



12 September 2022

Parliament of the Republic of South Africa
The Honorable Chairperson: Standing Committee on Finance
90 Plein Street
Cape Town
8000

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Comments: Draft Taxation Laws Amendment Bill (TLAB) as published on 29th of July 2022 – Carbon Tax

Introduction

ArcelorMittal South Africa Limited (hereinafter referred to as AMSA) appreciates the opportunity afforded to comment on the 2022 draft TLAB that was recently published. Please note that our concerns mainly relate to the proposed changes in the carbon tax rates going forward and as already announced in the Minister's February 2022 Budget Speech. When considering the proposed tax rates, it is evident that the National Treasury wishes to steer South Africa in a direction of high carbon prices, similar to a few jurisdictions elsewhere in the world. Our comments are of a general nature and wish to caution that proclaimed carbon prices in other jurisdictions cannot be copied as a rule without a deeper understanding of the complete carbon pricing regimes implemented elsewhere. AMSA, as a "hard-to-abate" sector wishes to caution that high carbon prices in the absence of additional support measures may have a serious or catastrophic impact on our future sustainability.

Comments

Our comments mainly focus on two jurisdictions, namely the EU and Canada where high carbon prices have been proclaimed, but when considering all the support measures that are incorporated in such carbon pricing structures, the effective rate being paid per ton of GHG is considerably lower and it affords "hard-to-abate" sectors various opportunities to remain sustainable. Even though exciting new and alternative technologies are currently being researched and implemented on pilot scales, we need to be realistic that meaningful transitions to low carbon steel making based on ore reduction will only be feasible by 2035 or hopefully a bit earlier depending on various support measures that may be required. Scrap based steel making is already considered to be a low carbon option, but unfortunately global steel demand far outweighs the scrap-based capacity globally. Currently around 30% of global steel demand is scrap based and with recycling rates already at close to 100%, potential to further expand this route will depend on future scrap availability.

Regarding the two jurisdictions mentioned, the following support measures are in place to effectively reduce the price on carbon being paid and similar measures should be considered together with the proposed high carbon prices in the TLAB:

1. **Free allocations:** Free allocations are awarded to various sectors that are prone to carbon leakage. Energy intensive and "hard-to-abate" sectors would typically receive free allocations based on benchmarks and in the event of benchmarks being exceeded, then additional emission certificates



- would need to be acquired at the specified or market related price. Emissions categorised as “process” related could also receive further beneficial treatment. Such free allocations in the EU for instance will be phased out slowly and by 2030 allocations will be awarded at 50% and reduced further to zero only by 2035. In comparison SA wishes to phase out the tax-free allowances, which are comparable with free allocations elsewhere, by 2030! This measure, although not stipulated in TLAB, was announced by the Minister in his Budget Speech. Such announcements can be described as extremely harsh and scare investors away, especially sectors where alternative technologies are not yet proven or readily available. It should be mentioned that various hard-to-abate sectors would still rely on allowances beyond 2030 in order to remain sustainable in South Africa. It is important that the TLAB offers guidance regarding future allowances in order to lower levels of uncertainty.
2. Indirect compensation: In the EU, the fossil based electricity sector is not considered to be prone to carbon leakage and hence free allocations are awarded at a minimal level. This sector is thus exposed to high carbon prices and such costs are passed onto the consumer. There is however an important caveat in that intensive electricity users are compensated for the carbon prices passed on by the electricity generators and this benefit is referred to as indirect compensation. In SA, electricity price neutrality is guaranteed till end 2025, but it would need to be considered to remain in place for longer till fossil based electricity is not relied on within the economy.
 3. Financial Aid: Within the EU and Canada it is common to see that decarbonisation efforts are heavily subsidised in excess of 50% by the state as the decarbonisation costs of large emitters are of such an enormous magnitude that they simply cannot afford to obtain loans for such capital requirements. For instance in Canada the state is subsidising ArcelorMittal’s Dofasco facility by an amount of 480M Canadian Dollars as part of its initial decarbonisation campaign. In SA there are no such initiatives in place and the 12L assistance is also not relevant as any decarbonisation effort goes along with a massive increase in electricity use – at least four times in the iron and steel industry. It is extremely important to recognise that decarbonisation will increase energy consumption, especially the consumption of electricity.
 4. Carbon Border Adjustment: Jurisdictions where high carbon prices are being implemented are considering border taxes to counter the impact of cheaper imports from jurisdictions where no price is levied on carbon. The proposed EU Carbon Border Adjustment Mechanism (CBAM) instrument is currently debated in detail and may be implemented from 2026 onwards. Canada is also considering carbon border adjustments of some sort. Ironically, even the US, where no price is being levied on carbon is also considering a CBAM of some sort. It is acknowledged that carbon border adjustment mechanisms are extremely complex to implement, but it may be an option to protect our local industry from unfair competition. From a South African perspective, cheap imports of steel from jurisdictions with no price being levied on carbon, or where exemptions apply, are a reality and threatening our sustainability. With high carbon prices, matters will just get worse. Apart from raw steel imports, steel is also found in many finished goods which enter our borders without related carbon emissions being considered. We do not necessarily have a solution to address this, but at least South Africa should take a cautious approach to carbon pricing till high carbon prices are implemented on a broader basis globally.

It is important to note that the abovementioned measures are important to assist and support industry in its efforts to decarbonise and the proclaimed carbon price in a jurisdiction is not necessarily the price that is being paid. Such measures are definitely lacking in the TLAB and need to accompany any proposed high carbon prices because the way they are presented at the moment, we may just as well close shop now already as huge uncertainty is being created. All the allowance measures that apply in other jurisdictions may not be practical to implement in SA, but it is important that more than just a stick approach is considered to ensure that the South African steel sector remains sustainable.



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Based on the fact that allowances, in whatever form, will still be required for a considerable period of time, it is important that the ringfencing of carbon price revenue is considered. Currently carbon tax is paid by various parties and in some cases passed onto the consumer, but the alternatives are not in place yet. This makes the tax punitive by nature. All this collected revenue and much more will be required for decarbonisation efforts and somehow such revenue needs to be preserved and made available by means of financial assistance.

Conclusion

In conclusion, it is important to note that the copying of carbon prices from other jurisdictions may be extremely detrimental for our industry, especially if the carbon prices are considered in isolation without understanding the wider context within which they are implemented. ArcelorMittal already faces severe hardship in an economic climate where our Saldanha facility had to be mothballed resulting in significant socio-economic consequences. In the absence of substantial financial support relating to decarbonization, our operations may not be able to remain sustainable. Steel will play a very important role in future adaptation phases and from this perspective it is important that our ability to produce this material is maintained. We trust that our comments will be considered favourably in the event of high carbon prices being pursued further in South Africa.

Yours sincerely

Mr Werner Venter

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