



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT:

Report by Task Team to investigate the fiscal regime applicable to windfall profits in the liquid fuels sector, with particular reference to synthetic fuels

The National Treasury publishes the report of the task team appointed by the Minister of Finance to investigate possible reforms to the fiscal regime applicable to windfall profits in the liquid fuels sector, with particular reference to synthetic fuels.

The report was submitted to the Minister of Finance on 9 February 2007, it represents the view of the Task Team.

The task team explored both the regulatory environment and fiscal issues pertaining to the liquid fuels industry. The Minister of Finance has referred the regulatory matters to the Minister of Minerals and Energy for her further consideration.

The Minister of Finance will only respond to the fiscal recommendations of the task team. In this respect, the task team proposed, firstly, an additional tax on existing synthetic fuels producer volumes at a level commensurate with a permanent structural increase in oil commodity prices, and triggered at an appropriate threshold/trigger price. Preliminary indications are that this threshold should be between US\$45 and US\$55 per barrel of crude oil.

To cater for the volatility of oil prices, the task team also recommends that, unlike the previous tariff protection/subsidy system that imposed a fixed percentage on additional revenues (i.e. 25 per cent), a progressive sliding rate of taxation apply, according to a formula linked to the oil price.

Secondly, the task team recommends a progressive incentive regime for investments in new synthetic fuel and biofuel plants. This proposed incentive consists of the following basic elements:

- Tax credits at low petroleum product prices, and a tax at high prices, thereby constituting a combined protection and windfall mechanism. Initial indications are that these thresholds should be US\$40 and US\$65 respectively.
- Both bioethanol and biodiesel to qualify for the lower general fuel levy.
- The investment regime to apply irrespective of the type of fuel produced and technology used, to encourage more efficient and lower-cost options.

The Minister of Finance announced in his Budget Speech on 21 February 2007 that though Government is of the view that there is merit in both proposals, he will only make a final decision after consulting with the industry and considering comments from all stakeholders. A final decision will be made thereafter, preferably by 31 July 2007, although the proposals are only expected to take effect from 1 January 2008.

All stakeholders and interested parties are hereby invited to forward written comments to the National Treasury by 31 March 2007.

The report by the task team is available on the website of the National Treasury, www.treasury.gov.za. The period for comment on the report by the Task Team will close on 31 March 2007. Comments should be sent to Lebogang Makoloi at lebogang.makoloi@treasury.gov.za.