

Navigating the Evolving Climate Regulatory Landscape in South Africa

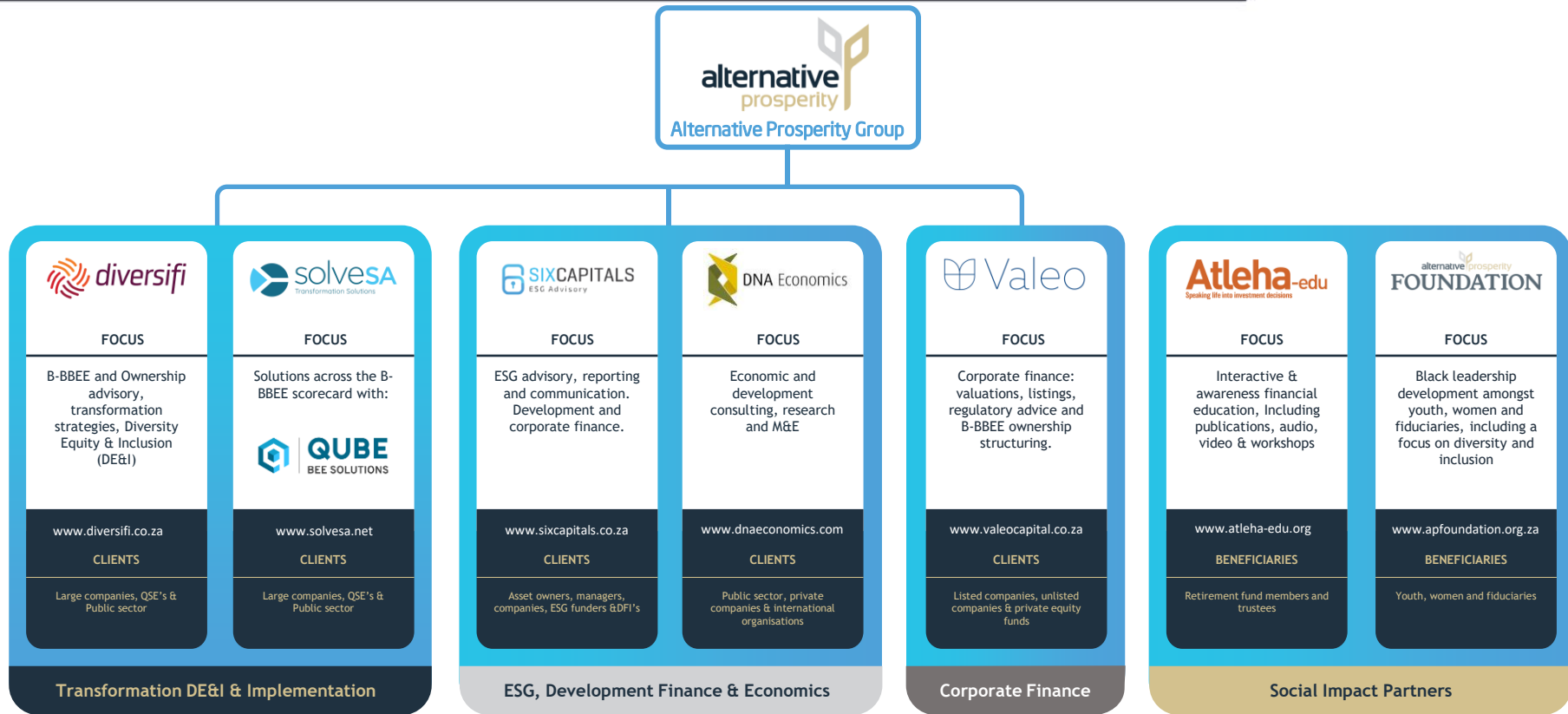
24 July 2025

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Today's Speakers



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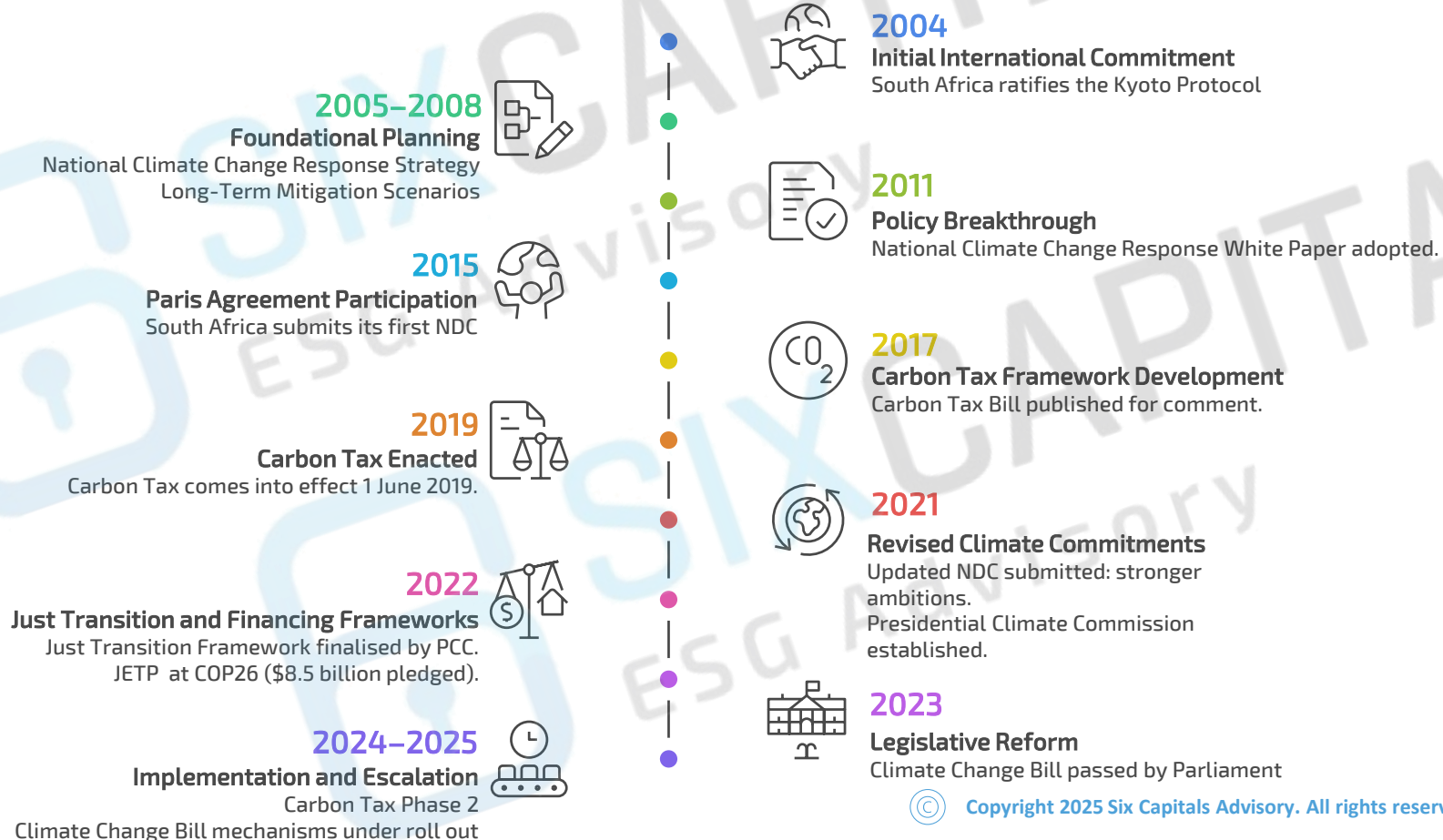
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Advisory



Agenda

- 1 South Africa's Climate Change Journey
- 2 The Climate Change Act
- 3 Key Compliance Obligations
- 4 Aligning Corporate Strategies with National Climate Goals
- 5 South Africa's Carbon Tax Act
- 6 Carbon Offsets & Markets
- 7 Carbon Border Adjustment Mechanism (CBAM)

South Africa's Climate Change Journey



Nationally Determined Contributions

What is an NDC?

An **NDC** is a country's **climate action plan** submitted under the **Paris Agreement**. It outlines how the country intends to **reduce GHG emissions** and **adapt to the impacts of climate change**, usually over a 5-to-10-year period. NDCs are:

- **Nationally determined** – each country sets its own targets.
- **Submitted every 5 years** – with the expectation that ambition will **increase over time**.
- A critical tool to track **global progress** toward limiting global warming to well below 2°C, ideally 1.5°C.

South Africa's NDCs

NDC	Submission Year	Mitigation Targets (2025 -2030)	Adaptation Focus	Notable Features
1 st NDC	2015	398 – 614 Mt CO ₂ eq	Early warning, food & water security	Broad target range, conditional on finance
Updated NDC	2021	350 – 420 Mt CO ₂ eq	Resilience in ecosystems, agriculture, infrastructure	Greater ambition, Just Transition lens, narrowed range

*Next update due: likely later in 2025, expected to include 2035 targets



Climate Change Act - Overview



**Legal
Framework**



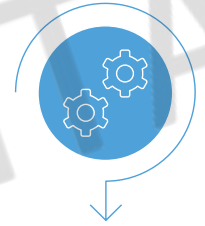
Key Objectives



**Implementation &
Enforcement**



**Impact on
Stakeholders**



**Key
Mechanisms**

Climate Change Act - Overview



Legal Framework



Key Objectives



Implementation & Enforcement



Impact on Stakeholders



Key Mechanisms

- Establishes a national framework for climate action
- The Act builds upon existing environmental legislation like the National Environmental Management Act (NEMA).
- The concept of a “Just Transition” is central – addressing climate change in a way that is fair and equitable.

Climate Change Act - Overview



**Legal
Framework**



Key Objectives



**Implementation &
Enforcement**



**Impact on
Stakeholders**



**Key
Mechanisms**

- **Mitigation:** Setting national GHG emission reduction targets and developing sectoral emission targets for different industries
- **Adaption:** Adapt to impacts of climate change e.g. droughts, heat waves.

Climate Change Act - Overview



Legal Framework



Key Objectives



Implementation & Enforcement



Impact on Stakeholders



Key Mechanisms

- **Government:** all levels required to integrate climate consideration into policies & actions.
- **Businesses:** legal obligations to reduce GHG emissions and comply with carbon budgets.
- **Private sector:** increased regulatory scrutiny, potential penalties, legal risks for non-compliance.
- **Public:** aims to protect the public through a just transition. Emphasises public awareness and participation in climate change efforts.

Climate Change Act - Overview



Legal Framework



Key Objectives



Implementation & Enforcement



Impact on Stakeholders



Key Mechanisms

- Gradual roll-out, some sections already in effect.
- The Act outlines mechanisms for monitoring progress and evaluating effectiveness.
- Ongoing development of regulations.

Climate Change Act - Overview



Legal Framework



Key Objectives



Implementation & Enforcement



Impact on Stakeholders



Key Mechanisms

- The Act outlines mechanisms for achieving GHG emissions mitigation and establishing climate change adaption measures.
- Roll-out of some mechanisms still in development.

Key Mechanisms of the Climate Change Act

Presidential Climate Commission

PCC changes from advisory to statutory body in climate governance. Stronger mandate to oversee & ensure implementation.



National Adaptation Objectives

The Minister has one year to establish specific goals and targets to enhance the country's capability to cope with climate change impacts.



Sectoral Emissions Target

Minister to set specific emission reduction targets for different sectors/industries within 1 year.



Synthetic GHG

Minister must declare which gases are synthetic. Businesses to plan for phase down and/or phase out of specified gases.



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Provincial and Municipal Response

Provinces and municipalities required by law to develop climate change response plans.



Emissions Trajectory

Minister to determine national GHG emissions trajectory and chart a course for reducing greenhouse gas emissions.



Carbon Budget

Companies or sector will be given a carbon budget (max amount of GHG emissions permissible over a five year period x3). Company must submit a GHG mitigation plan.



GHG Inventory

Annual report on national GHG emissions will be published.



Compliance Obligations: Pollution Prevention Plans

Legal Framework

PPP regulated under National Pollution Prevention Plans Regulation, subsidiary to the Air Quality Act.

Scope

Applicable to specific production processes that generate more than 0.1 MtCO₂e annually.

GHG Focus

Priority air pollutants: CO₂, CH₄, N₂O, HFCs, PFCs, SF₆

Requirements

- Companies subject to PPPs must develop and implement plans to prevent or minimise pollution from their activities.
- PPPs to be submitted for approval and reviewed every 5 years.
- Annual progress reports to be submitted.

Production Processes Included

- | | |
|---|---|
| ▪ Coal mining | ▪ Iron and steel production |
| ▪ Production and/or refining or crude oil | ▪ Ferro-alloys production |
| ▪ Production and/or processing of natural gas | ▪ Aluminium production, excluding foundries |
| ▪ Production of liquid fuels from coal or gas | ▪ Polymers production |
| ▪ Cement production | ▪ Pulp and paper production |
| ▪ Glass production | ▪ Electricity production from fossil fuels, excluding the use of back-up generators |
| ▪ Ammonia production | |
| ▪ Nitric acid production | |
| ▪ Carbon black production | |



Key Compliance Obligations Update

Current Obligations

- ✓ Carbon Tax – Phase 1
- ✓ Pollution Prevention Plans



New Obligations (Incoming)

- ✓ Carbon Tax – Phase 2
- ✓ Carbon Budgets & GHG Mitigation Plans

Penalties:

- A person convicted of failure to submit a PPP, annual progress report or supply of false information is liable to a fine not exceeding R5 million or imprisonment of up to 5 years.
- In the case of second offenders, a fine not exceeding R10 million or imprisonment of up to 10 years is liable.

Penalties:

- Carbon Tax Act (2019) will be amended for additional tax to be paid on emissions that exceed assigned carbon budgets.
- Failure to prepare and submit a GHG mitigation plan to the Minister will result in a fine not exceeding R5 million or imprisonment of up to 5 years.
- In the case of second offenders, a fine not exceeding R10 million or imprisonment of up to 10 years will be liable.



Aligning Corporate Strategies with Climate Goals

Financial Sector Conduct Authority

2024 Sustainable Finance Consumer Risk Report and Roadmap



JSE Guidance

Sustainability Disclosure Guidance (2022)



King IV Code of Governance

Requires that governing bodies demonstrate thinking that integrates economic, environmental and social aspects into value creation strategies and operations.



Regulation 28 of Pension Funds Act

Regulation 28 of the Pension Funds Act (PFA) requires pension fund trustees to explicitly consider ESG factors when making investment decisions.

Prudential Authority

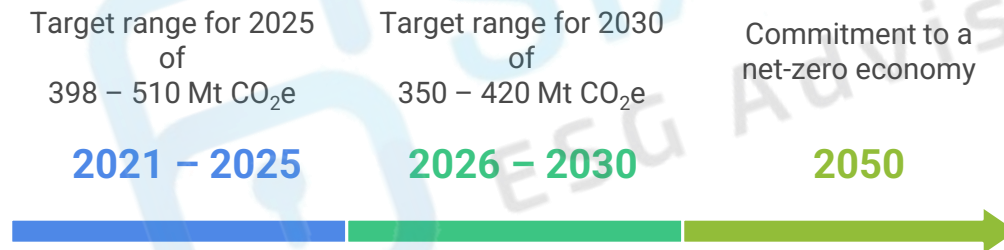
Guidance note on climate-related disclosures, governance and risk practices for banks and insurers.

Code for Responsible Investing

Developed to encourage institutional investors and service providers integrate ESG issues into their investment decisions.

Context

- South Africa is ranked among the top 20 highest global emitters
- Emissions per capita comparable to those of developed countries because of a high dependency on fossil fuels
- We have committed to reduce emissions, increase ambition and contribute to global efforts to curb greenhouse gas (GHG) emissions
- South Africa committed to a net-zero economy 2050



Context

Governments and markets are increasingly using **carbon pricing mechanisms** to reduce emissions, drive clean innovation, and guide investment toward low-carbon solutions.



Carbon Tax

A domestic instrument used for carbon pricing



Carbon Offsets & Carbon Markets

Part of compliance and mitigation toolkit for emissions



Carbon Border Adjustment Mechanism

An international driver for low-carbon investment



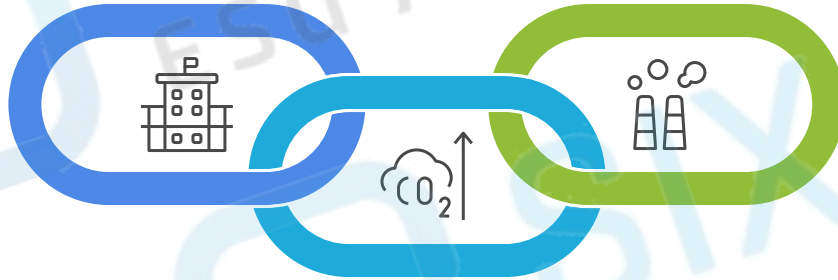
South Africa's Carbon Tax Act



South Africa's Carbon Tax Act

The South African government is committed to transitioning to a low-carbon economy, and The Carbon Tax Act is a crucial tool in achieving this goal.

**Government
Commitment**



Carbon Tax

An environmental tax on the carbon dioxide equivalent of GHG emissions

**Low-carbon
Economy
&
GHG Emission
Reduction**

**SA's flagship climate
policy instrument to
price carbon and
reduce GHG emissions**



South Africa's Carbon Tax Act

South Africa's carbon tax is designed to encourage emission reductions through a phased approach with increasing tax rates over time

- Allow businesses time to make the necessary structural adjustments
- Flexibility to transition activities
- Invest in energy efficient, renewables and other low carbon technologies

Aims to incentivize entities to invest in cleaner technologies

Polluter-pays-principle – the polluter should be held accountable for damages caused by greenhouse gas emissions



South Africa's Carbon Tax Act

Carbon tax (Phase 1) came into effect in South Africa on 1 June 2019

Applies to:

- CO₂-equivalent emissions from fossil fuel combustion, industrial processes, and fugitive emissions
- In general, the installed capacity threshold below which tax liability does not apply is combined installed (thermal) capacity of 10 MW

Phase 1 (1 June 2019 – 31 December 2025): lower rates with high tax-free allowances

Phase 2 (from 1 January 2026): higher rates, with lower tax-free allowances

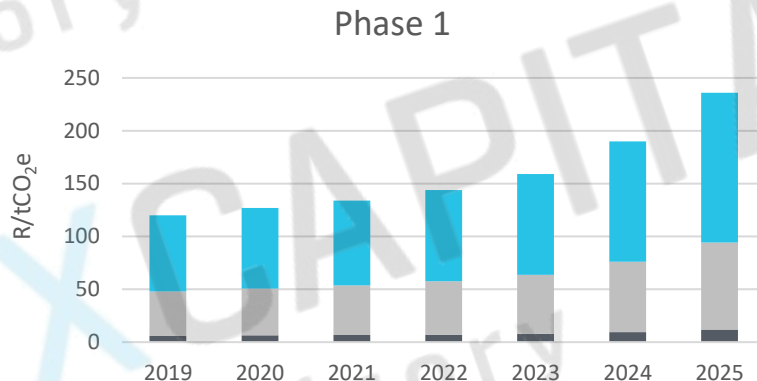


Carbon Tax

To ensure a cost-effective transition, the design of the tax for the **first phase** provided significant tax-free allowances ranging from 60 to 95 percent

Tax free allowances:

- Basic Tax-Free Allowance
- Process and Fugitive Emissions Allowance
- Performance Allowance
- Carbon Offset Allowance
- Trade Exposure Allowance
- Carbon Budget Allowance



Carbon Tax

Allowance Type	Description	Process & Fugitive		Combustion	
		2025	2026	2025	2026
Basic Tax-Free	Standard reduction for all entities	60		60	



Carbon Tax

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Process and Fugitive Emissions	For emissions hard to control	10			



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Process and Fugitive Emissions	For emissions hard to control	10			
Carbon Offset	Reduction via certified carbon offsets	5		10	



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Carbon Offset	Reduction via certified carbon offsets	5		10	
Performance	Reward for exceeding industry benchmark	5		5	



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Performance	Reward for exceeding industry benchmark	5		5	
Trade Exposure	For sectors vulnerable to competition	10		5	



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Trade Exposure	For sectors vulnerable to competition	10		5	
Carbon Budget	For participating in carbon budgets	5		5	



Carbon Tax

Phase 2 scheduled to start 1 January 2026

Process & Fugitive

Combustion

Allowance Type	Description	2025	2026	2025	2026
Basic Tax-Free	Standard reduction for all entities	60	60	60	60
Process and Fugitive Emissions	For emissions hard to control	10	10		
Carbon Offset	Reduction via certified carbon offsets	5	10	10	15
Performance	Reward for exceeding industry benchmark	5	5	5	10
Trade Exposure	For sectors vulnerable to competition	10	10	5	0
Carbon Budget	For participating in carbon budgets	5	0	5	0

Further reductions considered from 1 January 2031



Carbon Tax

Phase 2 scheduled to start 1 January 2026

Process & Fugitive

Combustion

Allowance Type	Description	2025	2026	2025	2026
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Carbon Tax

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Process & Fugitive

Combustion

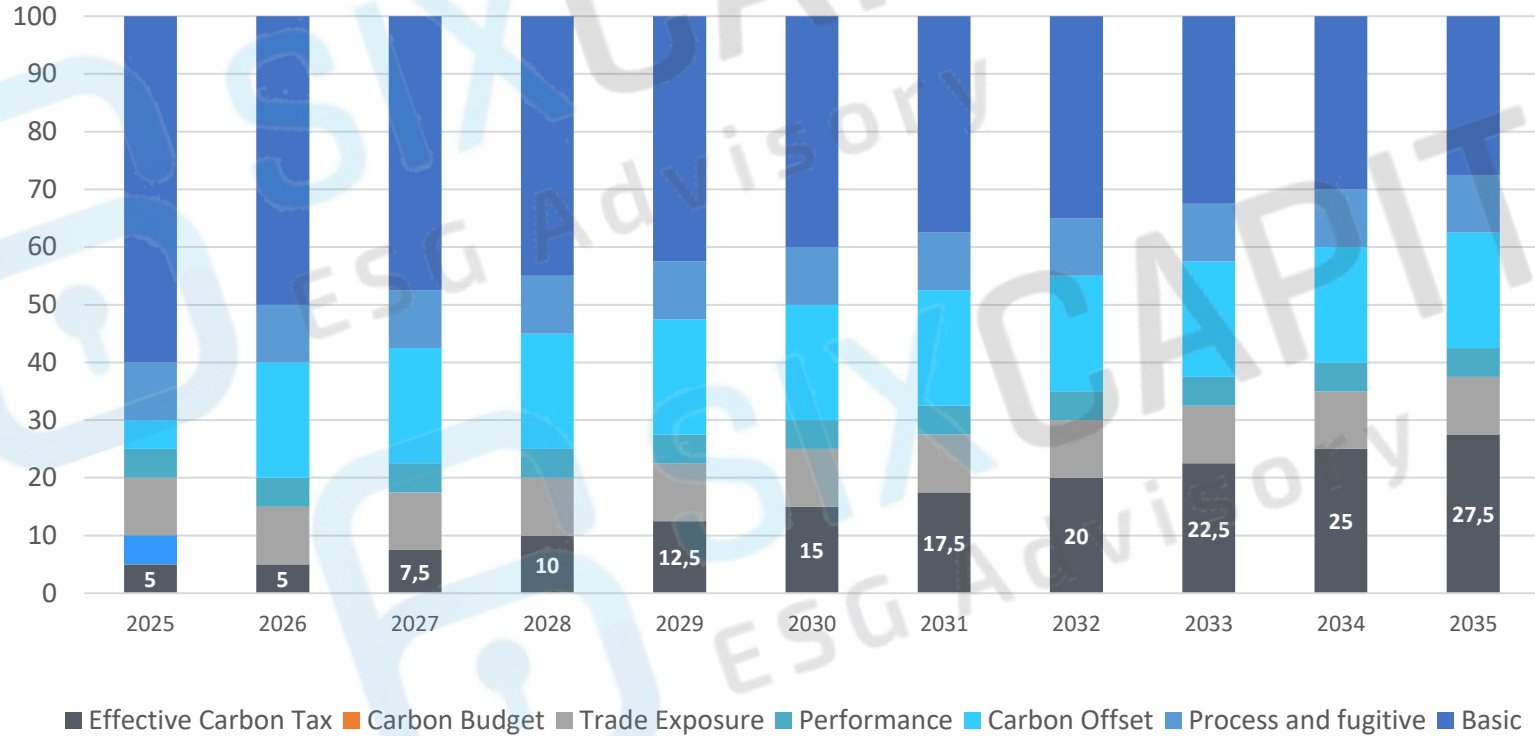
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Further reductions considered from 1 January 2031

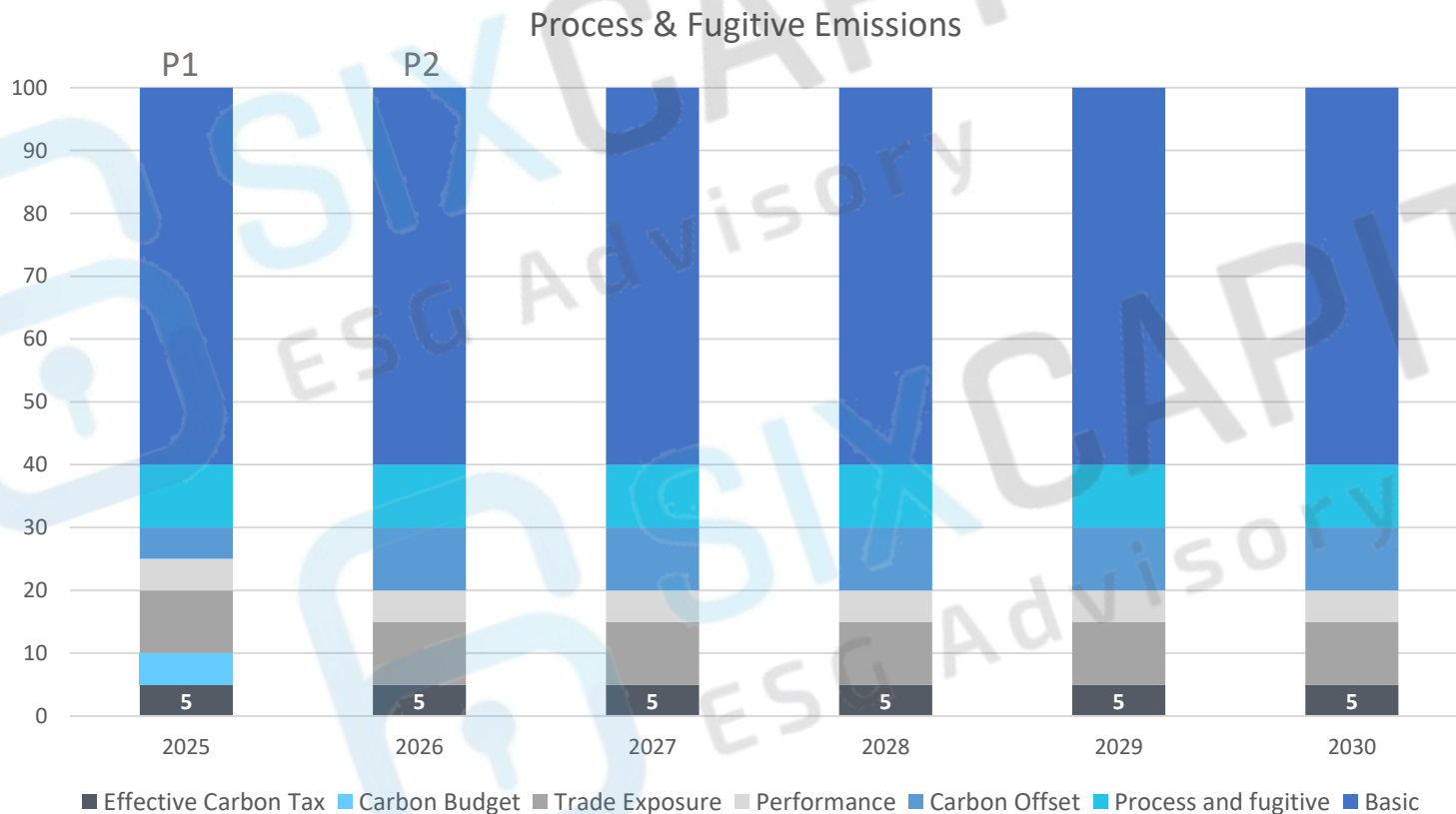


Carbon Tax

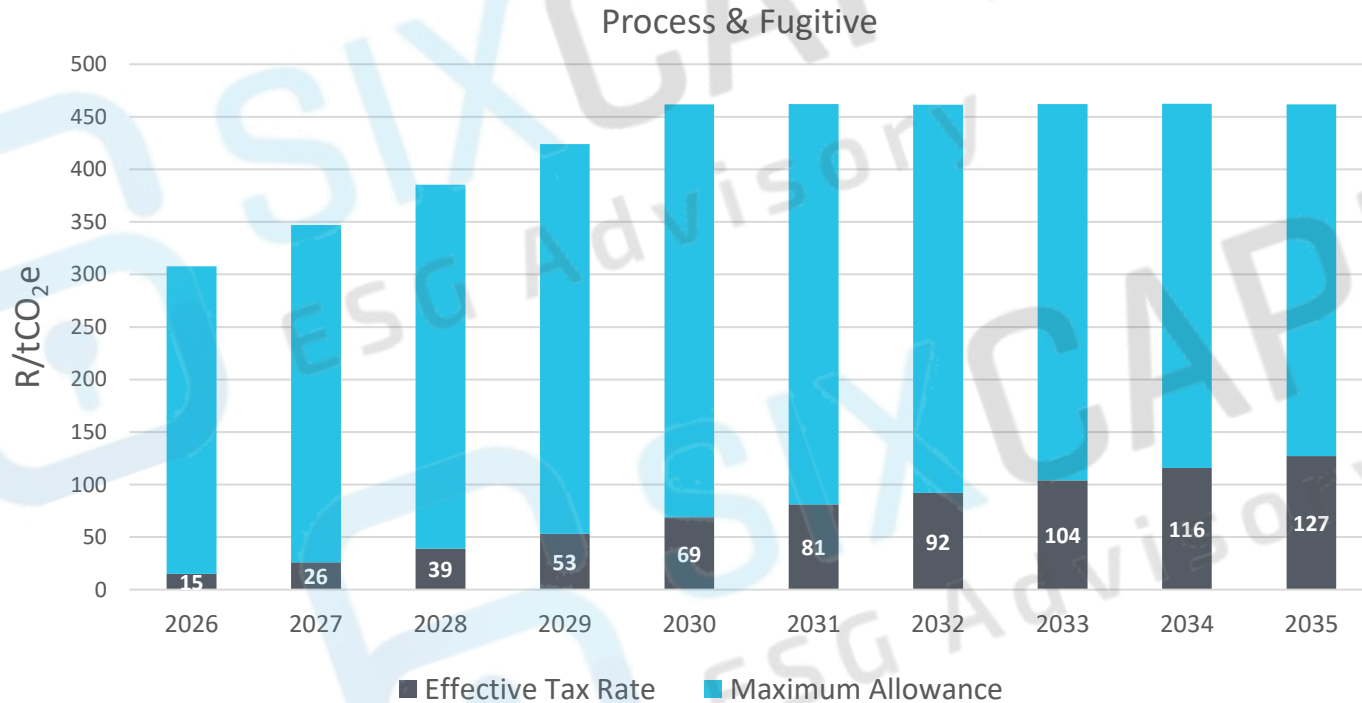
Process & Fugitive Emissions



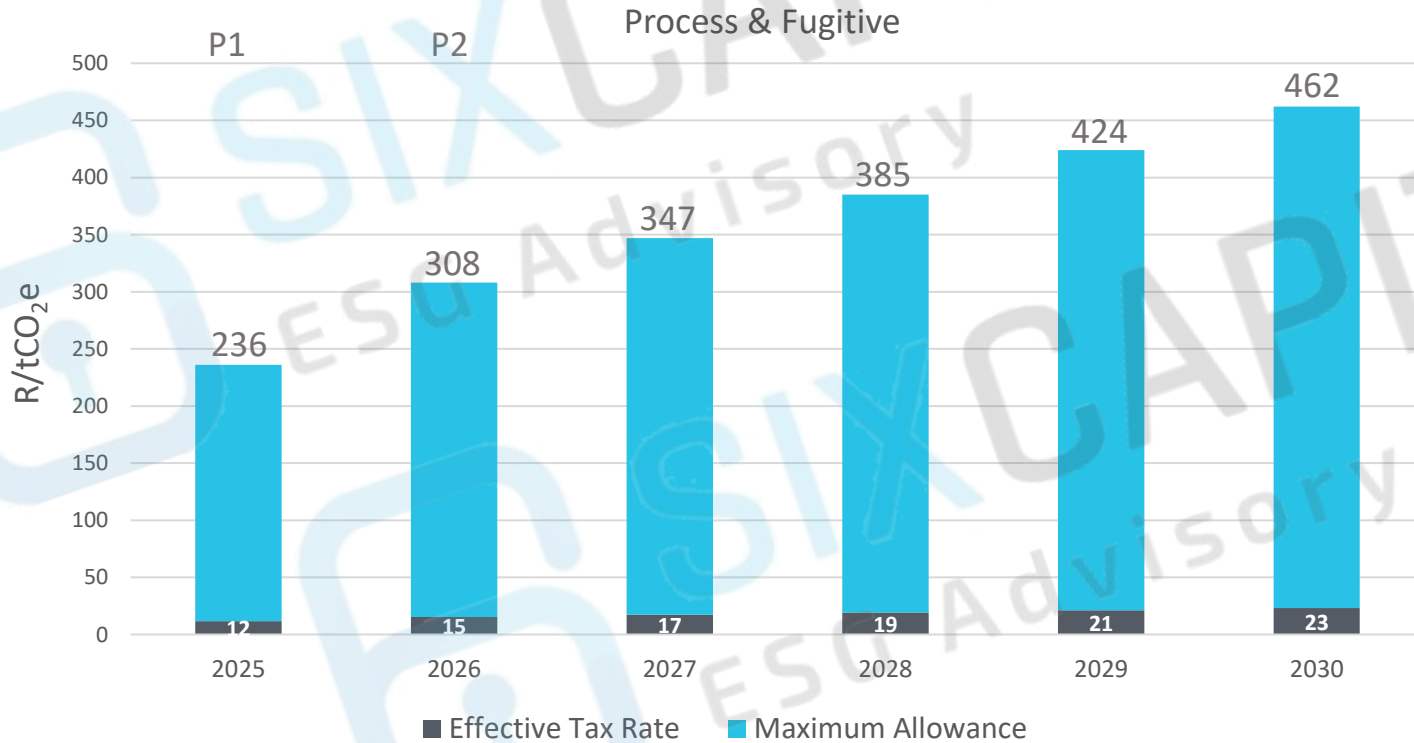
Carbon Tax



Carbon Tax



Carbon Tax



Other Aspects

- The agriculture, forestry and other land use (AFOLU) and waste sector activities' emissions are currently excluded
- Tax Incentive for Green Hydrogen Production
- Section 12L Energy Efficiency tax incentive extended to 31 December 2030. ***This mechanism will be covered in the 3rd webinar in this series.***
- Publication of framework for evaluating local carbon offset standard:

The draft framework entitled: *South African Carbon Offsets Programme: Draft Framework for Approval of Domestic Standards* was published for public comment in January 2022



SOUTH AFRICAN CARBON OFFSETS PROGRAMME: DRAFT FRAMEWORK
FOR APPROVAL OF DOMESTIC STANDARDS FOR PUBLIC COMMENT

JANUARY 2022



The background of the slide is an underwater scene. A diver is visible in the center-right, surrounded by a large school of fish. The water is a deep blue, and the lighting creates a sense of depth and movement.

Carbon Offsets and Markets



Carbon Offset

From Carbon Tax:

Phase 2 scheduled to start 1 January 2026

Process & Fugitive

Combustion

Allowance Type	Description	2025	2026	2025	2026
Carbon Offset	Reduction via certified carbon offsets	5	10	10	15

Future carbon offset allowance increases may be considered.

Carbon Offset Utilisation: The utilisation period for carbon offsets generated from approved projects before the introduction of the Carbon Tax to be extended to 31 December 2028.

Additional Carbon Offset Standards: Additional carbon offset standards to be evaluated for inclusion under the carbon tax.



Carbon Offset

A carbon offset is a credit for reducing/removing or avoiding 1 tCO₂e from the atmosphere

1 carbon credit = 1 tonne of CO₂e avoided or removed

Carbon Avoidance

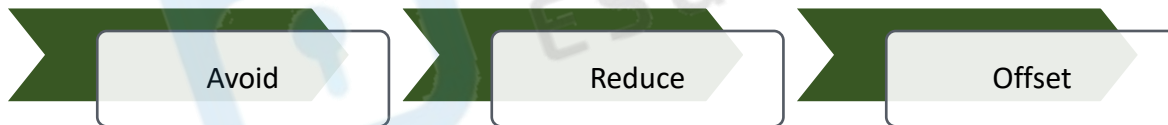
Prevents emissions before they occur



Carbon Removal

Extracts existing emissions from the atmosphere

Carbon offsets can be used by emitters to compensate for unavoidable emissions. They are a means, not an end – used to balance residual emissions



Carbon Offset

Carbon offsets are generated by verified emission reduction projects

These offset credits must be verified by accredited standards:

- Verified Carbon Standard (Verra)
- Gold Standard
- CDM (Clean Development Mechanism)
- **Additional local carbon offset standards to be included**



SOUTH AFRICAN CARBON OFFSET
ADMINISTRATIVE AND REPORTING SYSTEM

SYNTHESIS REPORT VERSION 3
JANUARY 2016

Registered under the **South African Carbon Offset Administration System (COAS)**



Carbon Markets

Carbon market is the system where companies can buy and sell these carbon credits/offsets to meet climate targets.

Avoid

Reduce

Offset

Compliance Market

Governed by law or regulation

Driven by regulations e.g.
Carbon Tax

Companies use offsets to
reduce tax liability



VS

Voluntary Market

Not mandated by law

Driven by ESG, net-zero goals,
brand commitments

Used by corporates, investors,
individuals



Carbon Markets

South Africa's compliance market is steadily maturing

- DFFE's COAS has streamlined project registration, ensuring alignment with international standards while remaining practical for local industries.

South Africa's voluntary market is expanding rapidly with an increased participation of corporate players in voluntary offset initiatives

Key sectors – renewable energy, forestry, and waste management – are seeing rising investment, with these projects driving additional benefits such as local job creation and economic opportunities in historically disadvantaged communities



Carbon Markets

Challenges

Limited technical expertise, complex regulatory frameworks, and the ongoing challenge of integrating emission reduction efforts with national development goals

Greenwashing

There is increasing scrutiny of voluntary carbon markets and the potential for "greenwashing," where companies make unsubstantiated claims about their environmental impact.

Project Quality

The effectiveness and integrity of carbon offset projects are crucial for ensuring the market's credibility.



Carbon Markets

Looking Ahead

South Africa's carbon market mechanisms stand to benefit from the Just Energy Transition Partnership (JETP), an international climate finance initiative aimed at accelerating the country's shift away from coal

The Presidential Climate Commission (2024) reports that this funding will bolster carbon market infrastructure, opening doors for a broader range of green projects, particularly in renewable energy and climate-smart agriculture





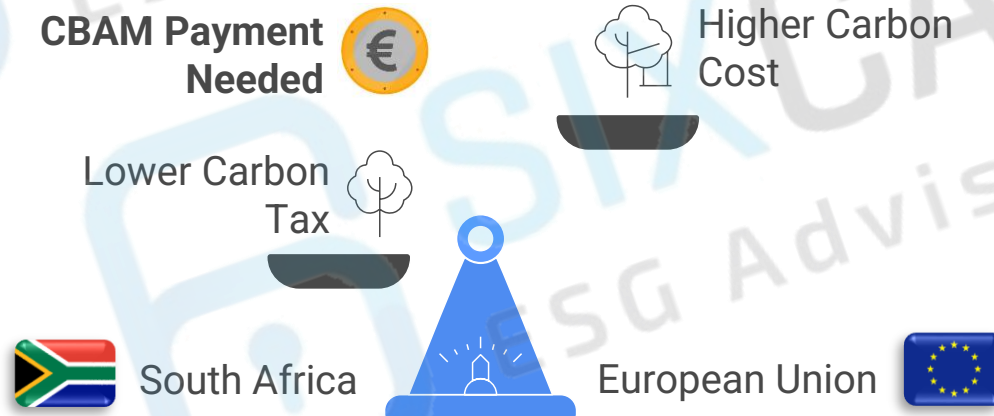
Carbon Border Adjustment Mechanism (CBAM)



Carbon Border Adjustment Mechanism (CBAM)

The Carbon Border Adjustment Mechanism (CBAM) is a **regulatory tool** that applies a price at the EU border on the embedded greenhouse gas content of imported products, that matches the carbon price paid for similar products produced in the EU.

Aims to **prevent** carbon **leakage** and ensure **equal treatment** of domestic and imported goods by applying a charge to carbon emitted during the production of imported carbon-intensive goods.



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No CBAM
Payment

Carbon
Tax



Carbon
Cost



South Africa



European Union



Carbon Border Adjustment Mechanism (CBAM)

EU CBAM will impose a carbon price on imported products from carbon-intensive industries:

Initial Sectors

- **Iron & steel**
- **Aluminium**
- **Cement**
- Fertilizers
- Electricity
- Hydrogen

Potential Expansion

- Chemicals
- Plastics
- Glass
- Ceramics
- Paper and pulp
- Certain manufactured good

European Union (EU) currently only entity implementing a carbon border adjustment mechanism scheduled to be enforced by 2026. Other countries: UK, Norway, USA, Canada, Australia, Taiwan, Japan, Singapore.



Carbon Border Adjustment Mechanism (CBAM)

Key Timelines



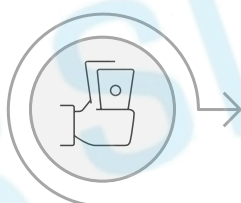
Carbon Border Adjustment Mechanism (CBAM)

How it Works

- Importer declares the embedded emissions in imported goods
- Importer buy CBAM certificates (priced like EU carbon credits) and surrender corresponding number of certificates each year
- If the country of origin has a carbon tax, it may reduce the amount owed



Declare GHG



Buy & surrender
certificates



Own price on
carbon - owe less



Carbon Border Adjustment Mechanism (CBAM)

What South African Exporters Need to Do

Immediate (Transitional Phase):

- Tracking emissions data per product line
- Understand GHG calculation standards (ISO, EU methods)
- Align reporting with EU-compliant MRV (Monitoring, Reporting, Verification)

Strategic Preparation:

- Invest in cleaner production technologies to lower embedded emissions
- Explore opportunities for carbon pricing alignment (e.g., South Africa's carbon tax)
- Collaborate with EU partners to ensure supply chain transparency



Carbon Border Adjustment Mechanism (CBAM)

Risks and Opportunities

Risks

- Loss of competitiveness if emissions are high
- Export market access barriers for non-compliant goods

Opportunities

- Positioning as a low-carbon exporter can be a competitive advantage
- Invest in carbon offsets or green certification
- Pressure on domestic governments to develop clearer climate regulations (beneficial long-term)



Carbon Border Adjustment Mechanism (CBAM)

Key Takeaways

- CBAM is not a tariff, but a climate-linked charge
- Data, emissions tracking, and transparency are critical
- Exporters to the EU must act now, even though payment obligations start in 2026



Carbon Border Adjustment Mechanism (CBAM)

Key Steps to Prepare

Identify Affected Products

Determine if products fall under CBAM

Report Emissions Data

Submit quarterly emissions reports

Improve Production

Implement cleaner technologies for efficiency

Train Team

Build internal compliance capacity

Track Emissions

Set up systems to monitor carbon emissions

Coordinate with Importers

Ensure emissions data meets EU standards

Understand Country's Role

Assess how local carbon taxes affect CBAM



Conclusion



Conclusion

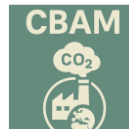
Carbon Tax, Carbon Offsets and Markets, and CBAM are evolving carbon pricing tools



- Direct price on carbon
- Drive low-carbon innovation
- Effective but politically sensitive



- Offers flexibility
- Strong standards and verification required
- Integrity, transparency essential for credibility and impact



- Game changer in global trade
- Aims to level playing field, prevent leakage
- Global carbon accountability in trade

Carbon pricing mechanisms are not just economic tools – they're signals of a long-term climate ambition. Combining these tools offers a path to effective, fair, and scalable climate action.

Thank you



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