



Department of Energy

UPDATE ON THE BIOFUELS INDUSTRIAL STRATEGY

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PRESENTATION OUTLINE

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INTRODUCTION

- In the South African context, a specific requirement of the Biofuels Industrial Strategy was to create a link between the first and second economies, a requirement that entails *creating jobs in under-developed areas*.
- Government recognizes that clear government policy, regulations and incentives are a pre-requisite for the development of the biofuels industry.
- Even though biofuels, like most renewable fuels, require incentives in order to be cost-competitive with conventional their upside is that such incentives also account for benefits such as jobs creation, balance of payments savings, energy supply security, and economic growth that is fairly stable.



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INTRODUCTION (cont')

- All these benefits contribute to supporting a better life for all both now and in the future.
- Most importantly, the estimates as per the 2006 feasibility study (conducted by the former DME) revealed that the targeted 2% biofuels scenario can create about 25 000 jobs.
- Government's intention is to only allocate the producer (investor) incentive to projects that involve expansion that assist in achieving the 2% target.
- Commendable ground has been covered in pursuit of realising South Africa's biofuels aspirations.



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SOUTH AFRICAN BIOFUELS ASPIRATIONS

- **2013 target:** 2% biofuels penetration (about 400 million liters per annum) into the national liquid fuels pool.
- **South Africa's biofuels objectives :**
 - ❖ Contribute towards the achievement of the national renewable energy policy targets;
 - ❖ Contribute towards improving energy security in the country
 - ❖ Contribute towards the reduction of greenhouse gas emissions;
 - ❖ Facilitate rural economic development through job creation, SMME development, etc.;
 - ❖ Stimulate agricultural production in the under-utilised agricultural areas of the country; and
 - ❖ Integrate historically disadvantaged farmers, especially in the former homelands, into the mainstream agricultural and energy economies.



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UPDATE ON LICENSING OF BIOFUELS MANUFACTURING FACILITIES

No.	Company Name	Plant Type (bioethanol/biodiesel)	Capacity (million liters per annum)	Location	License status
1	Arengo 316 (Pty) Ltd.	Sorghum-based Bioethanol	90	Cradock, Eastern Cape	Granted
2	Mabele Fuels	Sorghum-based Bioethanol	158	Bothaville, Free State	Issued
3	Ubuhle Renewable Energy	Sugarcane-based Bioethanol	50	Jozini, KZN	Granted
4	Rainbow Nation Renewable Fuels Ltd.	Soybean-based Biodiesel	288	Port Elizabeth, Eastern Cape	Issued
5	Exol Oil Refinery	Waste Vegetable Oil-based Biodiesel	12	Krugersdorp, Gauteng	Granted
6	Phyto Energy	Canola-based Biodiesel	> 500	Port Elizabeth, Eastern Cape	Initial stages of license application
7	Basfour 3528 (Pty) Ltd	Waste Vegetable Oil-based Biodiesel	50	Berlin, Eastern Cape	Granted
8	E10 Petroleum Africa CC	Bioethanol	4.2	Gauteng , Germiston	Granted
TOTAL			> 1,000		

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Granted means the applicant has not met all the requirements but is now in possession of a **conditional** manufacturing license.

Department: **Issued** means the applicant has met all the requirements and is now in possession of a manufacturing license.

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EXISTENT BIOFUELS INCENTIVES

- Currently bioethanol falls outside the fuel tax net, and is therefore 100% exempt from fuel tax.
- Biodiesel falls within the fuel tax net, and biodiesel manufacturers receive a rebate of 50% on the general fuel levy.
- All renewable energy projects (including biofuels) qualify for an Accelerated Depreciation Allowance of 50:30:20 over three years.
- Over the year, these incentives have proven not be sufficient to lure investments in the biofuels sector, hence the need to establish a more enabling and supportive regulatory framework.



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Biofuels Mandatory Blending Regulations:

- Issued draft regulations on 16 September 2011 to solicit public comments until 18 November 2011;
- Hosted a stakeholders' workshop on 24 February 2012;
- Gazetted the final regulations on 24 August 2012; and
- DoE will firm up the date of coming into effect of the mandatory blending regulations after conclusion of the the incentive scheme together with National Treasury.

Biofuels Pricing Framework:

- Initiated pricing studies (*Blending-value & Break-even price determination*) in February 2011 & completed in December 2011.



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Biofuels Pricing Framework (cont')

- Hosted a stakeholders' workshop on 16 March 2012;
- Convened a number of incentives discussions with Treasury and *the dti* and, to this end:
 - ❖ Finalised the subsidy principles;
 - ❖ The *draft* pricing regulations and rules for administering the biofuels prices (internal working document already developed); and
 - ❖ National Treasury is developing a biofuels support mechanism.



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Blending Options & Capital Investments:

Refinery blending (R278 million)

- All ethanol blending occurs at the 6 refineries in South Africa in order to minimise the investment in the industry.

Depot blending (R459 million minimum)

- All ethanol blending occurs at depot level.
- Blending investment is limited to 2 large depots for each of the 7 oil companies.



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Blending Options & Capital Investments (cont')

A mixture of refinery and depot blending (R421 million)

- Following the indicated preferences of the oil companies, it is assumed that 2 companies will blend at refinery and the remainder will blend at depots (2 each).



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Bioethanol-Biodiesel Comparison

	Bioethanol (sorghum)	Biodiesel (soya beans)
Incentive for 15% ROA (includes any rebate)	195 c/l	253 c/l
Reference plant capacity	158 million litres	113 million litres
Estimated job creation per reference plant	8 247	20 067
Estimated GHG emissions savings *	30%	50%



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SOME ON-GOING & OUTSTANDING BTT ACTIVITIES

ACTIVITY	RESPONSIBILITY	DEADLINE
Provide an update on research findings or status quo of 2 nd generation biofuels as well as an argument or counter-argument on the inclusion or continued exclusion of 2 nd generation bio-fuels.	<i>DST</i>	31 March 2013
Support emerging farmers in negotiating contracts with bio-fuels manufacturers as well as financial assistance	<i>DAFF</i>	31 December 2013
Provide argument or counter-argument on the inclusion or continued exclusion of maize & Jatropha on the list of permitted feed stocks	<i>DAFF</i>	31 March 2013



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BTT – A Cabinet mandated Inter-departmental Biofuels Task team established in 2005

SOME ON-GOING & OUTSTANDING BTT ACTIVITIES

ACTIVITY	RESPONSIBILITY	DEADLINE
Broaden the general public's knowledge as well as acceptance of biofuels	<i>BTT & GCIS</i>	On-going
Provide technical support to emerging and aspirant farmers.	<i>DAFF & SOCs</i>	On-going



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Purpose: To brief Cabinet on the steps to be taken to implement the Cabinet Lekgotla decision on action Plan 7 to unblock investments in the biofuels industry.

- Noted the imminent publication of the mandatory blending regulations by the Department of Energy;
- Requested the urgent finalisation of the financial incentive measures taking into account economic costs and benefits;
- Agreed that the Minister of Trade and Industry reviews the previous list of approved allowable feedstock to include, amongst others, sugar and sorghum and the potential of importing such feedstock in future;



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CABINET RESOLUTIONS OF 26 OCTOBER 2011

- Agreed that explicit conditionalities be linked to subsidies and licensing, especially as it relates to the promotion of small scale farming and job creation, amongst others;
- Requested the Department of Water and Environmental Affairs to convene a meeting of the Directors General of the Department of Energy, of Economic Development, of Rural Development and Land Reform, of Agriculture, Forestry and Fisheries , of Science and Technology , of Higher Education and Training and of trade and Industry within a period of two weeks to develop a biofuels water policy position for biofuel feedstock farmers; and



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CABINET RESOLUTIONS OF 26 OCTOBER 2011 (cont')

- Requested the Department of Science and Technology to develop a national priority strategic research thrust to place South Africa at the forefront of 2nd and 3rd generation biofuel research.



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CLOSING REMARKS

- A number of outstanding issues/deliverables are still work-in-progress due to the required technical investigations.
- Even though the 2013 target will be missed, the country is set to produce biofuels in excess of the originally set annual target when the overall enabling & supporting framework (*mandatory blending regulations, pricing framework*) takes effect.
- As much as the local biofuel industry is currently in its infancy stage, it does possess long term potential for growth.



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THANK YOU



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