

Carbon Tax paves the way

Mobility 2030



After eight years of extensive stakeholder consultation, the Carbon Tax Act (the “Act”) was promulgated on 23 May 2019. The Act aims to address the country’s carbon emissions - which are disproportionately high as a developing country - and comes into operation on 1 June 2019. Could this be the tipping point in accelerating the adoption rate of Electric Vehicles (“EVs”) and Autonomous Vehicles (“AVs”) in South Africa?

Environmental protection and climate change is at the forefront of many discussions globally, and understanding the future of mobility – the way in which people and goods are moved - is one aspect of this dialogue. It is now widely accepted that, by 2030, mobility will be dramatically different to what it is today. The introduction of EVs and AVs means that our day-to-day journeys will become cleaner, safer, cheaper and more productive.

As concerns surrounding climate change increases, companies and individuals alike are encouraged to understand the impact of their carbon footprint on the environment, and to take measures to mitigate the extent of this footprint. Up to now, South Africans have only experienced the environmental and health costs of pollution, while the costs of remedying, preventing or controlling pollution and environmental degradation are not taken into consideration when determining the final price of products or services.

The primary goal of the introduction of the carbon tax is to determine a cost associated with the environmental and health damages of excessive greenhouse gas (“GHG”) emissions and to ensure that businesses and households take this price into account in their production, consumption and investment decisions. It is also intended to drive a change in the behaviour of corporates to encourage a move to cleaner technologies. Will the promulgation of the Carbon Tax Act be enough to bring about the necessary environmental behavioural changes?

Switching to “Eco” mode

The first step to South Africa’s adaptation and mitigation responses to climate change was to set a price on GHG emissions on the ‘Polluter Pays’ Principle - those who pollute should bear the costs of managing and preventing further damage to human health and the environment. This price has taken effect in the form of carbon tax, whereby an initial levy of R120 per tonne of carbon dioxide equivalent (“CO₂e”) of GHG emissions has been imposed. This carbon tax could, therefore, certainly put pressure on individuals and businesses to switch to a cleaner and greener mode of transport – particularly as the intention is that road transportation (which is currently excluded from carbon tax) will fall within the list of activities subject to carbon tax post 2022.

For companies, this may mean adapting business and operating models, and securing the right partnerships through Mobility 2030 – a global initiative which focuses on achieving collaboration and enhanced growth across all users of, and contributors to, the mobility sector. Adaptation and collaboration is particularly important due to the far-reaching nature of the Act, as well as the uncertainty of changes to the Act beyond 2022.

The components of the Act

The carbon tax addresses the measures that Government is taking to meet its nationally-determined contribution (NDC) in terms of the 2015 Paris Agreement on Climate Change, whereby South Africa as a whole is allowed to emit 14-gigatons of carbon dioxide between 2020 and 2050.

However, to ensure that South Africa remains competitive and the economy stable during the introduction of carbon tax, the Act will be implemented in 3 phases: the first phase runs from 1 June 2019 to 31 December 2022, the second from 2023 to 2030, and the third from 2031 to 2050. In addition, a wide variety of allowances have been set out in the Act to allow businesses time for transition. The most notable of these is a basic percentage-based threshold allowance of 60%, below which tax is not payable. This has the immediate effect of reducing the carbon tax liability from R120 to R48 per CO₂e tonne. Other allowances include a trade exposure allowance (to alleviate the burden for trade exposed entities) and a carbon offset allowance (which allows entities to offset investments in carbon offsets projects against their carbon emissions). In order to cushion the potential impact on energy-intensive sectors, the price of electricity will not be affected by carbon tax for the first phase.

Carbon tax will be calculated per the extensive listing of sectoral activities classified in Schedule 2 to the Act, which covers energy related activities; industrial processing and product use; waste; and agriculture, forestry and other land use. Therefore, taxpayers will need to determine whether their GHG emissions (from fuel combustion, industrial processes and fugitive emissions) fall below the prescribed threshold input capacity, and whether or not they will be liable for carbon tax.

Only taxpayers with total installed capacity for an activity in Schedule 2 that is equal to or above the indicated threshold (in most cases a total installed thermal capacity of around 10MW) will be required to report their emissions and will be subject to carbon tax.

The Act also specifies that the initial rate of carbon tax of R120 per tonne will be increased by consumer price inflation ("CPI") +2% per year until 31 December 2022, where after the rate of tax will be increased only by CPI. The impact of the carbon tax will also be reviewed at least three years after implementation (i.e. June 2022), taking into account the progress made in reducing GHG emissions – which may result in changes to the rates and tax-free thresholds being made. However, the price of carbon tax may extend to more than just a set Rand per CO₂e tonne.

Gearing for international competitiveness

During the carbon tax consultation process, it was noted that *"the scope of carbon pricing initiatives through carbon taxation is increasing rapidly and is becoming a major part of country policy strategies to achieve the NDCs under the Paris Agreement"*

195 countries have pledged to cut their greenhouse-gas emissions under the Paris accord. Examples of some of the commitments that have been made include Norway's plan to ban the sale of petrol and diesel-powered cars by 2025, while the Netherlands has pledged to do the same by 2030 to reach the country's agreement's emission targets. India plans to have EV's contribute 50% to public transport by 2023 and 100% EV's by 2030, and Japan aims to have 100% EVs by 2040, with a zero emissions policy.

With some of South Africa's main automotive trading partners committing to reducing and eventually eliminating the use of petrol and diesel vehicles, industry needs to ensure that it stays ahead of these changes, and adapt its strategic initiatives accordingly. These decisions, however, should not remain only with what we sell; the way in which goods are produced is also of importance – especially when it comes to the possibility of carbon-related import tariffs, or border carbon adjustments ("BCAs").

Globally, industry representatives have voiced their concerns that imports from countries without similar emissions regulations can gain cost-of-production advantages over domestic goods. To put this into context, analyses performed on the difference in CO₂ emissions between petrol, diesel, hybrid and electronic vehicles is measured on the entire life cycle of a vehicle – not just on the emissions from the tank to the wheel. GHG emissions from production is suddenly brought into the equation – and countries who are investing in greener production technologies could find themselves on the back foot when it comes to factoring these costs into the final selling price.

One of the arguments presented for the imposition of carbon tax is the protection of South Africa's exports from BCAs that could be imposed on exports to other countries that are already pricing carbon. While no country has implemented BCAs on any meaningful scale yet, the desirability of competitiveness adjustment policies is under review by many policy makers and academics.

As more countries introduce initiatives to decrease their emissions, a failure to respond to, and control, GHG emissions could lead to a loss in international competitiveness and increased vulnerability to trade and investment.

The road ahead

In order to remain competitive, relevant, and avoid potentially significant increases in the cost of carbon tax, industry should already be identifying ways in which its carbon footprint can be reduced. Specific to the automotive sector, this may mean an accelerated adoption of EVs and AVs. Of course, this would have to be coupled with government support and alignment, as well as investment in supporting infrastructure. While this won't happen overnight, these discussions should certainly be taking place now.

Reving change

KPMG South Africa is working with clients, across all sectors, to prepare for carbon tax (and resulting imminent disruption). We understand the challenges, and by utilising a phased approach as well as integrating engineering, tax, sustainability and customs and excise expertise, KPMG can assist you in determining your company's carbon tax exposure.

If you require more insight into how we can identify ways that Mobility 2030 could ease your carbon tax burden, we would be happy to arrange a conversation with you.

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