

Overview of Carbon Tax and Carbon Offsets

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Key Design Features of Carbon Tax

Key design features of carbon tax



What is carbon tax?
Persons covered?

Carbon Tax is levied on the sum of greenhouse gas (GHG) emissions, in respect of the tax period, expressed as the carbon dioxide equivalent of the greenhouse gases which are emitted.

A person is liable to pay carbon tax, if that person conducts an activity in the Republic resulting in GHG emissions equal to or above the threshold specified for that activity.



GHGs covered

Covered emissions

- Fuel Combustion
- Industrial Processes
- Fugitive Emissions

GHG covered

- Carbon Dioxide
- Methane
- Nitrous Oxide
- Hydrofluorocarbons
- Perfluorocarbons
- Sulphur Hexafluoride

Emissions Included

- Direct emissions (Scope 1)

Emissions Excluded

- Indirect emissions from the use of electricity (scope 2).
- Indirect emissions from the supply chain (scope 3)



Carbon tax rate and Allowances

Carbon tax rate

R144 p/t CO₂e
Increased by CPI + 2%

Allowances

- Basic allowance
- Industrial process
- Fugitive emissions
- Trade exposure allowance
- Performance allowance
- Carbon budget
- Carbon offset

Effective tax rate

Limitation of allowances up to 95%



Compliance and Administration

Customs and Excise Act

Form DA 185 and Annexure DA 180.4B2

Licensing and Registration - Customs and Excise Manufacturing Warehouse

Payment

- Form DA 180
- 31 July following the calendar year

First tax period

1 Jun. -31 Dec. 2019

Thereafter

1 Jan. - 31 Dec.



Phase 2

Period

1 January 2026 - onwards

Carbon tax rate increase by CPI%

Expectations

- Allowances may be reduced or be replaced with absolute emission thresholds.
- Effective tax rate will increase - magnitude of increase not known.
- Mandatory carbon budget regime (Climate Change Bill).



GHG emission reduction

- Increase process efficiency
- Monitor and address leaks from pressurised equipment
- Deploy clean technology
- Invest in renewable and alternative energy
- Carbon Offset projects and the introduction of a carbon trading system
- Energy efficiency, energy effectiveness and energy conservation = reduced Carbon Tax liability

A close-up photograph of a person's hand holding a camera lens. The lens is held horizontally, and through its center, a lush green forest with tall trees is visible. The background of the entire image is a blurred green forest, creating a sense of depth and connection to nature.

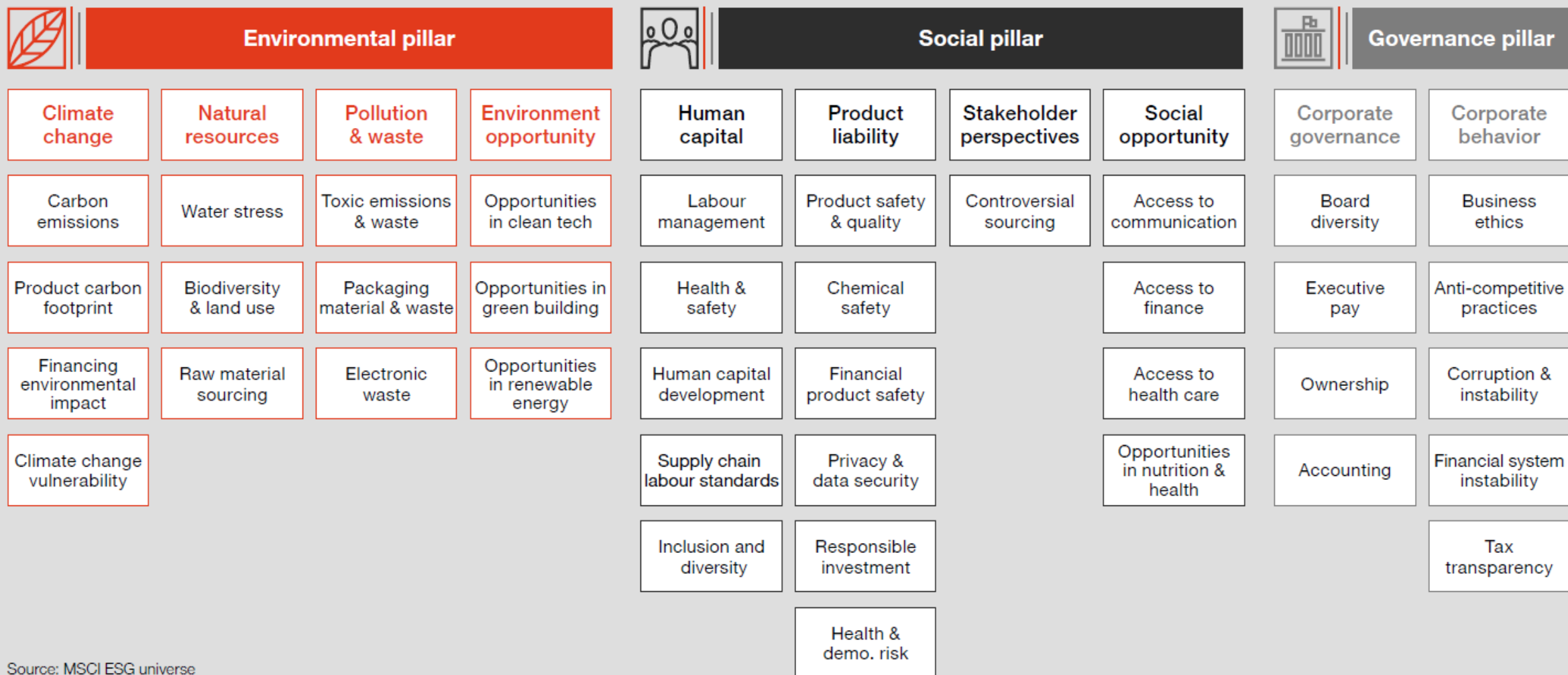
Environmental tax developments

The Carbon Border Adjustment Mechanism (CBAM)

EU “Fit for 55” package includes the creation of a carbon price (through CBAM) aimed at regulating the GHG emissions embedded in a selection of products on importation into the EU.

- Will apply to products in the cement, electricity, fertilizer, iron, steel, and aluminum sectors.
- Impact on a wide range of industries, e.g. consumer products, pharmaceutical products using aluminum packaging, industrial goods manufacturers using non-EU iron, steel, and aluminum.
- Product list proposed to increase
- Transitional period (from 1st January 2023 until 31 December 2025), the CBAM mechanism shall apply as a reporting obligation
- Payment expected from 1 January 2026
- Direct and indirect emissions - thus scope 1 and scope 2 is included

A view of the ESG landscape



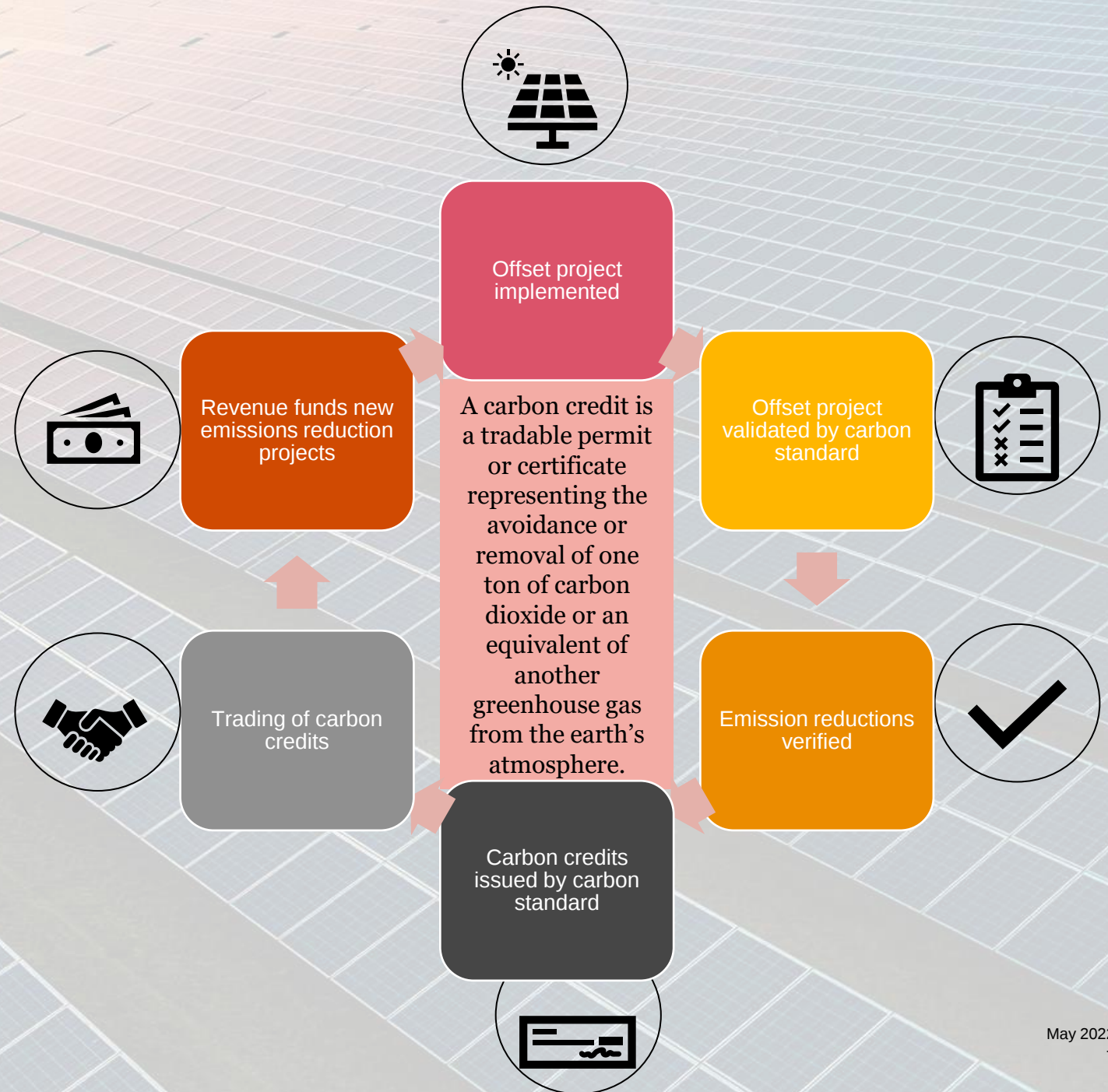
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Carbon Offsets and Carbon Market

What are carbon credits?

What are the drivers behind the carbon markets?

- Carbon markets are gaining momentum and plays an increasingly important role in limiting global warming.
- The main goal for the creation of carbon credits is the reduction of emissions of carbon dioxide and other greenhouse gases from industrial activities to reduce the effects of global warming.
- Demand for offsets in the international carbon market increased dramatically in 2021.
- The surge in demand was driven by corporates setting net-zero targets, amid mounting consumer awareness of climate change. Offsets often form part of their plans



How are carbon credits generated?

- For a carbon-reduction project to generate carbon credits, it needs to demonstrate that the achieved emission reductions or carbon dioxide removals are **real, measurable, permanent, additional, independently verified, and unique**.
- The impact of a carbon credit can only be claimed—that is, counted toward a climate commitment—**once the credit has been retired** (cancelled in a registry), after which it can no longer be sold

Industries generating carbon credits:	
	Energy: Energy efficiency; small scale renewable energy.
	Construction: Cement CO2 utilization, Weatherization of Buildings
	Waste: Landfill methane recovery; Mitigation of greenhouse gas emissions from treatment of industrial wastewater
	Agriculture: Improved Agricultural Land Management
	Grasslands: Prevention of conversion of forest to non-forest and of native grassland and shrubland to a non-native state
	Livestock & Manure: Reduction of Enteric Methane Emissions through the Use of Feed Ingredients
	Industrial processing: Recovery and Destruction of Ozone-Depleting Substances (ODS) from Products
	Transport: Electric Vehicle Charging Systems
	Mining: Methane Capture and Destruction from abandoned coal mines and Active Open cast mines.
	Forestry: Forest Management, Avoidance of Deforestation.
	Wetlands: Conservation projects that avoid planned land use conversion.

Voluntary carbon standards



Gold Standard®

Compliance carbon standards



How are carbon offsets sold/traded

International carbon market

Some examples of international carbon markets :

- The EU Emissions Trading System (ETS) was the first multi-national installation-level cap-and-trade programme. The ETS covers 45% of carbon dioxide (CO₂) emissions in the EU, as well as emissions of other greenhouse gases (GHGs).
- Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) was established by the International Civil Aviation Organization (ICAO) in 2016. Carbon Credits are purchased by airlines in order to meet their emission reduction targets.
- China Emissions Trading Scheme: China's ETS is not only the world's newest: it is also the biggest by emissions coverage.

Depending on the type of credit (whether it also has added ESG benefits) carbon credits in the international market trades for between \$3-6 dollars.



South African carbon market

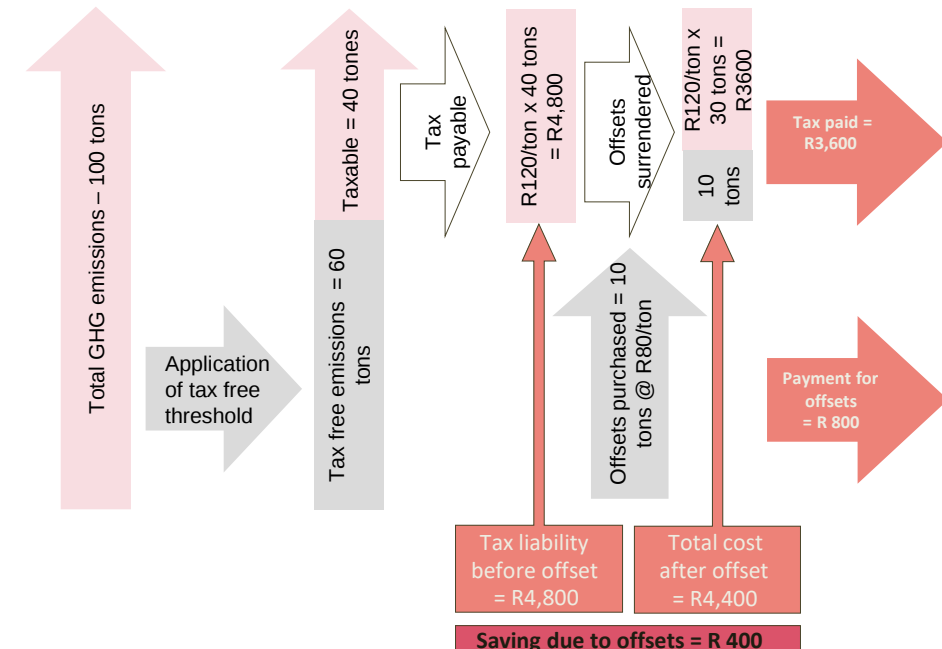
The South African carbon market was established with the introduction of the South African carbon tax.

Credits can be utilised by carbon taxable entities to reduce their carbon tax liability by 5% or 10%, depending on the sector in which the entity operates.

Carbon credits are traded on the Carbon Offset Administration System.

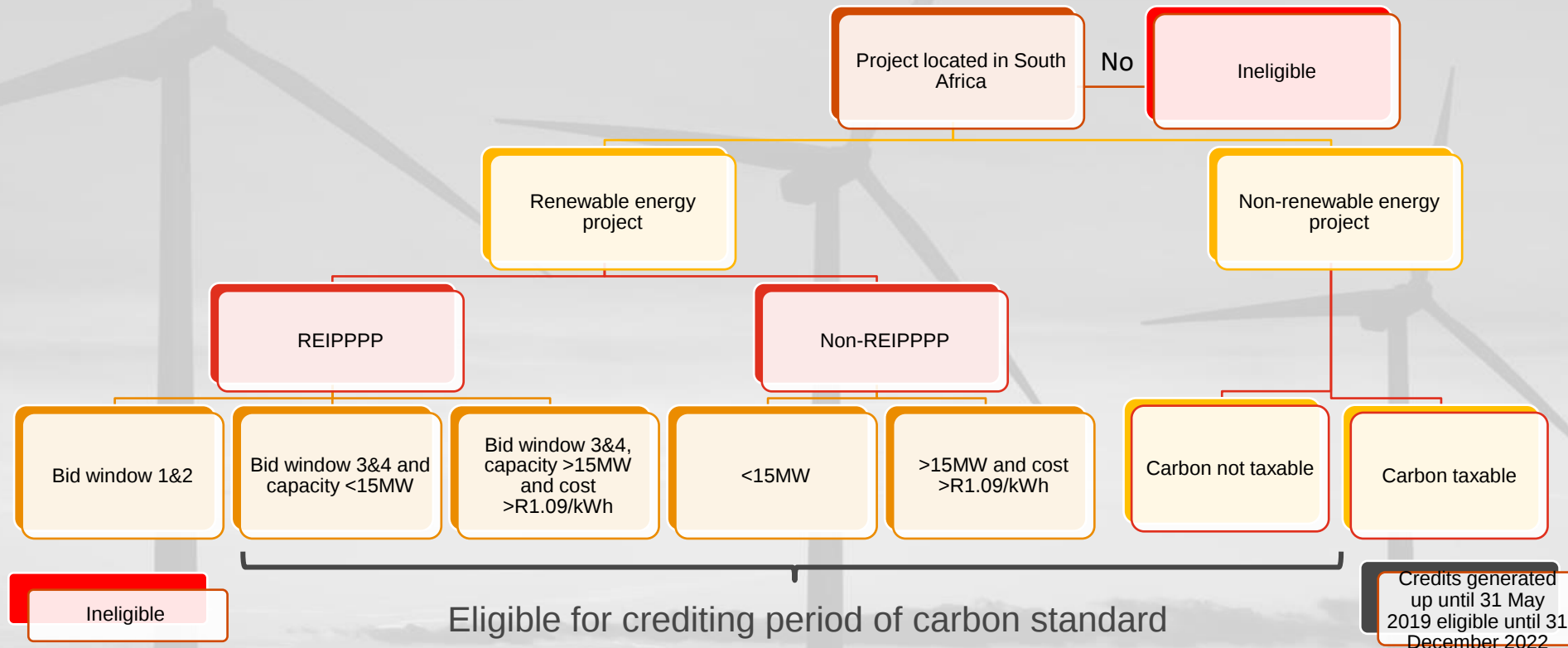
Prices are linked to the reigning carbon tax rate and trade for 70-80% of the tax rate.

Why do entities purchase carbon offsets in the market?



Carbon markets are evolving and renewable energy is becoming business-as-usual

- There are strict eligibility criteria that must be adhered to for carbon offsets to be eligible for use in the South African carbon tax regime.
- The eligibility must be measured against the provisions set out in the Carbon Offset Regulations, 2019.
- In alignment with the changing rules of the carbon standards, renewable energy projects starting to be seen as “business-as-usual” meaning that they do not lead to emissions reductions which are unique due to their ease of implementation.



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