



**Presentation to Standing  
Committee on Finance**

**Carbon Tax Bill – Jobs Mitigation  
Plan.**

**04 December 2018  
Mr. M. Vilakazi**



# BACKGROUND



- During the Parliamentary hearing on the response document to the bill, the need to assess the impact of the carbon tax on jobs was recognised.
- The Joint Meeting of Parliament's Standing Committee on Finance and the Portfolio Committee on Environmental Affairs subsequently requested Nedlac to engage on information tabled by Business, Labour and Government in relation to potential jobs losses that could result from the introduction of the carbon tax bill and submit a report to the Joint Committee on the jobs mitigation and creation plans.

# BACKGROUND



- Task team on Carbon Tax Bill – Jobs Mitigation Plan was established.
- The task team had 8 Meetings

# TASK TEAM OBJECTIVES



- Engage on job mitigation and creation plans due to the impact of the carbon tax on employment.
- Develop an initial response to the request from the Chair of the SCOF on the engagement, and progress of the task team, on the development of job mitigation and creation plans.
- Develop a report identifying the potential job mitigation and creation plans for agreed sectors (sectoral transitional plans) and outline the responsibilities of Business, Labour and Government in implementing the plans.
- In doing the above, the task team was required to consider to what extent the following reports can contribute to the response referred



## TAST TEAM OBJECTIVES Cont...

- National Employment Vulnerability Assessment which will be used to establish a National Employment Vulnerability Baseline.
- Sector Jobs Resilience Plans for sectors found to be vulnerable in terms of the above vulnerability assessment.
- The Socio-Economic Impact Assessment on the Carbon Tax Bill.
- Recognising that Government has included measures to limit the impact of the carbon tax in the first phase through a commitment to electricity price neutrality
- the inclusion of trade exposure allowances
- and the fact that the carbon tax is part of a suite of measures to reduce emissions as outlined in the National Climate Change Response Policy.



# AGREED AFFECTED SECTORS

- Nedlac agreed to focus on the following affected sectors from a job loss and opportunity perspective.
  1. Energy
  2. Transport
  3. Mining
  4. Industrial Processes
  5. Agriculture, Forestry and Land Use
  6. Waste and recycling
  7. Water
  8. Fisheries
  9. Buildings

# APPROACH TO DEVELOPING A JOBS MITIGATION AND CREATION PLAN.



- In developing job loss mitigation plans the task team considered a range of approaches and ultimately agreed that a National Jobs Resilience Plan should be developed through collaboration of all social partners, covering the sectors where job loss was likely and those where adaption to climate change and new lower carbon activities could in fact contribute to the creation of new jobs.
- The development of the plan would be undertaken as part of the implementation of the Just Transition agreed to in the Presidential Jobs Summit agreement.
- The task team considered a variety of presentation from the above mentioned sectors. Consequently, the below proposals were presented by Government, Business, and Labour constituencies.

# SUMMARY OF GOVERNMENT PROPOSED PLAN – ENERGY SECTOR



- Government's Clean Energy Branch coordinate the implementation of renewable energy, energy efficiency and energy-related climate change response initiatives with huge job creation potential in:
  1. Energy Efficiency in Public Buildings and Infrastructure - project preparation, awareness raising, monitoring and evaluation and installation of energy efficient technologies;
  2. Industrial Energy Efficiency (EE) - energy audits, awareness raising, physical installation of EE technologies, and manufacturing and supply of energy efficient technologies;
  3. Standards and Labelling of Households Appliances - establishment of additional testing facilities, awareness raising, and market surveillance for compliance monitoring of efficient appliances; and
  4. Solar Water Heating Programme - manufacturing and supply of SWH units, installation of SWH units, project management, technical audits, measurement and verification of energy savings.



# SUMMARY OF GOVERNMENT PROPOSED PLAN – ENERGY SECTOR



- The SWH programme has been allocated a budget for the 2017/18 and 2018/19 financial years. Key activities that will support the installation include:
  1. Social Facilitation process which is aimed at ensuring a community-based approach in the success installation of the SWH units. These will cover consultation with key stakeholders in the selected areas of the municipality.
  2. Technical Auditing process that is of great significance in ensuring compliance of the procured SWH baseline systems with minimum technical requirements and local content thresholds including the compliance of the selected houses.
  3. SWH Installation Process that will be supported by appointment of installation companies in the selected 19 municipalities.

# SUMMARY OF GOVERNMENT PROPOSED PLAN – ENERGY SECTOR



- The second proposal in relation to energy sector is Standards and Labelling of household appliances.
- The Standards and Labelling (S&L) Project's objective is to promote energy efficiency in the South African household sector by reducing the electricity demand of household electric appliances, with a resultant reduction in greenhouse gas (GHG) emissions. Introduction of Minimum Energy Performance Standards (MEPS) and energy efficiency labels into the electrical appliances market.
- This is aimed at influencing the energy consumption patterns by raising the awareness of policy makers, manufacturers, distributors and consumers. The project also seeks to overcome the barriers impeding the widespread uptake of energy efficient appliances.

# SUMMARY OF GOVERNMENT PROPOSED PLAN – ENERGY SECTOR



- Proposal 3: Energy efficiency in public buildings.
- DEA in collaboration with the Department of Energy, Department of Public Works, the National Business Initiative, the Carbon Trust; Local Government; the IDC and GIZ have successfully applied for funding from the NAMA Facility to implement an Energy Efficiency in Public Infrastructure and Buildings Programme as part of scaling up the Energy Efficiency and Energy Demand Management Flagship Programme.
- The Energy Efficiency in Public Buildings and Infrastructure Programme (EEPBIIP) forms part of an overarching sector-wide Nationally Appropriate Mitigation Action (NAMA) within the Energy Efficiency and Energy Demand Management Flagship.
- The objective of the programme is to reduce energy greenhouse gas (GHG) emissions by catalysing an energy efficiency transformation within the public buildings and infrastructure environment, through the provision of appropriate and required technical and financial support.

# SUMMARY OF GOVERNMENT PROPOSED PLAN – WASTE MANAGEMENT



- Government aims promote the diversion of waste from landfills to mitigate adverse environmental impacts. Specific proposals include:
- To develop a scaled-up programme and projects for national and international financing by preparing implementation and business plans.
- Catalyse learning and innovation, compile and disseminate lessons learnt.
- The waste management programme aims to develop intervention strategies and analyse scenarios to improve Integrated Waste Management Systems emphasizing diversion of waste from landfill.
- Identify potentially bankable projects from the scenarios and develop business and implementation plans to unlock GCF funding/ government grant funding/ private sector investment
- Emphasis on climate change mitigation

# SUMMARY OF GOVERNMENT PROPOSED PLAN – BUILDING CLIMATE RESILIENCE AND ECOLOGICAL INFRASTRUCTURE



- Climate Change Adaptation offers job opportunities that could be explored in various sectors such as Biodiversity through ecosystems based adaption.
- Biodiversity sector with the focus on Ecological infrastructure has the potential to provide a foundation for economic growth (jobs), social development (service delivery), and human wellbeing (a better life). Strategic investment in ecological infrastructure lengthens the life of existing built infrastructure and can reduce the need for additional built infrastructure often with significant cost savings.
- Key elements of ecological infrastructure are located in rural areas catchments, corridors or tracts of natural vegetation

# SUMMARY OF GOVERNMENT PROPOSED PLAN – TRANSPORT RELATED INITIATIVES



The Department of Transport will implement the Green Transport Strategy and reward industry initiatives e.g. Hala group producing EV taxis with localized manufacturing, creative mechanisms within current incentives to going green by:

- Using Bus Rapid Transport (BRT) systems – increase CNG-fired buses or e-vehicles;
- Including green criteria within the public transport grant framework;
- Using green procurement guideline – start with public fleet (shows government leadership);
- Creating visible government support and endorsement e.g. DoT Minister as champion for EVs;
- Using green rail – technologies focused on being able to recycle electricity when train is running and facilitate alignment and efficiencies across transport modes.

# SUMMARY OF GOVERNMENT PROPOSED PLAN – RESEARCH DEVELOPMENT AND TECHNOLOGY INNOVATION SUPPORT



- South Africa is gearing towards a low carbon future. This requires innovation with a strong science base and an enabling environment for SMMEs to flourish (cooperative governance).
- High level skills will unlock innovations and technologies that will allow South Africa to catch up and even surpass the developed world. To innovate for an uncertain future will require a systems approach to developing innovation policy.
- There is a need for an institutional change where nexus thinking leads to innovative partnerships which in turn will lead to nexus solutions.
- Specific proposals aimed at providing sector innovation support and collaborative partnerships with industry through:
  - Regional innovation support platforms; and
  - Industry innovation partnerships.

# SUMMARY OF GOVERNMENT PROPOSED PLAN – FUNDING



- The Green Climate Fund (GCF) was designated as an operating entity of the Financial Mechanism of the United Nations Framework Convention on Climate Change (UNFCCC) at COP 17 in Durban.
- The current expanded set of Climate Change Flagship Programmes forms the foundation for South Africa's Green Climate Fund Strategic Framework developed to enable a coherent engagement with the GCF and to ensure alignment with South Africa's climate change response priorities. The Framework was presented to MINTEC and MINMEC in 2016 and 2017.



# SUMMARY OF GOVERNMENT PROPOSED PLAN – TARGETED LABOUR RELATED INITIATIVES



- Green policies will reshape labour markets in ways that create new opportunities for workers, recognising that a successful transition towards green growth will require that challenges are managed well. Green policies can achieve job creation in a number of green economic sectors and through a transition of the economy towards more labour-intensive services sectors, while job destruction especially occurs in brown sectors whose activities get replaced by green sectors. Examples include:
  - The renewable energy sector requires more workers per megawatt of energy generated than fossil fuel-based energy sectors.
  - Energy efficiency (buildings, industry, transport) create jobs - examples are construction workers that are needed to insulate houses, public buildings, environmental consultancy firms that advise on opportunities to improve energy efficiency.

# SUMMARY OF BUSINESS PROPOSED PLAN



- The Socio-economic assessment for the Bill recognised that there could be job losses as a result of the imposition of a carbon tax. However, Business was of the view that the potential for job losses would be higher than reflected. The limitations of the SEIAS and the World Bank Study have been previously expressed by Business and were stated again as a concern in the task team. Below is a high-level breakdown of some of the limitations (this is not exhaustive):
  - Models only the carbon tax; does not include other climate change instruments or other government policies
  - The final design of the carbon tax is not the same as modelled and all elements of the carbon tax design could not be modelled (some of the allowances)
  - None of the revenue-recycling models used were or are considered in the final design, for example there has been an increase in VAT where a decrease was modelled.
  - Concludes only slight impacts on production and/or export of affected sectors, but does not consider that these industries are already stressed, for example iron and steel
  - GDP used is much higher than actual figures; a “modest” impact on GDP, household consumption and employment on an already low base is already too high an impact for a surpassed economy with over 27% unemployment.

# SUMMARY OF BUSINESS PROPOSED PLAN



- Business undertook an economy wide assessment of the potential impact of the imposition of a carbon tax on employment, based on the emitting sectors.
- Five scenarios, based on some variations in the tax design, were modelled using the current structure of the economy, except where for known structural changes like IRP 2010. Revenue recycling was not included in the modelling as it is not included in the Bill. A two-step process was followed. The economic impact of the imposition of the tax was modelled. The results of this modelling were then fed into an Input-Output Model. This type of model quantifies economic impacts for a specific period in terms of Direct Impact; Indirect Impact and Induced Impact:
- **DIRECT IMPACT:** Macro-economic aggregates occurring as a direct result of the project
- **INDIRECT IMPACT:** Include those industries who deliver goods and services to the activity/project
- **INDUCED IMPACT:** Impacts on goods and services demanded due to increased expenditure by households from income earned due to the project

# SUMMARY OF BUSINESS PROPOSED PLAN



- Modelling of all scenarios resulted in a range of negative impacts across all sectors. As is the case with any economic modelling, the results need be considered in the light of the limitations of the model. In this case the model used is not reliable over long term. These results were noted by the task team but not accepted by Government, who raised the following concerns:
- The modelling approach used to assess the impacts of the carbon tax on jobs was conceptually flawed from an economics perspective and not appropriate for measuring the impacts.
- The model used was a static, linear model.
- The model was not dynamic and did not take into account price changes and assumed no technology substitution possibilities including the implementation of mitigation measures.
- The model was therefore likely to over-estimate the impact on jobs.
- Business agreed with these shortcomings but was of the view in the short term period of the first phase of the carbon tax, at least raised the need for caution, particularly given the current very high levels of unemployment

# SUMMARY OF BUSINESS PROPOSED PLAN – ENERGY SECTOR



- There is a need to use diversification of energy mix to increase local production of inputs to renewable energy projects which would enhance South Africa capability to manage, roll-out, financing and expertise for the regional electricity supply through rapid roll-out for renewable energy for greater electrification in the African region.
- Explore increased electricity export opportunities taking into account SADC ambitions, reticulation losses and BAT for production. Pursue use of lower carbon intensive primary energy like gas. The following proposals were also made:

# SUMMARY OF BUSINESS PROPOSED PLAN – ENERGY SECTOR



- Gas sourcing strategy to complement increased investment in renewables to secure a least cost path for power supply.
- Clean fuels 2 implementation with support to industry.
- Biofuels including the manufacturing of fuels from by-products.
- Accelerate research into carbon capture and storage and energy storage.
- Smart grid management to support roll-out of decentralized renewables.
- Ensure that decisions in respect of diversification of the energy mix are made holistically to avoid unintended consequences.

# SUMMARY OF BUSINESS PROPOSED PLAN – WATER SECTOR



- There is a need for water conservation including installation of water conservation devices in buildings and public campaign on conservation of water. Government should explore potential of rainwater harvesting and greater re-use of wastewater, and
- Expand removal of alien vegetation programme and restoration of indigenous forests and grasslands.
- Maximize catchment transfers to address the climate adaption opportunities due to changes in rainfall patterns.
- Protection of water resources.
- Desalination and Reverse Osmosis of mine waste water.
- Rehabilitation of wastewater treatment plants to ensure effluent discharges to rivers meets required standards.

# SUMMARY OF BUSINESS PROPOSED PLAN – WASTE



- Strengthen existing recycling initiatives through packaging, lighting equipment, tyres, etc.
- Establish recycling initiatives for construction waste.
- Strengthen local government to support waste economy.
- Declassification of ash and potential beneficiation of the ash.
- Strengthen local government to ensure implementation of the waste strategy.



# SUMMARY OF BUSINESS PROPOSED PLAN – INDUSTRIAL PROCESSES



- There is a need to pursue sustainable production technologies. Pursue government private partnership to encourage lower carbon technology development such as CCS and energy diversification through a regional approach. Encourage offsetting through policy and incentives.
- There is a need of a Government strategy to assist with access to financing options.

# SUMMARY OF BUSINESS PROPOSED PLAN – COMMERCIAL



- Business proposed that there should be water and energy conservation in buildings.
- There should be use of renewable energy in buildings e.g. promotion of Solar PV panels on commercial buildings through incentive.

# SUMMARY OF BUSINESS PROPOSED PLAN – MINING



- There is a need to relook at rehabilitation post mining activities as a commercial sector. The following should be relook at:
  - Acid mine drainage;
  - Use rehabilitated land for renewable energy projects;
  - Afforestation.

# SUMMARY OF BUSINESS PROPOSED PLAN – TRANSPORT



- It proposed that there is a need to assess the employment impact of Green Transport Policy. Public transport impacts of modal shifts.

# SUMMARY OF LABOUR'S PROPOSED PLAN



- There should be key target sectors where by jobs will be created.
- Macro and sectoral targets plans should be developed as soon as possible.
- Presidential Jobs and Investments Summits agreements should be implemented as soon as possible in order to avoid any jobs losses.
- There should be a clear focus on reskilling and absorbing working from affected sectors and communities. It proposed that Eskom should be a renewable energy provider. This would lead to massive expansion of electricity supply to export to Africa; and production of locally made electric cars, taxis and busses for domestic use and exports. Renewable technology, could be in a form of roof tiles and road surfaces. There is a need for all buildings to install locally produced renewable energy and water and grey water harvesting within 5 years.

# SUMMARY OF LABOUR'S PROPOSED PLAN



- There is a need to have water conservation plans e.g. infrastructure and alien vegetation.
- Labour proposed that all buildings should install locally produced renewable energy and water and grey water harvesting within 5 years. It proposed that there should be rehabilitation of mines to address acid mine water. In relation to recycling, labour stated that there was a need to expand and build comprehensive recycling industry targeting in particular: Plastics, Glass; Paper, Wood, Tyres; Metals; and Refuse.

# NEDLAC PROPOSED JOBS MITIGATION AND CREATION PLAN – ENERGY SECTOR



- Energy efficiency is recognised as one of the most important and cost-effective means for meeting growing energy demands and climate change mitigation. Falling global energy intensity is the main factor behind the flattening of global energy-related GHG emissions since 2014 (IEA, 2017).
- Energy efficiency has been the largest contributor to climate change mitigation in South Africa , accounting for approximately 82% of GHG emission reductions since 2010.
- The Energy Efficiency and Demand Management Flagship Programme led and coordinated by the Department of Energy, seeks to realise the multiple benefits of scaled-up energy efficiency, informed by the National Energy Efficiency Strategy and responding to both the NCCRP and NDC.

# NEDLAC PROPOSED JOBS MITIGATION AND CREATION PLAN – ENERGY SECTOR



- In addition to energy efficiency and energy demand, the National Energy Efficiency Strategy includes the rollout of off grid renewable energy initiatives like the SWH programme and the Standards and Labelling project to promote energy efficiency in households.
- Government's Energy Efficiency in Public Buildings and Infrastructure Programme (EEPBiP) forms part of an overarching sector-wide Nationally Appropriate Mitigation Action (NAMA) within the Energy Efficiency and Energy Demand Management Flagship. The objective of the programme is to reduce energy greenhouse gas (GHG) emissions by catalysing an energy efficiency transformation within the public buildings and infrastructure environment, through the provision of appropriate and required technical and financial support. Energy efficiency in Public Buildings and Infrastructure Programme.
- The programme is funded through a grant of R 320, 000, 000 from NAMA Facility over a five-year period with 70% of the funds to be used for the provision of a partial guarantee to leverage private sector funding and 30% for project preparation and set-up. In addition, the Energy Efficiency and Demand Side Management Grant (of an average of R 215,000,000 per year) for municipalities will complement the NAMA Facility Funds.



# NEDLAC PROPOSED JOBS MITIGATION AND CREATION PLAN – ENERGY SECTOR



- **Nedlac agreed that there was a need to:**
- Explore increased electricity export opportunities taking into account SADC ambitions, reticulation losses and BAT for production. Pursue use of lower carbon intensive primary energy like gas.
- There is a need for gas sourcing strategy to complement increased investment in renewables to secure a least cost path for power supply.
- The following was also proposed:
  - Clean fuels 2 implementation with support to industry.
  - Biofuels including the manufacturing of fuels from by-products.
  - Accelerate research into carbon capture and storage and energy storage.
  - Smart grid management to support roll-out of decentralized renewables.
  - Ensure that decisions in respect of diversification of the energy mix are made holistically to avoid unintended consequences.

# NEDLAC PROPOSED JOBS MITIGATION AND CREATION PLAN – ENERGY SECTOR



- Renewable energy is a significant part of electricity generation mix. There is a need to use diversification of energy mix to increase local production of inputs to renewable energy projects which would enhance South Africa capability to manage, roll-out, financing and expertise for the regional electricity supply through rapid roll-out for renewable energy for greater electrification in the African region.

# NEDLAC PROPOSED JOBS MITIGATION AND CREATION PLAN – TRANSPORT SECTOR



- Department of transport will implement the Green Transport Strategy and reward industry initiatives, creative mechanisms within current incentives to going green by:
- Using Bus Rapid Transport (BRT) systems – increase CNG-fired buses or e-vehicles;
- Including green criteria within the public transport grant framework;
- Using green procurement guideline – start with public fleet (shows government leadership);
- Creating visible government support and endorsement for EVs, for example;
- Using green rail – technologies focused on being able to recycle electricity when train is running and facilitate alignment and efficiencies across transport modes.

# NEDLAC PROPOSED JOBS MITIGATION AND CREATION PLAN – MINING SECTOR



- There is a need to relook at rehabilitation post mining activities as a commercial sector. The following should be relook at:
  - Acid mine drainage;
  - Use rehabilitated land for renewable energy projects;
  - Afforestation
- It proposed that there should be rehabilitation of mines to address acid mine water.

# NEDLAC PROPOSED JOBS MITIGATION AND CREATION PLAN – WASTE AND RECLYING



- The waste management flagship programme aims to:
- develop intervention strategies and analyse scenarios to improve Integrated Waste Management Systems emphasizing diversion of waste from landfill.
- Identify potentially bankable projects from the scenarios and develop business and implementation plans to unlock GCF funding/ government grant funding/ private sector investment.
- Emphasis on climate change mitigation.
- Catalyze learning and innovation and disseminate lessons learnt.

# NEDLAC PROPOSED JOBS MITIGATION AND CREATION PLAN – WATER



- Restoring and maintaining ecological infrastructure contributes to diversifying rural livelihood options through direct job creation, and Strengthening economic sectors such as sustainable farming and ecotourism.
- The task team agreed to explore options for job creation in building ecological infrastructure by:
  - Scaling up investments in restoring and maintaining ecological infrastructure; and
  - Expanding removal of alien vegetation programme and restoration of indigenous forests and grasslands and building on natural resource management programmes such as Working for Water and Working for Wetlands as part of scaling up.

# NEDLAC PROPOSED JOBS MITIGATION AND CREATION PLAN – BUILDING SECTOR



- The Energy Efficiency in Public Buildings and Infrastructure Programme (EEPBIP) forms part of an overarching sector-wide Nationally Appropriate Mitigation Action (NAMA) within the Energy Efficiency and Energy Demand Management Flagship. The objective of the programme is to reduce energy greenhouse gas (GHG) emissions by catalysing an energy efficiency transformation within the public buildings and infrastructure environment, through the provision of appropriate and required technical and financial support.
- The programme is funded through a grant of R 320, 000, 000 from NAMA Facility over a five year period with 70% of the funds to be used for the provision of a partial guarantee to leverage private sector funding and 30% for project preparation and set-up. In addition, the Energy Efficiency and Demand Side Management Grant (of an average of R 215,000,000 per year) for municipalities will complement the NAMA Facility Funds.

# NEDLAC PROPOSED JOBS MITIGATION AND CREATION PLAN – BUILDING SECTOR



- The following was also agreed:
- Water and energy conservation in buildings.
- Use of renewable energy in buildings e.g., promotion of Solar PV panels on commercial buildings through incentive.
- There is a need for all buildings to install locally produced renewable energy and water and grey water harvesting within 5 years.



# NEDLAC PROPOSED JOBS MITIGATION AND CREATION PLAN – CROSS CUTTING PROPOSALS – FUNDING



- The Climate Change Flagship Programme team, in collaboration with the relevant lead partners, is actively developing funding proposals to the GCF. The Green Climate Fund (GCF) was designated as an operating entity of the Financial Mechanism of the United Nations Framework Convention on Climate Change (UNFCCC) at COP 17 in Durban.
- The Climate Change Flagship Programmes currently constitute the vast majority of South Africa's GCF country programme. The current expanded set of Climate Change Flagship Programmes forms the foundation for South Africa's Green Climate Fund Strategic Framework developed to enable a coherent engagement with the GCF and to ensure alignment with South Africa's climate change response priorities. The Framework was presented to MINTEC and MINMEC in 2016 and 2017.

# NEDLAC PROPOSED JOBS MITIGATION AND CREATION PLAN – CROSS CUTTING PROPOSALS – RESEARCH, DEVELOPMENT AND TECHNOLOGY INNOVATION



- South Africa is gearing towards a low carbon future. This requires innovation which requires a strong science base and an enabling environment for SMMEs to flourish (cooperative governance). High level skills will unlock innovations and technologies that will allow South Africa to catch up and even surpass the developed world. To innovate for an uncertain future will require a systems approach to developing innovation policy. There is a need for an institutional change where nexus thinking leads to innovative partnerships which in turn will lead to nexus solutions.

# NEDLAC PROPOSED JOBS MITIGATION AND CREATION PLAN – CROSS CUTTING PROPOSALS – RESEARCH, DEVELOPMENT AND TECHNOLOGY INNOVATION



- Green policies will reshape labour markets in ways that create new opportunities for workers, recognising that a successful transition towards green growth will require that challenges are managed well. Green policies can achieve job creation in a number of green economic sectors and through a transition of the economy towards more labour-intensive services sectors, while job destruction especially occurs in brown sectors whose activities get replaced by green sectors. Examples include
  - The renewable energy sector requires more workers per megawatt of energy generated than fossil fuel-based energy sectors.
  - Energy efficiency (buildings, industry, transport) create jobs - examples are construction workers that are needed to insulate houses, public buildings, environmental consultancy firms that advise on opportunities to improve energy efficiency.

# NEDLAC PROPOSED PLAN JOBS MITIGATION AND CREATION PLAN – CROSS CUTTING PROPOSALS – RESEARCH, DEVELOPMENT AND TECHNOLOGY INNOVATION



- Government will explore the following:
- Dedicated labour market programmes focusing on skills requirements to support sectors and industries in the transition to a low carbon economy by undertaking a skills needs assessment across different sectors including develop an inventory of skills required to match jobs – address structural unemployment; and
- Specific education and training programs that prepare workers for future labour demand needs or to meet the future new skills demands are especially important to smooth the transition and achieve positive overall employment outcomes from green policies.

# AREAS OF DISAGREEMENTS – BUSINESS VIEW



- Business raised concerns about limitations of the SEIAS for the Carbon Tax Bill and the World Bank Study..
- High-level breakdown of some of the limitations include (this is not exhaustive):
  - Models only the carbon tax; does not include other climate change instruments or other government policies
  - The final design of the carbon tax is not the same as modelled and all elements of the carbon tax design could not be modelled (some of the allowances)
  - None of the revenue-recycling models used were or are considered in the final design, for example there has been an increase in VAT where a decrease was modelled.
  - Concludes only slight impacts on production and/or export of affected sectors, but does not consider that these industries are already stressed, for example iron and steel.
  - GDP used is much higher than actual figures; a “modest” impact on GDP, household consumption and employment on an already low base is already too high an impact for a surpassed economy with over 27% unemployment
- Business was of the view that the potential for job losses would be higher than reflected in these reports.

# AREAS OF DISAGREEMENTS –GOVERNMENT VIEW



- Business had requested that additional modeling analysis is undertaken to assess the impacts of the carbon tax. Government was of the view that the purpose of the task team was to engage on jobs mitigation and creation plans and was concerned that the proposal was outside the scope of the work of the task team and that several carbon tax modeling studies have already been undertaken.
- Government was of the view that business was free to undertake the study to inform its proposals for the jobs mitigation and creation plan.
- The following responses are provided on the carbon tax modeling:
- Several carbon tax modelling studies have been undertaken to date, by the National Treasury (Economic Policy Unit), local academics and international institutions such as the World Bank. The broad findings from these Computable General Equilibrium models show that a carbon tax will make a significant contribution to the reduction of GHG emissions and that the economic impact of the carbon tax will depend on how the revenues used, i.e. the revenue recycling measures. The results of these studies provide a reasonable understanding of environmental and economic impacts of a carbon tax and helped with the decision making process.

# AREAS OF DISAGREEMENTS –GOVERNMENT VIEW cont..



- A study on the current design features of the carbon tax was undertaken through the Partnership for Market Readiness initiative under the World Bank and the report entitled “Modelling the Impact on South Africa’s Economy of Introducing a Carbon Tax” is publicly available. This modelling showed that the carbon tax will have a significant impact on reducing South Africa’s GHG emissions and would lead to an estimated decrease in emissions of 13 to 14.5 per cent by 2025 and 26 to 33 per cent by 2035 compared with business-as-usual. The carbon tax will have a marginal impact on the economy’s average annual growth rate which will be 0.05–0.15 percentage points below business as usual and will contribute towards reaching South Africa’s NDC commitments.
- The revenue recycling scenarios comprise broad, production based recycling, broad or selective reductions in the VAT rate and targeted support for the renewable energy sector. The analysis suggested that broad, production based recycling such as the producer focused rebates is likely to yield smaller impacts on GDP but also less significant emissions reductions, whilst a narrow, clean energy focused support will lead to substantial decreases in emissions but a lower growth rate for the economy. The current design of the carbon tax therefore incorporates elements of broad based recycling such as the electricity generation levy credit, funding the energy efficiency savings tax incentive.

# AREAS OF DISAGREEMENTS –GOVERNMENT VIEW



- The potential adverse impacts of the carbon tax are likely to be overestimated in the study due to the inability to model certain tax-free allowances such as the offsets, performance and trade exposure allowances, while the benefits of reducing emissions including reduced costs of adapting to the impacts of climate change and health co-benefits were not quantified and included in the model



# AREAS OF DISAGREEMENTS – BUSINESS VIEW



- Business further indicated that it was of the view that the current state of the economy is an important consideration in the decision to implement a new tax, particularly one that will affect every sector of the economy. The importance of this factor is recognised by National Treasury in its media statement on the publication of the Carbon Tax Bill for public comment, in that the decision on the timing of the imposition of the tax would consider the state of the economy at the time. Unemployment is at an all-time high and any intervention which could exacerbate this situation deserves very careful consideration

# AREAS OF DISAGREEMENTS – GOVERNMENT VIEW



- Government was of the view that the phased approach to the introduction of the tax, which has already been delayed and the recent postponement from 1 January 2019 to the 1 June 2019 with the first phase extending from 2019 to 2022, provides sufficient flexibility to businesses to transition their activities and business models.
- The introduction of the tax at a relatively modest rate and the additional significant tax free allowances ranging from 60 to 95 per cent, commitment to electricity price neutrality and channelling some of the revenues from the tax towards the energy efficiency savings tax incentive will help to cushion households and businesses, especially energy intensive sectors such as iron and steel and mining from potential adverse impacts over the short term.

# AREAS OF DISAGREEMENTS – GOVERNMENT VIEW



- The carbon tax seeks to give effect to the polluter pays principle, and price the externalities as a result of climate change. These costs are currently being incurred by society, whether it is other businesses or individuals who will have to adapt to the impacts of climate change, which in turn will also have an adverse impact on economic growth.
- The latest special report from the Intergovernmental Panel on Climate Change (IPCC) on the implications of global warming of 1.5°C notes that countries in the tropics and Southern Hemisphere subtropics are projected to experience the largest impacts on economic growth due to climate change should global warming increase from 1.5°C to 2°C. South Africa has accepted its share of the global responsibility to reduce emissions in line with our National Determined Contribution commitments under the Paris Agreement.
- Once the Paris Agreement is operationalized, more stringent NDCs will need to be made under the Paris Agreement and if action is not taken to start to reduce emissions now, the overall costs to the economy are likely to be exacerbated and increase significantly in future.

# AREAS OF DISAGREEMENTS – GOVERNMENT VIEW



- Government noted the sector interventions and the minimal impacts on jobs in sectors over the short term up to 2022 due to the current tax design including the tax free allowances. However, it is concerned that some of the assumptions regarding the design of the carbon tax beyond the first phase such as the removal of allowances and concessions, and the limited consideration of mitigation opportunities in the sector interventions are likely to overstate the impacts of the carbon tax over the medium to long term. It is important to note that the carbon tax will be subject to a review after three years of implementation, which will take into account the impacts of the tax on reducing emissions, and will help to inform future changes to the tax rate and tax free allowances.



**THANK YOU**

