THE BOTTOM LINE Newsletter

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YOUTH DAY JUNE 16

Youth day 16 June 2020 President Cyril Ramaphosa delivered a message to the youth of South Africa the President said It is an opportunity to focus on matters that confront the young people of today, to reflect on the progress that we have made in empowering young people and to determine the tasks that lie ahead. The coronavirus pandemic has had major health, economic and social effects on the lives of young people and old people. It has made worse already slow economic growth in our country. It has made businesses suffer, led to job losses and affected education and study.

Our capacity as a country to withstand the shocks caused by COVID-19 has been largely determined by our social circumstances and it has brought to the fore the deep inequalities that persist in our country until today. We can no longer for example have a situation where young people in rural areas do not have access to technology to enable them to work and to study. This pandemic provides us with an opportunity to inject new perspectives into how we can turn our economy around, but also how we can really imagine our very society.

Young people must rise to the challenge of leading our recovery after the Coronavirus. We have young entrepreneurs and business owners who through their innovative ideas have been able to change their communities for the better and create new employment opportunities.

Business Unity CEO Cas Coovadia said as we commemorate Youth Day to celebrate the leadership of young people on 16 June 1976, leadership that marked a milestone in the struggle against apartheid. The leadership demonstrated at that time is critical at a time our country is facing a pandemic that is testing the resources and capabilities of most countries globally.

SA is particularly affected by the COVID -19 pandemic because of the fundamental socio-economic problems we have and the resultant impact on people already under severe stress economically and socially. We thus need to rebuild our economy such that it is inclusive and equitable, with investment and growth as the pillars.

The youth in SA must play a critical role in this context and must look at youth imperatives within this broader context. Our youth must thus participate actively in both addressing this crisis and in rebuilding our economy.

BUSAsite:https://.org.busaza/;Twitter, @**BusinessUnitySA**;andFacebook, @**BusinessUnitySouthAfrica**

BUSA
BUSINESS UNITY SOUTH AFRICA

B4SA Economic Recovery Strategy

BUSA notes the release of a document reflecting some thinking from the ANC on an economic recovery strategy post-Covid 19.

We are of the view that the Covid 19 pandemic has caused a significant upheaval in the global economy and in the SA economy. The SA economy is particularly impacted upon because we were in a recession and a severe fiscal crisis before the impact of the pandemic. Real GDP grew at an estimated 0.7% in 2019. The fiscal deficit was an estimated 4.3% for that year. The economy was further battered by Moody's, the only major rating agency that rated us at investment grade, downgrading the sovereign to sub-investment grade during the Covid 19 crisis.

Work done by Business for SA estimates a drop in the SA GDP of anything between 8.8% to 16.1% in 2020. Unemployment could be anything between 33.1% (narrow definition). This increases to more than this to 43.9% (broad definition) and the Reserve Bank estimates our fiscal deficit could be over 10% of GDP. The economic impact of Covid 19 is thus severe and this is exacerbated by the severe social impact because of the pandemic and the economic lockdown. The pandemic has also made starker the inequalities in our country.

BUSA CEO Cas Coovadia announced that BUSA is a co-sponsor of Business for SA, which is doing a significant amount of work on developing fact-based options for rebuilding our economy, within the context of a fundamental recalibration of our socio-economy.

This set of circumstances need a significant rethinking of our economy and measures to resuscitate it post Covid 19. We will need to build an economy that attains sustained growth of beyond 5% and is structured to be inclusive and equitable. This will require the critical stakeholders, particularly government, business, and labour to put aside ideology and dogma to put national interest above all else. However, some fundamental truths remain in any discussion on rebuilding our economy. These are:

The absolute imperative of getting local and global businesses to invest in SA. This will be extremely difficult in the Covid and post-Covid period. The absolute imperative to grow the economy at levels that address the inequalities and is inclusive so that much of our people are economically active.

This means we need to agree on the structural reforms critical to enable investment, growth, and inclusion. It means we must recognise the resource constraints we face, and available resources must be utilised in productive economic and social growth. It means we can only invest in projects that will deliver meaningful social or economic returns.

The ANC document considers some but not all these issues. This document re-surfaces old ideology and dogma of a significantly increased role in the economy for the state, interfering in the mandate and independence of SARB, supporting ailing and un-strategic SOE's and creating new ones. In all instances, we will need to persuade society that there is a fundamental and rational basis for any such moves, consistent with an inclusive, mixed, and sustainable economic growth trajectory. We remain convinced the private sector is best placed to stimulate such economic growth, provided the state creates an enabling environment and business and labour reach a constructive compact taking all criteria including inclusivity, affordability, and competitiveness into account.

BUSA is a co-sponsor of Business for SA, which is doing a significant amount of work on developing fact-based options for rebuilding our economy, within the context of a fundamental recalibration of our socio-economy. We will engage government, labour, and other stakeholders imminently on the outcome of this work, but in the meantime urge that government looks at business as a credible partner in lifting SA out of the current crisis into the new dawn promised by President Ramaphosa.

EconPol

BUSA sub-committee on TRADE, TRANSPORT AND LOGISTICS virtual meeting scheduled to take place on **27 May 2020** took place chaired by Deidré Penfold Chair she opened the meeting and welcomed those present at the end of the meeting he indicated that the next sub-committee was scheduled for 11 August 2020 (10:00 – 13:00).

FEEDBACK FROM BUSINESS FOR SOUTH AFRICA'S (B4SA) ECONOMIC INTERVENTION GROUP

1. PUBLIC TRANSPORT

1.1. The Chair reported that there has been a lot of work done on Business for South Africa Public Transportation with the aim of flattening the Covid-19 Curve, in terms of ensuring safe transport by mitigating the dangers associated with peak commuting of workers to places of work, safeguarding transport infrastructure, hygiene measures on public transport to contain Covid-19 and resolving transport specific issues.

1.2. The Chair indicated B4SA has put together a document on public transport which is available upon request.

Action (1)

Following the Chair's report on Public transport, it was agreed that BUSA creates a survey to its members in ascertaining the extent to which businesses are able to stagger / adjust working hours to flatten peak commute times in order to flatten the Covid-19 curve.

Action (2)

Following the report by the Chair on the two proposed draft directives for public transport, members of the subcommittee were requested to submit their comment / input on both directives by 15:00 PM on Wednesday 27 May 2020.

2. SUPPLY CHAIN SECURITY

2.1. The Chair reported that there is another B4SA workstream on supply chain security which attempts to find ways to maximise ports efficiency for critical inputs/ exports and identifying bottlenecks and constraints associated with Airfreight.

2.2. Juanita Maree reported that there has been a lot of stoppages at border posts and ports inefficiency and causing delays in transporting and shipping of goods.

2.3. Juanita Maree further reported that the stoppages had increased the costs of operating a business, therefore, an intervention was required.

2.4. The Chair indicated that B4SA would continue dealing with issue.

BUSINESS UNITY SOUTH AFRICA

BUSA sub-committee on TRADE, TRANSPORT AND LOGISTICS continues

Customs

3. BORDER MANAGEMENT AUTHORITY

3.1. Catherine Grant reported that the National Assembly passed the Border Management Authority in March 2020.

3.2. Catherine Grant stated that there was an urgent need to re-establish a meeting with SARS as previously discussed.

Action (3)

BUSA to follow-up on a meeting previously requested with SARS on Border Management Authority.

4. CUSTOMS & EXCISE PREFERRED TRADE / AUTHORISED ECONOMIC OPERATOR FORUM

The reports presented by Juanita Maree, on Customs and Excise Preferred Trade / Authorised Economic Operator Forum were noted.

Action (4):

Olivier Serrão and Juanita Maree to conceptualise the rescheduling of the BUSA AEO workshop.

Action (5):

Following a query from Juanita Maree on whether there was traction on the Nedlac Customs Fraud & Illegal Imports Report (particularly Annexure E), it was agreed that BUSA would engage SARS directly rather than through Nedlac on broader issues of illicit trade.

TRADE

5. NEDLAC TESELICO REPORT

5.1. The report, presented by Catherine Grant, was noted

5.2. Catherine Grant reported that there had been no SACU meeting scheduled for the past two months and indicated that there is a possible meeting scheduled on 28 May 2020.

5.3. Catherine Grant further reported that Nedlac will schedule a session on any WTO issues and indicated that the details of the session would be shared once Nedlac has scheduled a session.

5.4. Catherine Grant reported that the World Trade Organisation Director-General has resigned effective 1 September 2020.

5.5. Catherine Grant indicated that the African Union had formed an AU Business Council and had sent the founding documents on how the business council will look like for comment.

BUSA sub-committee on TRADE, TRANSPORT AND LOGISTICS continues

5.6. Olivier Serrão reported that BUSA had nominated Deidré Penfold as a South African business representative at the African Union Business Council.

5.7. Olivier Serrão reported that BUSA had circulated the Presidential Commission report on 4rth Industrial Revolution (4IR).

Action (6)

It was agreed that BUSA constitute, a BUSA Working Group on Trade in Services under the ambits of the BUSA Trade, Transport and Logistics Subcommittee.

Action (7)

BUSA to circulate the African Union Business Council founding documents for comment.

6. WTO TRADE DIALOGUE

6.1. The report, presented by Olivier Serrão, was noted.

6.2. Olivier Serrão reported that the Dialogue took place on 19 May 2020 and indicated that the dialogue was about the continuity of the World Trade Organisation's agenda.

LOGISTICS & TRANSPORT

7. AARTO UPDATE

Gavin Kelly reported that a Nedlac meeting on AARTO scheduled on 19 May 2020, was cancelled because of lack of documentation from the Department of Transport for the meeting.

Action (8)

It was agreed that BUSA follow-up through Nedlac to ask the Department of Transport on the status of AARTO regulations and when will the department be in a position to engage Nedlac on the AARTO regulations.

Action (9)

BUSA working group on AARTO to have a meeting to discuss a way forward on AARTO regulations.

8. TRANSNET FEEDBACK

The Chair reported that the had been a proposed meeting between BUSA and the new CEO of Transnet and requested members of the subcommittee to send their issues related to Transnet within 7 days in preparation for the meeting.

Action (10)

Members to provide BUSA with any issues related to Transnet within 7 days in preparation for the meeting with Transnet CEO.

BUSINESS UNITY SOUTH AFRICA

BUSA sub-committee on TRADE, TRANSPORT AND LOGISTICS continues

9. Road to Rail Strategy

Tyson Sibanda reported that there had been a Nedlac Road to Rail meeting scheduled on 28 May 2020.

Action (11)

Tyson Sibanda undertook to share the Research Report on Road to Rail to the members of the subcommittee.

Action (12)

Norman Lamprecht undertook to share NAAMSA's study on Port Benchmarking once it has been finalised.

10. HIGH CUBE CONTAINER MORATORIUM

Stephanie van der Walt reported that the High Cube Container Moratorium had expired, and it was posing threats and concerns to businesses that are still using containers with a height exceeding 4.3m.

Action (13)

Following Stephanie van der Walt's report it was agreed that BUSA should write a letter to the Department of Transport requesting an extension of the moratorium to allow time for a permanent solution to be found.

11. ANY OTHER BUSINESS

11.1. TRANSPORT FORUM

Tyson Sibanda reported that there had been a series of Transport Forum engagements focusing on issues affecting the transportation industry including the impact of Covid-19 and requested members in transport and logistics to sign up for free on the transport forum website (www.tranpsortsig.com) for more information and updates.

11.2. TRANSNET DIESEL PIPELINE

11.2.1. Siganeko Magafela reported that the hot tapping of Transnet's diesel pipeline was still happening and posing a threat to fuel supply.

11.2.2. Siganeko Magafela indicated that in response to hot tapping of Transnet's pipeline there had been a task team constituted to look at the security measures for the entire Transnet fuel pipeline.

EconPol

BUSA sub-committee on bilateral meeting with DEFF: bilateral on carbon budgets and the integrated mitigation system virtual meeting scheduled to take place on **25 June 2020** took place chaired by Shamini Harrington opened the meeting and welcomed those present at the end of the meeting.

INTEGRATED MITIGATION SYSTEM

Refer to BUSA draft Integrated Mitigation System Proposal document. This document is taken as read as it was circulated to members and DEFF prior to this meeting.

SH highlighted key principles from the document. Given that there are the two instruments, it is imperative to ensure an integrated mitigation system. The same emissions cannot be regulated twice.

BUSA's proposal suggests that a key step must be an update of the baseline - GHG Inventory and Trajectory (PPD) etc. and the expected reductions determined given realistic mitigation potential for the sector (based on the MPA etc.)

BUSA's proposal recommends that to ensure alignment and avoid duplication, the carbon budget would replace the tax-free allowance in the carbon tax design and all allowances currently in the tax should be in the budget. Where emissions exceed the budget, these would be penalised by a carbon tax. The price would be set to ensure targets are met. BUSA does not see a need for a tax below the budget. NT's current proposal is different, in that it proposes a tax below the budget and a higher tax on emissions above the budget, however stakeholders were ensured consultation on this.

The BUSA proposal suggests that the carbon budget would be for scope 1 emissions and aligned with a scope 1 carbon tax. Scope 2 emissions need to be recognised as having mitigation potential and this could be dealt with under Offsets for example. Energy efficiency is also a critical lever.

BUSA believes that Offsets must be part of the integrated system and all for up to 100% of emissions to meet and exceed the budget. Offsets present an opportunity to achieve more mitigation than prescribed in the carbon budget. Carbon Budget Trading should be allowed where any surplus offsets should be tradable or bankable.

There must be consistency in the setting and application of a carbon budget. The criteria must be objective set up front. BUSA has proposed that these are set out in the Climate Change Act as opposed to subordinate legislation.

The BUSA proposal is premised on the bottom-up approach and design in line with the UNFCCC process. The PPD/NDC should be taken into account, but the mitigation does not need to add up to the trajectory.

BUSA maintains that care must be taken to ensure that there is no double requirements from SETS. In addition, carbon budgets and SETS must be a national competence to avoid unnecessary duplication and onerous requirements from provincial and/or local government.

DEFF Response

Jongi Witi for DEFF gave thanks for the comprehensive proposal. Some of the areas covered are very useful in terms of thinking how the alignment will work going forward. It is DEFF's view that the carbon enforces the budget in a system of penalties and incentives.

In terms of broader mitigation, the goal cannot be addressed by either the tax or budget or even their integration alone. SETs will come into play in the broader system.

BUSA sub-committee on bilateral on carbon budgets and the integrated mitigation system continues

The budget in combination with the tax should ensure that goods are produced in the most effective and efficient manner. This is why a benchmark approach in defining the CB is being explored. The SETs should address the remaining emissions; those not covered by the budget/tax.

The BUSA proposal touches on the alignment of the tax with the budget. DEFF's understanding is that this is an accounting framework. The instruments can exist on their own. The budget is a command and control mechanism.

DEFF is currently interested in the design of the budget.

The alignment discussion requires a focussed discussion with DEFF, BUSA and NT.

Action

Request engagement with both DEFF and NT regarding the alignment of the two instruments.

For carbon budgets - DEFF is considering a range of 3 options.

1. Benchmark Bottom Up Approach (in line with the Paris Agreement)

This approach considers the 3 scopes of emissions that are covered by the GHG reporting requirements and links these to production with the budget defined from this. The issue is then the stringency based on, for example the MPA. This may need to be refined to ensure that all emissions are covered, as necessary.

2. Top Down Approach (Kyoto)

There must be a link to the NDC which would serve as a constraint/boundary. There must be a link between what we do nationally and what we commit to internationally. There must be either an economy-wide or sector-wide approach. Each sector would have a different target based on what is required and what is feasible, recognising that it is easier for some sectors to reduce than others. Targets would be apportioned appropriately. Administratively, this is the most efficient approach.

For the mandatory phase of carbon budgets, the PPP will be linked to the budget as previously mentioned.

The principles will be stipulated in the CC Bill. These will underpin specific regulations that will be developed for budgets.

3. Grandfathering (not the best approach).

BUSA response:

BUSA said they would like to know more about the methodology for the bottom-up and top-down approaches.

BUSA supports the use of benchmarks, however benchmarking of the various emission categories (process, fugitive and energy) is no easy exercise. However, sector benchmarking exists which might be a better option. What would the timing be for this exercise?

DEFF Response - there is the MPA though DEFF acknowledges that there are gaps and DEFF will spend this financial year working on these. Between now and 2023, some of these issues will be addressed.

CAIA has shared its initial proposal on budgets previously and is currently working to refine this and will share this with BUSA. The comment that a top-down approach is easier to administer interesting and will be considered in the CAIA process. The CAIA approach proposes a bottom-up budget based on declarations of emissions. Once in place, through the single regulation, an entity that meets these must submit a mitigation plan that must meet their carbon budget. DEFF could then add up what entities can mitigate to see if this meets the national boundary, i.e. the NDC (PPD). If all emissions are above the PPD further refinement and mitigation is needed and the MPA can come in to inform this.

DEFF Response - CAIA's proposal is consistent with DEFF thinking on the bottom-up approach and the need to compare this with the PPD/NDC. Then to cascade this down to sector and then entity-level. Those that have a PPP have a good sense of what they can achieve and what interventions they can implement. Unlikely that all the PPP's individually would reduce by more than 10% which would be an insufficient reduction. The SETs could come into play here to drive behaviour change. A suite of policies and measures to achieve the necessary reductions is necessary.

BUSA – asked what was DEFF's view on a carbon budget serving as the tax-free threshold?

DEFF Response - this is not a decision for DEFF to make, NT has to make this decision. The tax introduces a system of penalties and incentives and NT needs to decide how the budget is appraised. NT has to tell us how the tax interacts with the budget. From DEFF's side, if the tax is a penalty, DEFF cannot impose another penalty except an administrative penalty. If an entity is not meeting their budget - the tax kicks in to deal with this.

BUSA - a top-down approach requires a lot of understanding on the part of government to understand the nuance of each sector - not just from an emissions point of view, but also in terms of economic and social considerations and impacts.

While the 3 types of emissions are being considered, is there sufficient national capacity and competencies to deal with this? Some sectors/entities already having challenges under the current requirements to determine emission factors for some raw materials. There should be a capacity and readiness assessment of the proposal made as part of the SEIAS. Is there room to consider another dimension, i.e. up and down stream impacts?

DEFF Response – DEFF is always willing to consider, but currently more focussed on production emissions rather than the value-chain emissions.

BUSA - There has always been a question about whether the PPP is intended to ACHIEVE the carbon budget or whether it is intended to reduce BELOW the budget? Does DEFF see this also as depending on the stringency of the budget? Stringency of the budget also needs to be linked to penalties. If the budget is ambitious (or even unachievable?) then the penalties should be less onerous. If we take lessons from the Air Quality MES, it is not desirable to paint industry or the regulators into a corner, rather look for a win-win solution.

DEFF Response - the budgets and PPP will be aligned in the mandatory phase. The PPP should help to achieve the budget, the stringency will come from the benchmark.

BUSA - Both the global and local economies are struggling. The need for technology and capacity transfer etc. as per the NDC must be factored into mitigation potential.

BUSA supports an engagement with NT and DEFF but DEFF must also put something forward and cannot just be a passive participant because the stringency of where the budget is set, and the robustness of the methodology will have to be considered in determining the tax level and where it is applied.

DEFF Response - the methodology must include some flexibility to deal with these kinds of challenges. Understand that NT does not want to tamper much with the current tax design, so a system could not be designed where there would be double benefits. But taking a sectoral approach to setting targets could also help and could ensure integrity and fairness.

BUSA - if one appreciates that trading budgets could be an option, this should be worked into the Offset mechanisms. This could help fund some mitigation projects if the offset potential could be sold.

DEFF Response - the concept of buying and selling and trading must be considered in the tax system. DEFF would simply need to track the flow of emissions, but NT needs to decide if it can be dealt with through the offsets.

BUSA - a bottom-up approach makes it more practical to consider the mitigation options. The problem with benchmarking, in particular in mining is that it is difficult. Has there been enough thought on the incentives that are needed to bring about the required reductions? Has enough been done to get the right kind of green financial stimulus to get the reductions required couple with economic growth required?

DEFF Response - an entity has only so much emissions that can be addressed through a carbon budget - the rest will be to be addressed through other instruments, like SETs or incentives like green stimulus, 12L (or its replacement of the PSEE etc.). The SETs will create the demand to consider existing and potential initiatives and incentives to address the remainder of emissions.

BUSA is doing this (exploring options for green stimulus) as part of the Just Transition work and pathways work. However, if the policy certainty and vision is not there, it makes this difficult. Cross-departmental and Public Private Partnerships are key. These must be discussed more openly.

BUSA Asked – What was the timing for the development of the different approaches for the budgets?

DEFF Response - aiming for end of the financial year. Will start engaging in the next 2-3 months to refine things before the regulations are published for comment. This also depends on the progress of the CC Bill. It is expected that the Bill will return to Nedlac in the next month or 2 to present the amendments.

TREATMENT OF CARBON BUDGETS AND PPP POST-2020

DEFF will publish a notice on the treatment of PPP and carbon budgets beyond 2020.

DEFF will not be amending the PPP regulations. These will be repealed and replace with Mitigation Plan Regulations once the CC Bill is complete. DEFF is encouraging entities to link these in practice but they are not linked in law.

The challenges with respect to the CB allowance under the CT are understood and the Notice will also address how this will be treated in the interim. DEFF will still give endorsement letters for those who have a carbon budget (voluntary) and will encourage entities to pilot the new budget methodologies in the gap year/s. This should help with a seamless transition to a mandatory phase of carbon budgets. DEFF is hoping to communicate this notice by end August.

The guidelines (technical, reporting and sequestration) have been submitted to the Minister for her approval and the Department hopes to publish these in the next 4-6 weeks.

- The End!

CONTACTS

For queries, contact Nomaza Spelman on
Nomaza.Spelman@busa.org.za / 011 784 8000