FOSSIL FUEL SUPPORT COUNTRY NOTE

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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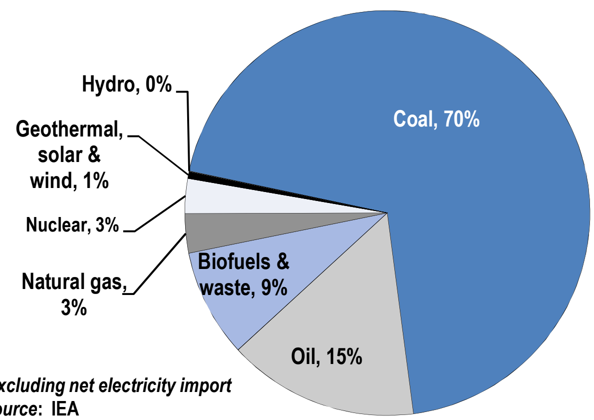
South Africa

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 2016, South Africa was the seventh-biggest coal producer in the world and one third of the country's coal was exported. Some 61% of South Africa's coal Total Primary Energy Supply is used for electricity generation, meeting 90% of the sector's fuel needs in 2016. Most of the remainder of the coal feeds Sasol's synthetic liquid fuels plant, producing 27% of the country's gasoline and diesel-fuel in 2014. Renewable energy generates approximately 3% of South Africa's electricity.

Total Primary Energy Supply* in 2016



**excluding net electricity import*
Source: IEA

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 26% of its domestic consumption of natural gas in 2016, 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.

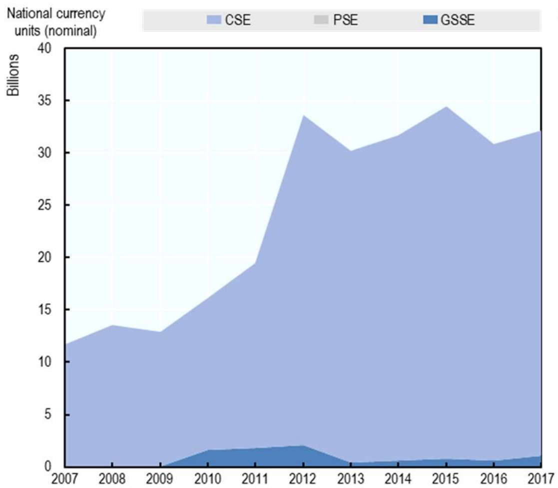
The National Energy Regulator of South Africa (NERSA) regulates the electricity sector, as well as the oil and natural gas pipeline industries. It is also responsible for electricity pricing. The state-owned company Eskom is responsible for generating 90% of the country's electric power, and for all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

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 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% (14% up until 1 April 2018) 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 introduced a carbon tax bill in November 2018, to take effect 1 June 2019. The tax will apply to fuels based on their carbon content at a rate of ZAR 120 (USD 7.80) per tonne of CO2-equivalent, and will cover fuel combustion, fugitive emissions and the non-energy industrial use of fuels. The initial phase will cushion impacts on energy-intensive sectors, with no impacts on the price of electricity and tax-free emissions allowances ranging from 60 per cent to 95 per cent.

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 2018/19 the basic services subsidy was allocated to a total of 9.8 million households at a cost of ZAR 383.12 per household per month, of this, free basic electricity cost ZAR 81.64 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.