BIZCOMMUNITY

Carbon tax may hurt heavy industries

By Edward West

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The introduction of a carbon tax is likely to have a great effect on the cost structures of South Africa's heavy industries, say analysts.

The government has provided little detail about the mooted carbon tax, but some tax and legal professionals believe a further announcement is likely in the first half of this year, if not in the upcoming budget speech.

The government first suggested the tax seven years ago. The idea was further expounded in a 2010 discussion document, titled *Reducing Greenhouse Gas Emissions: The Carbon Tax Option*, which proposed to impose a R120 per ton tax on carbon emissions. By the time of last year's budget speech the idea for the tax had become more complex. It then included a proposal to use offsets to comply with a percentage of tax liability, and breaks for trade-exposed sectors.

A planned commencement for the 2013-14 tax year was mentioned in last year's budget speech.

The carbon tax joins a list of similar taxes that have already been implemented such as a vehicle emissions tax, which was introduced in 2010.

South Africa, with its vast coal reserves, is among the most intensive emitters of greenhouse gases in the world. It has voluntarily committed to reducing carbon emissions 34% by 2020.

Henk Sa, managing director of the carbon consultancy, management and financing firm EcoMetrix Africa, says if the tax is introduced at a rate of R120 per ton of carbon emitted, Eskom would be by far the biggest contributor at an estimated R11bn a year.

This is close to the R13.2bn profit it made in March last year.

The power utility contributes the biggest share of the R12bn to R17bn state hopes to gain from the tax, says Sa.

Sasol's contribution to the tax would come in at about R3bn a year. This represents 12% of its profit for last year. One of the Durban Chamber of Commerce and Industry's main criticisms of the tax is that the government will be the highest payer, and a "revolving door" on the payment of tax does not make sense.

State operations

Exempting state operations from the tax will negate the effect of the tax, given its aim of reducing emissions.

Edward Nathan Sonnenbergs (ENS) environmental department senior associate Andrew Gilder says it is likely that a small industry will emerge with the introduction of the carbon tax. The services it will render including auditing, consulting, carbon emission control, tax services and advice. This will present additional costs for businesses.

Gilder says the government needs to be clear on how emission verification will be done. Will additional staff be employed, will an independent company be contracted for the work or will there be a verification authority?

Environmental issues can no longer be viewed as a "nice to have" or a "reluctant spend", Gilder says. This is because of the direct financial impact on business of environmental considerations. Carbon emission monitoring is already being done at many companies.

ENS executive Mansoor Parker says there are a range of other tax considerations that might arise with the introduction of carbon tax for which there are no clear answers as yet. Carbon reduction or energy renewal equipment is costly.

The question is then whether it would be possible for companies to claim accelerated depreciation allowances for new renewal energy equipment or capacity, Parker says.

Another question is how companies will be able to use carbon credits against their carbon tax liabilities.

Would companies, for example, be able to qualify for the 150% research and development tax incentive if they did research into carbon sequestration?

The failure by local and provincial authorities to properly monitor the existing air quality legislation is another gripe.

The Durban Chamber of Commerce and Industry argues that too little thought has been given to the use of the revenue from the tax and that a clear plan should be presented on how the it will be spent.

This is important because there is little information from the government on how much is being raised from other environmental taxes such as the electricity generation and fuel levies. Further, it is not known how existing levies are spent.

Norton Rose's head of tax, Andrew Wellsted, says the government's silence on the introduction of carbon tax suggests it may have to delay its implementation.

Ross Robertson, associate director at Norton Rose, says the silence on the carbon tax may mean a realisation of the complexity of introducing and administering such a tax.