



Exploring the dynamics of carbon markets in South Africa

This brief aims to provide high-level responses to frequently asked questions relating to South Africa's carbon market dynamics.¹

This brief is written for: Businesses, project developers, financiers and policymakers seeking to explore opportunities related to decarbonisation tools and carbon offset instruments available in the South African market.



Main insights

1

South Africa's carbon market opportunities are growing but remain constrained by limited supply and high project development costs. Domestic carbon credit supply is small relative to potential demand, especially from carbon tax-liable companies and corporates seeking voluntary offsets.

2

Compliance and voluntary carbon markets are structurally different and serve different needs. Carbon tax offsets must be listed on the Carbon Offset Administration System (COAS) and follow rules set by Department of Energy and Electricity, whereas the voluntary market uses international standards (Verra, Gold Standard) and serves broader corporate climate commitments. Many companies still confuse these two markets, leading to poor procurement decisions.

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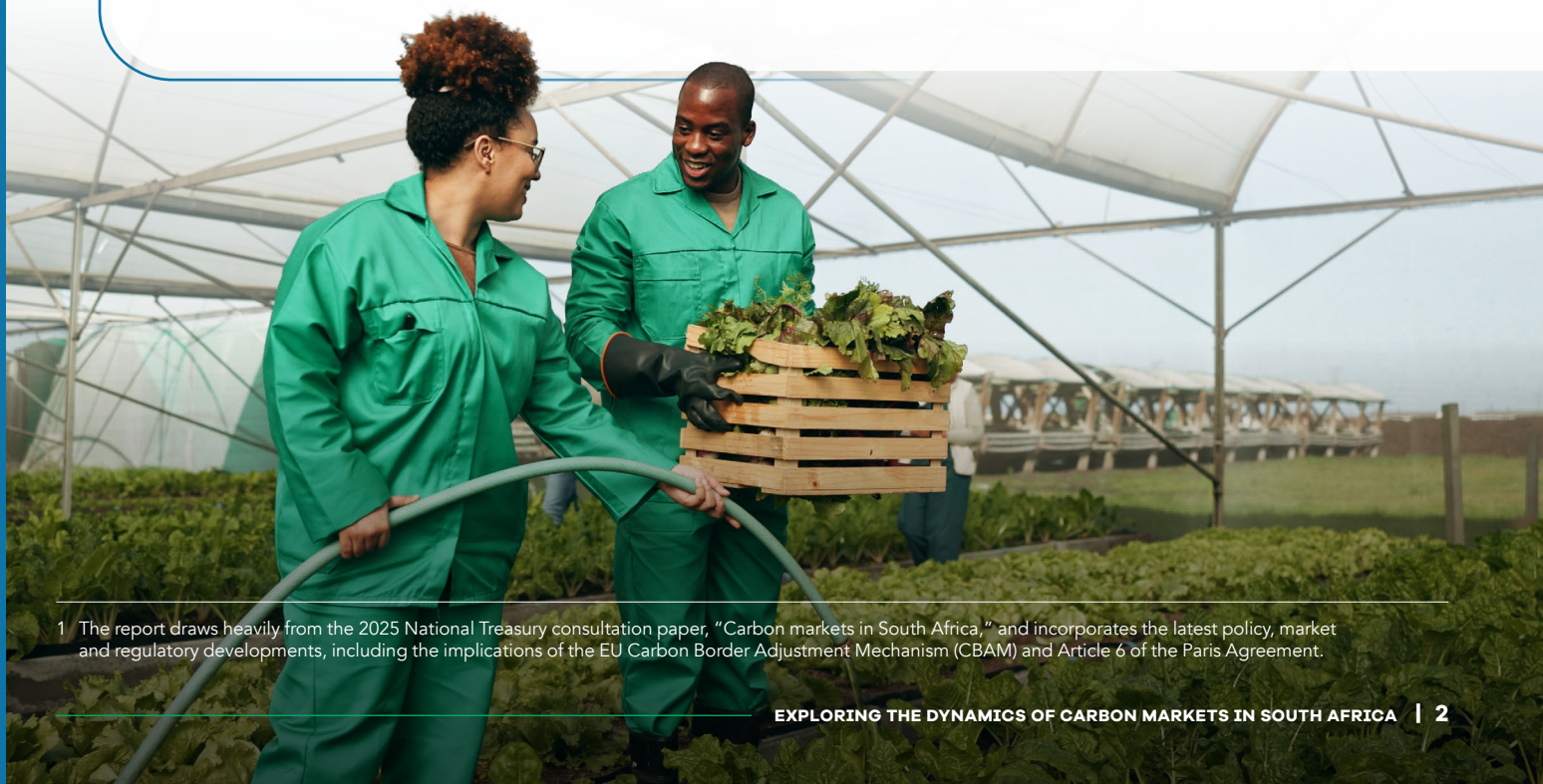
Regulatory reform is underway and could reshape the carbon credit compliance market within 12 to 24 months. National Treasury's Phase 2 carbon tax proposals, the Department of Forestry, Fisheries and the Environment's (DFFE) draft Article 6 framework (for South Africa), and potential changes to the legal treatment of credits may significantly affect eligibility, market access, and project economics.

4

Carbon credits and Renewable Energy Certificates (RECs) address different emission scopes and cannot be used interchangeably. Carbon credits address Scope 1 residual emissions while RECs support Scope 2 claims. Increasing external scrutiny (e.g., CBAM, corporate reporting rules) is driving demand for clearer separation and better-quality evidence for each instrument.

5

Companies and municipalities face growing pressure to demonstrate robust, auditable decarbonisation strategies. As buyers face tighter disclosure, many are shifting from "offset-first" approaches to integrated plans combining energy efficiency, renewable procurement, electrification, and selective use of high-quality credits and RECs.



¹ The report draws heavily from the 2025 National Treasury consultation paper, "Carbon markets in South Africa," and incorporates the latest policy, market and regulatory developments, including the implications of the EU Carbon Border Adjustment Mechanism (CBAM) and Article 6 of the Paris Agreement.

Acronyms and abbreviations

CBAM	Carbon Border Adjustment Mechanism
CDM	Clean Development Mechanism
COAS	Carbon Offset Administration System
DFFE	Department of Forestry, Fisheries and Environment
DOE	Designated operational entity
EECS	European Energy Certificate System
ESG	Environmental, Social and Governance
ETS	Emissions Trading System
EU	European Union
GHG	Greenhouse Gas
ITMO	Internationally Transferred Mitigation Outcome
MRV	Monitoring, reporting and verification

MWh	Megawatt-hour
NDC	Nationally Determined Contribution
PDD	Project design document
PPA	Power purchase agreement
REC	Renewable Energy Certificate
SARS	South African Revenue Service
tCO₂e	Tonne of carbon dioxide equivalent
UNFCCC	United Nations Framework Convention on Climate Change
VCM	Voluntary Carbon Market
VCS	Verified Carbon Standard
VVB	Validation and verification body

Glossary of terms

Carbon budget: Refers to the total allowance of greenhouse gas (GHG) emissions that a liable entity is allowed to emit over a specified period, as defined in the Draft National Greenhouse Gas Carbon Budget and Mitigation Plan Regulation.

Carbon credit: A representation of the avoidance, reduction, or sequestration of one tonne of carbon dioxide equivalent (tCO₂e) generated by projects that prove they have directly reduced or removed GHG emissions beyond what would have occurred under a "business-as-usual" scenario.

Carbon leakage: The relocation of production to countries with less stringent climate policies, resulting in no net-reduction in global emissions.

Combustion emissions: GHG emissions released when fossil fuels are burned for energy.

Fugitive emissions: Unintentional or uncontrolled releases of GHGs through leaks, venting, flaring or evaporation during the extraction, production, processing, transport, storage or use of fossil fuels and certain industrial gases.

Green attributes: The umbrella term that encapsulates the environmental benefits associated with a specific instrument, product or service.

Price neutrality: In the context of this document, the introduction of the carbon tax that is revenue neutral and have no impact on the price of electricity.

Renewable Energy Certificates (RECs): Represents the environmental attribute of one MWh of renewable electricity generated and delivered to the grid. Used to demonstrate renewable energy consumption and support Scope 2 emissions reduction claims, but not interchangeable with carbon credits.

Scope 1 emissions: Direct emissions from sources owned or controlled by an entity.

Scope 2 emissions: Indirect emissions from the consumption of purchased electricity, heat or steam.

Scope 3 emissions: All other indirect emissions across the entire value chain, from raw material extraction to production and beyond.

Exchange rate used: USD 1 = ZAR 17.44

Introduction: Carbon credits, RECs and carbon tax liability

Despite both falling under the term “green attribute”, carbon credits and RECs differ in their characteristics and use cases.

Carbon credits are created by projects that reduce or remove GHG emissions, like renewable energy or reforestation, following strict standards. These projects get verified by third parties, allowing them to issue tradable credits (one per tCO₂e) into a public registry.

Where carbon credits represent the reduction or removal of greenhouse gases, RECs represent 1 MWh of renewable electricity generated and fed into the grid.

As a result, they serve two distinct purposes:

- Carbon credits can be used to offset Scope 1 (direct), 2 (indirect), and 3 (indirect value-chain) emissions.
- RECs are solely used to offset Scope 2 emissions.

In summary, RECs are voluntary and only carbon credits are eligible for reducing a company's carbon tax liability.



1

Carbon credits in South Africa

South Africa's carbon credit market is driven by its Nationally Determined Contributions (NDC), an evolving carbon tax, and international decarbonisation pressures resulting from the country's export-led economy.

Market structure

South Africa has implemented two complementary carbon credit market systems.

Compliance market: The Carbon Tax, implemented in 2019, creates phased accountability for heavy emitting sectors. It applies only to Scope 1 emissions and includes allowances to ease the burden on industry. One key allowance is the carbon offset allowance, allowing liable entities to purchase verified carbon credits listed on Carbon Offset Administration System (COAS)² from Verra, Gold Standard, Article 6.4 mechanism (previously CDM), to offset their tax liability. The use of these voluntary carbon offsets establishes a domestic compliance market in South Africa (Webber Wentzel, 2025). The domestic market price of one carbon credit is closely correlated with the carbon tax rate, typically between 70% and 80% of the tax rate.³

Voluntary Carbon Market (VCM): Businesses, financiers and other actors purchase carbon credits on the VCM to meet net-zero or environmental, social and governance (ESG) targets, outside of regulatory obligations. Voluntary carbon credits can also be structured to support other indirect benefits, such as positive community or environmental benefits.

Supply and demand dynamics

Since 2008, South Africa has issued approximately 33 MtCO₂e in carbon credits, with 14 MtCO₂e retired (used).

The majority (72%) of credits originate from technology-based projects, notably chemical processes (51%) and renewable energy (21%). Nature-based credits are less prominent due to limitations in climate, land-use and long lead times for project maturity. Key developers include Sasol, Omnia and CDM Africa, accounting for nearly half of all credits issued. Between 2020 and 2024, ~4 MtCO₂e of new credits were issued annually into the domestic market (National Treasury, 2025).

Demand in South Africa is largely driven by the offset allowance under the Carbon Tax Act of 2019 (National Treasury 2019). At the end of 2024, a total of 18.7 MtCO₂e offsets were listed on COAS, with 17.6 MtCO₂e retired (90% by Sasol alone). Compliance demand is estimated at 12.2 MtCO₂e per year, without accounting for Eskom's potential tax liability (National Treasury, 2025).

During phase 1 of the Carbon Tax, Eskom's carbon tax liability was effectively zero. Deductions were made available to Eskom through (1) the electricity levy, which allow Eskom to pass costs onto customers, and (2) the renewable energy premium, made available through Eskom's purchase renewable energy sourced electricity through the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) (Tyler et al., 2025). The 2025 Taxation Laws Amendment Bill proposes replacing the electricity levy with the carbon tax.⁴ Under this structure, Eskom may continue using the renewable energy premium to deduct the difference between the carbon tax payable and the former electricity generation levy, maintaining the principle of price neutrality.

There is an annual undersupply of approximately 8 MtCO₂e in the South Africa's compliance market (4 MtCO₂e supplied versus 12 MtCO₂e demanded). This imbalance is exacerbated by high project development and verification costs, restrictive eligibility criteria and slow certification processes. Current prices sit at around R180 per credit.

² The COAS registry is central to the compliance market, recording the flow of eligible credits from international standards into the domestic system. However, COAS currently lacks trading functionality, and trading occurs outside the system, leading to fragmentation and inefficiency.

³ The carbon offset allowance is designed to lower an entity's carbon tax liability. However, if the price of offsets is set at or above the carbon tax, the incentive to invest in them diminishes, as entities may find it more cost-effective to pay the tax.

⁴ The Taxation Laws Amendment Bill currently sits at the portfolio committee stage, therefore yet to reach the stage of assent.

Key domestic stakeholders

Governance and administration:

- **Department of Energy and Electricity:** Administrator of the Carbon Offset Administration System (COAS), the official registry where carbon credits can be listed and retired to count against the carbon tax.
- **National Treasury:** Defines the carbon tax rate and allowances.
- **South African Revenue Service:** Administrator of the Carbon Tax Act.
- **Department of Forestry, Fisheries, and Environment:** Determines and executes national company level carbon budgets and mitigation plans.

Standards and issuers:

- **International standards:** Article 6.4 mechanism (previously Clean Development Mechanism), Verra Standard, and Gold Standard.
- **Local standards:** Credible Carbon, Inclusive Carbon, Anthesis Carbon.

Registries:

- **Domestic registries:** The Carbon Offset Administration System, Credible Carbon, and Inclusive Carbon.
- **International registries:** Clean Development Mechanism Verra and Gold Standard.

Project developers: Key developers include Sasol, Omnia and CDM Africa, accounting for nearly half of all credits issued. Between 2020 and 2024, ~4 MtCO₂e of new credits were issued annually into the domestic market (National Treasury, 2025). Other developers include Anthesis Group, Credible Carbon, Inclusive Carbon, Brundtland Consulting, and TASC.

Intermediaries and trading platforms include JSE Ventures Carbon Market, Green Asset Exchange, Fuel Switch, Carbon Trade Exchange.

Carbon tax rates and allowances

The Carbon Tax, introduced in 2019, is a key component of South Africa's climate policy framework. It is designed on the "polluter-pays" principle, levying a tax on direct (Scope 1) GHG emissions from listed activities that exceed defined thresholds. The tax is administered by the South African Revenue Services (SARS) and applies to emissions intensive sectors such as energy, mining, cement, steel, and petrochemicals. To cushion the impact, a range of tax-free allowances are provided (see Table 1), reducing the effective tax rate for most emitters.



Table 1: Overview of tax-free allowances under South Africa's Carbon Tax

Allowance name	Current allowance %	Rationale
Basic tax-free	60 %	Received by all liable entities.
Industrial process / fugitive emissions	10 %	A 10% allowance for industrial process and fugitive emissions, recognising the limited mitigation options available for these types of activities.
Trade exposure	5 % for combustion emitters 10% for fugitive emitters	Intended to protect sectors that are vulnerable to international competition.
Performance	Up to 5%	Granted to companies whose emissions intensity is below an approved sector benchmark.
Carbon budget participation ⁵	5%	For companies participating in the carbon budget system, encouraging alignment with national mitigation planning.
Offset	5 % for combustion emitters 10% for fugitive emitters	Allows companies to reduce their tax liability by sourcing verified offsets (carbon credits becomes offsets after being listed).

Source: Franken et al. (2025)

⁵ A carbon tax rate of R640tCO₂e is applied to companies with emissions that exceed their carbon budget allocation from the 1 January 2026 (Taxation Laws Amendment Bill, 2025)

However, the carbon tax is shifting, with the second phase introducing changes to the tax rate and tax-free allowances. This is aimed at reducing uncertainty regarding the carbon price path and tax design, while still maintaining flexibility for adjustments as the carbon price strengthens (National Treasury, 2024). The 2025 Taxation Laws Amendment Bill and

2025 Budget review proposes two changes for phase two of the carbon tax: The removal of the carbon budget allowance and an increase in the carbon offset allowance (National Treasury 2025). These amendments accompany the increase in the marginal tax rate, as set out in the 2022 Taxation Laws Amendment Act (National Treasury 2022).

Table 2: Proposed changes to the South African carbon tax framework

		Combustion emissions		Process and fugitive emissions	
Year	Marginal tax rate (R/tCO ₂ e)	Maximum allowance	Effective tax rate (R/tCO ₂ e)	Maximum allowance	Effective tax rate (R/tCO ₂ e)
2026	308	90%	31	95%	15
2027	347	90%	35	95%	17
2028	385	90%	39	95%	19
2029	424	90%	42	95%	21
2030	462	90%	46	95%	23

Source: National Treasury 2025) and National Treasury (2022)

The development of a carbon credit project follows a multi-stage process

This section outlines the developmental process of carbon credits, highlighting the steps required to issue credits. There are significant transaction costs associated with the generation of carbon credits. These cost are particularly high when relying on international standards for project validation and verification. The steps involved in generating and listing a carbon credit project on COAS is as follows:

- **Project identification and feasibility:** Assess project type, additionality and eligibility.
- **Methodology selection:** Choose an approved methodology from Verra, Gold Standard or CDM.
- **Baseline measurement:** Establish the “business-as-usual” scenario and quantify potential emission reductions.
- **Project Design Document (PDD):** Prepare detailed documentation, including monitoring plans and stakeholder consultations.

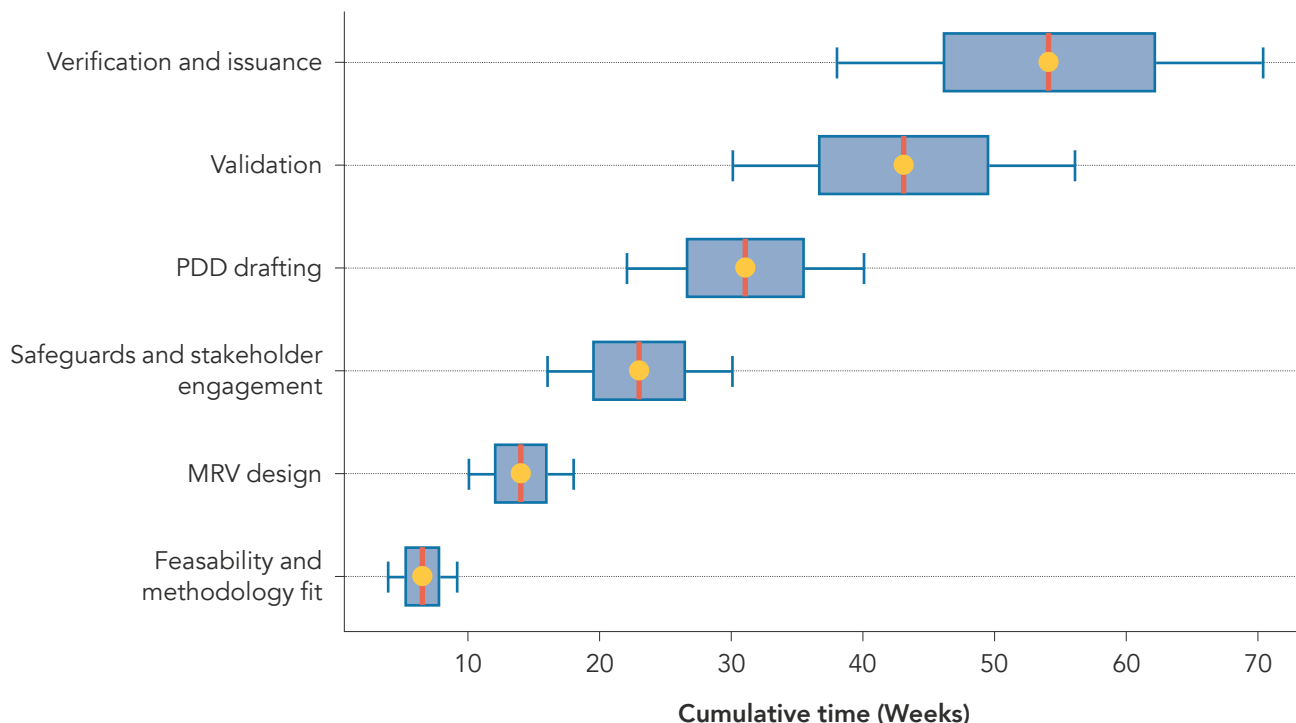
- **Validation:** Independent assessment by a Validation and Verification Body (VVB) or Designated Operational Entity (DOE) to ensure compliance with standards.
- **Registration:** Project is registered with the chosen standard.
- **Implementation and monitoring:** Project activities are carried out, and data is collected.
- **Verification:** Periodic independent audit of emission reductions achieved.
- **Issuance:** Credits are issued to the project proponent.
- **Listing on COAS (for compliance):** Credits are listed and can be retired to offset tax liability.



Timelines and costs of carbon credit project development

Total duration ranges from 12 to 36 months, depending on project complexity, standard and VVB availability. Key cost drivers include project design and documentation, validation and verification fees (often several million ZAR), registry and transaction fees, and monitoring and reporting. Delays and cost overruns are common, and many projects struggle or do not reach issuance, making them seem like riskier options for investors.

Figure 1: Timelines for different stages of carbon credit project development



Barriers and challenges

- **High project development and verification costs:** Certification under international standards is expensive, particularly for small-scale projects. The absence of domestic standards and accredited VVBs compounds costs and limits participation.
- **Shortage of verified credits:** Supply lags behind compliance demand, leading to a persistent shortfall of eligible credits. This is driven by restrictive eligibility criteria (e.g., exclusion of grid-tied renewables), slow certification, and high transaction costs.
- **Project type eligibility and additionality:** Grid-tied renewable energy projects are currently excluded under Verra and Gold Standard due to additionality concerns in middle-income countries.
- **Registry and trading infrastructure:** South Africa lacks a scalable carbon credit registry. COAS was not designed to support the functions of a central securities depository or a trade repository.
- **Regulatory issues:** Banks and insurers face punitive capital requirements⁶ discouraging accumulation and trading. The legal classification of carbon credits remains uncertain, are they commodities, securities, or financial instruments? Treasury proposes treating credits as “unlisted securities” under the Financial Markets Act to clarify ownership, transferability, and its regulatory treatment.
- **Policy uncertainty:** Uncertainty over offset allowances, carbon price trajectory, and post-2030 policy direction hampers long-term planning and investment. The transition to mandatory carbon budgets and the integration of Article 6 mechanisms add complexity.

⁶ According to the Basel regulatory framework banks are required to hold 60% the value of carbon credits on their balance sheet as a loss absorber.

Carbon budgets

The Draft National Greenhouse Gas Carbon Budget and Mitigation Plan Regulations, establish mandatory carbon budgets for high-emitting sectors and activities. The regulation also requires the submission of mitigation plans along with carbon budget support documents (Ackermann and Young, 2025). Carbon budgets are legally binding emission limits over a specific period (Burnett, 2025). The regulation is expected to run for three consecutive commitment periods, with each period lasting five years. The first period is set to run from 1 January 2026 to 31 December 2030 (DFFE, 2025). Failure to comply with the regulation will result in a higher carbon tax rate of R640/tCO₂e.

The draft regulation applies to following categories:

Companies that have GHG emissions profile at or above 30 000 tonnes of CO₂ equivalent;

Scope 1 emissions applied to the following high-emitting sectors and activities: coal mining, oil and gas production (including petroleum refining and synthetic fuels), electricity generation from fossil fuels, cement, glass, bricks and non-metallic minerals, food and beverage manufacturing, as well as general mining and quarrying.

The 5% carbon budget allowance previously available during phase one of the Carbon Tax has been removed, as the carbon budget system has transitioned from being voluntary to mandatory.

2 Renewable Energy Certificates in South Africa

Renewable Energy Certificates (RECs) represent an additional segment under the green attribute umbrella. RECs are market based instruments used by companies to certify the source of a unit of renewable electricity (Tyler, et al., 2025).

Market structure

Similar to the carbon credit market, the REC markets are systems in which green attribute instruments can be traded between market participants. RECs are typically used for the following purposes: Voluntary disclosure of energy usage, supplier disclosure, and compliance with renewable energy production quotas.

- **Voluntary disclosure of energy usage:** Certificates enable consumers to substantiate claims of renewable energy usage and the offsetting of Scope 2 emissions,⁷ thereby demonstrating progress toward sustainability targets.
- **Supplier disclosure:** Certificates support electricity suppliers to demonstrate the source and environmental attributes associated with electricity supplied to customers.
- **Supplier quotas:** Certificates provide evidence of compliance of renewable energy production quotas set by regulatory bodies.



⁷ RECS are recognized as a form of contractual instruments under market-based calculation of Scope 2 emissions (GHG Protocol, 2015).

A REC market can either exist through regulatory pressures or voluntarily. Regulatory markets typically use RECs to support supplier disclosure and compliance with production quotas. Voluntary markets use certificates to demonstrate renewable energy consumption and progress towards sustainability targets.

The REC market in South Africa is a voluntary market. There are two certificate standards used in South Africa namely zaREC and the International REC (I-REC) standard. zaREC is the domestic standard and issuer, operating on behalf of the Renewable Energy Certificates South Africa (RECSA) association. Issued certificates are based on verification standards modelled after the European Energy Certificate System guidelines. The I-REC standard is the international standard for which the Green Certificate Company (GCC) acts as the issuer (Monsoon Carbon, 2020).

RECs can be issued from renewable energy electricity generators. To date, the zaRECs registry has 41 registered devices of which 51% are solar PV, 32% biomass, 11% hydro, and 7% wind. The I-REC registry however lists 83 active registered devices, of which 81% are solar PV, 13% wind, 4% hydro, and 1% biomass.

RECs can be sold and purchased through two mechanisms, namely:

- **Bundled RECs:** The renewable energy certificates are sold in combination with the produced electricity. This would be specified within the PPA between generator and off-taker.
- **Unbundled RECs:**⁸ The REC is sold separately from the underlying electricity.

Supply and demand dynamics

Approximately 600 000 MWh of zaREC certificates are redeemed annually, while I-REC redemptions reached roughly 1 500 000 MWh in 2025.⁹ The domestic market currently suffers from limited liquidity, primarily due to the absence of a regulatory framework to drive demand. Unlike other jurisdictions such as the United States and Australia, South Africa lacks a legislation requiring utility providers to meet renewable energy production targets. Furthermore, the Carbon Tax Act does not currently provide any provision for the use of RECs as a means to offset a company's carbon tax liability. This is compounded by unresolved disputes concerning the ownership of the underlying attributes and have prevented any REIPPP projects from issuing certificates for RECs. REC prices are demand driven, with certificates trading between R20 and R33 depending on volume.

Changing end-user expectations have the potential to shape demand in the South African REC market. Companies reporting on their Scope 2 emissions are increasingly demanding higher quality certificates in the form of time-matched certificates. These time-matched certificates, where the energy generated is matched to the end-user's consumption, could negatively affect the supply of credible certificates in the domestic market due to underdeveloped infrastructure currently being in place. However, companies such as Green Asset Exchange and Fuel Switch are providing solutions to address the asymmetry, creating verifiable, time-stamped RECs. The issue is that at current market prices, the business case for generating these more intensive credits is not feasible.

REC development

The following key processes and fees apply to the development of RECs:

- **Registration:** The registration of a renewable energy generation facility under a specific issuing standard.
- **Issuance:** The generation and provision of certificates based on the output of registered generation facility over a specified period.
- **Trade and transfer:** The process of purchasing and selling certificates.
- **Redemption:** The process of removing certificates from circulation, so that claims on the certificates attributes can be made.

⁸ The demand for unbundled RECs is slowly diminishing due to concerns about additionality. Despite not being a pre-requisite for REC issuance, reporting frameworks are beginning to discourage their usage (Naik, 2021).

⁹ According to I-REC market statistics covering redemptions between 1st of June 2025 and 31 October 2025.

Table 3: Fees for using the two different certificate systems (2025)

zaRECs		
Issuing entity	zaRECs	
Regulator/ governing body	Renewable Energy Certificate South Africa market participant's association (RECSA)	
Traders and Intermediaries	Green Asset exchange , Carbon Tradex (Markecture) , Fuel Switch ,	
Associated costs		
Device registration fee ¹⁰ (five-year validity period)		
Capacity greater than 100kVA	USD 32	R 558.22
Site visits and registration audit ¹¹		
Capacity of 100 greater than and less than 400 kVA (portfolio of projects)	USD 32	R 558.22
Capacity of 400 greater than and less than 2 000 kVA	USD 180	R 3 139
Capacity of 2000 or greater and less than 8 000 kVA	USD 420	R 7 326
Capacity of 8000 or greater and less than 40 000 kVA	USD 2 400	R 41 866
Capacity of 40 000 kVA or greater	USD 3 200	R 55 822
Transaction fee (minimum transaction fee of R 4 600)		
Trade and redemption account fee	USD 0	R 0
Issuance, transfer, and redemption fee (per MWh)	-	R 1.98

Source: zaRECs RECSA fee schedule

I-RECs		
Issuing entity	Green Certificate Company	
Regulator/ governing body	International tracking standard foundation	
Traders and Intermediaries	JSE ventures (Xpansiv) , Green Asset exchange , Fuel Switch	
Associated costs		
Device registration fee (five-year validity period)		
Capacity of 3MW or greater	USD 1 170	R 20 400
Capacity of 1MW or greater and less than 3MW	USD 588.50	R 10 266
Capacity of 250Kw or greater and less than 1MW	USD 117.70	R 2 053
Capacity less than 250kW	USD 117.70	R 2 053
Facility renewal fee (additional 5-year validity)	40% of the registration fee	
Transaction fee		
One-time trade account opening fee	USD 588.50	R 10,241
Annual trade account fee	USD 2 354	R 40 959.60
Transfer fee (per MWh)	USD 0	R 0
Issuance fee (per MWh)	USD 0.03	R 0.52
Issuance for self-consumption	USD 0.05	R 0.87
Redemption fee (per MWh)	USD 0.08	R 1.39

Source: The Green Certificate Company revised fee structure for I-REC(E)s

10 Exchange rate used: USD 1 = ZAR 17.44.

11 Generation facility registration fee is capped at R24 000 per facility.



International policies that influence carbon markets in South Africa

This section provides a high-level overview of international policies that create the context for carbon markets globally, and their implications on SA.

Carbon Border Adjustment Mechanism (CBAM)

The EU's CBAM, imposes a carbon levy on the embedded emissions in products imported into the EU. The EU CBAM covers 303 products across iron and steel, aluminium, cement, fertilizers, electricity, and hydrogen sectors (Dechezlepretre et al, 2025). The mechanism aims to prevent carbon leakage and level the playing field between EU manufactures and foreign producers with less stringent climate policies.

The program has been launched and is intended to have a phased implementation in order to give companies that will be impacted the opportunity to familiarise themselves with measuring and reporting requirements before they are officially liable. The progression of implementation is as follows:

- **2023–2025:** Transitional phase: Importers are required to report embedded emissions but no to purchase any certificates.
- **2026 onwards:** Definitive regime: Importers are required to report embedded and surrender the corresponding amount of CBAM certificates each year (European Commission, 2025). Certificates are based on the auction price of EU Emission Trading System (ETS).¹² In 2026, certificate prices are calculated using the quarterly average ETS auction price, moving to weekly average from 2027 onwards.

In 2023, the EU accounted for 21.3% of South Africa's exports, representing R43.40 billion (Wesgro, 2024). Under CBAM, the iron and steel and aluminium sector face the greatest risk, contributing ~50% of South Africa exports to the EU. The impact on the fertilisers and cement sector is marginal as they contribute less than 1% of South Africa's exports to the EU (Maimele, 2023).

Key risks:

- **Competitiveness:** Higher costs for carbon-intensive exports reduce competitiveness.
- **Measurement and reporting:** Companies must establish robust monitoring, reporting, and verification (MRV) systems for embedded emissions.
- **No offset recognition:** Carbon credits are not currently accepted for CBAM compliance; only actual emissions reductions count.

Implementation roadmap based on Article 6 of the Paris Agreement

Article 6 under the Paris Agreement is intended to enhance international cooperation to achieve climate goals and NDCs, unlocking financial support for developing countries and promoting higher decarbonisation aims.

The DFFE has already developed an Article 6 framework for ascension, which is intended to pave the way for bilateral agreements that could stimulate South Africa's involvement in the international Article 6 trading market.

Once this has been recognised and instituted there are still a number of steps that will need to be performed before the market access can be achieved:

- Build registry systems for tracking ITMOs and corresponding adjustments
- Engage in pilot projects and cooperative agreements
- Align domestic standards and MRV systems with international requirements.

While access to higher prices in international markets would be great for project developers who are struggling under the burden of high development costs and cumbersome issuance process, it could also pose a threat to the structural integrity of South Africa's domestic carbon tax infrastructure. This would be the case as it would further increase the supply deficit into the local carbon offsets market.

¹² €67.74 based on 2024 estimates by International Carbon Action Partnership.

Conclusion

South Africa's carbon market is entering a new era of opportunity and challenge. The combination of rising carbon prices, expanding offset allowances, and integration with international mechanisms creates a dynamic environment for corporates, project developers and financiers. However, persistent barriers of high costs, regulatory uncertainty, and supply shortages must be addressed through targeted reforms, capacity building, and policy alignment. The successful implementation of domestic standards, registry upgrades, and Article 6 (Paris Agreement) integration will be pivotal in unlocking the market's full potential and supporting South Africa's transition to a low-carbon, climate-resilient economy.

Useful resources

- [Carbon Tax Act 15 of 2019](#)
- National Treasury Consultation Paper: [2025 Developing the South African Carbon Credit Market](#).
- [Draft National Greenhouse Gas Carbon Budget and Mitigation Regulations](#)
- Carbon Tax discussion paper: [Phase two of the carbon tax.pdf](#)
- [Carbon Offset Administration System \(COAS\)](#)
- [zaRECs](#). RECS Domain Protocol for Republic of South Africa. ZaRECs.



Next steps

For further information and support on any of the content provided here, please contact GreenCape's water desk at energy@green-cape.co.za

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