

1st August 2006

The Secretariat
Windfall Fuel Profits Tax Task Team.

Your discussion document “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” and call for public comment on it refer.

It is commonly recognized that liquid fuels are a major contributor to the phenomenon of climate change. South Africa will doubtless in future be subject to constraints imposed by the Kyoto Protocol, and we note too on p23 of your discussion document the reference to “Treasury’s intention to more consciously and comprehensively apply fiscal measures to support national environmental policy than is currently the case”. It would seem opportune, therefore, to apply at least a small portion of any windfall tax to the mitigation of the environmental impacts of liquid fuels. In the long run, this is likely to require technology change. In the short run, however, a contribution – albeit small – can be made by carbon sequestration, and this option has attracted attention in many countries around the world.

In South Africa, the idea of carbon sequestration has been encapsulated in a programme of employment creation and environmental rehabilitation initially termed ARISE by its initiators but now known as Working for Woodlands by the Department of Environment Affairs and Tourism, which has funded two demonstration projects. It can be reported that these projects are proving successful and together employ 576 previously jobless rural people, have created approximately thirty small businesses and are rehabilitating several thousand hectares of degraded land that will in future contribute to carbon sequestration.

A strong case exists for rolling out this programme on a far larger scale. For this, substantial funding must be found. Arguably, a portion of this funding could be provided by the envisaged windfall tax, and this use of the tax would be to the future benefit of the fuel companies on which it would be levied.

It would be appreciated if the Task Team would give this suggestion serious consideration. Further information on the ARISE (or Working for Woodlands) programme is contained in the attachment. This information is comprehensive, and we do not wish to make an oral presentation. We would of course be happy to discuss this matter further should the Task Team wish to do so.

Yours sincerely

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