NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

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Adv A de W Alberts (FF Plus) to ask the Minister of Finance:

Whether the Treasury has done a study to assess the impact and effect of the increased fuel levy; if not, why not; if so, what were the findings?

NW400E

REPLY

The National Treasury generally reviews the impact of all taxes on a continuing basis, we also take into account the various policy objectives for each tax instrument.

Tax burden

The combined fuel taxes in 2010/11 increased by 11.70 per cent to 243.50 c/l for 93 Octane petrol and by 12.56 per cent to 228.51 c/l for diesel. This included the 7.5 cents per litre to be allocated to the "security of supply" portion of the new multi-product pipeline.

The February 2010 average pump price for 93 Octane petrol in Gauteng was 785.00 c/l and the wholesale price for diesel 701.85 c/l. This resulted in a total fuel tax burden, expressed as a percentage of these prices, of 31.6 per cent for 93 Octane petrol and 32.8 per cent for diesel. These percentages remain below historic higher levels and will probably decrease during the year, as the prices at the pump increases. Fuel taxes remain unchanged during the year, despite the monthly fluctuations in pump prices.

Macroeconomic impacts

The estimated direct impact from a R1 per litre increase in fuel taxes is a reduction of 0.05 per cent in GDP growth and inflation is estimated to be 0.1 percentage points higher. The effect of the fuel tax on inflation is small, because the tax has a small pass-through due to the weight of petrol in the CPI basket being only 3.96 per cent in the total series.

Given that some of this revenue will be spent on productive fixed investment, the net macroeconomic impact could even be positive. The net macroeconomic impact of the total 2010 fuel tax increases of 25,5 cents per litre should therefore be limited

Distributional impacts

Increases in fuel taxes are likely to impact negatively on the poor directly through increased transport costs and indirectly through food price inflation. To the extent that we subsidies public transport, we can mitigate such effects on poor households.

However, it should be noted that, in aggregate, fuel taxes tend to be progressive as middle and higher income households spend more in both relative and absolute terms on transport, especially through the use of private motor vehicles. Fuel taxes also help to limit unnecessary private motor vehicle driving and thereby make a contribution towards environmental objectives.

Expenditure programmes

The impact of fuel tax increases should be assessed in the context Government's expenditure programmes.

Although revenue from the general fuel levy is not specifically earmarked, other than the Road Accident Fund levy and the funds set aside as part funding for the new pipeline, it should be noted that the National Government allocates provincial and municipal infrastructure grants that part fund road infrastructure at sub-national level. The national road network is maintained and developed by the South African National Roads Agency Ltd. (SANRAL). Transfers from the National Government to SANRAL over the 3-year Medium Term Expenditure Framework (MTEF) period have been budgeted at R25.1 billion (R6.8, R8.8 and R9.5 billion for 2010/11, 2011/12, and 2012/13 respectively).

The National Government has increased expenditure on public transport consistently over the past several years. The following allocations were announced in Budget 2010 for the financial year 2010/11:

- R2.76 billion - to the Passenger Rail Agency of South Africa for operational spending;
- R4.81 billion - to the Passenger Rail Agency of South Africa for rail infrastructure;
- R3.86 billion - to provinces for bus services; and
- R3.70 billion - to municipalities for public transport infrastructure.

Diesel is the main fuel input for the primary sectors, in particular the agricultural sector. The total diesel refund scheme amounts to approximately R1.0 billion per year. The diesel refunds scheme should mitigate for the impact on the Agriculture sector and hence food price inflation.