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Making sense of the impending Carbon Tax and its implications for South Africa's fruit farmers

By Anél Blignaut, Eddie Vienings and David Farrell

The Draft Carbon Tax Bill has been released for comment during November 2015. The Confronting Climate Change (CCC) Initiative has received many questions with regards to the bill and in response developed this summary document with the information currently to our disposal. It is meant to be a high-level document that outline the carbon tax processes and should by no means be read as conclusive as it is likely that there will be refinements to the Bill after the public comment has been received.

What is a carbon tax and why is it being implemented?

South Africa has committed itself to reducing greenhouse gas (GHG) emissions to below business-as-usual levels, and has selected taxation on greenhouse gas emissions, or what is referred to as a "Carbon Tax", as the primary mechanism to stimulate the changes in the economy necessary to achieve these targets. The committed reductions targets are substantial, being reductions of 34% by 2020 and 42% by 2025. The carbon tax seeks to place a cost to greenhouse gas emission, and in so doing ensure that the polluter pays for their emissions and the harm caused by such pollution. The carbon tax is aimed at stimulating a steep reduction in GHG emissions, ensuring that South Africa is ready to deal with future climate risks and challenges, and to be in a position to take advantage of new investment opportunities associated with the move to a low-carbon or "green" economy. The Carbon Tax is a direct economic instrument aimed at rapidly changing the behaviour of businesses – providing then a significant financial incentive to shift towards cleaner technologies, products and processes.

When will it be introduced?

It is anticipated that phase 1 will be implemented during from January 2017. The primary agricultural sector will be exempt from phase 1 and only be taxed directly from phase 2 which is estimated to start in 2020/2021. Although primary agriculture will be exempt from phase 1, the carbon tax will indirectly filter through to input costs.

Not only must the bill be written into law, but Treasury still has to finalise regulations around the generation and claiming of offsets. At this stage the Carbon Tax relates to Scope 1 emissions only. Scope 1 emissions are direct emissions from owned or controlled sources. As a matter of interest, although fuel is currently subject to the General Fuel Levy (Petrol – R 2.55 per liter and Diesel R 2.40 per liter), it is not an "environmental" levy. Electricity consumption is currently subject to an Environmental Levy of 3.5 cents per kWh.

How will it work?

The nominal "price" of greenhouse gas emissions will be set at R 120 for the equivalent of a ton of carbon dioxide emitted.

A number of tax-free allowances have been provided which then reduce the effective cost to the business:

- A basic tax-free allowance of 60% ;
- An additional tax-free allowance of 10 per cent for process emissions;
- A variable tax-free allowance for trade-exposed sectors (maximum 10 per cent);
- A maximum tax-free allowance of 5 per cent for above average performance;
- A 5 per cent tax-free allowance for companies with a Carbon Budget;
- A carbon offsetting allowance of either 5 per cent or 10 per cent;

Therefore, the total tax-free allowance during the first phase (up to 2020) can be as high as 95 % (i.e. for a business that qualifies for all the discounts, it will be taxed an effective cost of R6.00 per ton of CO_2e emitted). Up to the end of Phase 1 the cost of carbon could therefore range from R 6 to R 48 per ton of CO_2e emitted. After phase 1 it is anticipated that these tax-free allowances could be reduced and phased down.

Implementation of the carbon tax requires an accurate system for monitoring, reporting and verifying emissions (MRV). The CCC carbon calculator provides a mechanism for monitoring and reporting in the agricultural sector. The South African Revenue Service (SARS) will be the main implementing administrative authority on tax liability assessments and that Carbon Tax will be collected as for other taxes. In order to audit the self-reported tax liability by entities, SARS will be assisted by the DEA.

What are the implications for agriculture?

While agriculture is exempt from being directly taxed during phase 1, the Carbon Tax legislation has important other implications for farms, packhouses, wineries and other entities involved in primary agriculture:

- Farms can potentially become an important source of carbon offsets during phase 1 and there may be opportunities for selling carbon offsets to entities that are looking to reduce their carbon tax bill. What will qualify as an offset project is not year clear but could include carbon sequestration projects (for example restoring soil carbon) and/or emissions reduction technology projects (for example, solar PV, biogas digesters etc.).
- The cost of carbon taxes will be felt throughout the economy as prices are increased by businesses to help them offset their increased tax bills. Agriculture can expect to experience cost pressure on all key material and energy inputs including electricity, fuel, fertilizers and agrochemicals.
- Once phase 2 is reached, then all scope 1 emissions from agriculture will be taxable. There are important scope 1 emissions applicable to farms, packhouses, wineries etc.;

- Mobile Combustion: All emissions from the consumption of fossil-fuels for owned vehicles, including owned tractors, trucks, farm bakkies etc.
- Stationary Combusion: Any emissions from the consumption of fossil-fuels for equipment owned by the business used for industrial applications such as heating, electricity generators etc.
- Fugitive Emissions: Any unintended release of greenhouse gasses from other sources owned by the business, such as refrigerant leakages from cooling systems, Nitrous Oxide from agricultural soils and Methane from waste treatment infrastructure.

What should I do to prepare for Carbon Tax, and how can the CCC Initiative assist you?

Up till now, the motives to measure, report and reduce carbon emissions have come from a combination of market pressures, economic self-interest (improve efficiency and reduce costs) and a desire "to do the right thing". The introduction of the Carbon Tax scheme adds a further, and perhaps the strongest, motivation for businesses to proactively understand and manage where, how and at what scale they emits greenhouse gasses and to understand, evaluate and implement the strategies to reduce these emissions. The primary motive of the Carbon Tax is to bring emissions reduction onto the center-stage of business management.

The most foundational element of an emissions management strategy is the ability to accurately and reliably measure emissions at a level of detail that enables good decision-making and credible reporting. The annual measurement of the businesses "carbon footprint" using the CCC tools provides the solution for this.

Once measurement has been undertaken then opportunities to improve efficiencies and/or to introduce new technologies can be evaluated and implemented.

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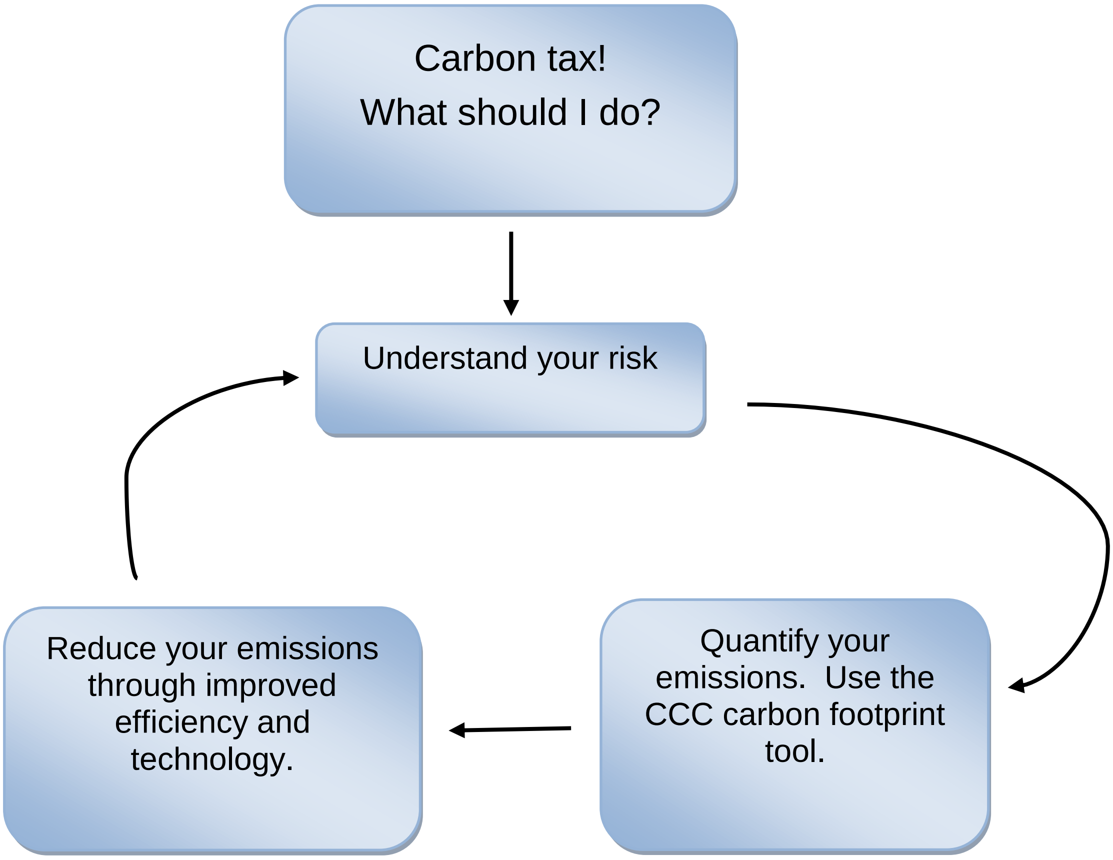
The CCC Initiative is also being enhanced in response to the impeding Carbon Tax

- adding a Carbon Sequestration Calculator for the calculation of carbon offset values and opportunities.
- Incorporating a carbon tax calculator in the Carbon Footprinting tool to calculate the tax impact of the business's emissions and to help in the identification of emissions and tax "hot spots"
- To proactively inform the industry of the carbon Tax legislation and its implementation and implications are finalized.



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CCC Benchmark Workshops 2016

2016 Technical Benchmark workshops		
DATE	**TIME**	**TOWN**
21 June 2016	9:00 – 12:00	Ceres
20 July 2016	9:00– 12:00 (Fruit)	Stellenbosch
20 July 2016	1:00-4:00 (Wine)	Stellenbosch
3 August 2016	1:00-4:00	Kakamas
7 September 2016	9:00 – 12:00	De Doorns
18 October 2016	1:00-4:00	Brits/Rustenburg
20 October 2016	1:00-4:00	Hectorspruit
26 October 2016	10:00-1:00	Citrusdal
2 November 2016	9:00 – 12:00	Kirkwood

2016 Train-the-trainer Workshops

DATE	TIME	TOWN
22 June 2016	8:30-4:30	Ceres
21 July 2016	8:30-4:30	Stellenbosch
4 August 2016	8:30-4:30	Kakamas
19 October 2016	8:30-4:30	Brits/Rustenburg
1 November 2016	8:30-4:30	Kirkwood

To confirm your attendance or find out more information about any of these workshops, please contact the project team: Anél Blignaut (anel@bluenorth.co.za)

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