

South Africa

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries and eight large partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa).

Energy resources and market structure

In 2015, South Africa was the seventh-biggest coal producer in the world and one third of the country's coal was exported. Some 63% of South Africa's coal Total Primary Energy Supply is used for electricity generation, meeting 92% of the sector's fuel needs in 2015. Most of the remainder of the coal feeds Sasol's synthetic liquid fuels plant, producing 30% of the country's gasoline and diesel-fuel in 2014. Renewable energy generates approximately 2% of South Africa's electricity.

South Africa imports most of its crude oil, mainly from producers in the Middle East and West Africa. PetroSA, a state-owned enterprise (SOE), was responsible for almost all oil production and all natural gas production in South Africa, but only 6% of the refining, distribution and retail sales of petroleum products in 2012. PetroSA also operates one of the world's largest gas-to-liquid plants. Together, South Africa's refineries cover about 75% of domestic supply of motor gasoline and diesel fuels with the remainder imported as finished petroleum products, while it produces more aviation fuels and fuel oils than necessary for domestic supply. State-owned Transnet SOC Ltd. is the main operator of South Africa's petroleum pipelines. Several international and domestic companies are involved in downstream activities.

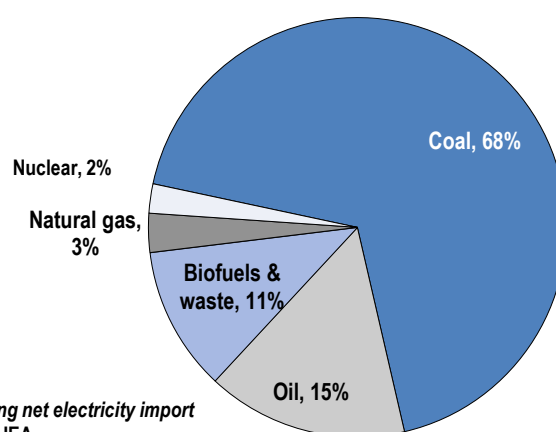
The country produced around 25% of its domestic consumption of natural gas in 2015, and imported the remainder, mainly from Mozambique via the Sasol Petroleum International Gas (SasolGas) pipeline. The country's natural gas sales are to industry, chiefly for energy transformation.

The National Energy Regulator of South Africa (NERSA) regulates the electricity sector, as well as the oil and natural gas pipeline industries. It is also responsible for electricity pricing. The state-owned company Eskom is responsible for generating 90% of the country's electric power, and for all electricity distribution and transmission. The Petroleum Agency of South Africa (PASA) regulates the petroleum sector and the exploration and production of natural gas.

Prices and taxes

The prices of gasoline, diesel and kerosene are set by reference to the Basic Fuel Price, which is determined on the first Wednesday of each month by the Department of Energy, using international market prices as the benchmark. The government also sets maximum retail prices for LPG, kerosene (illuminating paraffin), and piped natural gas. Domestic wholesale and transport costs are added to the Basic Fuel Price, together with a number of other taxes and levies (Table 1).

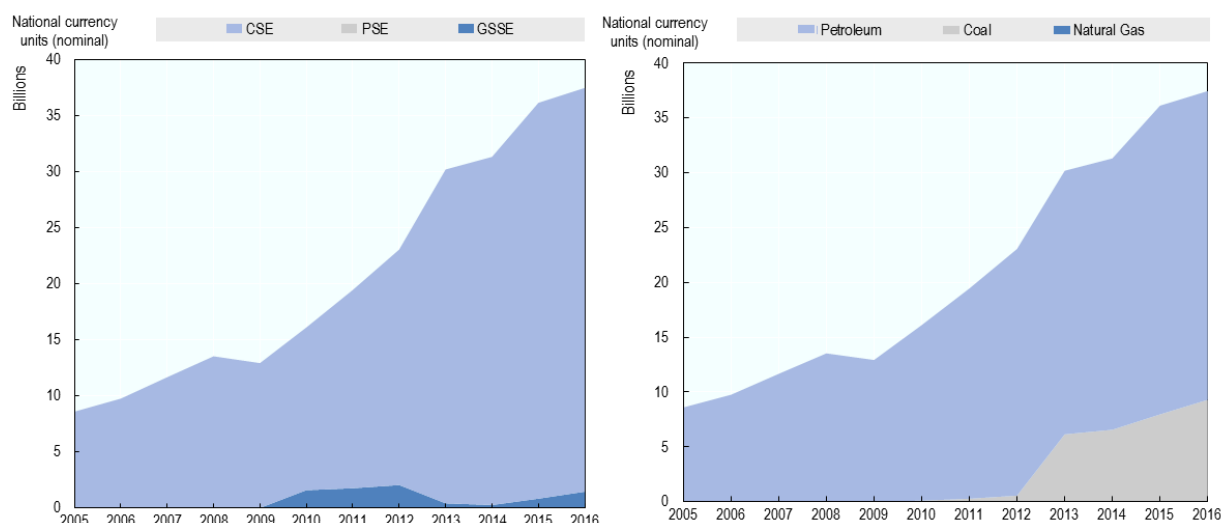
Total Primary Energy Supply* in 2015



*excluding net electricity import
Source: IEA

Other petroleum products, coal, and natural gas are untaxed when used for transport or heating and process purposes. An environmental levy of ZAR 0.35/kWh is applied to the consumption of electricity generated from non-renewable energy sources and nuclear power plants with a generation capacity of 5

Total support by for fossil fuels in South Africa by support indicator (left) and fuel type (right)*



Note: CSE=Consumer Support Estimate; PSE=Producer Support Estimate; GSSE=General Services Support Estimate.

*The above charts are based on an arithmetic sum of the individual support measures identified in the Inventory. Because they focus on budgetary costs and revenue foregone, the estimates for partner economies do not reflect the totality of support provided by means of artificially lower domestic prices. Particular caution should therefore be exercised when comparing these estimates to those reported by the IEA for these countries.

MW or greater. Regulation of the price of coal ended in 1987 but, due to long-term contracts between Eskom and coal manufacturers, the price of coal used for electricity generation is still well below market and export coal prices. The standard VAT rate of 15% applies to most energy products and to the consumption of electricity, although gasoline, diesel, and illuminating paraffin (kerosene) are zero-rated for VAT purposes.

The government published a second draft carbon tax bill in December 2017. In Budget 2018, the Minister of Finance announced an implementation date for the carbon tax of 1 January 2019. The tax would apply to fuels based on their carbon content at a rate of ZAR 120 (USD 7.80) per tonne of CO₂-equivalent, and would cover fuel combustion and fugitive emissions as well as the non-energy industrial use of fuels.

Recent developments and trends in support

The above graph shows that the bulk of government support goes to petroleum products, mainly due to the exemption from the Value-Added Tax on sales of gasoline, diesel and illuminating paraffin. This is reported as tax expenditure in the annual budget review.

Since 2003, the South African Government has provided a free basic electricity allowance of at least 50 kWh per month to low-income households (below the affordability threshold) which benefits approximately 35% of all households connected to the grid. In 2017/18 the basic services subsidy was allocated to a total of 9.5 million households at a cost of ZAR 359.04 per household, of this, free basic electricity cost ZAR 76.13 per household.

Examples of measures	
Free basic electricity for low income households (2003-)	Free basic electricity or alternative energy (for those not connected to the grid) to low income households.
Refund of Fuel Levy and Road Accident Fund Levy for diesel consumed in primary production and freight Sectors (2001-)	Several primary-production sectors, including agriculture, forestry, mining, rail freight transport, and freight transport by offshore and harbour vessels, can obtain a partial refund of the fuel levy and the road accident levy on the diesel they purchase. These refunds amount to 8% of the total fuel taxes.
VAT exemption of fuel levy goods	This is reported as a tax expenditure item in the annual budget review.

Excise taxes applied to petroleum fuels in South Africa, as of 30 January 2018

Tax	Affected fuels	Adjusted	Geographic coverage or exemptions
Fuel Levy	Gasoline, diesel	Annually	100% rebate for diesel used offshore (mining, commercial fishing, coasting, sea rescue, research, and patrol vessels), 40% rebate on 80% of eligible diesel purchases on land (agriculture, forestry and mining); and 50% rebate for diesel used in electricity peaking power plants of > 200 MW.
Road Accident Fund Levy	Gasoline, diesel	Annually	100% rebate for diesel used offshore, peaking electricity generation and rail freight. On land diesel use is subject to a full refund on 80% of the eligible diesel purchases.
Customs and excise levy	Gasoline, diesel, and biodiesel	No change since 1983	None.
Illuminating Paraffin and Diesel Marker Levy	Diesel, kerosene	No change since 2001	None.
Petroleum Pipelines Levy	All petroleum-derived fuels	No change since 2014	None.
Slate Levy	Gasoline, diesel	Monthly	None.
Demand-Side Management Levy	95-octane gasoline	Not applicable	Applies only to high-octane gasoline used in inland magisterial districts (geographically).

Source: Government of South Africa.