DLA CLIFFE DEKKER HOFMEYR

ENVIRONMENTAL ALERT

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BIOFUEL INCENTIVE SCHEME EXPECTED TO BE FINALISED BY END OF 2013

It's a surprisingly old concept: using vegetable oil as a fuel source instead of petroleum fuel.

Rudolf Diesel first envisioned his engine to run on peanut oil and similarly, Henry Ford expected his 'Model T' to run on ethanol, a corn product. It's a well-developed industry in countries such as Brazil and America and it gaining popularity globally due to insecure fuel supplies, its renewable properties and its contribution to carbon emissions reduction.

Even in a developing country such as South Africa, the concept of using alternative transport fuel has been considered from as early as 1998, when the White Paper on Energy Policy acknowledged the importance of a diversified energy supply mix. This eventually developed into the Biofuels Industrial Strategy of the Republic of South Africa (Biofuels Strategy), which was published by the Department of Minerals (DMR) in December 2007.

The Biofuels Strategy sought to identify the benefits, costs and risks pertaining to the proposed biofuels industry. A feasibility study was conducted which identified the following benefits:

- Jobs-to-investment ratio would be 100 times higher than for crude oil refineries;
- Locally produced biofuels would reduce fuel imports and result in Forex savings;
- Reduced reliance fuel imports would improve fuel security in South Africa;
- Greenhouse gas emissions would be reduced and would contribute to South Africa's achievement of its renewable energy goals;
- Off-take or demand security for agricultural feedstock would improve and uplift the local farming industry; and
- Biofuel by-products may be used for animal feed and could reduce the need to import these feeds.

There is opposition against biofuels, due to impacts on food security and reliance on water. This is particularly pertinent in South Africa, which faces a water crisis, with specialists projecting that the country could run out of water by 2025. Irrigation is the most water intense sector, being recorded as utilising 62% of the country's water in a report by the Council for Scientific and Industrial Research in 2010.

The impacts on scarce water resources and food security were considered in the Biofuels Strategy. These risks were found to be capable of mitigation through selecting drought-resistant crops to reduce reliance on water, and the proposal for 2% penetration level of biofuels in the national liquid fuel supply, to ensure minimal impact on both food security and prices.

Although the local biofuel sector appears to have remained dormant since December 2007, the Biofuels Strategy was recently revitalised through the DMR's publication of the regulations regarding the mandatory blending of biofuels with petrol and diesel (the Regulations). The Regulations deal specifically with requirements and conditions for the mandatory blending of biofuels with petrol and diesel. These include prescribed minimum biofuel concentrations in petrol and diesel; regulated biofuel prices; and the obligation on all petrol manufacturers to accept biofuels, unless they are able to show that they do not have enough petrol or diesel to mix with the biofuels. However, the Regulations are not expected to commence until DMR and National Treasury (NT) have finalised the incentive scheme for biofuels (Proposed Incentive Scheme).

The regulated biofuel price is expected to cover the costs associated with running a biofuels plant, agricultural feedstock and of transportation which, together with the Proposed Incentive Scheme, are expected to reduce any potential financial risks and attract further investments into the industry.

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DMR and NT are expected to publish the first draft of the Proposed Incentive Scheme as early as the end of June 2013. The final set of guidelines is expected to follow by the third quarter of 2013, and the Proposed Incentive Scheme will hopefully be launched by the end of the year. Although the scheme will provide investors with the necessary financial support, the South African biofuels industry is already considered financially viable and would most likely grow irrespective of the incentives proposed. This appears to be attributed by existing demand for biofuels in EU countries, where mandatory blending is already in place.

South Africa has been a strong advocate of speedily working toward a universal climate change agreement to replace the Kyoto Protocol, to ensure the impacts of climate change do not undermine development of the country and the African continent through, amongst others, drought, floods, water scarcity, health impacts, job losses, and sea level rise. Despite South Africa being classified as a developing country under the Kyoto Protocol and not being obliged to adhere to emission targets, it has committed to achieving a decrease in its emissions by 34% by 2020. Together with its proposed incentives and potential to improve the economy, the mobilisation of the biofuels industry will assist it in achieving its emission target.

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