Challenges of Carbon Trading Schemes in Africa

Authors : Bengan Simbarashe Manwere

Abstract : The entire African continent, comprising 55 countries, holds a 2% share of the global carbon market. The World Bank attributes the continent's insignificant share and participation in the carbon market to the limited access to electricity. Approximately 800 million people spread across 47 African countries generate as much power as Spain, with a population of 45million. Only South Africa and North Africa have carbon-reduction investment opportunities on the continent and dominate the 2% market share of the global carbon market. On the back of the 2015 Paris Agreement, South Africa signed into law the Carbon Tax Act 15 of 2019 and the Customs and Excise Amendment Act 13 of 2019 (Gazette No. 4280) on 1 June 2019. By these laws, South Africa was ushered into the league of active global carbon market players. By increasing the cost of production by the rate of R120/tCO2e, the tax intentionally compels the internalization of pollution as a cost of production and, relatedly, stimulate investment in clean technologies. The first phase covered the 1 June 2019 – 31 December 2022 period during which the tax was meant to escalate at CPI + 2% for Scope 1 emitters. However, in the second phase, which stretches from 2023 to 2030, the tax will escalate at the inflation rate only as measured by the consumer price index (CPI). The Carbon Tax Act provides for carbon allowances as mitigation strategies to limit agents' carbon tax liability by up to 95% for fugitive and process emissions. Although the June 2019 Carbon Tax Act explicitly makes provision for a carbon trading scheme (CTS), the carbon trading regulations thereof were only finalised in December 2020. This points to a delay in the establishment of a carbon trading scheme (CTS). Relatedly, emitters in South Africa are not able to benefit from the 95% reduction in effective carbon tax rate from R120/tCO2e to R6/tCO2e as the Johannesburg Stock Exchange (JSE) has not yet finalized the establishment of the market for trading carbon credits. Whereas most carbon trading schemes have been designed and constructed from the beginning as new tailor-made systems in countries the likes of France, Australia, Romania which treat carbon as a financial product, South Africa intends, on the contrary, to leverage existing trading infrastructure of the Johannesburg Stock Exchange (JSE) and the Clearing and Settlement platforms of Strate, among others, in the interest of the Paris Agreement timelines. Therefore the carbon trading scheme will not be constructed from scratch. At the same time, carbon will be treated as a commodity in order to align with the existing institutional and infrastructural capacity. This explains why the Carbon Tax Act is silent about the involvement of the Financial Sector Conduct Authority (FSCA).For South Africa, there is need to establish they equilibrium stability of the CTS. This is important as South Africa is an innovator in carbon trading and the successful trading of carbon credits on the JSE will lead to imitation by early adopters first, followed by the middle majority thereafter.

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