



RECENT CLIMATE CHANGE POLICY DEVELOPMENTS

This information document covers recent climate change policy developments in South Africa relevant to the fruit and wine industry. It provides insights into:

- The climate change policy process
- Future climate change policies
- The South African government's current approach to addressing climate change

INTRODUCTION

The **objective** of this document is to provide the South African fruit and wine industry with an overview of the climate change policy process that is currently ongoing in South Africa. Specific emphasis will be placed on the National Climate Change Response Green Paper published by the Department of Environmental Affairs at the end of 2010, since this document provides the overarching framework for the climate change policy development process. In addition, the Carbon Tax Discussion Paper published by the National Treasury in December 2010 will also be addressed. The contents of these two documents will be briefly discussed, as will the timing of the larger policy processes of which they form part.

It is the **aim** of this document to provide a short and easily-accessible overview of the current state of the climate change policy process in South Africa. Additional links and references are provided should further details be required.

The **key audience** of this document is the South African fruit and wine industry. Please log on to the website to find more information, at www.climatefruitandwine.co.za.

THE NATIONAL CLIMATE CHANGE RESPONSE POLICY PROCESS

CONTEXT

The National Climate Change Response Green Paper 2010¹ marks the start of the latest round of consultation around the South African government's climate change response strategy. It is part of a policy process that builds on the 2004 National Climate Change Strategy. A Green Paper, by providing an overview of government's proposed policy position on a particular issue, is intended to serve as the basis for a process of consultation that may eventually lead to issuing legislation (Presidency 2009),² and precedes the publication of a White Paper. The Department of Environmental Affairs (DEA) has been mandated to "coordinate and facilitate the policy development process", which remains first and foremost a government process with inputs from numerous departments and other stakeholders (DEA, 2011).³

Public consultation on the Green Paper, as well as a number of thematic workshops to provide input into the process of moving from the Green Paper to a White Paper, were concluded in February 2011. The DEA is currently in the process of drafting a national climate change response White Paper. The White Paper will incorporate the feedback received on the Green Paper, and will provide more detail on how government intends to implement the national climate change response policy. The DEA is aiming to submit the White Paper to Cabinet in June 2011 (DEA, 2011a). Once the White Paper has been accepted by Cabinet, it will be released to the public. A national climate change summit is envisaged for 2012 to provide further opportunity for consultation. The formal acceptance of a White Paper is a significant

¹ Department of Environmental Affairs (DEA), 2010. *National Climate Change Response Green Paper 2010*. Published in the Government Gazette on the 25th of November and available online at: http://www.environment.gov.za/Documents/Documents/2010Nov17/climate_change_greenpaper.pdf

² The South African Presidency (Presidency), 2009. *Green Paper: National Strategic Planning*. Pretoria: Government Printer. Available [online]: <http://www.info.gov.za/view/DownloadFileAction?id=106567>

³ Department of Environmental Affairs (DEA), 2011. *Introduction: Provincial Stakeholder Workshop on the National Climate Change Response Green Paper – Gauteng*. Available [online]: <http://www.climateresponse.co.za/sites/default/files/public-presentations/Introduction.pdf>

policy step as it provides a policy framework and guidelines for the way that the government intends to deal with a specific issue,⁴ and also forms the basis for subsequent legislation.

Although no further public consultation is scheduled before the White Paper is formalised, there have been calls by a number of stakeholders to allow another round of public comments. The reason for this is that many commentators felt the Green Paper did not adequately address issues like the feasibility of different policy options, implementation time lines, responsibilities for action and policy coherence with other government policies (see for instance Fakir (2011)⁵). A number of business associations have also asked for further opportunities for public consultation. It is thus not impossible that a further round of consultation may be incorporated into the policy process before the White Paper is formalised.

For more information on the climate change policy process, and to access documentation used during the Green Paper consultation process, please visit www.climateresponse.co.za/.

OVERVIEW OF THE NATIONAL CLIMATE CHANGE RESPONSE GREEN PAPER

The South African Government believes that “an effective response to climate change requires national policy in order to ensure a coordinated, coherent, efficient and effective response to the global challenge of climate change” (DEA, 2010:4). The Green Paper presents “Government’s vision for an effective climate change response and the long-term transition to a climate resilient and low-carbon economy and society – a vision premised on Government’s commitment to sustainable development and a better life for all” (DEA, 2010:5).

The Green Paper suggests that the **objective of South Africa’s climate change response** should be to make a fair contribution to the global effort to prevent dangerous human interference with the climate; and to manage the unavoidable impact of climate change through interventions which are appropriate for local conditions (DEA, 2010). In addition, the Green Paper outlines a number of **principles to guide the achievement of South Africa’s climate change response objectives**, as well as **strategies to achieve South Africa’s climate change response objectives** (DEA, 2010). The Green Paper addresses **policy approaches and actions** by highlighting focus sectors, broadly grouped as follows: *Critical sectors from an adaptation perspective* (i.e. sectors where actions are required to reduce the physical and other impacts of climate change): which include the water, agriculture and human health sectors; *critical sectors from a mitigation perspective* (i.e. sectors where greenhouse gasses need to be reduced to try and reduce man-made climate change): which are the energy, industry and transport sectors; and *other significant sectors*: disaster management, natural resources and human society, livelihoods and services sectors. For each sector a brief description of relevant broad climate change context is provided. This is followed by highlighting selected climate change impacts and/or implications applicable to the sector. In addition, a number of proposed policy approaches and actions are outlined for each sector.

The **roles and responsibilities** of different stakeholders, particularly government and social partners (Industry and Business; Organized Labour and Civil Society) are outlined in the Green Paper, as is the **institutional framework** required to ensure the necessary coordination between the different stakeholders. The Green Paper then proceeds to address the **inputs and resources** that will be required to support the policies and actions required to meet South Africa’s climate change response objectives. The emphasis is placed on financial, human and technological resources, and information to support decision making. The Green Paper concludes by considering the **monitoring, verification and reporting**

⁴ Department of Environmental Affairs and Tourism, 1996. http://scnc.ukzn.ac.za/doc/tourism/White_Paper.htm

⁵ Fakir, S. 2011. Climate Change Green Paper Under the Spotlight. *Engineering News*, 11 February 2011. Available [online]: <http://www.engineeringnews.co.za/article/climate-change-green-paper-under-the-spotlight-2011-02-11>

mechanisms that will be required to keep up with both changes to South Africa's climate (including the implications of such changes), and South Africa's overall effort to try and reduce its greenhouse gas emissions.

RELEVANCE TO FRUIT AND WINE INDUSTRY

The agriculture sector is singled out as a key sector with respect to **climate change adaptation** actions in the short to medium term – in other words, as a sector where steps need to be taken quickly to reduce the impact of climate change. Important climate change impacts on this sector are highlighted, and a number of actions that could be taken to assist the sector to adapt to the impacts of climate change are suggested (see DEA (2010:10-11)). A number of interventions are also suggested to assist smallholder farmers to develop adaptation strategies. From a **mitigation** perspective, “some agricultural exports” are highlighted as potentially vulnerable to competitiveness concerns as a result of climate change actions taken both domestically and internationally (like border carbon adjustment measures) as a result of being both emissions intensive and subject to a large degree of international trade (DEA, 2010:10).

The Green Paper expresses support for the use of **market-based policy measures** “such as an escalating carbon tax” as a way to “drive the diversification of our energy mix, the implementation of far reaching energy efficiency measures and investments in the development of new and cleaner technologies and industries” in order to reduce South Africa's GHG emissions, as discussed in the next section (DEA, 2010:14). These measures are likely to increase the costs of inputs to the agricultural sector.

Furthermore, the need to “fully incorporate” climate change considerations into the implementation of **industrial policy** in South Africa means that the GHG-intensity of some agricultural and agro-processing activities (agro-processing is a priority industrial policy sector in South Africa) may affect their future ability to access government support and incentive programmes (DEA, 2010:17).

A number of interventions aimed at reducing GHG emissions in the **transport sector** are also put forward by the Green Paper. While some of these measures could increase the cost of transport, a number of them are aimed at increasing the overall efficiency of the South African transport sector (like a push to move freight transport from road to rail over time) and may thus actually reduce the cost of transporting agricultural produce.

The Green Paper proposes using the Air Quality Act to implement mandatory reporting of GHG emissions for large industrial emitters. It also calls for mandatory reporting of GHG emissions to the National Atmospheric Emissions Inventory by “all significant emitters and compilers” of GHG emissions data (or proxy data like energy use that can be used to calculate greenhouse gas emissions) by 2013 (DEA, 2010:35). Given that agriculture is already listed as a separate sector in the South African National GHG Inventory⁶, it seems likely that some form of **mandatory GHG reporting** may be applied to the fruit and wine industry relatively soon.

⁶ See Department of Environment and Tourism, 2009. *Green House Gas National Inventory: South Africa – 1990 to 2000*. Pretoria: Government Printer. Available [online]: <http://www.pmg.org.za/files/docs/090812greenhouseinventory.pdf>

THE CARBON TAX OPTION

CONTEXT

One of the policy options government is considering in the climate change arena is the use of economic or market-based instruments as a mechanism for reducing greenhouse gas emissions. Specific mention of carbon tax is made in the National Treasury Carbon Tax Option Discussion Document, released in December 2010 (and hereafter referred to as NT (2010))⁷. NT (2010) suggests that, where it is cheap and easy to reduce emissions, a carbon tax creates incentives to do so, while economic activities in which it is costly or difficult to reduce emissions are penalised. It also asserts that a carbon tax may be easier to implement than regulatory measures which directly specify how much emissions need to be reduced by and potentially also how sectors and firms in South Africa should go about reducing emissions. Compared to these kinds of intrusive regulatory measures, a carbon tax requires government to collect substantially less information about the abatement costs of firms to be effective.

NT (2010) is structured as a technical paper that provides a broad overview of the theory underlying carbon taxes and their use internationally. As such it makes only broad and preliminary comments on the form that a carbon tax in South Africa may take. It also fails to explicitly address the local context in which a carbon tax would need to be implemented, and in particular does not deal with a number of issues that could complicate the implementation of a carbon tax in South Africa. These factors include, amongst others, the impact of price regulation in some sectors on the ability of producers to pass on carbon costs to consumers, and the apparent inability of a carbon tax to influence emission reduction actions in the electricity sector (since the build plan for the electricity sector is governed by the Integrated Resource Plan 2010-2030, developed by the Department of Energy (IRP, 2011))⁸. It is thus anticipated that it will be some time before the detailed design of a possible carbon tax for South Africa will be available.

The **time lines** put forward by the Treasury that will lead up to the planned implementation of a carbon tax in 2012 are shown below (NT, 2011)⁹:

- March to May 2011: Process written comments on carbon tax discussion document
- April to July 2011: Develop a carbon tax policy paper, including detailed design options, economic impact analysis (modelling) and revenue recycling options
- September 2011: Submit policy paper to Cabinet
- November 2011: Publish draft policy paper for public comment
- November 2011: Possible presentations on the carbon tax at COP 17 in Durban
- February 2012: Announce that carbon tax is to be implemented in Budget announcement
- May 2012: Publish legislation that will enact carbon tax for public comment

⁷ National Treasury (NT), 2010. *Reducing Greenhouse Gas Emissions: The Carbon Tax Option*. Discussion Paper for Public Comment. December 2010. Available [online]: <http://www.treasury.gov.za/public%20comments/Discussion%20Paper%20Carbon%20Taxes%2081210.pdf>

⁸ Department of Energy, 2011. *Integrated Resource Plan for Electricity 2010 – 2030, Revision 2, Final Report*, 11 March 2011. Available [online]: http://www.doe-irp.co.za/content/IRP2010_promulgated.pdf

⁹ National Treasury (NT), 2011. *Reducing Greenhouse Gas Emissions Pricing Carbon – The Carbon Tax Option*. Presentation to the National Treasury Carbon Tax Workshop, 16 March 2011, Midrand. Available [online]: <http://www.treasury.gov.za/divisions/dfsie/tax/CarbonTaxWorkshop/National%20Treasury%20Carbon%20Tax%20Discussion%20Paper%20Presentation.pdf>

The current National Treasury process around the use of economic (market-based) instruments to reduce GHG emissions in South Africa will also include an assessment of the “practicalities and feasibility of a domestic emissions trading scheme”. A discussion document dealing with the issue is expected to be released by the National Treasury in August 2012 (NT, 2010, 2011).

OVERVIEW OF POSSIBLE LOCAL CARBON TAX DESIGN

Despite NT (2010) being largely a theoretical document, the National Treasury in the paper and the consultation process¹⁰ that followed it has indicated a preference for a number of carbon tax design features. These include:

- A **CO₂ tax** rather than a tax on all significant greenhouse gas emissions. The tax will most likely cover direct CO₂ emissions from energy-related and non-energy (industrial) processes.
- An **upstream fuel input tax** on the carbon content of fossil fuel inputs rather than a tax that is levied directly on the amount of CO₂ emitted by firms, in order to simplify the administration of the carbon tax. The carbon tax will thus be levied on primary fuels like coal, oil and gas which are used to produce other fuels (or used directly in other production activities), and not on transport fuels like diesel and petrol when they are bought by final consumers.
- **Universal coverage** of sectors. As large a number of South African sectors as administratively feasible will be subject to the tax.
- **Revenue neutrality.** The Treasury will endeavour to match the revenue generated by the carbon tax with a decrease in taxes elsewhere in the economy and/or an increase in direct transfers. In particular, the Treasury intends to use the revenues generated by the tax (a process known as ‘revenue recycling’) to reduce the impact of the carbon tax (in the form of higher prices) on the poor and to assist firms and sectors that may see their competitiveness negatively affected as a result of disproportionately high carbon tax payments.
- **No earmarking of revenues.** Revenue recycling will happen through the normal government budget process, and the revenues raised by the carbon tax will not be earmarked for specific purposes.
- **Low and escalating carbon tax trajectory.** The carbon tax is to be implemented at a relatively low level initially and then escalated to a more significant level over time to provide firms with time to adjust to the impact of carbon pricing.
- **Relief to firms should be minimal and temporary.** Since the low and escalating nature of the carbon tax should provide sufficient time for firms to adjust to a carbon tax, the number of sectors exempted from the scheme, and the number of firms receiving support to protect their competitiveness, will be limited and exemptions or support will only be provided for as short a period as feasible.

¹⁰ The National Treasury held a stakeholder consultation and information working session on the issue of a carbon tax in March 2011. Presentations by the National Treasury and various other stakeholders can be found at: <http://www.treasury.gov.za/divisions/dfsie/tax/CarbonTaxWorkshop/default.aspx>. Presentations also include research by the National Treasury on the expected impact of the carbon tax on the South African economy.

RELEVANCE TO THE FRUIT AND WINE INDUSTRY

Given the limited amount of information that is currently available about the form that the proposed carbon tax will take, it is difficult to assess the likely impact of the carbon tax on the fruit and wine industry. Based on the information mentioned in the previous section, it seems likely that the **fruit and wine industry will be included** within the carbon tax framework. A number of the examples of carbon taxes internationally considered in the discussion paper, however, had some form of **special regime** in place to reduce the impact of carbon taxes on the agricultural sector. Coupled with the Treasury's seeming willingness to implement short-term relief measures for highly affected industries, and the mention of "some agricultural exports" potentially being vulnerable to competitiveness impacts in the National Climate Change Response Green Paper (see discussion above), it is not beyond the realm of possibility that some concessions for the fruit and wine sectors (given its significant trade exposure) may be forthcoming. A strong case for any relief measures would, however, need to be made.

The impact of the tax on the fruit and wine industry will most likely materialise in the form of **higher energy and fuel prices** (as the cost of carbon taxes levied on upstream suppliers are passed on to consumers) since direct emissions of GHG from land use change and waste are unlikely to be included in the carbon tax scheme. The impact of higher input costs on the fruit and wine industry will depend on the **level of support the industry receives**, if any, and also on how **revenue recycling** and the possible reduction of other taxes impact the industry.

Confronting Climate Change – A South African Fruit & Wine Initiative

Practical advice on how to reduce energy and fuel use (as a way of mitigating GHG emissions) is easily accessible at www.climatefruitandwine.co.za. The forthcoming documents: *Growers' Information Resource – Mitigation Options at a farm level* (available on the website) and *Confronting Climate Change: Strategic Framework Reference Document* (to be published in September 2011) will both explicitly address the issue of reducing energy and fuel usage within the fruit and wine industry. By increasing the efficiency with which energy and fuel is used within the industry, the South African fruit and wine industry can significantly reduce any input cost increases that may accompany the implementation of a carbon tax in South Africa. In addition to strategic advice on how to reduce energy usage, the *South African Fruit & Wine Carbon Calculator* (which is freely available at www.climatefruitandwine.co.za) provides an easy-to-use practical tool to monitor energy use within enterprises along the fruit and wine value chain. The Calculator can also assist users in identifying areas where measures can be implemented to reduce energy costs. Over time the Calculator will also provide information to allow enterprises to benchmark their energy usage to industry averages.

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