

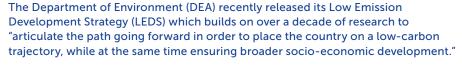
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South Africa ratified the Paris Agreement in November 2016 and committed to a peak, plateau and decline GHG emissions trajectory range.

With the acute global focus on climate change mitigation, the development of an integrated carbon and air quality regulatory framework has however gained momentum.



The LEDS flows from Article 4.19 of the Paris Agreement, which requires signatory states to strive to "formulate and communicate long-term low greenhouse gas (GHG) emission development strategies, mindful of Article 2 of the Paris Agreement and taking into account their common but differentiated responsibilities and respective capabilities, in the light of different national circumstances."

South Africa ratified the Paris Agreement in November 2016 and, in terms of its Nationally Determined Contribution (NDC), committed to a peak, plateau and decline GHG emissions trajectory range, which is estimated to range between 398 and 614 Mt carbon dioxide equivalent (CO2-eq) by 2025 and 2030.

The mining sector has been identified in the LEDS as one of the industries in which GHG emissions rose "substantially", accounting for 6% of the total emissions in the South African industrial sector.

Given its impact, mining has historically been central to the South African environmental law regime, particularly insofar as it concerns the regulation of water use, waste management and financial provision. With the acute global focus on climate change mitigation, the development of an integrated carbon and air quality regulatory framework has however gained momentum. The below summary sets out the most recent proposed legislative measures aimed at reducing the country's carbon footprint that are likely to impact on the industry.

Carbon Tax

Following almost a decade of discussions and consultation with stakeholders, the Minister of Finance tabled the revised Carbon Tax Bill (Bill) in Parliament at the end of November 2018 and announced that carbon tax is set to become effective from 1 June 2019 (the Implementation Date).

The Bill proposes the imposition of a tax at a rate of R120 per ton CO2-eq of GHG emissions on entities conducting activities that exceed the tax-free thresholds.

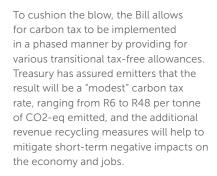
Carbon tax must be levied in respect of the sum of a taxpayer's CO2-eq of GHG emissions over a tax period resulting from fugitive emissions and industrial and fuel combustion processes. Tax liability will be self-reported as determined at company level with reference to a DEA approved methodology (Liability Assessment).

Aligned with the Intergovernmental Panel for Climate Change's Source Codes, fuel combustion activities for mining and quarrying, coal mining and handling, underground mines and surface mines are listed as qualifying emission activities. Additionally, other listed emission activities often undertaken by mines could also trigger carbon tax liability, for example treatment and discharge of industrial waste water.



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Emissions are simultaneously being administered in terms of the main statute regulating air quality, namely the National Environmental Management: Air Quality Act, No 39 of 2004.



Despite the above and prior to publication of the revised Bill, the Minerals Council South Africa (Minerals Council) adopted a firm stance in early 2018 against the implementation of the then draft Bill, stating that the imposition of carbon tax "will render most of the mining operations marginal, add significant costs to mining operations, consequently undermining the capability of the sector to contribute to sustainable employment levels." Other concerns raised included the risk of industry losing its global competitiveness, and that weakening profit margins will plummet.

To pacify mining houses, Treasury undertook the following in its Explanatory Memorandum to the Bill (Memo) – "To cushion the potential adverse impacts on energy intensive sectors such as mining and iron and steel, the introduction of the carbon tax for the first phase will not have an impact on the price of electricity. This will be achieved through a tax credit for the renewable energy premium built into the electricity tariffs and a credit for the existing electricity generation levy".

The Minerals Council's submissions were however based on modelling of phase 2, when carbon tax will no longer be electricity neutral. It therefore seems that their base case remains – "given the price taking nature and marginal state of the mining sector, the carbon tax is negative for the sector, for the fact that it increases input costs therefore reducing profitability".

Integrated carbon quality regulatory framework

The Bill heads an integrated regulatory framework set to be implemented in a cooperative manner by the South African Revenue Services and DEA. Associated components of the framework include inter alia the:

- National Greenhouse Gas Emission Reporting Regulations (GHG Reporting Regulations);
- Carbon offsets; and
- Carbon Budgets, which is set to be regulated under the Climate Change Bill.

Additionally, emissions are simultaneously being administered in terms of the main statute regulating air quality, namely the National Environmental Management: Air Quality Act, No 39 of 2004 (NEMAQA).

GHG Reporting Regulations

Flowing from the Paris Agreement, the GHG Reporting Regulations were published in April 2017 with the overarching purpose of introducing a national reporting system for the transparent reporting of GHG emissions. This system is seen as fundamental to the carbon tax regime as the data collected in terms of these Regulations will be used to verify a company's own Liability Assessment. To date, reporting in terms of the GHG Reporting Regulations has however proven to be problematic.



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The carbon budget is set to be formalised under the current Climate Change Bill.

In response, DEA recently published a notice providing for a changed procedure involving the submission of data through electronic mail. Despite the initial cut-off date for registration being 31 March 2018, data providers are given an additional 30 days until 4 March 2019 to register.

Carbon Offsets

As a complimentary feature of the carbon tax mitigation strategy that reduces the financial burden on businesses, s13 of the Bill proposes a 5% tax-free allowance for companies utilising carbon offsets. Draft Regulations on the Carbon Offsets (Offset Regulations) were published on 12 November 2018 in terms of s19(c) of the Bill.

The Offset Regulations specify eligibility criteria for offset projects and restrictions on utilising approved projects for purposes of carbon tax allowances, where the latter depends on whether the offset existed before or after the Implementation Date. Certain projects are excluded from the offset regime (and therefore the carbon tax allowance scheme), including nuclear energy activities and specific renewable energy projects.

Carbon budget

Participation in South Africa's carbon budget will entitle participating companies to a further 5% tax-free allowance under s12 of the Bill. To date, participation in phase 1 of the carbon budget has been voluntary and unregulated, with DEA seeking to employ this phase to utilise the information gained as a guide to structure and implement a compulsory phase 2.

The carbon budget is set to be formalised under the current Climate Change Bill, which states that the Minister of Environmental Affairs will be obligated to determine a GHG emission threshold for purposes of determining carbon budget allocations.

The Memo however stipulates that the allowance is limited to participation in phase 1 of the carbon budget and requires written consent from DEA.

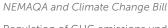
Treasury has further confirmed that, to ensure alignment between the carbon tax and carbon budgets, it has agreed with DEA that emissions exceeding a taxpayer's carbon budget will be taxed at a higher rate with no tax-free allowances applicable. From reports it is understood that the rate will be as high as R600 per CO2-eq.





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Regulation of GHG emissions under NEMAQA and the Climate Change Bill is also set to become more stringent and diversified in an attempt to meet the NDC.



Regulation of GHG emissions under NEMAQA and the Climate Change Bill is also set to become more stringent and diversified in an attempt to meet the NDC. This is evidenced by *inter alia* the:

- the Declaration of Greenhouse Gases as Priority Air Pollutants and National Pollution Prevention Plans Regulations, which require a person conducting an identified production processes involving the emission of priority GHGs in excess of 0.1 megatonnes annually (reported as CO2-eq), to submit a pollution prevention plan to the Minister of Environmental Affairs for approval and to annually report on compliance;
- recent restriction imposed on existing plants seeking to apply for rolling postponements in meeting the minimum emission standards prescribed for new plants under NEMAQA. Applicants can now only apply for a once-off maximum fiveyear postponement and need to do so by 31 March 2020; and
- proposal in the Climate Change Bill
 that the Minister of Environmental
 Affairs, together with a Climate
 Change Committee, must determine
 and regulate sectoral emissions
 targets (SET). Implementation of SETs
 could lead to further sector-specific
 measures aimed at addressing climate
 change such as sector emissions
 reduction plans which will provide how
 the relevant sector and sub-sector will
 meet the SETs within five years of the
 publication of the SETs.

Conclusion

What is evident from the above is that the mining industry is not only facing the impending pressure of increased input costs under the carbon tax regime, but also the difficulty of navigating a complex regulatory framework administered by different organs of state.

Looking to the legislative and policy environment more generally, the concern that the imposition of the carbon tax regime in the existing policy framework will result in legislative uncertainty and policy misalignment is understandable.

There is, however, a growing need to reconcile the potential consequences of stunted development and reduced global competitiveness with the commitment to creating a low-emission and climate resilient society and economy. Therefore, to fulfil the LEDS' objectives, a careful balance must be struck between enforcing industry-wide CO2 reduction and maintaining socio-economic development measures. Although phase 1 of the carbon tax regime does appear to cater for this, the transition into phase 2 and general over-regulation of air quality may prove it to be all too idealistic.

Alecia Pienaar, Laura Wilson and Sandra Gore

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OUR TEAM

For more information about our Mining & Minerals sector and services, please contact:



Allan Reid
Sector Head
Director
Corporate & Commercial
T +27 (0)11 562 1222
E allan.reid@cdhlegal.com



Giada Masina
Director
Corporate & Commercial
T +27 (0)11 562 1221
E giada.masina@cdhlegal.com



Lilia Franca
Director
Corporate & Commercial
T +27 (0)11 562 1148
E lilia.franca@cdhlegal.com



Mmatiki Aphiri
Director
Corporate & Commercial
T +27 (0)11 562 1087
E mmatiki.aphiri@cdhlegal.com



Deepa Vallabh
Head: Cross-border M&A, Africa and Asia
Director
Corporate & Commercial
T +27 (0)11 562 1188
E deepa.vallabh@cdhlegal.com



Sandra Gore
Director
Corporate & Commercial
T +27 (0)11 562 1433
E sandra.gore@cdhlegal.com



Jackwell Feris
Director
Dispute Resolution
T +27 (0)11 562 1825
E jackwell.feris@cdhlegal.com



Verushca Pillay
Director
Corporate & Commercial
T +27 (0)11 562 1800
E verushca.pillay@cdhlegal.com



Nonhla Mchunu
Director
Corporate & Commercial
T +27 (0)11 562 1228
E nonhla.mchunu@cdhlegal.com



Fiona Leppan
Director
Employment
T +27 (0)11 562 1153
E fiona.leppan@cdhlegal.com



Emil Brincker
National Practice Head
Director
Tax & Exchange Control
T +27 (0)11 562 1063
E emil.brincker@cdhlegal.com



Willem Jacobs
National Practice Head
Director
Corporate & Commercial
T +27 (0)11 562 1555
E willem.jacobs@cdhlegal.com



Aadil Patel
National Practice Head
Director
Employment
T +27 (0)11 562 1107
E aadil.patel@cdhlegal.com



Mark Linington
Sector Head
Private Equity
Director: Tax & Exchange Control
T +27 (0)11 562 1667
E mark.linington@cdhlegal.com



Deon Wilken
National Practice Head
Director
Finance & Banking
T +27 (0)11 562 1096E
E deon.wilken@cdhlegal.com



Julian Jones
Sector Head
Business Rescue & Insolvency
Director: Dispute Resolution
T +27 (0)11 562 1198
Ε julian.jones@cdhlegal.com



Rishaban Moodley
Director
Dispute Resolution
T +27 (0)11 562 1666
E rishaban.moodley@cdhlegal.com



Ben Cripps
Senior Associate
Corporate & Commercial
T +27 (0)11 562 1242
E ben.cripps@cdhlegal.com



Valencia Govender
Associate
Environmental
T +27 (0)21 481 6419
E valencia.govender@cdhlegal.com



Alecia Pienaar Associate Corporate & Commercial T +27 (0)11 562 1017 E alecia.pienaar@cdhlegal.com

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JOHANNESBURG

1 Protea Place, Sandton, Johannesburg, 2196. Private Bag X40, Benmore, 2010, South Africa. Dx 154 Randburg and Dx 42 Johannesburg. T +27 (0)11 562 1000 F +27 (0)11 562 1111 E jhb@cdhlegal.com

CAPE TOWN

11 Buitengracht Street, Cape Town, 8001. PO Box 695, Cape Town, 8000, South Africa. Dx 5 Cape Town. T +27 (0)21 481 6300 F +27 (0)21 481 6388 E ctn@cdhlegal.com

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