



**NATIONAL TREASURY**

**REPUBLIC OF SOUTH AFRICA**

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## **TASK TEAM TO ASSESS THE FISCAL REGIME APPLICABLE TO WINDFALL PROFITS IN THE LIQUID FUEL SECTOR**

As announced in the Medium Term Budget Policy Statement (MTBPS) on 25 October 2005 and thereafter in the 2006 Budget Review, the Minister of Finance Mr Trevor A Manuel, MP, hereby appoints a task team to advise on possible reforms to the fiscal regime applicable to windfall profits in South Africa's liquid fuel energy sector, with particular reference to the synthetic fuel industry.

The synthetic fuel industry accounts for between 35 and 40 per cent of domestic liquid petroleum sales in South Africa. Local fuel producers sell into an administered price market at prices determined by the international price of crude oil without reference to domestic production costs. Concerns exist that this dispensation benefits synthetic fuel producers and their shareholders disproportionately, at the expense of the consumer and the taxpayer. Internationally, oil and gas companies are often subject to fiscal regimes that effectively taxes the windfall profits associated with high crude oil prices relative to resource extraction costs. Careful consideration needs to be given to the long-term development of the domestic fuel industry, the design of appropriate fiscal measures and the evolution of the relevant environmental and industrial regulatory arrangements. Mindful of international practice and the complex balance of economic aspects to take into account, the Minister of Finance has requested that the fiscal regime applicable to South Africa's liquid fuel producers be reassessed.

The task team is expected to make an objective assessment of the options for securing the optimal contribution of the synthetic fuel industry to long-term development in South Africa, against the background of, *inter alia*, its significance for the economy and the balance of payments, its historic dependence on the state for capital funding and price support, the impact of movements in the oil price and exchange rates on synthetic fuel producers' profitability and the potential for further expansion of domestic synthetic fuel production.

The Task Team is an advisory technical team, and will be chaired by Dr Zavareh Rustomjee, an independent consultant with extensive experience in the industry, and former Director-General of the Department of Trade and Industry. In carrying out its task, the Task Team will consult with key stakeholders in the private and public sector, including but not limited to:

- The Department of Minerals & Energy;
- Synthetic fuel producers; SASOL & PetroSA;
- SAPIA, the South African Petroleum Industry Association;
- Major oil companies based in South Africa;
- Organised business;
- Organised labour;
- The accounting and legal professions;
- Consumer lobby groups; and

- The South African Revenue Service.

The Task Team is requested to prepare a discussion paper for comment by 31 July 2006 and to complete its work by 15 September 2006.

The Task Team will comprise of the following experts:

- i. Dr Zavareh Rustomjee (chairperson and convenor)

Dr Rustomjee is an ex Director General of the Department of Trade and Industry. He is currently an independent consultant and a director of a number of companies, including the Central Energy Fund (Pty) Ltd. He is a qualified chemical engineer and holds a PhD in economics.

- ii. Dr Grove Steyn

Dr Steyn is an independent consultant with expertise in the areas of regulation, technology and innovation.

- iii. Dr Boni Mehlomakulu

Dr Melomakulu is responsible for the Resource based Industries Unit at the Department of Science and Technology. She worked in the synthetic fuels industry from 1997 to August 2003.

- iii. Dr Rod Crompton

Dr. Crompton is currently with the National Energy Regulator. He was previously the Deputy Director-General for Hydrocarbons and Energy Planning with the Department of Minerals and Energy and the Managing Director of the Minerals and Energy Policy Centre.

- v. Ms Almorie Maule

Ms Maule is an independent businesswoman with extensive experience in the petroleum industry. She served as CEO of Engen from 1999 to March 2002.

The National Treasury will provide secretariat assistance through Mr Cecil Morden, the Chief Director; Economic Tax Analysis in the National Treasury. The task team is expected to have its first meeting on or before the first week of May, and will convene hearings of key stakeholders in the liquid fuels industry at an appropriate stage. Organisations or individuals wishing to provide written inputs for the attention of the task team, may request further information from, or submit any comments to, Cecil Morden at [cecil.morden@treasury.gov.za](mailto:cecil.morden@treasury.gov.za),

Should you have media related queries please contact Thoraya Pandy on 082 416 8416.

**Issued by: National Treasury**  
**11 April 2006**