DRAFT Tax laws amendment Bill (TLAB)

PROGRESSIVE INCREASE IN THE CARBON TAX RATE FOR 2023 TO 2030

Parliament

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Dr Dhiraj Rama

CONTENTS

1. INTRODUCTION: CCSA

- The Cement & Concrete SA (CCSA) is an association of cement and concrete producers representing amongst others, all major cement producers in the Republic of South Africa, specifically guiding and representing their interests in the fields of
  - Environmental stewardship,
  - Health and safety practices, and
  - Community and stakeholder interaction

- All cement manufacturing members produce cement in **compliance with national standards which are in line with international standards.**

- Our cement producer Partner members are fully committed to responding to all associated impacts posed along the entire value chain from end-to-end, that is, from mining of the raw materials to cement as the final product. This includes responsible management of environmental and *socio-economic impacts* across the entire value chain as well as assessing the *potential use of waste materials* by promoting coprocessing of waste to recover both energy and raw materials. These activities all contribute towards achieving the proposed national GHG targets as well as many of the elements of *just transition*.

- Furthermore, in the context of international sustainable development principles, national development goals, climate change strategy, and just transition our members are fully *committed to supporting South Africa's nationally determined contribution under the Paris agreement*.

- CCSA members has also committed to the sectoral Net Zero vision for cement production

2. ACKNOWLEDEGMENT

National Treasury:

- The work towards the future carbon tax regime is commendable
- The current effort to align different legislations is encouraging. Examples include:
  - GHG reporting guidelines
  - Carbon budgets

Department of Environment, Forestry and Fisheries:

- Aligning GHG reporting requirements to support Carbon tax implementation
- Aligning different policy instruments

3. CARBON TAX AS A POLICY INSTRUMENT TO DIRECT MITIGATION ACTION IN THE CONTEXT OF THE CURRENT DEVELOPMENTAL STATE OF SOUTH AFRICA

- The CCSA recognizes the use of carbon pricing and carbon tax as an important policy instrument to address our national climate change strategy.
- However, any increase in cost to do business is a major threat to the cement industry as it ranks amongst the world's
  1. most **capital-intensive industries** with a lower-than-average capital turnover when compared to others such chemical, steel, aluminium or paper and pulp.
  2. most **energy-intensive** of all manufacturing industries. It is 5 times more energy intensive than the other sectors compared.
  3. **carbon intensive** due to process emissions : **>50% emissions** related to chemistry of raw material and hence unmitigable.
  4. Cement production relies on coal as an energy source. This results in **additional 40%** GHG emissions

- Furthermore,
  - **Mitigation opportunities:** Cement is a hard-to-abate sector. The revised tax regime should note the challenges facing the hard-to-abate sectors and provide for special circumstances and additional allowances to ensure financial viability and sustainability of these industries in South Africa

  - **Trade exposure:** The sector is vulnerable to cheap imports. Domestic production capacity utilisation is estimated around 50 percent of the estimated production capacity of 22.7 million tons. It is to be noted that The EU is introducing border tax adjustments to manage border leakage.

  - **Regional economic development:** Our cement producing hubs are located far from the metropolitan economic activities and the knock on effects to these regions will be significant in terms of both the cement sector as well as its supply/value chain in terms of logistics, etc.
  - **Sustainable development and resilience:** The CCSA would like to emphasise that cement remains an **integral part of sustainable development** with regards to social and infrastructure development as well as resilient infrastructure for the built environment and hence requires careful consideration in the context of its capital intensive and energy intensive characteristics

4. ALLOWANCES as reflected in the budget speech

Based on the Budget speech the following key concerns should be addressed:

- **Electricity price neutrality commitment until 31 December 2025**

  The electricity price impacts beyond 2025 would have a major impact on the industry.

  Our members are concerned that the associated costs of electricity would be significant. The tax implications to electricity costs is of major concern due to limited associated mitigation actions possible

- **Trade exposure**

  It is our view even the maximum allowed trade exposure allowance may not be sufficient to ensure sustainability of local cement production leading to several challenges such as loss of competitiveness, increasing prices, decreasing local demand with consequences to job losses at cement production facilities and its supply/value chain, etc. The principle is that carbon tax reduces the price competitiveness of local cement production and therefore the industry would like to request maximizing the trade exposure allowance.

  The draft has increased allowance from 30 to 50%: for trade exposure. While the details are not articulated it is not clear what the implications would be as it is anticipated that the different bands within the 50% would be adjusted accordingly. This may compromise the level of allowance eligible for the cement sector.

  The cement sector is recognised internationally as being trade exposed which is also the case in South Africa. It is thus recommended that the National Treasury consider alternate approaches to inform trade intensity for the cement sector. The EU is adopting border tax adjustments as a mechanism.

  The CCSA would like to emphasise that the sector's exposure to trade exposure is a major concern for the sustainability of the local producers

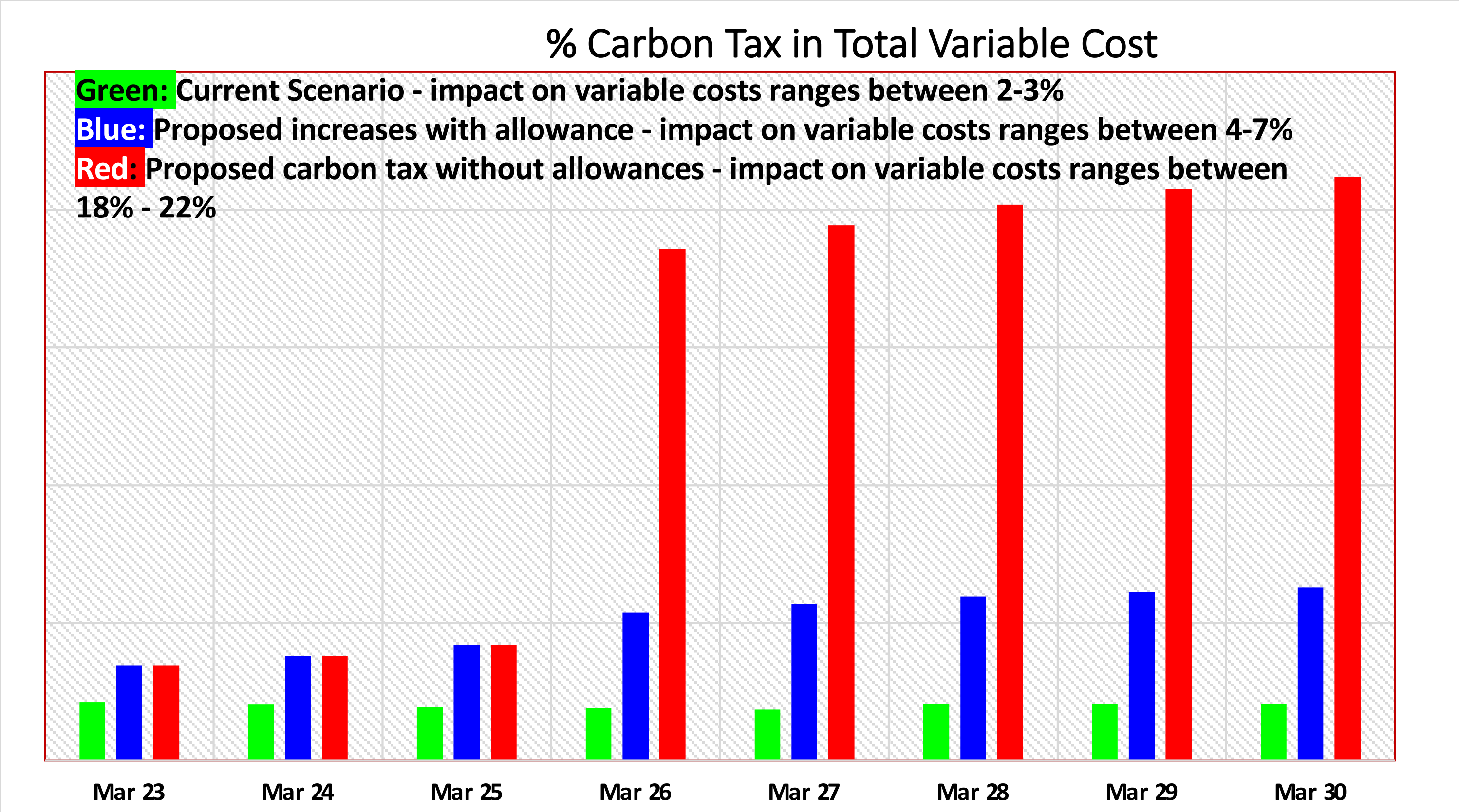
- **Process allowances**

  The draft proposal does not provide sufficient guidance to the approach to process related allowances due to the chemistry and related stoichiometry of limestone, the key raw material for cement production.

  It is recommended that National treasury provided increased process related allowances to ensure viability of the industry.

  In summary, it is important that National Treasury consider the challenges facing the cement sector in terms of Process related emissions which cannot be mitigated

5. FINANCIAL IMPLICATIONS: A COMPANY BASED EXAMPLE



- Carbon tax included in variable cost of sales increases by approximately 10 fold by 2030 due to increased CO_2 tax and withdrawal of allowances
- This would translate to a price increase of 6-8% <u>above</u> CPI per product by 2030, that will be passed to the consumer
- Inability to pass through to consumer will result in:
  - Domestic industry more uncompetitive relative to imports and
  - Unsustainable to continue operating

Note: These increases are not withstanding our best efforts to decarbonise

6. SUMMARY

1. The rapidly increasing carbon tax rate, rapidly increasing electricity price, the rapidly increasing coal price, greenhouse gas mitigation efforts, lack of government grants, and imminent removal of the various allowances / deductions, could have major implications to the viability of the cement industry
2. The ***principle of common but differentiated responsibilities*** be noted as South Africa is a developing country and SA is vulnerable to cheap imports. The EU is well advanced and ahead of the curve and thus able to determine standards and benchmarks which are very ambitious for South Africa. A case in point is the adoption of the these benchmarks for cement in the South African green taxonomy.
3. The CCSA members support our national NDC and notes that it is based on various conditions being met to support our mitigation action. While we recognise carbon tax a policy instrument, its implementation must consider challenges facing the hard-to-abate sectors and provide an enabling environment to ensure sustainability of the cement sector.

7. CONCLUSION

- The work by National Treasury towards the future carbon tax regime is commendable
- The current effort to align different legislations is encouraging.
- The current effort to promote ease of doing business without compromising the environment and ensuring sustainable development goals is noted
- The national submitted NDC relies on appropriate technical, technological and fiscal support
- We would like to recommend that National Treasury
  - note the challenges facing our hard-abate-cement sector which is also the most capital intensive, energy intensive, carbon intensive sector, and vulnerable to cheap imports
  - Consider the principle of differentiated approach to allowances for the hard to abate sectors
  - Facilitate fiscal support for appropriate mitigation actions.
  - Cement sector requires extensive support on allowances and incentives to remain in business.
  - The rapidly increasing carbon tax rate, rapidly increasing electricity price, the rapidly increasing coal price, greenhouse gas mitigation efforts, lack of government grants, and imminent removal of the various allowances / deductions, could have major implications to the viability of the cement industry
  - Internationally Cement producers enjoy significant allowances and their published Carbon price is certainly not the effective price and actual cost to business.

Thank you !