

Carbon tax – a realistic option?



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Agenda

Back drop – global and South Africa

Carbon Tax paper

Realistic option

Conclusion

Global back drop



Carbon pollution

Need for action

- Global warming causing
 - extreme weather,
 - higher temperatures,
 - more droughts, and
 - rising sea levels
- Many type of (human) activities is causing the change
- Eleven of past 12 years amongst the 12 warmest years
- Require international response and national efforts to reduce greenhouse gases (GHG)

Shift in policy

Type of action

- “Taxes on labour” vs “green tax reforms” / “environmental fiscal reform”
- Incentive vs “command and control”
- Incentive – based policies include :
 - Tax on emissions
 - Inflexible cap – and - trade program
 - A cap on the annual total level of emissions combined with a system of tradable emissions allowances
 - Modified cap – and – trade program

A portrait of a man with short dark hair, smiling broadly. He is wearing a dark navy blue suit jacket over a dark turtleneck sweater. The background is a bright, out-of-focus window with a grid pattern, suggesting an indoor setting with natural light. The overall mood is positive and professional.

South African backdrop

South Africa

- The National Framework for Sustainable development
 - Excessive resource use for energy generation;
 - Rising waste levels;
 - Soil degradation;
 - Poor local air quality; and
 - Water scarcity and water quality.
- Long Term Mitigation Scenarios - LTMS, (October 2007)
 - Growth without Constraints (Business as usual)
 - Requirements by Science
 - Actions :
 - Start now;
 - Scale up;
 - Use the market;
 - Reach for the Goal

South Africa

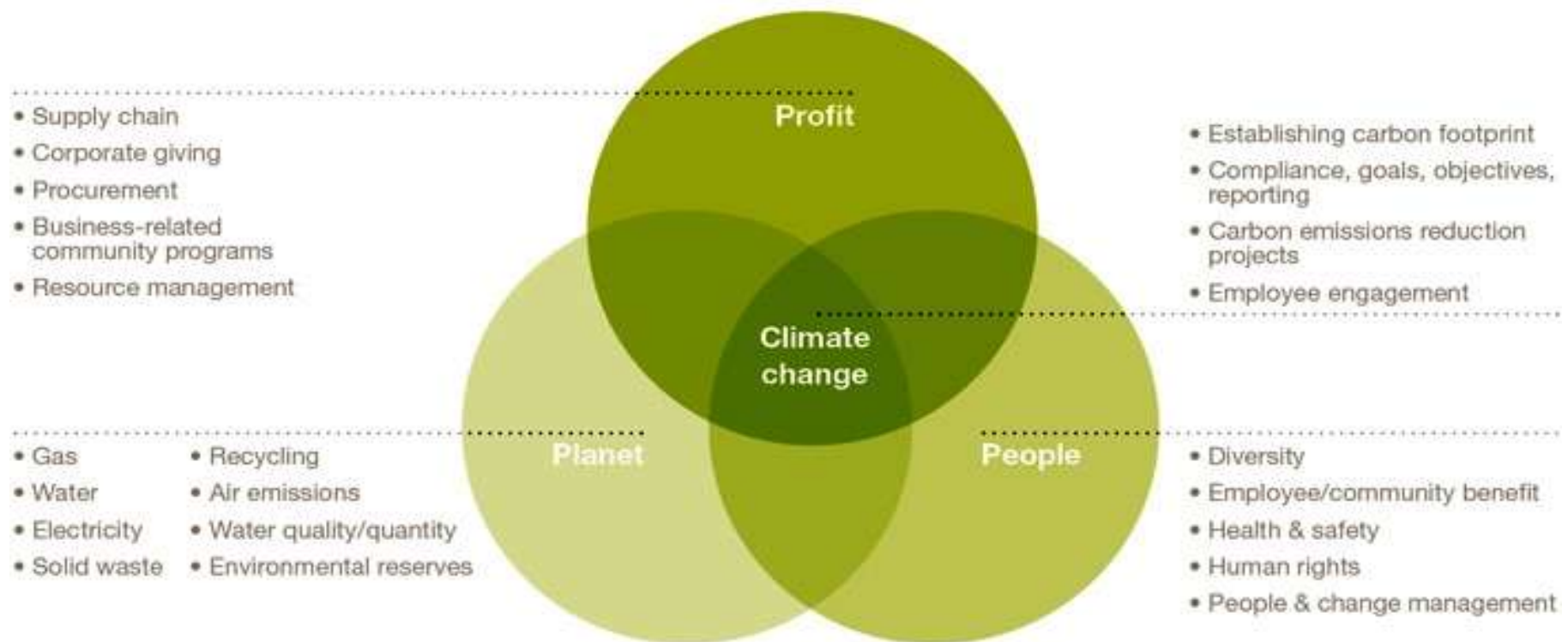
- **Direct Taxes**

- Accelerated depreciation (50 : 30: 20)
- Research & development
- CERs
- Deemed deduction for use energy efficient technologies

- **Indirect Taxes**

- Fuel levy (plus fuel concession for biofuels)
- Plastic bag levies
- Electricity levy – 3c per kWh
- CERs
- New cars – flat levy

Why environmental taxes for businesses?



Carbon Tax Paper



South Africa's promise

Copenhagen announcement

- 2009 Copenhagen announcements :
 - 34 % by 2020
 - 42 % by 2025below business as usual scenario;
- Plus conditions
 - Availability of adequate, predictable levels of funding to support the actions;
 - Technology transfer and
 - Capacity building efforts by developed countries

Carbon Tax discussion paper

Press release

- 2010 budget review – NT to issue a paper for public comment
- Seeks to complement the regulatory efforts of government

SA 11th largest emitter of CO₂ in the world : 2006 – 443 million metric tonne

Emissions expected to grow

Economics of climate change

Considerations

- Carbon taxes vs Emissions trading scheme.
- However, paper spends more time looking at carbon tax; design options; estimated cost; role of environmental taxes and regulations, etc.

Why not cap and trade

*Cons – but
what about
the pros?*

- Administrative complexity
- Uncertain environmental outcomes
- Windfall gains experienced by some stakeholders
- Uncertain economic cost for business
- Controversy associated with setting specific targets
- Subject to manipulation and abuse
- Length of time to put into place

Pros but what about the cons?

Why carbon tax

- Design of carbon tax can be relatively easy and administratively efficient
- Measuring and monitoring – can be a challenge
- Certainty in pricing
- Proxy tax base can be considered
- The level of tax can be phased in over time
- Can target all sectors immediately
- Distributional and competitiveness concerns to be dealt with in an transparent manner

Tax types

Actual measured emissions

- Direct measure
- Pay as you use
- Cons :
 - Administrative difficulty
 - Technology capacity or system to measure and monitor - cost
- Pros
 - Precise targeting
 - Can result in reduction of emissions

Proxy tax base – upstream

- Where fuels enter the economy according to the fuel's carbon content
- Pros
 - Reduced admin costs – manufacturers
 - Fewer entities

Proxy base – downstream

- In emitters at the point where fuels are combusted
- Cons
 - High admin cost – users
 - Only regulate larger emitters

Proxy taxes

- Could piggy back onto existing taxes – reduced admin costs
- But less precisely targeted to emissions

Recycling, tax shifting and earmarking

Use of environmental taxes

- Recycling through tax shifting – involve taxing bad and reducing taxes of good
- Earmarking not supported for various reasons :
 - Risk of misallocation of public funds
 - Earmarking – undue constraint on government – serve interest groups
 - Practice may be an obstacle
- But open to partial earmarking – better than before

Potential impact

South African Tax principles :

- Efficiency
- Equity
- Administrative feasibility; and
- Simplicity.

Tax overall should be equivalent to marginal external damage cost of carbon

Coverage should be comprehensive

Relief measures, if any, should be minimum and temporary

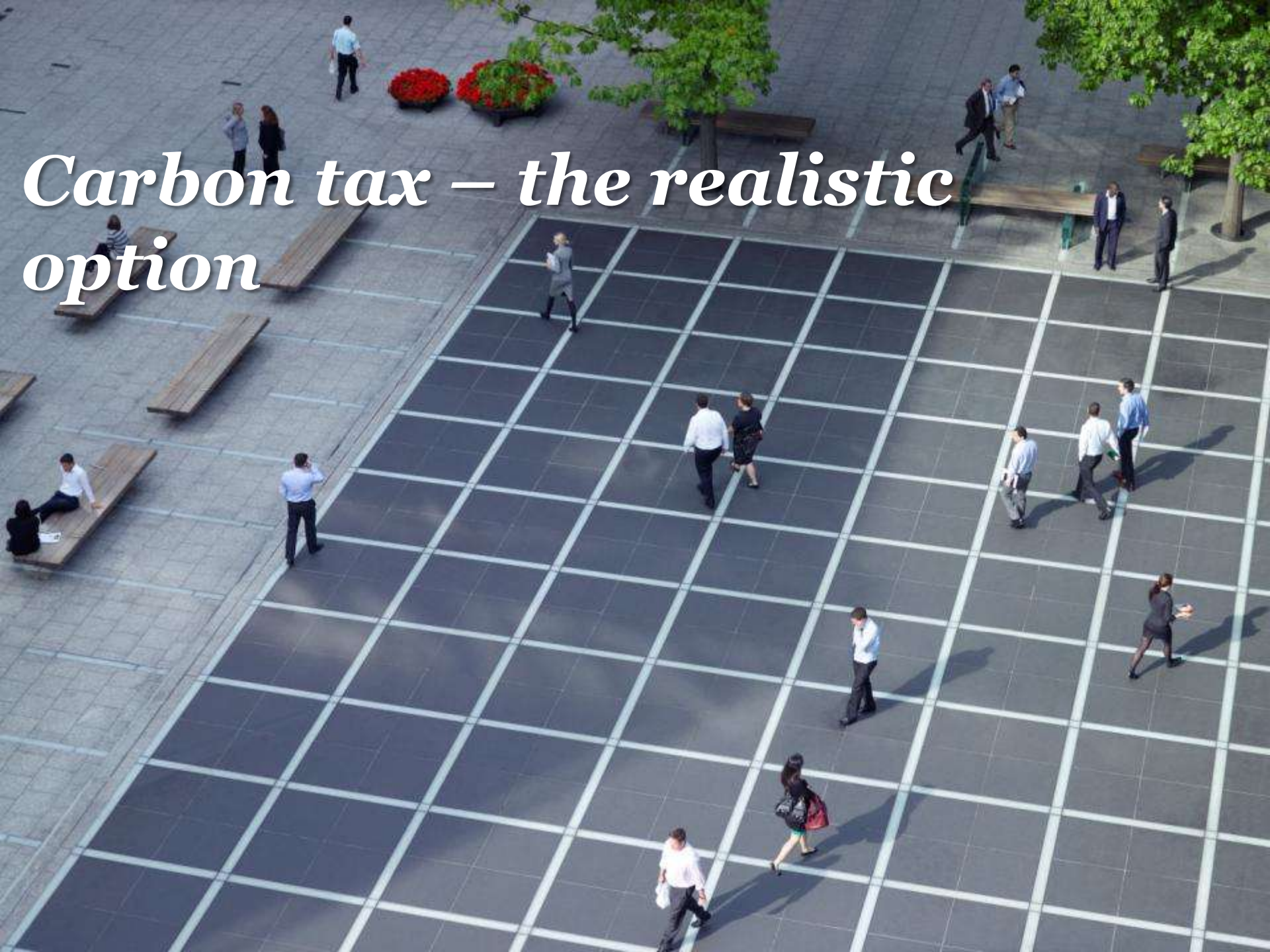
Cost to South Africa

- Prices discussed in document :

R75/t to R200/t

- If R165/t of CO₂e – current levels of SA companies = R82,5 billion
 - Eskom 224,7 t (40%) = R37 b;
 - Sasol = R9,9 b;
 - Accelormittal = R1,7b

Carbon tax – the realistic option



Advantages of carbon tax (1)

- Efficient, less costly, quicker and easier to implement
- Transparent and easy to understand
- Less opportunity to manipulate by special interest
- Addresses emissions from every sector – energy, transport, industry
- Revenues can be returned to the public
- Can assist global targets by providing incentives
- Steadily rising tax could achieve long – term targets fro emissions
- Costs can be predicted
- Can be drawn up, implemented and enforced in a manner that achieves environmental targets
- Increase in economic activity, costs will be relatively stable
- Could use consumption tax compared to direct tax

Advantages of Cap - and – trade (1)

- Could have many of the efficiency advantages of a tax
- Can keep allowance prices from rising and falling
- Once implemented, will cost less to implement
- Could balance cost and benefit
- Offers reasonable certainty that targets will be met
- If internationally applied, it will boost effectiveness and reduce the risk of competitive relations being disturbed
- Make it possible to achieve required reductions at the lowest cost
- Sulphur dioxide cap and trade in us – very popular (but the climate change programme has to be 100 times larger than the sulphur dioxide programme)

A photograph showing an irrigation system in a field. In the foreground, several black pipes are spaced out across a dark, tilled field, with water spraying from them. In the middle ground, a tall metal power line tower stands on the left. The background features rolling hills under a hazy, overcast sky. The word "Conclusion" is written in a white, italicized serif font on the left side of the image.

Conclusion

Discussion

- Competitiveness (exports and imports) – raise costs
 - Impact on economic growth and job creation
 - Timing of policy implementation
 - Alternative options
 - Cost likely to be passed onto the consumer
 - Additional burden in the economy without new incentives or key issues being addressed
- Economic downturn – sluggish recovery
 - Energy sector – price increase / fuel levies – new tax
 - Lack of earmarking income for improvement of the environment
 - Impact on investors
 - Financing new projects
 - No reduction in other taxes

***You choose ... But be ready for change
and surprises!***

Thank you

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