

Agriculture, Aquaculture & Fishing

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SOUTH AFRICA

Carbon Tax Phase Two:
Impact on the agricultural
sector



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Carbon Tax Phase Two: Impact on the agricultural sector

On 13 November 2024, National Treasury released the Discussion Paper on Phase Two of the South African Carbon Tax (Discussion Paper). In a media statement published alongside the Discussion Paper, National Treasury invited stakeholders to submit their written comments and proposals on the paper by 13 December 2024.

This alert unpacks the current status of the carbon tax and its anticipated impact on the agricultural sector in the near future.

The Carbon Tax Act and a phased approach

Carbon tax is a material component of South Africa's climate change mitigation response strategy, as committed to in its Nationally Determined Contribution under the Paris Agreement. Following the commencement of the Carbon Tax Act 15 of 2019, South Africa's carbon tax was introduced in June 2019 under a phased approach.

In Phase 1, the marginal carbon tax rate was set at R120 per tonne of carbon dioxide equivalent and was subject to various tax-free allowances, which provided for a discounted tax rate of 60–95% for affected sectors. The rationale for these allowances was to soften the economic impact of the carbon tax by allowing affected industries time to adjust to the new regime by optimising processes and investing in cleaner and more efficient production technologies.

Notwithstanding this, certain sectors, including agriculture, forestry and other land use (AFOLU), have enjoyed a full exemption from carbon tax thus far. The rationale for this exemption is the practical difficulty in AFOLU application due to, among other things, challenges in quantifying greenhouse gas emissions from the sector stemming from the absence of appropriate methodologies, technological constraints on the implementation of appropriate abatement measures, and administrative capacity.

While Phase 2 was initially expected to commence on 1 January 2023, its implementation was subsequently postponed to 1 January 2026.

Discussion Paper and the agriculture sector

The Discussion Paper sets out the proposed carbon tax rate and associated tax-free allowances to be phased in between 2025 and 2035. As set out in the Discussion Paper and the Taxation Laws Amendment Act 17 of 2023, the effective carbon tax rate is set to increase annually until 2035. This will be achieved by an increase in the marginal tax rate until 2030 (reaching a maximum of R462 per tonne of carbon dioxide equivalent from 2030 to 2035) and a staggered reduction in the maximum allowance percentages until 2035 (from 95% in 2026 to 72,5% in 2035).

As confirmed in Chapter 7 of the Discussion Paper, the blanket exclusion of the AFOLU sector from carbon tax obligations will continue under Phase 2, on the basis of the aforementioned challenges in application.



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However, stakeholders in the agricultural sector are advised to take whatever steps are available to them to insulate their businesses from the current and prospective impact of carbon tax. In addition to the potential for the AFOLU sector to lose its exempt status beyond 2035, there are indirect effects of the carbon tax at present which cannot be avoided, such as the knock-on increases in fuel prices and energy costs. These impacts will need to be quantified and managed accordingly.

Alecia Pienaar and James Ross

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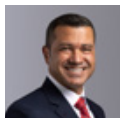
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BBBEE STATUS: LEVEL ONE CONTRIBUTOR

Our BBBEE verification is one of several components of our transformation strategy and we continue to seek ways of improving it in a meaningful manner.

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