consumer goods council of south africa

8th August 2006

Ms Kiyasha Thambi
The Secretariat
Task Team on Windfall Tax
c/o National Treasury
Kiyasha.Thambi@treasury.gov.za

Dear Madam

RE: 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

INTRODUCTION

The Consumer Goods Council of South Africa (CGCSA) – a Section 21 Company represents over 10,000 member companies in the Republic of South Africa (RSA). The key players in the Fast Moving Consumer Goods (FMCG) industry (a R300 Billion per annum turnover industry) are, *inter alia*, Massmart, Metcash Africa, New Clicks, Pick 'n Pay, Shoprite Checkers, The Spar Group, Woolworths and other major multinationals such as Nestlé and Unilever, and South African manufacturers and suppliers such as AVI Limited and Tiger Brands to name but a few.

CGCSA gives the industry a single voice to Government and other key bodies on all relevant industry, non competitive, legal and regulatory affairs and through GS1 is a part of a leading global organisation dedicated to the design and implementation of global standards and solutions to improve the efficiency and visibility of the supply and demand chains globally and across sectors.

CGCSA is generally mandated to deal with best practices, standards, crime prevention and legal and regulatory issues in the industry. Its objective is to enable retailers, wholesalers, manufacturers, logistics and service providers involved in the consumer packaged goods industry in the RSA to work together to meet consumer needs better, faster and at least cost. CGCSA is a neutral, not-for-profit standards and services organisation.

SPECIFIC MANDATE

We have specifically been mandated by several of our members to complete a formal submission, which will be presented at the public hearings next week.

CGCSA'S STAND POINT

PO Box 41417, 2024 Craighall, South Africa
Block B, Hurlingham Office Park, Woodlands Avenue, Hurlingham Manor, 2196 Randburg, South Africa
T: +27(0)11 789 5777 **F:** +27 (0)11 886 4966 **E:** info@cgcsa.co.za

In principle CGCSA is supportive of the Task Team being appointed, its terms of reference and its intentions to address some historic errors in the liquid fuel pricing, and more importantly to address the future pricing model.

However, we would like to comment as follows:

1. The wording "Windfall" in the proposed Windfall Tax is not acceptable to the industry.

This matter appears to be peculiar to South Africa and another name/title should be considered.

2. No clear recommendation regarding the possible beneficiaries.

The beneficiaries of the tax if and when applied, should not be the State.

It is our view that the funds belong to the South African Consumers (this includes the State as a consumer), and if it is too onerous to return it directly, then we suggest that a deposit into the "Equalization Fund" to be made and an immediate reduction of fuel prices should happen.

3. Reform of the Fuel Price Mechanism is necessary.

It is our view that the Economic Rent / Royalties proposal in the Task Team document is not dynamic in nature and will not promote future investment in this sector. New concepts were discussed by the relevant CGCSA sub-committee and will form part of the submission to the Task Team.

4. Import Parity Pricing

Several of our members, especially those in the logistics industry strongly believe that the continued use of the Import Parity pricing model in the value chain for South African sourced fuel is unacceptable and inappropriate.

SUMMARY OF VIEWS

In our opinion the Economic Rent / Royalties are Cabinet matters – but not productive for the industry, the consumers or the nation unless clearly "ring fenced" for a specific purpose.

Proposals for new price regimes abound, but the current Import Parity Pricing along the complete value chain is, and always was unacceptable.

CGCSA supports the "Windfall" discussion, which is a historic matter between the relevant government departments and the companies in question.

We look forward to submitting the views of our members at the forthcoming public hearings next week.

Yours sincerely

AUGUST IWANSKI
Chief Executive

APPENDIX 1 TERMS OF REFERENCE – a CGCSA response

CGCSA welcomes the Minister of Finance's initiative to review the current state of play in the synthetic fuel industry.

As part of the long suffering user group, that has had little response over the decades in these matters, the possibility of reform holds much promise for a more rational fuel pricing future.

In principle CGCSA wishes that more local sourcing of liquid fuels is developed, and the pump prices of local product be reflective of real costs.

Thus in brief answer to some of the key issues that emanate from the Terms of Reference:

- The current price regulations are not appropriate
- International benchmarks hard to find as South Africa is in a unique position
- The further development of synthetic fuels is very important to South Africa's ability to attain self sufficiency, and environment friendly solutions
- Tax rebates/initiatives to enhance further local production to be encouraged.

Thus

1. A Revised Subsidy regime not acceptable
2. Cost based *limited* administrative price regime preferred
3. Progressive taxation could be considered
4. Investment linked tax and subsidy options – too complex and often leads to abuse

The detailed CGCSA response per question posed in the Discussion Document attached herewith.