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PRESS RELEASE

Five Reasons for allowing Offsetting among Affected Industries within the South African Carbon Tax Net

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Now the dust has settled regarding the debate on the Carbon Tax Offset Paper published by National Treasury in April this year (check this [link](#)), EcoMetrix Africa would like to bring forward some additional inputs as food for thought when finalizing the design of this element of the proposed South African Carbon Tax in 2015.

Closely following and actively participating in the public consultation process, both on our own behalf and on behalf of various clients and industry associations, we observed that discussions often took a very technical carbon angle thereby distracting us from the bigger challenge of how to make the proposed carbon tax and its offsetting component in particular an effective and efficient mechanism.

We focus on one of the main concerns brought forward: the currently proposed restrictions around eligible projects allowed to produce offsets. Five reasons are provided why the development of offset projects within the tax net and trading of these offsets between affected parties should be allowed. This will be essential in order to make the offset mechanism work as well as to make it a meaningful component of the tax overall.

1. Level Playing Field – Current Design Distorts Level Playing Field

The problem with the current design is that while the 60% tax-free threshold softens the impact of the tax, it on the other hand also reduces the benefit of emission reduction projects of affected parties within the carbon tax net by 60%. While a project outside the tax net can receive up to 120 R/t for emission reductions, the net financial benefit for a project within the tax net would only be 48 R/t (40% x 120 R/t) or less, depending on the total of the tax-free threshold and additional tax-free allowances.

2. Least Cost Option – Current Design may favour more expensive Options outside the Tax Net

As a result of the higher incentive for projects outside the tax net, related mitigation activities outside the tax net may cost more than within the tax net, as these additional costs are compensated by a higher net reward per ton of CO₂ mitigated up to a maximum of 120 - 48 = 72 R/t or higher. This inadvertent effect goes against the principles of favouring least cost options, a principle core to carbon offsetting mechanisms globally.

3. Collaboration within the Tax Net – Collaboration between Affected Parties is not incentivised.

By allowing offsetting within the tax net, affected industries are incentivised to assist each other in achieving emission reductions and reap the rewards jointly by selling offsets to each other. In this way affected industries can look together for least cost mitigation options. Enabling offsetting would incentivize these collaborative efforts and may substantially increase the impact and desired change in behaviour the carbon tax is seeking to achieve.

4. Price Signal - Stronger Price Signal while Offsets within the Tax Net do not cost the Tax Payer a Cent

Affected parties within the energy and manufacturing sectors are the ones financing the carbon tax scheme in the first place. Why not allowing these parties to obtain an extra benefit (or in fact less punishment) when collaborating with likewise affected parties to finance low carbon solutions? One may even debate in this regard if it makes sense to limit offsetting to a 5-10% of total emissions.

5. Critical Mass for Markets – Allowing Offsets within the Tax Net creates substantial Trading Volumes

Significant trading will benefit offset providers both within and outside the Tax Net as markets require volume/liquidity in order to function properly and sufficient incentives for market facilitators to build trading platforms. By allowing 5-10% of total emissions as offsets a significant amount of offsets could supply this market while demand is guaranteed with a remaining 90-95% of taxable volume not being allowed to offset. Even under the current tax-free threshold of 60%, demand is (per definition) roughly a factor 4 higher, leaving plenty of 'market space' for projects outside the tax net.

The above considerations are provided acknowledging that the main objective of the carbon tax is not to generate revenue for the states covers, nor to set up a carbon accounting process serving reporting obligations regarding our national carbon inventory (this process is run by the DEA), but rather to provide an effective price signal to carbon intensive industries incentivising a change in behaviour towards more efficient, low carbon operations assisting the country's contribution to the global fight against climate change.

EcoMetrix Africa Pty Ltd

EcoMetrix Africa is a leading South African greenhouse gas and energy management advisory firm. We specialize in assisting organisations in energy/carbon performance assessments, defining mitigation strategies and the development/financing of renewable energy and energy efficiency projects. Moreover, we provide support in determining how to respond to the changing regulatory landscape like the envisaged introduction of the carbon tax. Our core competencies lie in the area of the quantification and mitigation of carbon emissions, a good grasp of energy technologies and a thorough understanding of the local regulatory landscape. For more information on EcoMetrix Africa please visit: www.ecometrix.co.za

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