

REPORT NO: 375

**Rebate of duty on bio-ethanol for blending with
petrol**

The International Trade Administration Commission of South Africa herewith presents its
Report No. 375: **Rebate of duty on bio-ethanol for blending with petrol.**



Siyabulela Tsengiwe
CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 375

REBATE OF DUTY ON BIO-ETHANOL FOR BLENDING WITH PETROL

Synopsis

Arengo 316 (Pty) Ltd (Arengo) applied for rebate of duty on bio-ethanol classifiable under tariff heading 22.07, for blending with petrol classifiable under tariff subheading 2710.11.02.

As reasons for the application, the applicant stated that, as a special purpose project to drive the IDC's biofuels strategy, it is facilitating the domestic development of distillation plants that will use non-mineral based and locally produced feedstock. The bio-ethanol produced by these distillation plants will be sold to South African fuel producers. The applicant further indicated that, to secure buy-in from fuel suppliers, it needs to ensure that the supply of bio-ethanol is secure and constant.

The Commission considered that the domestic oil and petroleum producing companies will need to make considerable investments to comply with the policy and regulatory requirements for the procurement, at a government-regulated price, of domestically produced biofuels, including bio-ethanol, and will therefore require security of supply. As bio-ethanol is produced from agricultural crops dependent on uncertain climatic conditions, guarantee of supply is problematic.

Therefore, the Commission concurs with the Biofuels Task Team that it is unlikely that the biofuels sector will develop in South Africa in the absence of a rebate provision, as oil companies will not contract with biofuel producers without security of supply.

The rebate facility recommended for imported ethanol is intended to allow bio-ethanol producers to import ethanol free of duty only if these producers are unable to supply the oil companies in the required volumes.

THE APPLICATION AND TARIFF POSITION

Arengo 316 (Pty) Ltd applied for rebate of duty on bio-ethanol classifiable under tariff heading 22.07, for blending with petrol classifiable under tariff subheading 2710.11.02.

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The application was published in the Government Gazette on 18 February 2011 for comments by interested parties.

The existing tariff structure for bio-ethanol reads as follows:

Heading	Sub-heading	Article Description	Rate of Duty			
			General	EU	EFTA	SADC
22.07		Undenatured ethyl alcohol of an alcoholic strength by volume of 80 per cent vol. or higher; ethyl alcohol and other spirits, denatured, of any strength:				
	2207.10	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 per cent vol. or higher	317c/laa	79.25c/laa	317c/laa	free
	2207.20	Ethyl alcohol and other spirits, denatured, of any strength	317c/laa	79.25c/laa	317c/laa	free

The existing tariff structure for petrol reads as follows:

Heading	Sub-heading	Article Description	Rate of Duty			
			General	EU	EFTA	SADC
27.10		Petroleum oils and oils obtained from bituminous minerals (excluding crude); preparations not elsewhere specified or included, containing by mass 70 per cent or more of petroleum oils or of oils obtained from bituminous minerals, these oils being the basic constituents of the preparations; waste oils:				
	2710.1	Petroleum oils and oils obtained from bituminous minerals (excluding crude) and preparations not elsewhere specified or included, containing by mass 70 per cent or more of petroleum oils or of oils obtained from bituminous minerals, these oils being the basic constituents of the preparations (excluding waste oils):				
	2710.11	Light oils and preparations:				
	2710.11.02	Petrol, as defined in Additional Note 1(b)	0.091c/ll	0.091c/ll	0.091c/ll	free

THE INDUSTRY AND MARKET

Bio-ethanol is a form of renewable energy that can be produced from agricultural feedstock. It can be made from common crops such as sugar cane, maize and potatoes. Generally, ethyl alcohol (ethanol) is manufactured by microbial fermentation of glucose. Glucose is produced either directly, or from the mentioned sugar producing crops. Ethanol is distilled and dehydrated to produce a specification of ethanol that is suitable for fuel.

The applicant is a wholly owned subsidiary of the Industrial Development Corporation (IDC), set up to drive the IDC's biofuel strategy. As part of its strategy, the IDC will invest in productive capacity to domestically produce approximately 300 million litres of fuel grade bio-ethanol.

The import statistics of undenatured ethyl alcohol are as follows:

	2007	2008	2009	2010
Quantity	4 431 596 li	10 678 476 li	27 111 551 li	39 534 303 li
Value	R 24 369 654	R 73 247 939	R 143 791 012	R 209 611 754

The import statistics of petrol are as follows:

	2007	2008	2009	2010
Quantity	1 182 543 349 li	955 923 393 li	1 484 376 469 li	1 571 397 164 li
Value	R 5 975 107 534	R 6 258 324 082	R 7 329 906 484	R 8 586 459 814

According to the Ethanol Producers Association of South Africa, the production of ethanol in the SACU is estimated at approximately 170 million litres. The ethanol that is currently produced in the SACU is used for potable and industrial applications and not for blending with petrol.

The Biofuels Industrial Strategy provides for the domestic development and support of a modest biofuels industry, targeting underutilized land with minimal impact on food prices (only sugar cane to be used as feedstock for bio-ethanol; maize to be excluded). It is estimated that approximately 125 000 jobs will be created in the biofuels value chain over the next 10 years.

COMMENTS ON THE APPLICATION

The Ethanol Producers Association of South Africa (EPASA) and the Biofuels Task Team that was established to implement the Biofuels Strategy supported the application, subject to strict permit control by ITAC.

FINDINGS

The Commission considered that the domestic oil and petroleum producing companies will need to make considerable investments to comply with the policy and regulatory requirements for the procurement, at a government-regulated price, of domestically produced biofuels, including bio-ethanol, and will therefore require security of supply. As bio-ethanol is produced from agricultural crops dependent on uncertain climatic conditions, guarantee of supply is problematic.

Therefore, the Commission concurs with the Biofuels Task Team that it is unlikely that the biofuels sector will develop in South Africa in the absence of a rebate provision, as oil companies will not contract with biofuel producers without security of supply.

The rebate facility recommended below for imported ethanol is intended to allow bio-ethanol producers to import ethanol free of duty only if these producers are unable to supply the oil companies in the required volumes.

RECOMMENDATION

In the light of the foregoing, the Commission recommends the creation of a rebate of duty provision for ethyl alcohol of an alcoholic strength by volume of 80 percent vol. or more, classifiable under tariff heading 22.07, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission may allow by specific permit, for blending with petrol of tariff subheading 2710.11.02.

(41/2010)