

Understanding the political economy of South Africa's Carbon Tax

Summary of Working Paper 150 by Lucy Baker

South Africa is the only country in sub-Saharan Africa to have enacted a carbon tax to date. Although the country was ahead of the curve when it began considering the tax's implementation in 2010, it took until 2019 for the Carbon Tax Act to be passed (RSA 2019). By this time 58 carbon taxes in 46 countries and 31 subnational jurisdictions had been implemented.

Why is South Africa's political economy relevant to its carbon tax?

South Africa is the world's 14th largest emitter of greenhouse gasses (GHG) and the largest emitter on the continent. The country's coal-dependent electricity system is the most carbon-intensive in the world and its primary energy consumption is ranked 17th globally.

The country's highly energy- and carbon-intensive economy is a core feature of its minerals-energy complex (MEC) (Fine and Rustomjee 1996). The MEC is a unique and evolving system of capital accumulation which historically has been characterised by evolving relationships between government and state-owned enterprises, and the concentrated ownership of core sectors of the economy by large corporate conglomerates. The MEC now includes an increasingly influential financial sector which accounts for 25 per cent of GDP.

The MEC's most powerful institutions remain the country's greatest GHG emitters. The state-owned electricity utility Eskom accounts for approximately 44 per cent of national emissions, and Sasol, the former coal-to-liquids parastatal and one of the country's largest producers of coal, accounts for approximately 11 per cent.

While the country's GDP is the 30th highest in the world, it also one of the most unequal. A legacy of socio economic and political exclusion created by its apartheid history has persisted in South Africa since the democratic transition of 1994. Such structures are an important consideration for the potential distributive impacts of any carbon tax and who might be most affected by it.

Exemptions and allowances

The carbon tax has been proposed as a key mechanism to realise South Africa's emissions reduction commitments. But the rate at which it's been set, R120 (\$8) per tonne, is far below the Paris Agreement targets of between \$40 to \$80 per tonne. This is perhaps unsurprising, given the power of carbon-intensive industry voices in South Africa.

The implications for the country's business interests and international competitiveness have been at the centre of debates around the carbon tax's design. The tax's first phase, which has now been extended until the end of 2025, concedes significant exemptions and allowances to the country's energy- and carbon-intensive institutions who stand to be most affected by it. During the tax's first phase, there are exemptions for up to 95 per cent of emissions for all liable polluters. As a result, the initial carbon tax rate effectively falls to between R6 (\$0.38) and R48 (\$3) per tonne of CO₂e. The country's largest emitters, Eskom and Sasol have remained exempt and following announcements in early 2022, will not be liable under phase two of the tax either, alongside emissions from waste, agriculture, forestry, and other land use sectors (Bridle et al 2022).

So far, the tax has neither lowered emissions or raised revenue by very much. It is estimated to have contributed to a mere 0.05 per cent and 0.11 per cent of the total national tax revenue in 2020/21 and 2021/22 respectively. Its contribution to total emissions reduction has not been publicly quantified.

Parallel mandates

While the National Treasury has a constitutional mandate over tax policy and therefore the carbon tax, the Department of Forestry, Fisheries and the Environment (DFFE) is responsible for climate change policy, including legislation for the now delayed Climate Change Act. Despite the DFFE's ambitions, the department lacks the necessary political influence over large mining and energy

companies, as well as the Treasury and Department of Mineral Resources and Energy (DMRE).

There is little interaction between the Climate Change Act and the Carbon Tax Act, and the lack of coordination between Treasury and the DFFE has allowed MEC incumbents the opportunity to further resist the tax, in addition to other climate change policies.

Despite of, not because of...

Despite their resistance to climate change policies, some South African companies are taking steps to reduce their carbon emissions, in spite of rather than because of the carbon tax. Such companies are responding to other factors, including rising coal costs; rising electricity tariffs; the increasingly unreliability of Eskom-generated electricity; as well as regulatory shifts and technological advances that allow for self-generation from renewable energy technologies. External trade pressures which threaten the competitiveness of South Africa's carbon-

intensive industries have also pushed some companies to start reducing their emissions. This, in addition to a more ambitious commitment to combatting climate change under the country's latest Nationally Determined Contribution (NDC) signed in November 2021 and the Climate Change Act which was due to be passed in 2022. Moreover, the pricing of environmental social and governance (ESG) concerns into investment risk has seen the financial sector moving away from high-emitting investments.

While the relevance of the carbon tax is now under question, the fact that it has been implemented at all could be seen as progressive given the economy's continued heavy dependence on coal for now, and the intense resistance and opposition that it has faced.

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Further reading

Bridle, R., Muzondo, C., Schmidt, M., Laan, T., Viswamohan, A., Geddes, A. 2022. 'South Africa's Energy Fiscal Policies: An inventory of subsidies, taxes, and policies impacting the energy transition', IISD [available at: <https://www.iisd.org/system/files/2022-01/south-africa-energy-subsidies.pdf>]

Republic of South Africa (RSA) (2019) Carbon Tax Act 15 of 2019. Republic of South Africa [available at: <http://www.treasury.gov.za/public%20comments/CarbonTaxBill2019/Carbon%20Tax%20Act%20,2019-Act%2015%20of%202019.pdf>]

Trollip, H and Boule, M. 2017. Challenges associated with implementing climate change mitigation policy in South Africa. Energy Research Centre, University of Cape Town, Cape Town, South Africa.

Tyler and Mgoduso (2022) 'South Africa's central climate mitigation policy instruments and their impact on the power sector', Meridian Economics, Briefing note, March (No. 2022/01) [available at: https://meridianeconomics.co.za/wp-content/uploads/2022/03/Briefing-Note-2022_01-South-African-climate-policy-and-the-power-sector.pdf]

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Credits

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