



For the Attention of:

Honourable Mkhacani Joseph Maswanganyi

Chairperson

Standing Committee on Finance

National Assembly

and

Honourable Yunus Ismail Carrim

Chairperson

Select Committee on Finance

National Council of Provinces

By email to:

Mr Allen Wicomb, Ms Teboho Sepanya, and Mr Nkululeko Mangweni

Subject: Submission on the Fiscal Framework and Revenue Proposals as tabled in the 2020/2021 Budget

The African Climate Reality Project (ACRP) welcomes the introduction of the first Budget of the Sixth Administration, and we appreciate the Minister's acknowledgement of the impacts of climate change. We further welcome and support the announcement of the use of revenue from the Carbon Tax to help green the economy and complement more focused spending on climate change mitigation, and the increase of the plastic bag levy to 25 cents.

The Standing and Select Committee on Finance are due to host public hearings at Parliament on Wednesday 4 March 2020 on the Fiscal Framework and Revenue Proposals that were tabled with the 2020/2021 Budget on Wednesday 26 February 2020, and we

have written this formal submission to put a number of concerns and considerations before both the Standing Committee on Finance and the Select Committee on Finance, which we hope will assist in informing this review:

1. Carbon Tax:

We welcome Honourable Minister Tito Mboweni's announcement during the Budget Speech that the Carbon Tax and other measures will bring in an expected revenue of R1.75 billion in the coming months, and that this will be used to help green South Africa's economy.

As a Pigovian tax, the carbon tax serves to internalise negative externalities, i.e. the social and environmental costs of carbon. We welcome the fact that revenue from the Carbon Tax will be recycled and invested in the green economy of South Africa, and complemented by more focused spending on climate change mitigation. Van Heerden et al (2016) have demonstrated that recycling revenue through investment in renewable energy will reduce impacts on the electricity intensive sectors as well as realising the maximum reductions in emissions¹.

However, we also reiterate on previous submissions made on the Carbon Tax by ACRP, that the tax rate until December 2022 of R120 per ton of CO₂ equivalent (tCO₂e) of the greenhouse gas (GHG) emissions, to be increased annually as per consumer price inflation (CPI), is wholly insufficient. Research by the High-Level Commission on Carbon Prices indicates that a minimum carbon price should be in the range of R550 - R1,110/tCO₂e by 2020, if it is to be effective to achieve the Paris Agreement's temperature target of "well below 2 degrees Celsius"².

In addition, the number and scale of tax rebates applicable during the next two years undermine the effectiveness of the carbon tax system by offering significant rebates (from 60% to 95%) to most of the industries that are in fact the heaviest carbon emitters.

Raising the carbon tax and making it more stringent would bring in much needed additional revenue to the fiscus - in light of the costs of climate change, which is estimated to cost South Africa roughly 10% of its GDP³.

South Africa is considered a climate change hotspot, warming at twice the global average, and we are already seeing its impacts in our country today - such as the drought and flood affected communities mentioned in the 2020/2021 Budget Speech.

Fossil fuels are the main driver of the climate crisis and the impacts our nation is already facing, and for this reason we propose that the revenue raised from the carbon tax be used for activities consistent with the tax's nature - that revenue raised from polluting industries is not used to support these polluting industries in any way. We propose that Treasury makes sure that revenue from the Carbon Tax is not used to subsidise fossil fuels, and provides information as to how it will be used to support green economy investments, and accelerate the just transition to 100% renewable energy and a low-carbon development pathway.

¹ van Heerden, J., Gerlagh, R., Blignaut, J., Horridge, M., Hess, S., Mabugu, R. & Mabugu, M. 2006. Searching for Triple Dividends in South Africa: Fighting CO₂ pollution and poverty while promoting growth. *The Energy Journal*. 27(2):113–141.

² High-Level Commission on Carbon Prices, 2017. Report of the High-Level Commission on Carbon Prices. Washington, DC, World Bank. Available at <https://www.carbonpricingleadership.org/report-of-the-highlevelcommission-on-carbon-prices/>, accessed 30/11/18

³ <https://www.pnas.org/content/116/20/9808>

2. Plastic bag levy:

Plastic, in many of its forms, is a material that has been used to great effect in the health sector, revolutionised safe food storage, and even supported the growth of renewable energy from wind turbines and solar panels.

However, the convenience of single use plastics in our day to day lives has led to one of the greatest global environmental challenges. Oceans are being used as a dumping ground, city storm drains are clogged with waste exacerbating floods and spreading disease, and when consumed by livestock or fish, plastic also makes its way into the food chain that leads to our plates.

In our throw-away culture of using single use plastic items, plastic packaging accounts for nearly 50% of global plastic waste - and much of it is discarded within minutes of its first and only use. Just because it is single use however, does not mean that it is easily disposed of - when discarded in either landfill sites or in the environment, a plastic item can take up to a thousand years to decompose⁴.

According to estimates, roughly 79% of discarded plastic packaging sits in dumps or litters the environment, while 12% has been incinerated, and only 9% has been recycled⁵.

In a business as usual scenario, it's estimated that by 2025 the ocean will contain 1 tonne of plastic for every 3 tonnes of fish, and by 2050, the ocean will contain more plastic than fish (by weight)⁶.

For these reasons, we propose that a levy is extended to all single use plastic items, including but not limited to:

Plastic bags, straws, plastic beverage bottles, plastic cutlery, food packaging film and polystyrene food packaging, plastic food or sweet wrappers, and take-away warm beverage cups.

There are already many industries and companies that have voluntarily opted to promote the use of more eco-friendly alternatives; a few examples include Pick n Pay's package-free fresh produce⁷, KFC removing plastic straws from its stores with the plan to phase out all plastics by 2025⁸, and new businesses that have opened to supply customers with 100% zero waste products⁹, demonstrating both the availability of alternatives, as well as consumers' pre-conditions for uptake of these alternatives in the market.

The plastic bag levy was put in place not to raise revenue, but to disincentivize both company and consumer behaviour much like the sugar tax enforced since April 2018. Along with our proposal to extend this levy to all single use plastic items, we propose that the revenue raised be used to fund programmes consistent with removing plastic pollution from South Africa, including but not limited to:

⁴ https://wedocs.unep.org/bitstream/handle/20.500.11822/25496/singleUsePlastic_sustainability.pdf

⁵ Geyer, Roland, Jenna R. Jambeck, and Kara Lavender Law (2017). Production, use, and fate of all plastics ever made.

⁶ https://www.ellenmacarthurfoundation.org/assets/downloads/publications/NPEC-Hybrid_English_22-11-17_Digital.pdf

⁷ <https://www.pnp.co.za/pnpstorefront/article/package-free-fruit-and-vegetables>

⁸ <https://www.businessinsider.co.za/kfc-getting-rid-of-plastic-straws-2019-6>

⁹ <https://www.subaru.co.za/where-to-go-plastic-free-shopping-in-south-africa/>

Research and production of product alternatives, recycling programmes, and capacity building programmes and SMME development for existing informal waste pickers.

We trust that the Standing Committee on Finance and the Select Committee on Finance will take these considerations into account during the public participation process on the 2020/2021 Budget.

Faithfully,

A handwritten signature in black ink, reading 'A. Giliam' in a cursive script.

Amy Giliam

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