

Appetite for Change

The South African business perspective
on tax and regulation for a low carbon
economy



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Foreword

This report examines the attitudes in the South African business community towards environmental regulation, legislation and taxes. It should be read in conjunction with the PricewaterhouseCoopers global report for an international perspective.

Climate change is testing the ability of the world's leaders to develop effective environmental policies through consultation. Many, in and out of government, are frustrated with the pace of negotiations, as evidenced during the challenging summit in Copenhagen, but recriminations and defeatism are distractions.

Our research indicates what business leaders think, and what they are looking for, from government and environmental policies. This creates a platform for constructive dialogue between business and government, which is ultimately what business really wants. For those struggling to find a global consensus, there is plenty of hope.

Almost 700 interviews were conducted in 15 countries, where executives shared their perspectives on:

- a) the impact of climate change and the environmental debate;
- b) the government's role in protecting the environment;
- c) which environmental policy tools are preferred and why; and
- d) the ingredients necessary for a global climate change deal.

In this report the South African results are compared to the global results. The South African results were obtained through interviews with 30 South African listed companies representing a cross-section of industry. It is interesting to note that attitudes in South Africa are markedly similar to those across the rest of the world on most issues.

A large majority of businesses favour incentives, trading emission schemes and carbon taxes, while there seems to be a uniform lack of confidence in the coherency and effectiveness of government policy. However, businesses in South Africa seem ready to support consistent policies that are clearly linked to saving the environment and developed in consultation with the private sector.

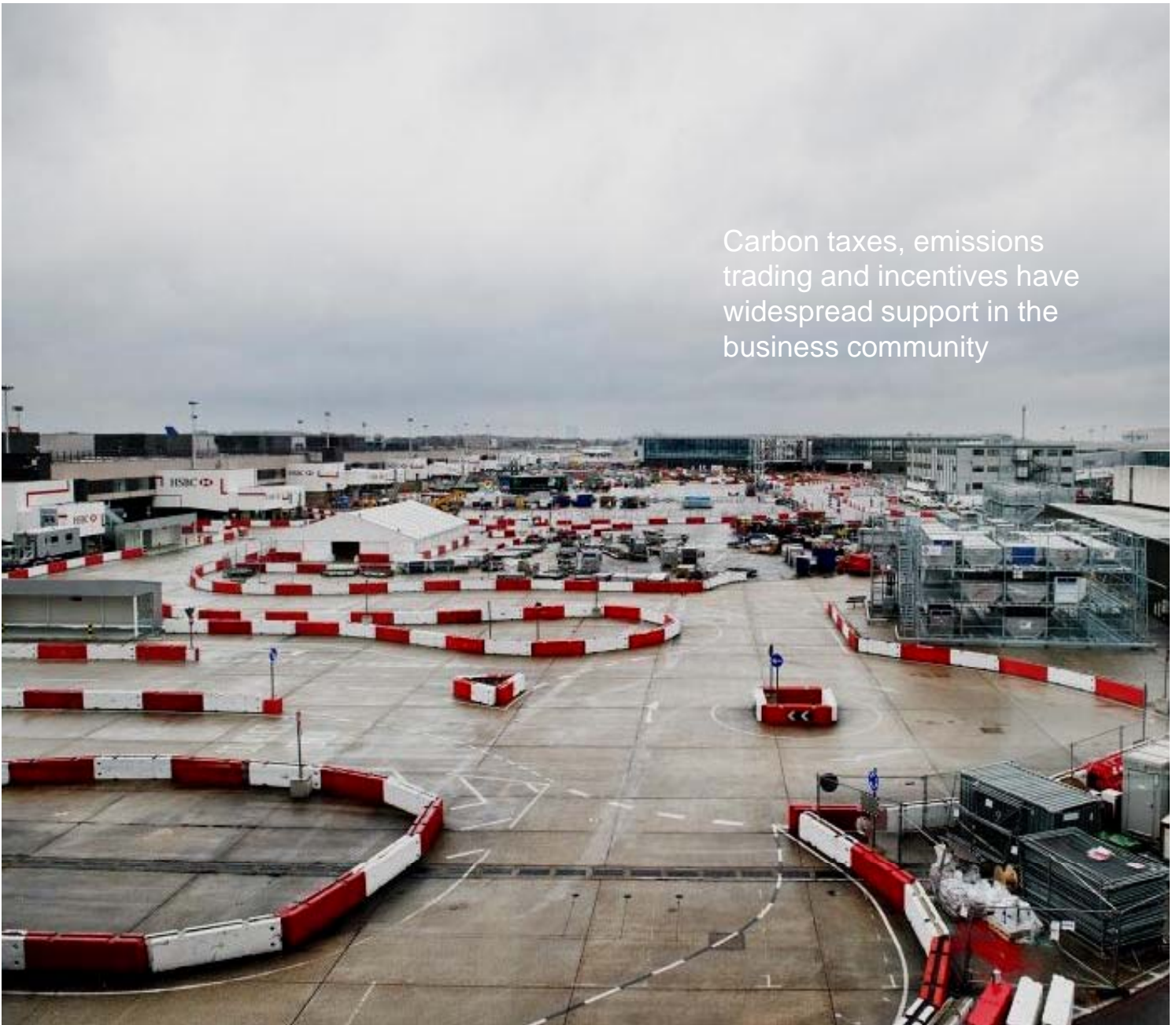
PricewaterhouseCoopers provides industry-focused assurance, tax and advisory services to build public trust and enhance value for our clients and their stakeholders. More than 163,000 people in 151 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

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Section 1
Executive summary

Carbon taxes, emissions trading and incentives have widespread support in the business community



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- South African businesses largely consider that they should be primarily responsible for leading behavioural changes on climate change, closely followed by those who want government to take the lead.
 - The business community is ready for, and supportive of, government action.
 - The importance of setting emissions targets at national level that incentivise low carbon behaviours and policies is undeniable.
 - Carbon taxes, emissions trading and incentives have widespread support in the business community
 - Businesses generally believe that existing environmental taxes, regulations and incentives are ineffective, inconsistent and unclear.
 - Making financing available for green technology solutions within the next six to 12 months is vital.
 - Executives prefer the hypothecation of carbon and other environmental taxes, i.e. the use of taxes to fund environmental and low carbon programmes.
 - Environmental taxes and regulation are considered to be an opportunity for business competitiveness.
 - More data can be found on [pwc.com/appetiteforchange](https://www.pwc.com/appetiteforchange).

Section 2

Why is government leadership essential?

Most South African businesses believe that Government exerts a strong influence on environmental practices through legislation and regulation,



Government leadership is an essential force in the battle against climate change.

90% of South African businesses believe that Government exerts a strong influence on environmental practices through legislation and regulation, while the majority of South African businesses further contend that potential cost savings from introducing energy efficient measures, as well as managing corporate reputation are the next most influential measures which impact on decision making when it comes to responsible environmental behaviour.

Measure	South Africa	Globally
(a) Potential cost savings from introducing energy efficient measures	80%	73%
(b) Managing corporate reputation	77%	74%
(c) Compliance with environmental legislation & regulation	90%	85%



77% of South African businesses believe that regulation will be one of the most effective environmental policy tools.

Section 3

What are the opportunities for government?

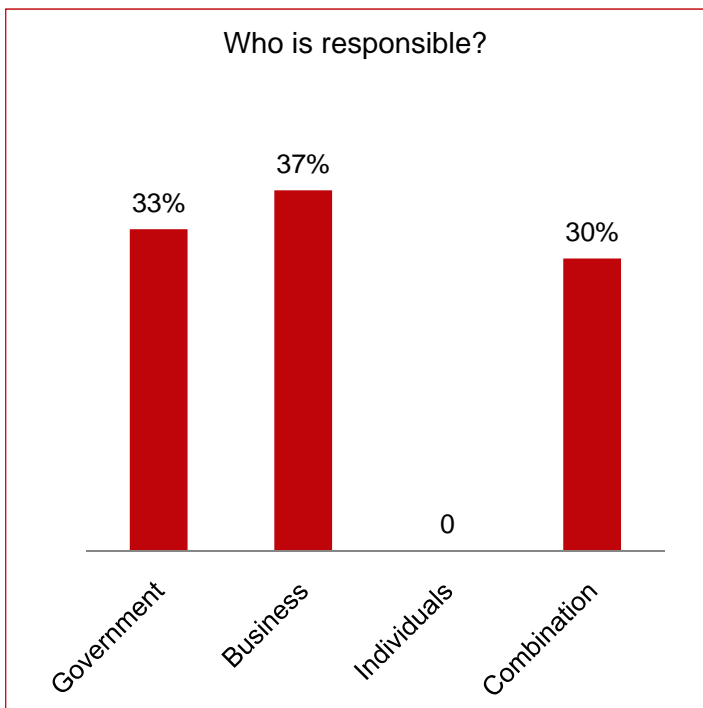


Most South African businesses consider tax incentives and regulation as efficient at encouraging businesses to reduce their environmental impact.

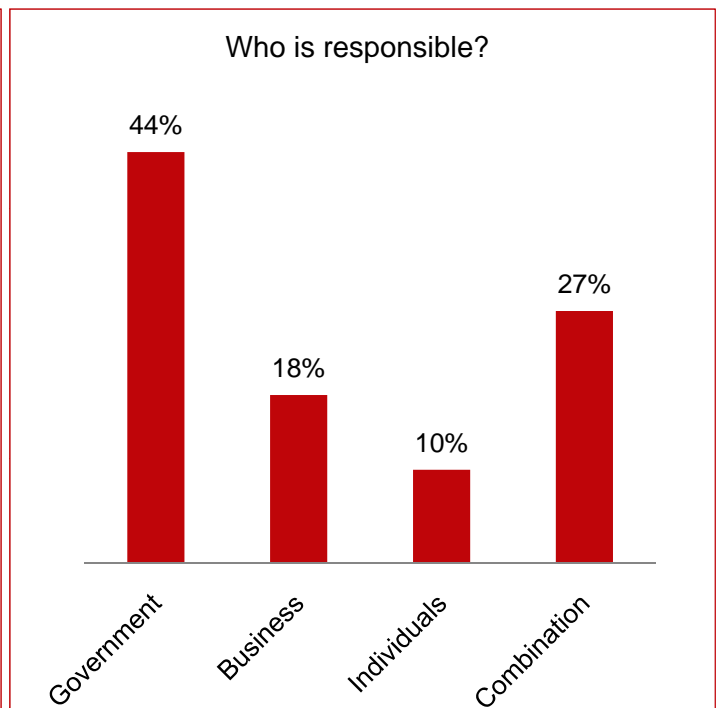
The business community supports government action

The majority of South African businesses consider themselves as primarily responsible for leading behavioural changes on climate change, closely followed by businesses who want government to take the lead. Businesses in other countries clearly consider government as being responsible for leading behavioural change in this regard.

South Africa

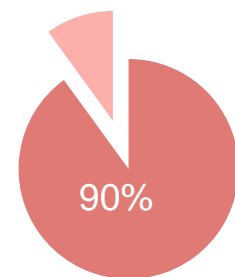


Globally



The absence of clarity discourages investment in change and, as such, targets need to be sufficiently ambitious and backed by legally binding frameworks to be effective.

90% of South African businesses consider the setting of emission targets at a national level very important to incentivise low carbon behaviour.

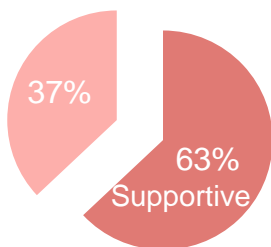
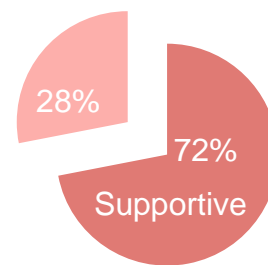


When environmental policies are unclear and unstable, businesses look to government for leadership. Many industries across the world expect to change the way business is conducted in the next 2 – 3 years. In South Africa 77% of businesses expect some level of change. Only 22% of South African businesses expect significant changes in the way they conduct business.

A factor across all countries is that 88% of businesses recognise the need for meaningful emission targets.

Carbon taxes, emissions trading schemes and incentives have widespread support in the business community.

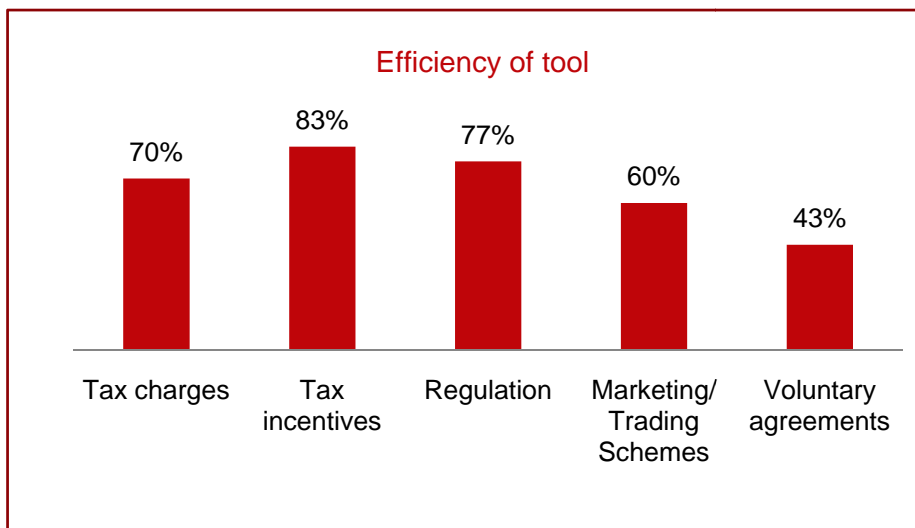
72% of South African businesses support carbon taxes as a means of encouraging the more efficient use of energy and reducing carbon emissions, compared to the 58% global support.



63% of South African businesses believe that a tax system should include incentives for companies to become carbon neutral, compared to the 67% of businesses globally.

The majority of businesses in South Africa and globally prefer Emission Trading Schemes to Carbon Tax from a corporate point of view.

The support for carbon taxes seems anchored by the view that taxes is an effective method of reducing greenhouse gas emissions. 83% of South African businesses consider tax incentives, and 77% consider regulation as efficient at encouraging businesses to reduce their environmental impact. Fewer businesses in South Africa, as well as globally, believe that tax charges (70%), market / trading schemes (60%) and voluntary agreements (43%) will be effective. Interestingly, the proportion of executives who think market trading schemes are effective is actually lower than the proportion who support the idea of a trading scheme.



93% of South African businesses (and 92% of businesses globally) believe that government needs to offer more incentives to support investment and environmentally beneficial activities, processes and new technologies.

The proportion of executives who think market trading schemes are effective is lower than the proportion who support the idea of a trading scheme.

Section 4

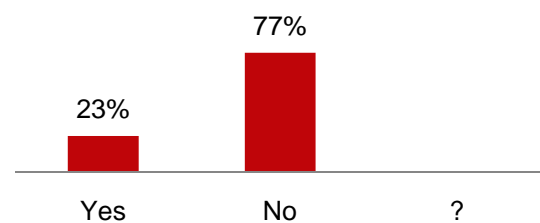
How can policies find support?



Although regulations and taxes will create costs for business, they may simultaneously create opportunities for new sources of competitive advantage and new ways to polish reputations.

South African businesses firmly believe that there is a lack of coordination within and between governments concerning environmental economic instruments such as tax, incentives and trading schemes.

Is there joined-up thinking between government departments/bodies/ agencies?



73% of businesses in South Africa concur with businesses globally (62%) in the general belief that existing environmental taxes, regulations and incentives are ineffective, inconsistent and unclear.

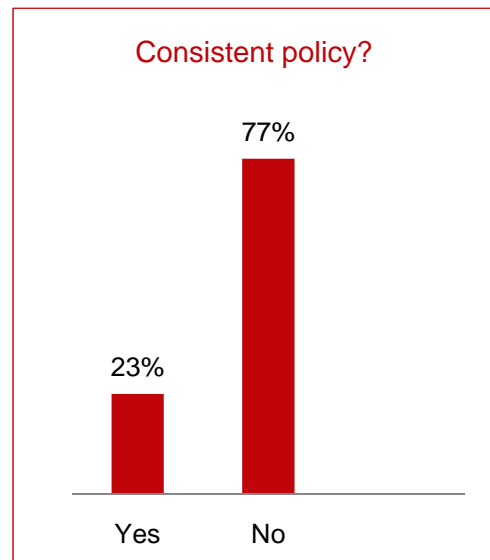
Only 20% of South African businesses believe that government is effective at providing signals to business on the need to assess environmental impact and energy use (as opposed to 44% globally). Only 27% feel that government efforts are effective at encouraging businesses to significantly change environmental behaviour.

One of the greatest concerns among business leaders is the perceived lack of consistent long term environmental tax and regulation policies.

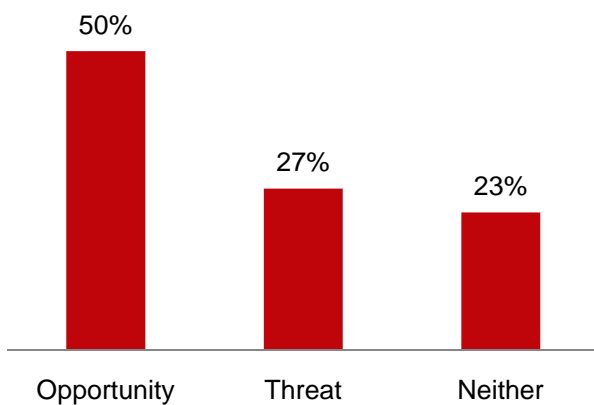
77% of South African businesses (compared to 57% of businesses globally), do not believe that government has a consistent long term environmental tax and regulation policy.

This manifests itself in awareness of available incentives; although popular in theory, **83%** of South African businesses have difficulty establishing what tax incentives exist and how to apply for them.

A further concern is that half of South African businesses feel that the meeting criteria required by tax incentives is too onerous



50% of South African businesses consider Environmental regulation to be an opportunity for business competitiveness.

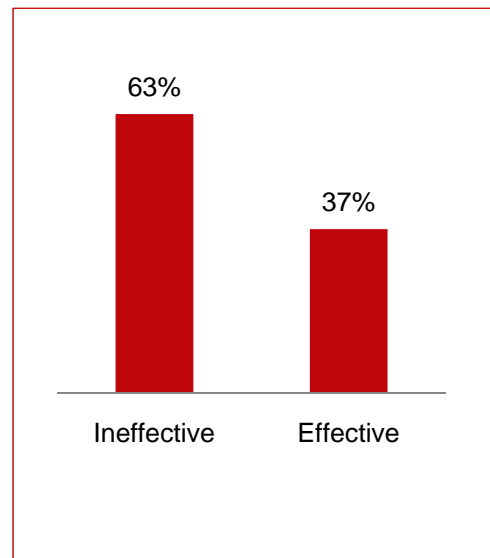


Although regulations and taxes will create costs for business, they may simultaneously create a level playing field, as well as opportunities for new sources of competitive advantage and new ways to polish reputations.

63% of South African businesses feel that government does not engage effectively with business to ensure its environmental policies take industry views into account.

77% of South African businesses believe that insufficient priority is given to business issues as regards climate change.

The majority of South African businesses do not anticipate climate change regulations and taxes having an effect on their profits, investments and operations in the next two to three years. When the long-term price of carbon and its effects on South African businesses become clear, attitudes may shift among firms of all sizes.



Certainty and simplicity are the biggest challenges for carbon trading; for carbon taxes, the key issues are flexibility and incentives. As suggested by the strong support for both carbon trading and carbon taxes, South African business leaders, similar to global business leaders, do not see carbon taxes as mutually exclusive.

Reasons given for supporting carbon tax

Actively support carbon tax

Impact:

- Faster, more effective way to effect change;
- Obligated to rethink activity
- Applies to all types/ sizes of companies – nobody is exempt.

Understanding:

- Easier/ simpler to understand

Governance

- Easier to define, measure and monitor
- More difficult to falsify

Certainty

- Easier to predict as price of carbon will be known: better able to plan future investments

Transparency

- Linked directly to desired behaviour

Opportunity

- Could finance environmental initiatives.
Payback on investment energy efficiency.

Concern over emissions trading schemes

Fails to solve the problem:

- Polluters can “buy their way out”
- Exchanging CO₂ emissions simply pushes the problem around
- Rewards/compensates polluters

Harder to implement

- Difficult to determine fair quotas
- No existing infrastructure
- Administratively more complex
- Harder to define and monitor emissions

Open to manipulation

- Will find loopholes to exploit
- Depends on agreements with politicians

A South African executive says, “Emissions trading will be abused. Europe and the US will dump into the sky and buy credits from Africa”.

As mentioned earlier, business executives are more likely to contend that carbon taxes are effective than they are to say that carbon trading is effective at changing environmental behaviour. Perceptions of certainty, simplicity and transparency underpin the general sense that taxes are effective.

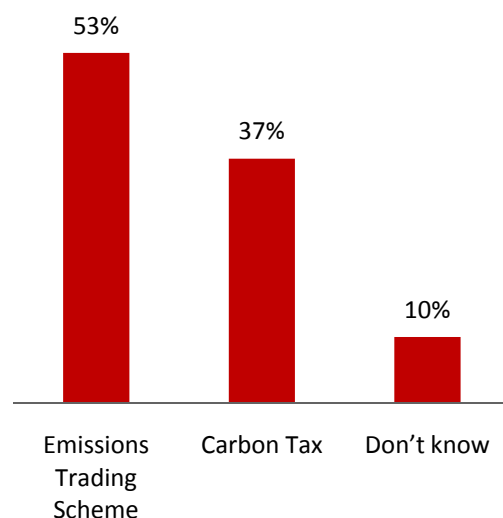
The volatility of the carbon price and challenges of verifying and allocating allowances in the European Union Emissions Trading Scheme (EU ETS) has also led to many executives concluding that carbon tax would be easier to administrate and provide more stable criteria for strategic decisions. Further, many business leaders share the fear that trading schemes will require new, complex and costly infrastructure.

Businesses also agree that a carbon tax would be “easier to understand”, “more equitable” and “more difficult to falsify”.

There is a general fear that trading schemes will simply not reduce emissions, but shift allowances across borders, as opposed to reducing total emissions.

Carbon trading supporters make similar arguments. Trading advocates emphasise the flexibility to purchase allowances when the technologies that reduce emissions are not available or affordable.

They also believe that a rewards-based market system is the most efficient method of directing investment towards the reduction of greenhouse gas emissions.



Reasons given for supporting emissions trading schemes

Actively support emissions trading

Impact:

- Allows government to set a ceiling on emissions levels

Flexible:

- Gives companies choice over what's best.
- Accommodates companies that cannot reduce emissions in absence of right technology

Market-based:

- Belief that market is a better mechanism for developing the most efficient solutions

Voluntary (not mandatory):

- More acceptable to private sector

Reward-based (not penalty):

- Scope to reduce cost/make money, opportunity to be cost neutral
- Brings competitive advantage
- More acceptable to private sector

Stimulus:

- If money is saved, investment in cleaner/greener technological solutions will inevitably follow.

Concern over carbon tax

Impact:

- There is no specific ceiling set for emissions – government must estimate the appropriate carbon price

Burden

- Already feel over-burdened with tax

Enforcement

- Requires government control to prevent tax evasion/avoidance

Lost opportunity

- Revenue raised would not be used for environmental initiatives

Impact on products and services

- Companies would try to recoup by passing cost onto the consumer

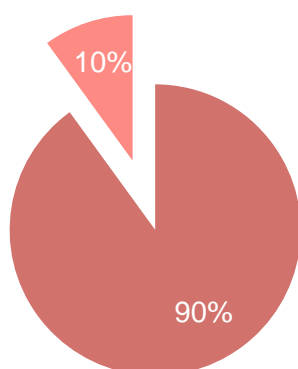
Demotivating

- No opportunity to benefit, only a cost
- Disincentive to growth, bad for economy

Business executives are unlikely to support environmental taxes ...which are designed primarily to raise revenue.

Business executives are unlikely to support environmental taxes, such as the UK's air passenger duty (APD), which are designed primarily to raise general revenue. In 2007 UK business leaders rated the APD the least effective environmental tax¹ and they remain sceptical today.

Taxes that are labelled and promoted as 'environmental' are qualitatively different than those designed to raise general revenue. Pollution taxes not only compensate for the failure of the market to price pollution, as on a more fundamental level, the goal is to reduce pollution.



If pollution tax is not offset by a tax reduction, it is reasonable to expect that governments should seek to gain the maximum environmental benefit by investing the funds into further pollution reduction measures, which support the overall policy objective.

90% of South African businesses believe that it is very important that monies raised from environmental taxes and regulation are being/would be directed to 'green' environmental projects and initiatives.

¹ Saving the Planet 2007 – PricewaterhouseCoopers LLP, UK

Between 1990 and 2005, Denmark reduced per capita CO2 emissions by **15%**, using a combination of taxes, incentives and significant investments in renewable energy (especially wind power) that help provide affordable alternatives to heavily taxed coal power.

90% of South African businesses, compared to 88% of businesses globally would like see similar investment and incentives in their regions; however, only **10%** of South African businesses are confident that monies raised from environmental taxes will be directed to environmental initiatives.

In some cases, hypothecation may not be the most efficient way to direct funds into environment projects. It may also not generate sufficient funds for green initiatives. On the other hand, for governments that shift a significant portion of their revenue to green taxes, reserving revenue from those taxes may simply be impractical. But whether through hypothecation or other means, governments that link new taxes strongly with environmental outcomes have a much better chance of garnering business support. As one respondent indicated,

“If designed properly, a carbon tax can work. The key design element is that it has to be linked to environmental progress”.

Executives in the media, entertainment, communications, technology and financial services sectors were least likely to report a large impact on the way they conduct business as a result of climate change..

Section 5

What will new policies mean for business?

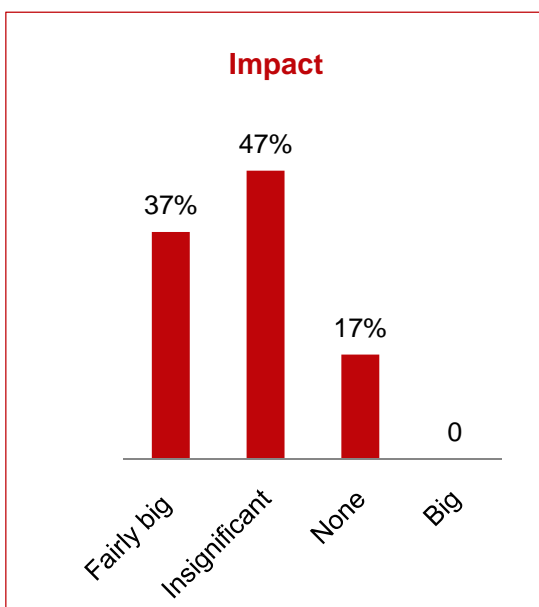


Government action on climate change will increase the importance of regulatory compliance, reputation management and other stakeholders

South African businesses believe that regulatory compliance, reputation management and potential cost savings are the most influential measures at impacting decision making as regards environmental behavioural changes.

Measure	South Africa
(a) Potential cost savings from introducing energy efficient measures	80% effective
(b) Managing corporate reputation	77% effective
(c) Compliance with environmental legislation & regulation	90% effective

These influences are likely to become more important among all industries as the impacts of climate change widen.



To date, the majority of South African businesses feel that the environmental debate and climate change has had an insignificant impact on the way they conduct their businesses.

Executives in the media, entertainment, communications, technology and financial services sectors were least likely to report a large impact on the way they conduct business as a result of climate change. Executives in the energy, utility, mining and metal sectors were most likely to report that the climate change and environmental debate had already affected corporate strategy.

Corporate climate change strategies will affect operations, key performance indicators and innovations around new products and services. Despite the lack of clear signals from government, South African businesses are leading a drive in the business community to invest in environmental policies. 47% of South African businesses' environmental policies go beyond legislative/ regulatory responsibilities.

Larger organisations are much more likely to be changing their operations as a result of climate change.

For most businesses, becoming carbon neutral will require the integration of carbon and energy management systems with operations and key performance indicators. Rather than just being an annual number crunching exercise, these systems will inform investment decisions and therefore need to be readily available and reliable. For long term or strategic investment in infrastructure or energy projects, companies need to understand sensitivities to different policy, carbon price and climate scenarios.

Currently, 60% of South African businesses do not feel comfortable making long term business decisions or investments, taking government's existing environmental tax and regulation framework into account.

Regardless of the uncertainties, and the fact that the majority of South African businesses do not believe that they will be significantly impacted by climate change in the next 2 – 3 years, 60% of South African businesses have taken steps to become, or are looking into ways of becoming, carbon neutral.

According to an interviewee, “there are many areas where we go beyond the mandatory level of legislation on a voluntary basis, we wouldn't do that of course if we didn't see value in it”.

There will not be a common global price for carbon in the short to medium term.

Emissions trading is viable and popular among participants, especially in the major emerging economies of India, China and Brazil. But the creation of a global price is a long-term enterprise.

Section 6

While managing uncertainty, business remains hopeful



Globally, businesses have proven through action and investment that they are committed to reducing their impact on the climate. South African businesses are improving their energy efficiency, driving down their carbon emissions and seeking out low carbon business opportunities in an effort to secure their own futures.

The speed of transformation is increasing, many executives report pressure from customers and investors and employees to make business more sustainable. A growing number of businesses are expecting to be affected by climate change, and they are developing strategies to respond even though government policies remain uncertain. The results of this survey combined with larger trends in politics and business suggest some important inputs for those strategic calculations.

Political momentum is building for carbon-related taxes

Supporters of environmental taxes share the perception that they are a simple, effective policy tool and it is clear that the level of support is growing. In response to the growing momentum for tax changes, businesses are more closely monitoring tax policy developments and engaging with policymakers.

There will not be a common global price for carbon in the short to medium term

Emissions trading is viable and popular among participants, especially in the major emerging economies of India, China and Brazil. But the creation of a global price is a long-term enterprise. In the short and medium term, businesses are appraising investments using a shadow price of carbon that covers a range of scenarios and varies for different national outcomes.

New regulations and standards are likely

Governments are expected to complement market measures with non-market regulations, such as stricter standards on fuel and energy efficiency in transport, appliances and homes, and encourage more sustainable practices.

Business executives have concerns that such measures will hinder growth through new costs and inconsistent implementation. However, they also recognise the effectiveness of well-designed regulations and are trying to anticipate how regulations may change the competitive landscape.

The requirements for business to report credible greenhouse gas data are increasing

The foundation of climate change policy is credible data about greenhouse gas emissions. Unfortunately, as business executives have noted, governments do not have a good record of coordinating environmental policies. As a result, companies may already submit emissions data in multiple formats for different purposes or regulations, even within the same jurisdiction. To meet these obligations efficiently, organisations are investing in good data management systems.

Despite the rising tide of corporate action, business leaders worldwide want their governments to help lead the transition to a low carbon economy.

For over a decade, global CEOs have picked over-regulation as one of the top three threats to their organisations. Yet businesses are actually hoping for more government action on climate change.

There is widespread support for all the major policy options – carbon taxes and regulation, in addition to incentives and emissions trading – and the support is strikingly consistent across regions.

This is an opportunity for government. Business leaders are eager not only to be involved in developing smart environmental policies, but also to see more policy coordination at the national and international levels.

They remain hopeful that governments and business can halt climate change together.

About PwC

Global Sustainability and Climate Change Tax Network

The global financial crisis has created extreme short-term pressures on businesses, but they remain focused on understanding the implications of climate change and developing sustainable business strategies.

Tax considerations are critical as businesses and governments collectively look to address these challenges. As governments around the world start to introduce taxes, incentives and regulation as a key component of their policies around sustainability and climate change, this presents businesses with a range of new opportunities and risks. The tax implications of these opportunities and risks require assessment.

Opportunities include the chance for businesses to gain competitive advantage, for example by adapting their business models, technologies and product ranges in order to become more sustainable, and in doing so, benefiting from the various incentives available to them.

Risks include the inability to adapt to what is required of businesses by consumers and governments, the costs of emissions trading, and the reputational and financial risk of penalties for failing to observe, or comply with, environmental taxes and regulation, which are increasingly coming into play in different jurisdictions worldwide.

From a business perspective, it is hard to keep track of these taxes and regulations emerging in response to climate change, as in most territories, they are still evolving. In many cases, the measures introduced are complex, not yet harmonised with other international legislation, and uncertain in terms of the potential tax impact.

This is, perhaps, even more of an issue for businesses in the current economic climate, with the added pressures on cost-control and risk management. Businesses need to be fully aware of potential tax liabilities or implications in order to be able to manage these effectively, and should undoubtedly be asking themselves questions such as:

- Which environmental taxes do we (or should we) currently pay? How much are we paying in environmental taxes as a proportion of our total tax contribution?
- Which environmental regulations do we need to comply with, around the world?
- Are we proactively managing our exposure to environmental taxes and the tax impact of environmental regulation?
- Are we using the tax incentives available to us in each country / region, and are we considering these as part of our investment strategy?

- What is the impact of changing consumer and business preferences in relation to our supply chain, business model and product range? What are the tax implications of this?
- Do we understand all the tax implications of the emissions trading schemes which we (or one or more of our global subsidiaries) are part of, or have obligations under?
- Have we properly scoped the tax implications of any investments or projects either at home or in foreign jurisdictions (e.g. under the CDM) which have been entered into as part of the corporate response to climate change and sustainability?

At PwC, we have a dedicated team of advisers to support businesses with these and many other important strategic and ethical challenges they face around climate change and sustainability in its broadest sense.

Leading tax advisor by reputation

PwC is the leading tax adviser globally by reputation, with a very strong lead over the competition¹ working with a number of the world's leading organisations and institutions on their tax issues in relation to sustainability and climate change. We have a specialised global team of tax experts working as part of our wider cross-functional network, who are already well-versed in sustainability and climate change taxes and regulation. Our specialists have built up their experience through their involvement with governments and businesses on the successful establishment, implementation and management of climate change taxes and regulations in different territories around the world.

At PwC, our approach is to go to market through industry specialisms, as we believe that each industry sector has its own unique set of issues and opportunities. As such, our Sustainability & Climate Change Tax network draws on the in-depth knowledge

and experience of our industry specialists, which covers all industries affected by environmental taxes and regulation, including renewable energy.

In summary, what we bring to you is a combination of our established leadership reputation for tax advice, our global team of cross-functional specialists, our relevant, in-depth industry knowledge and expertise, added to the experience that we have built up in this area over the 20 years that our Sustainability & Climate Change practice has been in operation.

Perhaps most importantly, we have a passionate belief in the ability of taxes and regulation in response to climate change to make a difference to the behaviours of businesses and consumers, and ultimately to help save the planet, without damaging the global economy. To contact us, please see the inside front cover.

¹ The Global Tax Monitor recognises PricewaterhouseCoopers as the leading tax adviser globally by reputation, with a very strong lead over the competition. These results are based on the year-ending Q3 2009 figures, with a sample size of 3,282 primary buyers of tax services globally.

Launched in 2000, the Global Tax Monitor (GTM) is an independent survey conducted by research agency TNS, that examines the competitive position of the top firms in the tax advisory market - globally, regionally, nationally and on an industry basis. It provides a comprehensive measure of firm reputation, client service and brand health, gained currently from just over 3,000 telephone interviews annually with key decision makers (CFOs and Tax Directors) in 31 key markets.

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