national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

Publication of the Draft Regulations on the Carbon Offset in terms of the Draft Carbon Tax Bill for public comment

The Minister of Finance recently announced the implementation of the carbon tax effective from 1 June 2019. The Draft Carbon Tax Bill makes provision for the carbon offset allowance in terms of Section 13. The National Treasury today publishes the *Draft Regulation on the Carbon Offset* for a second round of public comment and further consultation. The Draft Regulation on the Carbon Offset was developed jointly by the National Treasury, the Department of Energy and the Department of Environmental Affairs.

A key design feature of the carbon tax is the carbon offset allowance which provides flexibility to firms to reduce their carbon tax liability by either 5 or 10 per cent of their total greenhouse gas (GHG) emissions by investing in projects that reduce their emissions. Following the publication of the Carbon Offsets Paper in 2014 and the initial Draft Carbon Tax Bill in November 2015, the National Treasury published the Draft Regulation on the Carbon Offset established in terms of Section 19(c) of the Draft Carbon Tax Bill for public consultation in June 2016. The Draft Regulation on the Carbon Offset set out the eligibility criteria for offset projects, and details on the administration and procedure for claiming the allowance.

Sixty-six written submissions were received on the initial Draft Regulation on the Carbon Offset from a wide range of stakeholders including government departments, companies, industry associations, international and domestic carbon market consultants, project developers, carbon market traders, NGOs, state-owned entities, academia, and individuals. A stakeholder consultation workshop was held in November 2016 followed by a bilateral meeting with Business Unity South Africa (BUSA) in June 2017 to discuss technical comments on the regulation focusing on the scope and administration of the offset allowance.

The main comments received on the initial Draft Regulation on the Carbon Offset focused on:

- the design of the carbon offset including the role of the carbon offset in facilitating the transition to a low carbon economy;
- scope of the offsets and the suitability of a cap on the allowance; and
- the technical, legal and administrative aspects of the regulation.

Specific comments included suggestions to expand the scope of the offsets scheme to include projects developed before the proposed introduction of the carbon tax; activities within the tax net; certain Renewable Energy Independent Power Producers Procurement Programme (REIPPPP) projects, and small and medium scale renewable energy projects. There were proposals for a negative list, that is, projects that are ineligible are identified and included in a list accompanying the Regulation. Some stakeholders requested clarity on the functions and responsibilities of the administrator of the offsets scheme.

Following extensive stakeholder consultations, substantial changes were made to the initial Draft Regulation on the Carbon Offset to take into account stakeholder comments. Some sections of the regulation have been refined such as expansion of the eligibility criteria to include certain renewable energy and REIPPPP projects whilst more details have been added for clarity on the criteria for ineligible projects. Further, details on the administration of the offset allowance are also provided.

Design of carbon offsets

The proposal to use carbon offsets in conjunction with the carbon tax has been widely supported by stakeholders as a cost-effective measure to incentivise GHG emission reductions. Carbon offsets involve specific projects or activities that reduce, avoid, or sequester emissions, and are developed and evaluated under specific methodologies and standards, which enable the issuance of carbon credits.

Carbon offset projects will also generate sustainable development benefits and employment opportunities in South Africa by encouraging investments in energy efficiency and renewable energy, rural development projects, and initiatives aimed at restoring landscapes, reducing land degradation and biodiversity protection.

The carbon offset system seeks to encourage GHG emission reductions in sectors or activities that are not directly covered by the tax. Investments in public transport, agriculture, forestry and other land use (AFOLU) and waste sectors are likely to qualify.

During the first phase of the carbon tax, carbon offset projects developed under existing international standards such as the Clean Development Mechanism (CDM), Verified Carbon Standard (VCS) now VERRA and the Gold Standard (GS) will be eligible for use by companies to reduce their carbon tax liability. Scope is also given for approved domestic South African standards/ methodologies, subject to the necessary approval, to be utilised in subsequent phases of the carbon tax.

A specific set of eligibility criteria for carbon offset projects has been developed which is South African specific and project activities should:

- be located within South Africa and implemented at the start date of the carbon tax;
- occur outside the scope of activities that are subject to the carbon tax to prevent double counting of the carbon emission reduction benefit; and
- not benefit from other government incentive programmes such as the Energy Efficiency Savings Tax Incentive (Section 12L of the Income Tax Act) or the REIPPPP.

It is proposed that the administrator of the carbon offsets would be the Designated National Authority (DNA) located within the Department of Energy. The DNA is currently responsible for appraising offset projects developed under the CDM under the United Nations Framework Convention on Climate Change (UNFCCC) to ensure that they meet specific sustainable development criteria developed for South Africa. The responsibilities of the DNA would therefore be expanded to include GS and VCS projects developed in South Africa that will be eligible for use under the carbon tax regime. The DNA will be responsible for the endorsement and issuance of offset certificates, which taxpayers will use to claim the offset allowance under the carbon tax regime.

Under the Partnership for Market readiness (PMR) initiative administered by the World Bank, a review of the Carbon Offset Administration System developed by the Department of Energy and an assessment of the options for hosting the carbon offset registry will be undertaken. To support the development of a local standard, a framework and guidance will also be developed.

The Draft Regulation on the Carbon Offset

The Draft Regulation on the Carbon Offset is hereby published for public comment and consultation. Also attached is the revised Explanatory Note to the Draft Regulation on the Carbon Offset.

The Draft Regulation gives effect to the carbon offsets scheme under the carbon tax and is structured as follows:

- Definitions;
- Projects eligibility and non-eligibility criteria;
- Offset utilisation period;
- Designation of Administrator;
- Creation, maintenance and access to the offset registry;
- Procedure for claiming the offset allowance;
- Duties of the Administrator in facilitating taxpayer claiming the allowance;
- Requirements for extended letter of approval; and
- Content and retainment of certificate.

Due date for comments

The Draft Regulation on the Carbon Offset is available on the National Treasury website:

Written comments should be submitted to revisedoffsetcomments@treasury.gov.za by close of business on **14 December 2018**.

Any clarification questions can be directed to Dr. Memory Machingambi, email: Memory.Machingambi@treasury.gov.za.

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