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Comments on Carbon Tax Policy Paper Submitted by groundWork, Friends of the Earth South Africa

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Introduction

Following the National Climate Change Response White Paper (WP), the Carbon Tax Policy Paper (CTP) reiterates the international target of keeping temperature rise to less than 2°C above pre-industrial levels. As in our response to the WP, we note that this target is not adequate to prevent dangerous climate change. The impacts of climate change are hitting sooner and harder than anticipated and we can expect that current projections will also be overtaken. With the global average temperature up 0.9°C from pre-industrial levels, we are already experiencing dangerous climate change. 2°C would not merely inhibit development but, as Ross Garnaut told negotiators in Bonn in May this year, herald the breakdown in national and international order.[1] Hence, the target should be the minimum possible temperature rise which is about 1.5°C.

Present projections are for a 4°C rise by 2100 assuming that all countries meet the pledges made following Copenhagen, and for a 6°C rise on current trends. It is now thought that Southern African temperature rise will double the global average and be accompanied by more severe drying than previously anticipated. The local impacts of climate change are likely to be much more severe much sooner than was thought at the time of the Intergovernmental Panel on Climate Change's (IPCC) 4th Assessment

[1] Ross Garnaut presentation to the second session of the Ad hoc Working Group on the Durban Platform, TWN Bonn News Update No.3, 2 May 2013.

Report. Without very determined mitigation, much of the country will not be habitable in the later part of this century.

Fair contribution

The CTP says South Africa will make a fair contribution to global mitigation and repeats the Copenhagen pledge to 'reduce its greenhouse gas (GHG) emissions to below the business-as-usual trajectory by 34 per cent by 2020, and 42 per cent by 2025' subject to financial, technological and capacity support [para.62].

This pledge is clearly inadequate to a modest chance of achieving even the 2°C target. Thus, for a 60% chance, Annex 1 (A1) country emissions should peak in 2012, decline at 6% a year to 2015 and then at 20% a year through to 2050. Non-Annex 1 (NA1) country emissions could then grow at 2% a year before peaking in 2019, decline at 3% a year to 2025 and then at 6% a year to 2050. For a 50% chance, and assuming A1 reductions of 8% a year to 2018 and 12% a year thereafter, NA1 emissions could grow at 3% to 2025 but would then have to decline by 4% a year to 2033 and by 8% thereafter.[2] For 1.5°C, the peak must be earlier and the reductions sharper. There is no 'carbon space' left.

For absolute emissions, South Africa ranks in the top 12 globally and the top 5 of NA1 countries. Its per capita emissions compare badly with A1 European countries. Next door Mozambique, by contrast, ranks 148 in the world and its per capita emissions are one hundredth those of South Africa. South Africa should therefore be ahead of the NA1 curve. Instead, the Copenhagen pledge puts it well behind the curve even for the slender 50% chance of avoiding 2°C. WP puts it further behind by manipulating the figures to allow an extra 110 million tonnes at the 2025 peak and hence an extra giga tonne in the decade 2025 to 2035.[3]

[2] Anderson & Bows, 2012, Executing a Scharnow turn: reconciling shipping emissions with international commitments on climate change, Carbon Management 3(6).
[3] For a detailed account of how the DEA cheated the figures, see groundWork's submission on the White Paper..

Growth is not development

The CTP cites South Africa's 'developmental challenges' as reason for expanding fossil fuel use and emissions in the near term. It says South Africa must 'ensure economic growth, increase employment, and reduce poverty and inequality'. It assumes that reduced poverty and inequality depends on increased growth.

Never-ending growth, however, is not compatible with serious mitigation.[4] Moreover, growth has been accompanied by growing social inequality compounded by the externalisation of environmental costs mostly onto the poor. The boom years to 2008 took GDP growth to 5.5% but were accompanied by increased pressure on the poor through escalating prices, notably for food and energy.

We believe that in the coming years, growth will fail for three reasons: first, the 2008 capital meltdown was the first round of a global economic depression that will intensify in the coming years; second, declining global energy production following peak oil will strangle any 'green shoots' of economic recovery; and third, climate change costs will exceed the value of growth.

We note further that the supposed 'delinking' of economic and carbon emissions growth has been nowhere achieved. A supposed delinking was achieved in some Northern economies but only by exporting carbon (and pollution) intensive production to Southern economies. The carbon embedded in goods imported by these Northern countries then more than cancelled out claimed reductions. In the 2000s, global carbon intensities increased in all regions[5] and this trend was not reversed in 2008. Even if they were, what matters is absolute emissions and not emissions intensity.

We therefore propose that the idea of development should be delinked from growth. Sustainable development founded on economic, social and environmental justice should replace economic growth as the central organising principle of development. This means a commitment to growing human solidarity and equality as well as a

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[4] Anderson, K. and A. Bows, 2008. *Reframing the climate change challenge in light of post-2000 emission trends*, Philosophical Transactions of the Royal Society. doi:10.1098/rsta.2008.0138, Published online.

[5] Raupach, M., G. Marland, P. Ciais, C. Le Quéré, J. Canadell, G. Klepper and C. Field, 2007. *Global and regional drivers of accelerating CO_2 emissions*, Proceedings of the National Academy of Sciences available at www.pnas.org.

relationship to the environment which enhances rather than degrades the functioning of eco-systems both for their intrinsic value and for the eco 'services' they provide. The Constitutional mandate for such a redefinition is found in the Environment Right which is concerned both with inter-generational rights and with intra-generational rights.

This does not imply that economy and production are unimportant, but that the economy must be redefined to serve people rather than people serving the market. It also implies international cooperation rather than competition in the management of economies. We believe that facing up to the climate challenge creates an absolute imperative for cooperation.

Change the system

Treasury's carbon tax proposal assumes, to the contrary, the primacy of the market. This results in a policy that is not credible in climate terms. We believe it would be better conceived as a transitional arrangement on a path towards a different economic order. This would allow a credible climate response as well as a credible human response.

The market framing is explicit in Section 3: The economics of carbon pricing. Here it is asserted that markets have the job of 'making efficient use of the nation's resources'. Economic justice is then reduced to distribution via taxes and transfers [para.110]. We note that 'the market' complains loudly about such transfers while any efficiency in the use of the 'nation's resources' is to maximise the returns to shareholders who are increasingly located in the global centres of capital.

The externalised costs imposed on society are very real. The CTP rightly notes that the costs of climate change are overlaid on the pollution and degradation of water, land and air to the cost of local people. It is also to the cost of workers. Industry's aversion to paying for the damage it does is signalled in its response to the action by ex-mineworkers for compensation for silicosis.

It should be emphasised that climate change is indeed only one dimension of a global environmental crisis threatening economies and people's livelihoods. The ruin of land, fresh water and the oceans and the extinction of species makes people and their environments more vulnerable to climate change. Environmental 'services', particularly for clean water, are now in jeopardy in many areas of South Africa and

engineered responses will become increasingly expensive and infeasible. Much of South Africa is already water stressed and much of the engineering that has turned South Africa's rivers into a giant national plumbing system is to compensate for the pollution of water as much as for the lack of it. Acid mine drainage and radiation contamination from working and abandoned mines now threatens an environmental catastrophe that, for South Africa, is of the same order as the catastrophe of climate change.

All this must be counted under externalities. It is doubtful that the accumulated profit exceeds the accumulated external costs. This is said to be a market failure but is better described as a precondition for market success. Initial responses to the CTP from business and industry appear to confirm this. Thus, ArcelorMittal 'is likely to spell out the limitations faced by its plants in transitioning to more efficient production platforms'.[6] This is as much as to say that its profitable operation is incompatible with addressing climate change. At the same time, it is clear that the proposed tax does not come close to the costs of externalities and that these costs cannot in any case be reduced entirely to a monetary value.

We do not believe that 'price is the only way to get people to change their behaviour appropriately' [para.106]. In most cases, what is called behavioural change in fact requires a change in systems. For example, shifting from cars to buses requires that the buses are there. Shifting to bicycle and foot requires that the fundamental assumptions of urban planning are transformed: instead of planning for the consumption city to maximise growth (to the benefit of the rich and the exclusion of the poor), planning for the sustainable city to provide for people's common well-being and mutual solidarity.[7]

The primacy given to the market, with a nod to rational choice theory, obscures such issues because they are at odds with the market system. Changing the system must finally be addressed if economy is to be made compatible with survival. In the interim, however, price remains a significant tool and we believe a tax is the best way to wield it. As the CTF notes, a tax should not be instituted in isolation of other measures. In some sectors, notably electricity generation, it will have little effect. More broadly, while various policies proclaim 'green growth', the bulk of government

[6] Terence Creamer, SA's leading steel producer gears up for carbon-tax battle, Engineering News, 4 June 2013.
[7] See Swilling, M. 2007. Cape Town 2025: A city of sustainable neighbourhoods, Sustainability Institute.

spending on infrastructure and industrial support measures reproduces the old dirty and unequal growth.

Carbon trading

The CTP says government will investigate the feasibility of an internal emissions trading system to compliment the carbon tax. The European trading system has all but collapsed and has been mired in a succession of scandals. Similarly, Joint Implementation (JI) and Clean Development Mechanism (CDM) have been marked by deals which game the system. This is because carbon trading invites cheating. It relies on a series of fictions such as equating fossil carbon emissions to living carbon sinks or to 'avoided' emissions, giving all GHGs a common value to make them exchangeable, and creating story lines for business-as-usual emissions against which 'savings' are measured – or even increasing emissions to create evidence for measuring later savings. Additionality is also endlessly abused and often impossible to police.

Several assessments of trading have concluded that it has not resulted in reductions but may in fact have contributed to increased emissions. Where A1 emissions have been reduced, economic recession and exporting dirty industries to the South are more credible explanations.

A great deal of time, money and effort has gone into the failed experiment with emissions trading. We propose that South Africa should not repeat this waste. We anticipate that business will make a lot of noise claiming that trading is the better option. But then, business will oppose any specific measure to reduce greenhouse gases. Its interest is to ensure that commitments are made but kept empty.

The proposed tax

Displacing externalities

The tax is justified on the basis of internalising social and environmental externalities. However, if externalities are narrowly calculated on the basis of CO_2e emissions, there is a strong probability that externalities will be displaced rather than internalised. South Africa's biggest two greenhouse gas emitters are already exploring options that do just that.

Eskom is looking at co-firing biomass with coal. This is as much to compensate for declining production from tied coal mines as to reduce its carbon count. If the 'business case' proves viable, it aims to replace 10% of coal burned by 2026.[8] At present burn rates, that is over 12 million tonnes a year and compares with South Africa's total pulp and paper production of about 4.5 million tonnes. Industrial tree plantations supplying the pulp and paper industry have expanded at the expense of grasslands and watersheds. Land-use change from grass to plantation results in a massive loss of soil carbon which is hardly recovered in the subsequent growth of trees and lost again when they are burnt. A massive expansion in demand to supply the power sector will expand industrial forestry and accelerate the destruction of indigenous forests across southern Africa.

Plans to burn trees for power in the UK have been shown to be counter-productive even on the narrow criterion of reduced carbon emissions.[9] Since the CTP proposes to tax fossil fuel inputs rather than emissions, Eskom will not even have to manipulate the carbon account to show a positive result from burning trees. Even if there were a climate benefit, however, the externality is displaced to the biome and the watershed as a whole.

Sasol is exploring the potential to use bio feedstocks or blends to reduce its carbon account. This too will potentially be associated with large scale energy and chemical intensive mono-cropping with attendant loss of soil carbon. Bio-fuels from several sources have been shown to have a negative energy return on energy invested (EROEI) – in other words, production consumes more energy than is contained in the final product. Be that as it may, industrial scale demand for bio energy will make for a very large land footprint. Given the extensive loss of arable land – precisely as a result of high input agriculture – both globally and in South Africa, this is not a good idea.

Assuming that the tax works as intended, there will be more cases where externalities are displaced rather than internalised. Some can be anticipated, for example:

- Cement makers already supplement coal with various forms of waste, including toxic waste, to fire their kilns. This results in intensified air pollution but reduced fossil fuel inputs.

[8] Eskom Integrated Report 2013, p.82. In 2012/13, Eskom burnt 123 million tonnes.
[9] Friends of the Earth, Greenpeace and The Royal Society for the Protection of Birds, *Dirtier than Coal? Why government plans to subsidise burning trees are bad news for the planet.* January 2013.

- General waste incinerators (with and without energy conversion) will also benefit despite emitting copious greenhouse gases and local pollutants. They create an insatiable demand for waste and so deter implementation of the waste hierarchy starting with minimisation.
- Energy from burning agricultural residues means that the organic matter is not available to return to the soil where it enhances carbon sequestration.

Many other displacements will not be anticipated and may escape notice even after implementation.

The CTP says the 'best option' of taxing greenhouse gas emissions is not 'feasible at this stage' [para.171]. The 'second best option' of taxing fossil fuel inputs is preferred apparently because it is considered administratively less complex. This is not convincing. Industrial process emissions are subject to the tax but, being independent of fossil fuel inputs, are to be taxed on calculated emissions. Moreover, the Department of Environmental Affairs (DEA) is introducing compulsory emissions reporting for major emitters (over 100,000 tonnes). In most cases these emissions will in any case be calculated on the basis of fuel inputs. Such calculations would also hold good for liquid fuels. The preference for taxing fossil fuel inputs should be reviewed. Alternatively, there will need to be measures to prevent externalities being displaced rather than internalised. This may prove administratively more taxing than the tax on emissions.

Tax rate

Treasury proposes a R120/tonne carbon tax followed by a 10% annual increase. It is not clear if this is 10% above inflation or including inflation. If the latter, it amounts to only 4 or 5% in real terms. Either way, this will not drive much of a transformation. According to the US based Carbon Tax Centre, the ramp up must be 'steep and steady' to have an effect on investment and behaviour. They propose a low starting figure of US$15/tonne rising by $10 to $15 a year – depending on whether emission reduction targets are met – to arrive at over $100 by the end of the first decade. The starting figure is more or less equivalent to CTP's R120 but their model suggests that the tax should rise to around R1 200 by the tenth year. In contrast, the CTP's 10% annual increase will arrive at just over R280.

The tax is further softened by the tax free threshold, allowance for trade exposure and permitted offsets. This adds up to between 70% and 85% according to sector. So

Eskom will pay only 30% of the tax (R36/t in the first year), Sasol and the crude oil refineries will pay only 20% (R24/t) and cement makers and coal miners will pay just 15% (R18/t). CTP says the thresholds will decrease after five years but does not say by how much. A sustained business lobby against the tax, and/or against lowering the threshold, may be expected during those five years. If the threshold is not lowered, Eskom will pay about R85/t in year ten and Sasol will pay R56 and coal miners R42.

The business lobby dismisses the carbon tax as a revenue raising exercise. At these rates it is difficult not to agree as the tax seems unlikely to have much impact on emissions. Indeed, the CTP avoids projecting carbon reductions and merely says that its modelling shows that 'a carbon tax implemented gradually … will reduce GHG emissions' [para.153]. Appendix 1 gives the results from several different modelling exercises. For the Treasury's model it says, 'The largest reduction in emissions is achieved when a tax of R200 per tCO_2 is introduced in 2012'. Clearly the tax comes nowhere close.

Carbon offset

This aspect of the tax is wholly unconvincing. It will add a layer of complexity and high transaction costs to a relatively straight forward tax system. It will invite cheating in the same way that CDM does and impose disproportionate monitoring costs on the state. It should be emphasised that not fouling the environment in one place does not compensate for fouling it in another place. Nor does a hectare of spekboom compensate for industrial emissions.

All the 'internationally recognised standards' [Annexure E, para. 308] are contestable and contested. They have been relaxed over time on arguments that criteria are too onerous and attempts to plug the holes with concepts such as 'environmental integrity' end up undermining the integrity of the concept. The CTP suggests 'more streamlined domestic offset programmes' which indicates that criteria will be relaxed from the start – and no doubt go downhill from there. The streamlining of already streamlined EIA regulations sets the precedent.

Offsetting leaves the choice of offset project with the polluter. We see no reason why corporations such as Eskom or ArcelorMittal should be held to have superior wisdom in selecting carbon reduction projects. We do, however, anticipate that such projects will be bundled with corporate social investment projects for public relations to create an image at odds with core corporate practice. Offsetting allows the corporation to combine patronage with greenwash.

Further, if the offset project delivers 'carbon emission reductions at a R/CO_2e cost lower than the carbon tax' [para.310], we wonder how that project will be additional since it should make economic sense without offsetting.

In short, offsetting imposes an element from carbon trading onto the quite different logic of a carbon tax. It will create endless controversy and expose the tax to discredit.

Revenue recycling and other support

Treasury says that its modelling results 'suggest that a carbon tax in South Africa is not necessarily regressive, as the tax affects mainly capital and energy-intensive sectors. The rents from these sectors accrue to the top deciles of income distribution' [para.158]. This is a striking acknowledgement that development shaped by the minerals-energy complex reproduces inequality. It would be well if all government policy were informed by this insight.

Recycling will either reinforce the progressive bias of the tax or negate it. The suggested rebate for carbon capture and storage (CCS) [para.234] will negate it. CCS takes its logic from the minerals-energy complex and will certainly increase capital and energy intensities. Technology and environment academic Vaclav Smil comments, '… to sequester just 25% of CO_2 emitted in 2005 by large stationary sources … we would have to create a system whose annual throughput (by volume) would be slightly more than twice that of the world's crude-oil industry …'[10] Further, the easy geological storage space would soon be used up and the risks of leaks – whether from cost cutting or from pressure in storage – would increase with the volume. CCS is a fool's errand and the resources would be better used building the renewable system and smartening up the grid.

We strongly support measures which reinforce the progressive bias. Free basic energy provision should be greatly expanded and integrated with the block tariff. We propose that an inclining block rate should apply universally but that the present blocks be revised. It should start with a dramatically expanded free provision adequate to real needs for the first block. The first step to paid-for electricity should be shallow with increasingly steep steps thereafter including additional steps at the higher end. The total bill for profligate consumers should be punishing.

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[10] Vaclav Smil, *Long-range energy forecasts are no more than fairy tales*, Letter to Nature, Vol. 453, May 8, 2008.

Treasury modelling showed that transfers to households reinforced the 'moderation in inequality' [para.158]. This option is apparently dropped in Section 8 on revenue recycling but would be more inclusive than tax shifting. It would also make for a very visible return to people and so build support for the tax.

Recycling through corporation taxes would usually be justified by the expectation of reinvestment in this economy. Two trends are notable at present: first, corporations are sitting on large cash piles rather than reinvesting and second, corporations are under pressure to increase returns to shareholders. Given the high proportion of transnational corporations, including the large mining houses that expatriated their capital in the 1990s, reduced corporate tax is not only regressive but will likely add to the offshore flow of capital while South Africa remains a supplicant for investment.

Sectors

Electricity generation

According to the CTP, electricity generation produces 40% of carbon emissions but the impact of a tax will be limited because the sector is largely driven by the IRP [para.161] – the price has no effect on the choice of generation technology. The IRP is subject to political decision and is a bellwether for how serious government is about climate change.

It does not pass muster. It was developed under the influence of the corporations at the centre of the minerals-energy complex which shaped South Africa's carbon intensive and unequal development. Future demand, particularly in the minerals sector, is massively inflated and used to justify an expansion of new capacity centred on big base-load plants. The IRP risks repeating the mistake of the 1980s of creating stranded assets.

These plants are very expensive 'lumpy' investments with high financing costs and high risk related to rand volatility and sudden reversals of interest rates fixed by the great powers. The IRP also locks in large scale carbon emissions from coal plants to 2070 and beyond. Well before then, however, escalating climate damage will make their continued operation unacceptable or impossible. This poses a second risk of building stranded assets.

While the IRP ties Eskom to the big base-load agenda, it creates a niche market in renewables and hands it over to the market in the form of transnational corporations there for the profits. To date the REIPP process has been managed in a manner calculated to exclude small scale community initiatives. The benefits of social ownership realised in some parts of Europe are obstructed in South Africa. The CTP proposes concessional loans for small scale renewable projects of 1 to 5 MW [para.242]. Projects of less than 1 MW are thus excluded.

There are three challenges as we see it: first, to use the remainder of the carbon budget to build a renewable and efficient energy system (including smart grid); second, to optimise social ownership and benefits at different scales – from household, to neighbourhood, to municipality, to national – of a diversified and decentralised power system geared to people's needs rather than corporate profits; and third, to end the environmental devastation that accompanies coal and the nuclear production chain.

South Africa starts with a major asset: Eskom is state owned, albeit not under democratic management. The simplest route to reducing emissions would be to instruct Eskom to focus on the first challenge, to facilitate the second and to address its toxic legacy. This would require that Eskom transform its organisation and culture – a daunting but doable task. Eskom may be encouraged by the fact that the levelised cost of electricity from its Sere wind farm appears significantly less than from its new supercritical coal plants.

Coal

Eskom creates the base market for coal. The more lucrative export market takes off from this base. Industry sources say the country needs 40 new mines, 35 of them to supply Eskom, by 2018. (Exactly whose interests 'the country' is made to represent in such statements is elided.) Since the central basin is now depleting, new coal frontiers are being opened in Limpopo with the demand from Eskom enabling the pioneer mines.

Meanwhile, the mines tied to some of Eskom's Mpumalanga plants are played out. It is envisaged that a coal rail will be built from Limpopo to supply them. This rail will then also link to the Richards Bay export line. The 'Coal Roadmap', a joint industry and government initiative, also envisages exports through Maputo as well as expanding coal mining and exports from the Southern African region.

A serious climate strategy must clearly aim to 'keep coal in the hole', whether that coal is for domestic or export use. The CTF does not address coal exports which, it seems, would not be subject to the carbon tax. Treasury should clarify this.

Efficiency

While the tax will have little impact on generation, it should have an impact on user efficiency. The CTP cites various other government policies which support this objective including the energy efficiency strategy of the Department of Energy (DoE). This strategy was ignored by DoE as much as by Eskom until the lights went down in 2008. Once an ample spinning margin has been restored, Eskom (and the renewable energy newcomers) will look for expanded demand – particularly if the power sector builds to the inflated demand projections of the IRP – to make the returns needed to service debt. The IRP itself apparently anticipates this and reduces even Eskom's forecast of future savings from energy efficiency and demand side management.

More generally, energy efficiency reduces energy intensity but does not in itself reduce overall energy demand. In the market system, increased energy efficiency is another form of increased productivity. It increases the work done by energy but the benefit is taken in profit and economic growth rather than a reduction of overall energy use. Put differently, the priority is the efficiency of capital, not energy, and the additional returns to capital must then be reinvested in further economic activity which requires more energy.

Thus, unless there is a limit to the supply of energy, energy efficiency is ultimately counterproductive. Such a limit is not compatible with economic expansion. If the quantity of energy is fixed then growing use for some can only be had at a loss to others. Assuming peak oil and a diminishing supply of energy, the equation becomes even more acute. The choice is then what – or whose – energy use to cut.

For South Africa, there is one immediately obvious choice: the aluminium smelters are supplied electricity at below production costs and are an overall drain on the economy since BHP Billiton takes its profits at the global level. They should be phased out. Concrete plans should be made for a 'just transition', so as to provide alternative, well-paid 'climate jobs' – e.g. in making solar water heaters – to those workers who are employed at the smelters.

Conclusion

The world is on track for climate disaster. Poor people will be hit first and worst but the rest will follow sooner than they think. Getting off that track is imperative. As it stands, the carbon tax proposal is not up to the task. Moreover, it appears in the context of government's overall policies which aim at economic and energy expansion and at extracting the last crumb of coal. In this context, the tax appears as a thin cover for the real business which continues as usual.

A more determined tax could be a credible component of the larger transformation needed to respond to climate change. Key elements of that transformation would include:

- Replacing GDP growth with sustainable development founded on economic, social and environmental justice as the central organising principle of development.
- A transition to sustainable settlements with economic localisation and the use of national resources to support people's capacities to direct local development.
- The urgent transformation of the energy system with reduced overall energy consumption, a determined drive for 100% renewables and localised energy systems supplemented by national and regional systems under people's common control.
- A determined drive to reduce waste to zero through implementing the waste hierarchy of minimising, re-using and recycling.
- A transformation of the food system with a full turn to organic production and enabling people to define and take control of production and consumption and hence of their own futures.

The international negotiations have produced no credible results because the parties are there to protect their interests in the international regime of accumulation rather than to address the climate crisis – they are there to save capital, not the climate. This is an imperial regime which orders the flow of resources and profits to the North and within which the interests of Southern parties are defined by their subordinate position. We believe that the domestic agenda outlined above would create the basis for South Africa to break with the imperial logic and enter the negotiations to save people and the climate rather than capital.