



Synopsis of WWF 14/3/2018 submission on the carbon tax to the Standing Committee on Finance and the Portfolio Committee on Environmental Affairs

WWF supports a carbon tax, as one tool needed for the necessary just transition to a low-carbon economy. We have made the case for such a transition elsewhere and to Parliament, including trade implications for South Africa of the global low-carbon shift, and the social costs of fossil fuels and climate change impacts already being paid, largely by the poor.

We ask that Honourable Members of the relevant Committees:

- Ensure implementation of the tax meets the Minister's 2019 deadline.
- Make the tax stronger, so that it can be effective for the purpose it is intended to serve. Here we table three points for your consideration:
 - The tax rate is too low to be effective for its purpose of reorientating the whole economy
 - The allowances reduce the tax to a token
 - Increases allowed for in the draft Bill don't address the problem

Headline tax rate is too low to be effective

Below we compare the tax rate in the Bill against international¹ and domestic studies of potentially effective carbon prices.² The numbers speak for themselves: the proposed tax rate is woefully inadequate, even against Treasury's own initial proposal.

| 2017 High-Level Commission on Carbon Prices | | <i>Rands</i> |
|---|--|--------------|
| • By 2020, at least: | | 474 to 947 |
| • By 2030, at least: | | 592 to 1,184 |

Above is the recommendation by the Stern-Stiglitz High-Level Commission on Carbon Prices needed to be consistent with Paris Agreement temperature goal.

| 2016 OECD study of 41 OECD and G20 countries | | <i>Rands</i> |
|--|--|--------------|
| • Average carbon price currently in place | | 204 |
| • Suggested effective carbon price | | 438 |

| 2007 SA Long-term Mitigation Scenarios | | <i>2018 Rands</i> |
|---|--|-------------------|
| Model starts at R100, here we've applied inflation at 6.2% per year (average over 2008 to 2017). This is not the optimal price demonstrated by the model, but <u>the level below which a tax was deemed immaterial.</u> | | 182 |

| 2010 SA Treasury paper 'Reducing GHG Emissions: The Carbon Tax Option' | | <i>2018 Rands</i> |
|---|--|------------------------|
| Treasury paper set this at 2005 prices, here we've applied inflation at 6.1% per year (average over 2006 to 2017) | | 162 increase to 433 |

Treasury's paper: "... [the above tax rates] would be both feasible and appropriate to achieve the desired behavioural changes and emissions reduction targets."

| 2017 SA Treasury draft Carbon Tax Bill | | <i>Rands</i> |
|--|--|--------------|
| With tax-free allowance at 75% | | 120 30 |
| With tax-free allowance at 95% | | 6 |

¹ OECD. 2016. *Effective Carbon Rates: Pricing CO2 through Taxes and Emissions Trading Systems*. OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264260115-en>; High-Level Commission on Carbon Prices. 2017. *Report of the High-Level Commission on Carbon Prices*. Washington, DC: World Bank. License: Creative Commons Attribution CC BY 3.0 IGO https://static1.squarespace.com/static/54ff9c5ce4b0a53deccfb4c/t/59b7f26b3c91f1bb0de2e41a/1505227373770/CarbonPricing_EnglishSummary.pdf; World Bank; Ecofys; Vivid Economics. 2017. *State and Trends of Carbon Pricing 2017*. Washington, DC: World Bank. © World Bank. <https://openknowledge.worldbank.org/handle/10986/28510> License: CC BY 3.0 IGO.

² Conversions used exchange rates as at 12/3/18 when the calculations were done: US\$1=R11.84 and 1 Euro=R14.59.

It must be kept in mind that we need to set South Africa's carbon tax rate at levels comparable to our export partners to maintain competitiveness in the face of border adjustment taxes or other measures they might take against carbon-intensive imports.³

Allowances reduce the tax to a token

Not only is an ineffectual carbon tax level being proposed, the tax-free allowances of up to 95% effectively render the tax a token – the levied tax comes down to between R48/t and R6/t.

We query the allowances as follows:

- What is the intention of the "primary rebate"? This can be dropped for a more effective tax rate.
- Trade exposure allowance: Arguably one is now trade exposed when *not* carrying the cost of carbon. Evidence is that carbon taxes do not hinder competitiveness and can sometimes improve it e.g. Sweden, with a globally high price of R1,999/tCO₂e, has seen rapid growth coupled with reductions in carbon emissions.
- Performance allowance: Companies are rewarded for implementing best-practice emissions reduction measures by paying less tax. That's how the tax drives such change. Why should they then pay even less tax while having achieved paying less tax?
- Carbon budget allowance: **NB** WWF is arguing that the carbon tax and the carbon budget system are two separate instruments which should not be inter-linked (other than having the same reporting template and time period), and current proposals for doing so give us the worst of both.

The Bill is silent on when the allowances might be revised, so the calculations below of the increased headline tax rate does not reflect what the payable tax rate might be.

Increases don't address the problem

Applying the increases allowed of in the draft Bill effectively freezes the carbon tax rate, and we never catch up to effective levels.

| | Annual (4.4+2)% inflation (Jan 2018 CPI) | | Annual 5.6% inflation (average CPI over last 5 years) | | |
|------|---|------|--|------|------|
| | 2020 | 2022 | 2025 | 2030 | 2035 |
| 2019 | R120 | R128 | R145 | R160 | R208 |
| | | | | | R269 |

Compare these tax rates to the 2017 High-Level Commission on Carbon Prices' R592 to R1,184 by 2030, and to what South Africa's own Long-term Mitigation Scenarios found to be the tax rates to achieve an optimal emissions reduction path:

| 2007 SA Long-term Mitigation Scenarios optimal path | 2018 Rands |
|---|------------|
| Start price in 2008 | 216 |
| By 2020 | over 542 |
| Peak in 2035 | over 1,000 |

Way forward: Efficient carbon-price trajectories begin with a strong price signal in the present and a credible commitment to maintain prices high enough in the future to deliver the required changes. What can be forgotten in the pushback on the tax rate and on timing by special interest businesses is that an effective carbon tax is an *incentive* for the emergence of lower-carbon businesses, which is where the opportunities for job creation and economic development lie, not in industries increasingly facing market downturn and stranded assets. Calculations done by WWF using data in the public domain show that the impact of tax at R120/ton less allowances on the revenue of the top 20 listed highest emitters is small. Let us not be held hostage. The sooner we start with the transition the better we position our economy for the coming low-carbon shifts, and buffer workers and the poor against these shifts and deleterious climate change impacts.

³ Jooste, M.; Winkler, H.; van Seventer, D.; Truong, T.P. 2009. *The effect of response measures to climate change on South Africa's economy and trade*. Energy Research Centre, University of Cape Town