dent the numbers because flights would be more expensive.

Small or emerging tourism enterprises falling under tour or shuttle operators will suffer the brunt of the carbon tax. This is due to the fact that in the transport dominated sector of tourism, which involves tour and shuttle operators, there is already a string of taxes that are already a burden to both sectors. For example, there is a fuel levy which gets to go up every year, the Road Accident Fund, the customs and excise levy (based on the price of a vehicle), the vehicle taxation (which has a specific tax on carbon dioxide emissions of new passenger motor vehicles), road licensing fees. There is also the value added tax which is imposed on all motor vehicle sales.

The prices of diesel and petrol already have a carbon tax. This is stated in the Draft Green Transport Strategy, 2017, which states that the current fuel taxes, whilst they have revenue raising objectives, they also have environmental objectives by ensuring that the negative environmental externalities associated with fossil fuel use are incorporated into fuel prices. In addition, the new and re-treaded pneumatic tyres, the disposal of which pollutes the environment, are subject to an Environmental levy, if used in South Africa. This implies that businesses such as bus, tour and shuttle operators would pay triple-fold for carbon emissions, which does not make sense. Using the fuel levy partly to address the challenge of environmental pollution and therefore degradation is not bearing fruit and the majority of South Africans still prefer to use their own vehicles. Part of the reason for this is that the transport system is not that integrated. Government has an option of scrapping the fuel levy as well as other environmental levies altogether if they intend introducing the carbon tax at all costs, or stop the introduction of the carbon tax.

The aviation sector, which is part of the tourism industry, has already taken significant measures to change its carbon emission behaviour through its investment in more fuel efficient aircrafts, improved operational efficiencies and improved infrastructure. There is therefore no need for aviation to be further subjected to carbon taxes as a way of encouraging the sector to reduce its carbon emissions.

South Africa is a signatory to the Kyoto Protocol of 1997, and under this protocol, South Africa was classified as a developing country and therefore no current obligation on the part of the country to reduce its greenhouse gas emissions, as does it not have a binding target on this. It is therefore not clear why government deems the mooted carbon tax as a necessary measure to address issues of the carbon tax, when there are already other measures such as the National Environmental Management Act of 1998, the Energy Efficiency Tax savings, Green Transport Strategy, National Climate Change Response Policy, Freight Logistics Strategy and the National Energy Efficiency Strategy. We believe that an evaluation of the impacts of these initiatives should precede any effort at introducing a 'tax' to alleviate the burden of the greenhouse gas emissions.

3. LESSONS FROM OTHER COUNTRIES

South Africa is not the first country to implement carbon tax; it is being introduced worldwide and is levied on carbon from fossil fuels. Various countries like China, Japan, India, Australia, South Korea and Namibia have introduced carbon tax. For the purpose of this paper, we take a look at the introduction of a carbon tax in Australia.

In Australia, the carbon tax was introduced by the government in 2011 through the Clean Energy Act and only became effective in 2012. The intention was for the polluters to pay a certain amount of tax per ton of carbon they released into the atmosphere. From 2012-2013 the carbon unit was at a fixed price of AUD23 per unit, and in 2013-2014 it was AUD24.15 per unit.

According Tourism Accommodation Australia (TAA), carbon tax indirectly impacts on accommodation industry even though it is not levied on the industry. Carbon tax seemed to have indirectly caused significant price rises for major cost items to the accommodation industry such as electricity, laundry and repairs. As the price of carbon increased and extended to additional sectors such as transport, other major costs such as food and beverages also rose further.

It was estimated that since 2012-13 the carbon tax has already increased costs for accommodation businesses by up to 0.9%. That added to a significant impact of 12% of profit on what was already a low margin industry with an average annual profit margin of only 7.2%. In addition, another finding indicated that due to the carbon tax, majority of tourism industries experienced a decrease in their 'output' with accommodation, hospitality sectors as well as air and water transport industries being the worst affected. With the carbon tax in place, real total tourism consumption fell by 1.56% relative to the baseline value projected for tourism in 2020, in the absence of a price on carbon being imposed. This decline was equivalent to reduction of about $2,012 million Australian dollars in 2014.

4. SPECIFIC COMMENTS ON BILL

1. Tax administration – we suggest ring fencing of the tax in order for the National Treasury to be able to measure its impact over time. The explanatory memorandum states that revenues from the carbon tax will be recycled by way of reducing the current electricity generation levy and among others, generate funding for public transport and initiatives to move some freight from road to rail. Increase in government revenue should be used to firstly ease the burden of those who are affected the most, especially small and emerging businesses. This will be possible if the funds are ring fenced and the expenditure is reported on, on a yearly basis through the minister of finance's budget speech. Currently funds from different taxes are not ring-fenced, and this poses a problem for accountability in regard to such funds.
2. How does the carbon tax align with environmental policies such as the National Environmental Management Act (NEMA) and its enforcement? If there is an alignment conflict, then the Carbon tax may not be administered without challenges. For example, under the NEMA, certain activities that are considered to have a detrimental effect on the environment require environmental authorization prior to commencement, but the carbon tax seems to be cancelling out this provision by setting a certain tax to be paid for polluting the environment.

5. CONCLUSION

TBCSA acknowledges that greenhouse gas emissions are detrimental to the environment, and may affect tourism in a country negatively in the long term. This is more so in terms of extreme weather conditions such as droughts and floods, which will have a detrimental effect on tourism. However, whereas government deems the carbon tax to be important in reducing greenhouse gas emissions, we submit that it may not be necessary at this stage as there are other strategies and initiatives that government has already put in place to address greenhouse gas emissions. With South Africa's low GDP growth forecast for the next year, potentially longer, this is no time to introduce Carbon Taxes and that time should be used to develop incentive schemes encouraging the reduction of greenhouse gas emissions rather than a system that penalizes the emission of GHG through taxes. Within this context, it is unfair to burden the public and business with an additional tax.

We are proposing that direct actions be considered in dealing with carbon emissions, such as providing subsidies for companies to purchase or use low emission products, restricting new investment in high emissions sectors and providing government support for research into new technologies to be used by high emission sectors. This approach is being adopted internationally, either as a primary approach or part of a broader approach. Our view is that there should be incentives to reduce greenhouse gas emissions or measures introduced to encourage initiatives to reduce emissions of these gases and make a positive impact on the environment. This cannot be achieved through a carbon tax. The imposition of a tax will instead curtail investment in new technology and newer, cleaner equipment to deal with carbon emissions, and will have a detrimental impact on jobs and competitiveness.

In submitting our input, we also support a position that has been put forward by the Airlines Association of Southern Africa.

Yours Sincerely

Ms. Mmatšatši Ramawela
CHIEF EXECUTIVE OFFICER
Tourism Business Council of South Africa

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