Sasol presentation to the NCOP on the Carbon Tax Bill and Customs and Excise Amendment Bill

12 March 2019

Sasol is committed to supporting South Africa's transition to a lower-carbon, more climate resilient economy

Sasol Supports	What have we done?
Carbon Pricing	Participating in voluntary carbon budget
Just transition to a lower-carbon economy	Introduced natural gas; continuously investing in gas exploration; greatly improved our energy efficiency
South Africa's international climate change negotiating position	Active participant in national and international forums since the Kyoto Protocol
South Africa's re-industrialisation effort and is committed to investing in our Southern African operations to 2050 and beyond	Early participant in carbon offset projects and investigating options to integrate renewables into our operations

For Sasol to build on what we have done, we will require a practical, consistent and aligned policy approach

Climate change policy misalignment

- **National Treasury indicated to the Standing Committee on Finance in November and December 2018:**

  "National Treasury and Department of Environmental Affairs agreed in principle that emissions within the carbon budget will be taxed at a lower rate (all tax-free allowances applicable). The current carbon tax design features will apply and any adjustments to the level of the tax-free thresholds, and the rate of the tax will be based on a review after at least three years of implementation of the carbon tax. A higher tax rate will be applied on emissions above the carbon budget (no tax-free allowances apply) where the carbon budget will serve as the maximum level of emissions allowed"

- **Sasol welcomes National Treasury's recognition of the need to align the carbon tax and carbon budgets**

- **Sasol has consistently been calling for this since 2013 and have proactively engaged with National Treasury, Department of Environmental Affairs and respective portfolio committees while proposing alternate and practical solutions to ensure the achievement of policy alignment**

- **While the current carbon tax design, before the House, is only intended for the Phase 1 to 2022, and given the lack of Government process for consultation on the alignment with Carbon Budget, Sasol recommends that the Carbon Tax Bill is amended to include a process for post-2022 regime to create certainty.**

- **It is critical that the current bill improves policy certainty by:**
    - Compelling the Minister to ensure that the tax and budget approach will be aligned and explaining how this will be done; and
    - Outlining how transitional arrangements may be addressed.

Certain outstanding commitments still need to be addressed

- **The Minister in his recent budget speech made the following undertakings which are now extended timelines in relation to those promised by National Treasury in December 2018:**

  To ensure a smooth administration, SARS will publish draft rules for consultation by March 2019. These rules will complement three sets of regulations:

  - *A draft Regulation on the Carbon Offsets was published in June 2016. A revised regulation, taking public comments into account, was published for further consultation in November 2018.* ***A consultation workshop will be held in March 2019 to finalise the regulation.***

  - *Trade exposure regulations, which provide for higher allowances based on trade intensity, will be published before the* ***end of February 2019****, following extensive consultations on methodology.*

  - *Benchmarking regulations will be published in* ***March 2019 for further consultation****. A review of the proposed benchmarks will be undertaken in consultation with stakeholders under the Partnership for Market Readiness.*

- **In November 2018 National Treasury made the undertaking that the carbon tax will be price neutral on the price of electricity, in the first phase. This would be achieved by providing credit for the electricity generation levy and renewable energy premium.**

- **In addition with regards to the Customs and Excise Act, the following was committed to, but has not come to fruition:**
  - Solution for company level licensing for alignment between the GHG reporting and SARS payments
  - Solution for how drawbacks will be used for applying Carbon Tax allowances; and
  - Solution for claiming Income Tax deductibility

Implications of the Customs and Excise Amendment Bill

Challenges

- **Customs and Excise Act, 1964 (“C&E Act”) in it’s current form poses significant practical and constitutional challenges**
    - punitive penalty regime
    - powers of Customs Officials could result in closure
    - Lack of alignment of GHG emissions reporting
- **No credit for electricity levy paid against Carbon Tax**
- **Double taxation for Mining Industry**

Proposals

- **Postpone the promulgation of the Carbon Tax**
- **Adopt the 80/20 payment principle similar to provisional taxpayers**
- **Address double Taxation in Mining Industry**
- **Legislation or rules allowing for deduction of electricity levy from carbon tax liability**

Sasol's proposal on the way forward

Sasol requests the NCOP to:

- Insist that the carbon tax design be amended to reflect an aligned Carbon Tax and Budget approach.
- Alternatively, insist on an amendment to commit the Minister to align to the Carbon Budgets during the second phase of the carbon tax and outline how transitional arrangements will be addressed.
- Postpone the promulgation of the Carbon Tax to align to the promulgation of the Customs Control Act 2014, Customs Duty Act 2014 and Customs and Excise Amendment Act 2014. The Customs Control Act non-compliance framework aligns to that of the Tax Administration Act, thereby providing some relief to taxpayers during the transitional and implementation phase of the Carbon Tax legislation.
- Insist on Legislation or Rules that are amended to allow the deduction of the electricity levy from the Carbon Tax liability to avoid double taxation.