South African Institute of Professional Accountants

8 February 2017

Carbon tax is no silver bullet

Reducing greenhouse gases is a commitment under the Paris Agreement, but the proposed carbon tax will not yield the desired results on its own. The delay in implementing the proposed legislation provides a great opportunity to come up with a better solution.

Author*: Ettiene Retief, Chairperson of the National Tax and SARS Stakeholders Committees, South African Institute of Professional Accountants*

Late last year, the National Treasury published the results of a study on the likely effects of the proposed new tax designed to reduce South Africa's emission of greenhouse gases—the so-called carbon tax. Perhaps unsurprisingly, the study concluded the proposed tax would reduce our emission of greenhouse gases (33 percent by 2035), without significant impact on economic growth or jobs. However, the Treasury report has been criticised and claimed as 'fatally flawed'.

The introduction of carbon tax is not surprising, considering the World Bank estimated that 15% of global emissions are subject to a tax or carbon pricing as at 2016.

The intended implementation date of the carbon tax has been postponed till early 2018. Understandably, the implementation of a carbon tax is complex, and needs to cater for many market segments.

The largest contributor to carbon emissions is the burning of fossil fuels. While it is intended that the carbon tax is not to affect the consumer of electricity until 2020, thereafter the costs will most likely be passed on to the consumer. Without a focus on alternative means to generate electricity, the consumer will have no choice than to either pay more, or use less.

The ideal model is where carbon tax incentivises companies to change behaviour and consumption patterns, effectively becoming less reliant on fossil fuels. At the moment there is little alternative available, and the come at a cost.

Why more time is good

Firstly, any modelling exercise is by definition limited by the assumptions on which it rests and the data projections it uses. The problem is exacerbated by the highly-entrenched orthodoxies that characterise all thinking about climate change—objectivity, it often seems, has been a casualty.

An equally compelling reason for spending a little more time and thought on formulating a strategy is the experience of other countries is mixed, at best.

In Australia, for example, it appears as though confusion reigns despite emissions having been reduced. In 2014, a carbon tax was repealed in favour of an emission Reduction Fund, and the Environment and Energy Minister, Josh Frydenberg, announced on 5 December 2016 his department would undertake a review of the whole matter. Among the concerns, it seems are the impact on power generation that has affected employment not only in the energy sector, but in energy-intensive industries.

Similarly, an academic study by two researchers at Statistics Norway shows that high carbon taxes in that country have actually yielded only “modest” reductions in gas emissions. The study notes: “This surprisingly small effect relates to the extensive tax exemptions and relatively inelastic demand in the sectors in which the tax is actually implemented. The tax does not work on the levied sources, and is exempted in sectors where it could have worked.”

France has recently indicated that it is dropping plans to introduce a carbon tax for the moment, citing concerns about its ramifications and even constitutionality.

Supporting measures

I would argue that we should draw two main conclusions from all of this:

- Legislation needs to be complemented by a set of supporting initiatives to build consumer awareness and to promote alternatives.

  The aim of carbon tax is to reduce the amount of emissions created, and not mainly to expand the tax base.

- Companies of all sizes need to be assisted in implementing alternatives or to effectively reduce dependence on fossil fuels, without significant loss of production or jobs. A focused approach specific to the different sectors, with realistic timeframes.

The most significant impact could be made if we focus on shifting our reliance on burning fossil fuels to keep the lights on.

South Africa has made commitments to reduce its greenhouse-gas emissions. The real question is how best to live up to those commitments. Hopefully the Budget Speech will indicate that we will use the delay in implementing our carbon tax wisely to come up with an integrated strategy—addressing the issues identified.

ENDS

MEDIA CONTACT: Idéle Prinsloo, 082 573 9219, idele@thatpoint.co.za, www.atthatpoint.co.za

For more information on SAIPA please visit:
Website: www.saipa.co.za
Twitter: @SAIPAcomms
LinkedIn: South African institute of Professional Accountants Company
Facebook: South African Institute of Professional Accountants