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Subject: Carbon Tax Rate (R640/tCO_{2e}) – Insufficiency for NDC Compliance and Carbon Budget Enforcement

1. Introduction and Background:

SAFCEI appreciates the opportunity to comment on the carbon tax amendments. We write on behalf of faith-based and environmental constituencies to express our concern that the proposed carbon tax penalty rate of R640 per tCO_{2e} (for emissions above allocated carbon budgets) is too low to drive the necessary greenhouse gas mitigation. South Africa's Climate Change Act (2024) mandates carbon budgets for large emitters, and aligning the carbon tax with these budgets is a positive step. However, the level of the tax rate and current design of allowances risk undermining the policy's effectiveness.

2. Carbon Tax Rate of R640/tCO_{2e} is Inadequate:

The rate of R640 lies at the low end of global benchmarks and may not significantly deter companies from exceeding their carbon budgets. The rate of R640/tCO_{2e} is unlikely to compel a shift from fossil fuels to cleaner alternatives, it could be viewed by carbon tax paying companies as a manageable cost rather than a true penalty. We are concerned that emitters will simply pay the tax and continue "business as usual," given that the price signal is relatively weak. This would undermine the intent of the carbon budgets, which is to mandatorily limit emissions. South African companies have actively participated in the voluntary carbon budgeting phase and the submission of mitigation plans coordinated by the Department of Forestry, Fisheries and the Environment (DFFE). This period, covering 2016 to 2024, was designed to give companies the opportunity to understand their emissions profiles, implement internal systems, and prepare mitigation responses. In recognition of this, participants were granted a 5% carbon budget allowance as an incentive. We believe this transitional phase has provided sufficient time for companies to establish the necessary processes and controls to ensure full compliance under the forthcoming mandatory carbon budgeting system.

We therefore urge Treasury to set a more ambitious carbon tax trajectory (with steeper increases over time) to ensure that exceeding a carbon budget is genuinely prohibitively expensive, reinforcing the budgets' integrity.

3. Risk of Missing NDC Targets:

South Africa's updated NDC commits to a 2030 emissions range of 350–420 MtCO_{2e}, yet current policies (including the carbon tax as it stands) are not on track to achieve this. The carbon tax is one of essential policies in the country's transition to a low carbon economy, but its impact has been blunted by excessive tax-free allowances (up to 95% of emissions) during the first phase. Without aggressive tightening, the carbon tax will be rendered ineffective, thus putting our Paris Agreement goals in jeopardy.

4. Enforcement and Oversight:

We stress that a policy is only as good as its implementation. Robust enforcement mechanisms should accompany the carbon tax: DFFE and National Treasury must coordinate to ensure that companies exceeding their carbon budgets actually pay the higher tax and that these instances are made public. Transparency is paramount – we request that government publish an annual report on carbon budget allocations, emissions outcomes, and applicable tax penalties to enable public monitoring and oversight. Additionally, given past instances where corporate lobbying weakened climate measures. We urge enhanced stakeholder transparency: any consultations with high-emitting industries on carbon tax regulations should be transparent and include civil society voices to safeguard the public interest. SAFCEI and other civil society actors will be monitoring the rollout of the carbon budget system closely to ensure the carbon tax genuinely contributes to emissions reduction rather than becoming a nominal fee for polluting.

5. Recommendations:

- **Increase the Carbon Tax Rate:** Adopt a more ambitious rate schedule beyond R640/tCO_{2e} – for example, consider annual increments that would bring the excess emissions rate to at least ~R1000 by 2030, signaling alignment with a 1.5°C pathway.
- **Phase Out Allowances Sooner:** Accelerate the phase-out of tax-free allowances. By 2026, companies should face the full carbon price on the majority of their emissions, closing the current loopholes that dilute incentives.
- **Transparency & Civil Society Involvement:** Implement a public disclosure framework for carbon budget and carbon tax compliance. Establish a channel for civil society oversight, such as a multistakeholder advisory committee, to review progress and advise on strengthening the carbon pricing mechanism over time.

- Use of Revenue: While not the core of this submission, we recommend that carbon tax revenues be transparently allocated to climate mitigation and adaptation projects, especially those benefiting vulnerable communities and facilitating a just transition away from fossil fuels.

6. Conclusion:

In summary, SAFCEI urges National Treasury to enhance the carbon tax as a tool for meaningful climate action. The current rate of R640/tCO_{2e}, if left unchanged and unaccompanied by broader reforms, will be insufficient to drive the low-carbon transition that our NDC and the climate science demand. We stand at a critical juncture: the decisions made now about carbon pricing and carbon budgets will determine whether South Africa can honor its international commitments and protect its people from the worsening impacts of climate change. We appeal to the Treasury to demonstrate climate leadership by substantially strengthening the carbon tax framework, and we reaffirm SAFCEI's commitment to support and hold accountable this process in the interest of our people, our planet, and future generations.

Yours sincerely,

SAFCEI