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News Flash – SA Carbon Tax

SA carbon tax plan may hurt job ambitions

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Johannesburg - South Africa’s carbon tax plan is running headlong into a clash with its job creation plans, putting the government in a bind ahead of hosting of a global climate summit at the end of the year as it seeks to rein in emissions without hurting growth.

South Africa wants to cut CO2 emissions by 34% over the next decade, but has little flexibility to make fast changes with major employers among the top polluters and its cash-strapped power sector almost fully reliant on coal.

The government has said its top priority is to cut into a chronic 25% unemployment rate. However, industry will have less money for new employees if it is forced to pay high carbon taxes and while exports flounder due to an economic slump in Europe and the United States.

South Africa said it would consider sector specific tax reductions and exemptions to protect key industries, although these would be temporary, raising fears the proposed tax will force some mining or industrial operations to close.

“The carbon tax as currently proposed would certainly kill the South African steel industry,” said ArcelorMittal South Africa [JSE:ACL] CEO Nonkululeko Nyembezi-Heita.

The government said a tax imposed directly on all measured emissions at a rate of R75 a tonne of CO2 and eventually rising to around R200/t seemed “most appropriate”, although analysts said the rates were high.

The benchmark EU Allowances carbon price is at just under €11 ($14.6)/t of CO2.

Australia, a mining hub like South Africa, said it would tax its top 500 polluters at a price starting at A$23($22)/t that would rise about 5% a year before moving to a market-based emissions trading scheme in 2015.

Nearly all of South Africa’s power is generated by state utility Eskom’s coal-fired plants, making it impossible for companies to choose less carbon-heavy electricity.

South Africa is investing heavily to diversify its energy mix away from coal and to have renewable energy and nuclear power supply a big portion of its electricity, but it may take decades until such measures materialise.

"You can't be introducing any penal measures in the form of a carbon tax until the government has restructured its energy source," said Duane Newman, a tax director at Deloitte.

Top polluters

South Africa hopes the tax will influence behaviour, especially at top polluters Eskom and petrochemicals group Sasol [JSE:SOL], which collectively spew out more than half of the country's annual emissions of around 500 million tonnes.

Yet emissions in South Africa are still disclosed on a voluntary basis, making it difficult to name the full extent of pollution or to calculate an appropriate tax, analysts said.

"We are making decisions based on potentially factually incorrect information," Deloitte's Newman said.

A carbon tax would put further strain on industries that are already battling with steep increases in power tariffs, meant to help Eskom pay for new power plants and avoid a repeat of a crisis which brought industry to a halt in early 2008.

Cash-strapped Eskom's chief executive Brian Dames said any cost of a carbon tax would be fully passed to consumers, with analysts saying it could raise tariffs by up to 30%.

Critics question South Africa's desire to be a frontrunner on the tax, especially as its voluntary offer to cut emissions is tied to commitments of financial and technical support from developed nations, which so far have not materialised.

They argue it is too early to look at a tax, especially given the absence of international climate change agreements.

South Africa is hoping the tax, along with investments in renewable energy, will spur the development of a local green industry and create a renewable power manufacturing base and jobs.

But analysts said the tax may instead force miners to choose to relocate their smelting or other energy intensive activities.

"This could potentially have a material impact on our competitiveness in the export market, in particular the coal market," said Stan Pillay, manager for climate change and energy at global miner Anglo American [JSE:AGL]

Some fear South Africa may be rushing on the tax decision as it seeks to improve its carbon credentials ahead of hosting the Conference of Parties (COP17) in Durban at the end of 2011.

ArcelorMittal South Africa said industries should be given allowances based on global benchmarks and be taxed if they exceed them.

“Then you would be taxed on something over which you have some control and which you can manage down overtime by implementing improvement projects,” said Siegfried Spanig, the steelmaker’s environmental manager.

Sasol’s chief executive David Constable said it would push for voluntary reductions over the punitive measures currently proposed.

“We would much rather like to see a carrot rather than a stick approach,” he said.

“There will have to be different rulings and guidelines by sector. Voluntary targets with incentives will not affect the competitiveness of the country and reduce jobs.”

A draft tax policy paper will be released in November.