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/ ASSET MANAGEMENT

Counting the cost: What will South Africa's carbon tax mean for farmers?

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Broadly speaking, there are two financial mechanisms used to put a price on carbon and thereby limit its emission. The first of these is the carbon credits system, whereby a price is put on each metric ton of carbon - and a country or company can buy these credits to offset their own emissions. This has various manifestations, ranging from Clean Development Mechanism (CDM) projects, where a developed country will sponsor a project with carbon reduction benefits in a developing country, to allowing individuals to offset their air miles by purchasing carbon credits when booking a ticket. The second mechanism is the more punitive carbon tax system, which imposes a (different) price per ton emitted by any company. This is based on a fundamental tenet of environmental law, the 'polluter pays principle'.

After years of deliberation, South Africa introduced a carbon pricing system for emitters in June 2019, namely the Carbon Tax Act (No 15 of 2019). At first glance, it may seem that the effects are not too onerous for the agricultural sector: the first phase of the tax runs until December 2022 and agriculture is not included. Another important benefit for agriculture of the first phase is that Eskom has requested an exemption, making this one development which will not initially contribute to electricity prices. However, fuel prices will be, and have already been, affected - and the price increase will inevitably be passed on to all consumers, including farmers, who will pay more for inputs, operational costs and logistics.

Whether and how agriculture will be included in the second phase of the tax (2023 – 2030) remains to be seen. Eskom will presumably not be exempted from the second phase, and fuel prices will increase significantly. Farmers will feel the inevitable repercussions of this. If agriculture is specifically included in the second phase, farmers will have to pay in respect of both their direct emissions (from activities such as fertilizer applications, land use change, biomass burning, using a diesel generator) and indirect emissions (caused by the original production of fuel, electricity and fertilizer). Certain rebates will be available, reducing the carbon tax payable from the full R120 per ton of CO2 equivalent to somewhere between R6 and R48 per ton (according to Blue North, South African sustainable agriculture specialists). For indicative purposes, Blue North estimate that the amount payable may be in the region of R343 per bearing hectare of farmland (specifically in the fruit and wine sector).

Although these costs may seem like an additional unfair burden on the struggling agri sector (and the struggling national economy), they should be considered in the context of South Africa's outsized per capita contribution to global carbon emissions, which cannot be allowed to continue unchecked. Furthermore, the lead-in period allows scope for a pro-active response, which is being considered by the Futuregrowth Agri-Funds for all the farms within its portfolios. Given that increasing electricity costs will contribute most to the carbon tax implications for farms, the case for installation of renewable energy systems and freedom from the yoke of Eskom becomes ever stronger.

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