
MEDIA STATEMENT

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

The National Treasury today publishes the *Draft Regulations on the Carbon Offset* for public comment and further consultation. This follows on the publication of the Carbon Offsets Paper in 2014 and the draft Carbon Tax Bill in November 2015.

The Carbon Offset Regulations was developed jointly by the National Treasury, the Department of Energy and the Department of Environmental Affairs in terms of Sections 13 and 20 (b) of the Draft Carbon Tax Bill and sets out the procedure for the use of carbon offsets by taxpayers to reduce their carbon tax liability.

The Draft Carbon Tax Bill makes provision for the carbon offset allowance in terms of Section 13. This provides for firms to reduce their carbon tax liability by using offset credits of up to a maximum of 5 or 10 per cent of their total greenhouse gas (GHG) emissions, as specified in Schedule 2 of the draft Carbon Tax Bill.

Carbon offsets can be generated through investments outside of a taxable entity's activities that results in quantifiable and verifiable GHG emission reductions. In addition such carbon offset projects should generate sustainable development co-benefits and employment opportunities in South Africa by encouraging investments in energy efficiency, rural development projects, and initiatives aimed at restoring landscapes, reducing land degradation and biodiversity protection.

The carbon offset mechanism is in line with the proposals contained in the National Climate Change Response White Paper of 2011 and efforts to transition to a low carbon, greener economy as pronounced in the National Development Plan.

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.

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.

The carbon offset scheme will rely primarily on existing international carbon offset standards namely, the Clean Development Mechanism (CDM), Verified Carbon Standard (VCS) and the Gold Standard (GS) and their associated institutional and market infrastructure. However, scope is also provided for the use of local standards/ methodologies where appropriate and independently verifiable.

At a high level, the eligibility criteria include the following:

- Only projects located in South Africa will be eligible under the carbon offset scheme; and
- Projects should occur outside the scope of activities that are subject to the carbon tax to prevent double counting / relief. Examples would include but are not limited to investments in public transport, waste and AFOLU sector activities.

Indicative list of eligible projects

Sector	Eligible projects
Energy	
<i>Energy Efficiency (except projects claiming the energy efficiency tax incentive)</i>	<ul style="list-style-type: none"> • Energy efficiency in the residential and commercial sector • Energy efficiency in buildings • Community-based and municipal energy efficiency and renewable energy • Fuel-switching projects • Electricity transmission and distribution efficiency
Transport	<ul style="list-style-type: none"> • Public transport • Transport energy efficiency
Agriculture, forestry and other land use (AFOLU)	<ul style="list-style-type: none"> • Restoration of sub-tropical thicket, forests and woodlands • Restoration and management of grassland • Small scale afforestation • Biomass energy • Anaerobic biogas digesters • Reduced tillage
Waste	<ul style="list-style-type: none"> • Municipal waste projects

As a rule renewable energy projects have been excluded from the carbon offset scheme. This is to avoid the possibility of double counting benefits where such projects have already been incentivised, e.g. through the Renewable Energy Independent Power Producer Programme (REIPPPP).

However this blanket exclusion could be reconsidered subject to further consultations and motivations. Discussions with the DoE's IPP offices on the scope of the current programme and eligibility criteria used to evaluate REIPPPP projects will help to identify specific renewable energy projects types that might qualify as carbon offset projects, e.g. small and medium-sized renewable energy projects.

Institutional arrangements and infrastructure

To facilitate the development and implementation of carbon offset projects; appropriate technical infrastructure is required, including a programme administrator; a registry; and verification by accredited third party verifiers.

The Designated National Authority (DNA), within the Department of Energy (DoE) which was established to support the development and implementation of CDM projects under the Kyoto Protocol of the United Nations Framework Convention on Climate Change (UNFCCC), will be responsible for administering the carbon offset scheme. The administrator of the mechanism will oversee the programme, screen and evaluate projects based on the defined South African eligibility criteria and approve the issuance of offset certificates.

The Department of Energy is currently conducting a scoping study to inform the design of the administrative framework for the carbon offset scheme and the expected outputs include an initial assessment of the capacity and skills requirements to enhance the human resource capacity of the DNA, the design of an administrative IT system and the development of a Standards and Operating Procedure Manual. Additional support from the World Bank through the Partnership for Market Readiness (PMR) project will assist with the technical and institutional capacity building.

Structure of the Draft Regulations

The Draft Regulations on the Carbon Offset is structured as follows:

- Definitions,
- Projects eligibility and non-eligibility criteria,
- Offset credit duration,
- Administrator's duties,
- Structure of the offset registry,
- Procedure for claiming the offset allowance,
- Content and steps on how a taxpayer can obtain a certificate for the offset allowance.

Due date for comments

The Draft Regulation on carbon offsets, is published for public comments and is available on the National Treasury website: www.treasury.gov.za

Written comments should be submitted to offsetcomments@treasury.gov.za. Any clarification questions can be directed to Dr Memory Machingambi, email: Memory.Machingambi@treasury.gov.za by close of business on **29 July 2016**.

Issued by National Treasury

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