



## Insight



# Mandatory GHG Reporting

## THE FOUNDATION OF THE CARBON TAX

*The National Greenhouse Gas Emission Reporting Regulations (Regulations or GHG reporting regulations) came into effect on 3 April 2017 with the first submission deadline by 31 March 2018. The purpose of these regulations is to allow the Department of Environmental Affairs (DEA) to gather information from business to assist South Africa to update and maintain a National Greenhouse Gas Inventory. This is a requirement under the Paris Climate Agreement, which South Africa ratified in November 2016.*

*The greenhouse gas (GHG) emissions reported by companies will be used as the basis for the carbon tax calculations. Companies, in control of certain GHG emitting activities and with an associated capacity exceeding a predetermined threshold, will be required to submit GHG emission data in a format prescribed by the Regulations. The calculations of the emissions must be done in line with Technical Guidelines that were published with the Regulations. Companies should note that the calculation methodologies in these Technical Guidelines differ from the conventional corporate calculation methodologies as GHG Protocol Corporate Standard and ISO14064.*

### Who do the Regulations apply to?

Any entity that controls or conducts IPCC emission source activities above the associated capacity threshold, as specified in Annexure 1 to the GHG reporting regulations, has the duty to report GHG emissions. Entities must define their reporting boundaries based on operational control. An entity has operational control of another company if it has 'the full authority to introduce and implement its operating policies at the company'. It is important to note that the entity that reports its emissions to DEA must be the same entity that reports its tax obligations (and hence also carbon tax) to SARS.

### Which sectors are covered?

The IPCC categorises emission sources according to activities. These activities are divided into the following categories: energy; industrial processes and product use; agriculture, forestry and other land use (AFOLU); and waste. The Technical Guidelines to the Regulations provide further details of the subsectors and / or activities included per each of these four

main-categories. This constitutes the "listed activities" as referred to in the Regulations.

### What are the IPCC guidelines?

To calculate emissions the 'Intergovernmental Panel on Climate Change (IPCC) Guidelines for National Greenhouse Gas Inventories (2006)' should be applied. This means that the emission factors to be used must be in line with the IPCC requirements. These are mostly provided in the Technical Guidelines which lists certain South African specific emission factors for certain fuels, such as diesel and petrol. The IPCC Guidelines also provide several methodologies for calculating emissions. These methodologies follow a tiered-approach. There are three levels of tiers: one, two and three. Each tier has an increasing level of detail and accuracy. The Regulations specify which tier must be applied.

### Which GHGs need to be reported?

Companies must report their GHG emissions for carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), sulphur hexafluoride (SF<sub>6</sub>), perfluorocarbons and hydrofluorocarbons.

### Which emission sources are included?

Emissions from combustion of fuels as well as fugitive emissions from fuels, industrial process emissions and emissions from waste management activities are included. Emissions from mobile combustion (emission from vehicles) as well as emissions from purchased electricity are excluded.

### What are the capacity thresholds?

Companies that exceed the specified capacity threshold for an emission source are required to report. E.g., for companies that generate heat and/or electricity - needed for e.g. processes and operations - the capacity threshold is typically 10MWth. It is important to note that the 10MW refers to total installed design capacity and not how much fuel has been consumed. This means that if your company has 5 X 2MW coal boilers or 10 X 1MW back up diesel generators you are exceeding the threshold and have to report.

### When do I need to report by?

Reporting needs to be done on a calendar year basis, regardless of when a company's financial year ends. Companies must submit their returns by 31 March of each year.

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#### Where do I register my company?

If your company is in control of an activity listed in Annexure 1 to the Regulations and has an installed capacity exceeding the indicated threshold, you need to register on the South African National Atmospheric Emission Inventory System (NAEIS). The NAEIS aims to be South Africa's single national reporting system capturing information on atmospheric emissions, including GHG data.

#### Do companies need to verify their GHG data?

No, but if the DEA deems the data not be transparent, complete or correct then companies may have to undertake third-party validation and verification at own cost.

#### What are the penalties for non-compliance?

If a company commits an offence by providing false or misleading information or fails to comply with the Regulations, then penalties apply. For a first conviction a fine of not exceeding R5 million or 5 years imprisonment shall apply. In the case of a second conviction a fine of not more than R10 million or 10 years imprisonment shall apply.

#### STEPS YOUR COMPANY SHOULD TAKE NOW:

1. Determine whether your company is in control of an activity listed in Annexure 1 of the Regulations;
2. Determine whether the installed capacity, associated with that activity, exceeds the indicated threshold; 3. If so, register your company and familiarize yourself with the NAEIS portal and report your emissions as per IPCC Guidelines by 31 March 2018;
3. The emissions reported to DEA will be the exact same emissions that will be subject to carbon tax. The carbon tax is planned to be effective from 1 January 2019 which means your company will pay carbon tax to SARS on the emissions generated over the 2019 calendar year.
4. Start planning now as to how to reduce your company's possible future carbon tax exposure by looking at ways

to reduce your operations' GHG emissions through technological interventions as well as investing in carbon offsets.

#### IMPORTANT CONSIDERATIONS FOR BUSINESS:

1. Only those companies that have to report their emissions to government have to pay carbon tax in 2019;
2. Companies must report their GHG emissions for carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), sulphur hexafluoride (SF<sub>6</sub>), perfluorocarbons and hydrofluorocarbons;
3. Companies must report on all combustion, process and fugitive emissions. Emissions from mobile combustion (emissions from vehicle fleet) as well as emissions from purchased electricity and refrigerants is excluded.
4. Companies are required to report if they are above the prescribed threshold per emissions source.

As a leading international carbon management advisory firm and offset provider, Climate Neutral Group is well- positioned to assist your company with the entire greenhouse gas emission reporting process. In addition we can provide guidance on how the proposed carbon tax will affect your business and what you can do to minimise your exposure by optimised use of allowances and/or offsetting strategies. Climate Neutral Group has a diverse portfolio of South African carbon tax offsets which can help your company reduce its carbon tax liability.



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### Paying attention to your emissions



### being a step ahead

