Road Fund
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REVIEW OF THE ROAD USER CHARGING SYSTEM OF THE ROAD FUND ADMINISTRATION

PART B: STUDY ON MACRO-ECONOMIC IMPACTS OF ECONOMIC EFFICIENCY IN THE ROAD SECTOR

PHASE 3: REVIEW OF FUEL TAXATION POLICY

FINAL REPORT

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EXECUTIVE SUMMARY

The purpose of this report is to provide the findings of Phase 3: Review of Fuel Taxation Policy, of Part B: Study on Macro-Economic Impacts of Economic Efficiency in the Road Sector, which forms part of the overall Road User Charges Review Study for the Roads Fund Administration.

Review of Existing Fuel Taxation Policy
The study was aimed at reviewing the existing fuel taxation policy in terms of the following:

- ICTE Issues Paper on Fuel Taxation Principles, March 1994.
- Cabinet Memorandum on Integrated Fuel Taxation Policy for Namibia, December 1996.

The *ICTE Issues Paper on Fuel Taxation Principles* of March 1994 was summarised in terms of the main findings with regard to the fuel price and revenue taxation, as well as the principles according to which the imposition of purely revenue type taxes of fuel sales should be carried out.

The *1996 Cabinet Memorandum* regarding an *Integrated Fuel Taxation Policy for Namibia* was summarised in terms of the following:

- The components of the pump price of fuel;
- The principles according to which the basic price of fuel should be regulated;
- The general principles to which the various user levies included in the price of fuel should conform to; and
- The principles according to which revenue taxes should be set.

The proposed integrated policy was approved by Cabinet in 1996, in terms of which a distinction was made between a fuel levy for dedicated purposes, and a fuel (revenue) tax for general Government purposes. The current fuel levy consists of a revenue tax (calculated as a percentage of the basic price of fuel) and a road user charges levy (calculated as the remainder of the fuel levy after calculation of revenue tax).

Fuel Prices, Fuel Taxation Practice and Fiscal Policy in General
A brief explanation was provided of the composition of fuel prices, fuel taxation practice and fiscal policy in general, in terms of which general (revenue) taxes are implemented. A brief review of the regional fuel taxation approach was also provided. The brief review of the regional approach indicated that several countries follow an approach where a distinction is made between a fuel levy for dedicated purposes and a general (revenue) tax which is paid to the General Fiscus. These countries are Namibia, Lesotho, Tanzania, Kenya, Zambia, Malawi, Swaziland and partly Mozambique. Only in some countries is provision made for a refund of the fuel levy to users of fuel for off-road purposes.

Fuel Taxation Practice and Fiscal Policy in Namibia
A brief discussion was also provided with respect to fuel taxation practice in Namibia, where a clear distinction is made between a fuel levy for dedicated purposes and a general (revenue) tax. The RUC Review study that was carried out, which included a review of the fuel levy as only road user charging instrument, indicated that the use of the fuel levy as only RUC instrument is attractive in terms of low collection cost and low revenue risk and simplicity, but

that various disadvantages accompany this approach, including high increases in the fuel price and the inequity in cost recovery between vehicle classes. For these reasons the fuel levy as only road user charging instrument is not considered a practical option.

The study indicated that the fuel levy as road user charging instrument should be maintained, but that it should be used as is the current practice, in combination with license fees and the cross-border charges system as well as the gradual phasing in of Mass Distance Charges (MDCs). The levels of the fuel levies should be increased and can be phased in over time to increase revenues up to the optimal long-term level required for sustainable funding.

Conclusions

It can be concluded that maintaining the fuel levy as road user charging instrument is in line with current fuel taxation policy as practiced in Namibia in terms of the *1996 Cabinet Memorandum on an Integrated Fuel Taxation Policy for Namibia,* which distinguishes between a fuel levy for dedicated purposes, and a general fuel (revenue) tax. It can therefore be concluded that the current fuel taxation policy, as practiced in Namibia, will support the recommendations as per the report: Part C: Review of Road User Charges: RUC Policy Document, Revised NAMRUC Model & RUC Strategy, April 2004.

Recommendations

Based on the above, and taking into consideration that the current fuel taxation policy is a function of the mix of the RUC instruments analysed, the following recommendations are made:

1. That the current fuel taxation policy, which consist of a breakdown of the fuel tax into a revenue tax and a road user charge levy, be maintained;
2. That the fuel levy be maintained as RUC instrument, and that a combination of the current RUC instruments (e.g. fuel levy, license fees and cross-border charges system) should be considered, where a more even increase in the fuel levy would be acceptable, and with introduction of a Mass Distance Charging System (MDCS).
3. That the existing fuel taxation practice in Namibia, where a distinction is made between a fuel levy for dedicated purposes and a general (revenue) tax be continued and finalised in accordance with the combination of RUC instruments to recover road user costs.

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1. INTRODUCTION

The Road Fund Administration (RFA) was established to manage the road fund and the road user charging system. One of the responsibilities of the RFA includes the imposition of road user charges, and specifically, a fuel levy. Subsection 18(1) of the RFA Act, 1999 (Act No 18 of 1999), state the following:

> *"Subject to section 19, the Administration may from time to time... impose… subject to subsection (4)(f), a levy on every litre of petrol and every litre of diesel sold by any undertaking at any point in Namibia and which is to be included in any determination of the selling price of petrol or diesel, as the case may be, under any law relating to petroleum products".*

During June 2003 Africon Namibia was appointed to conduct a review study of the current RUC System. Part of this study includes a review of the existing fuel taxation in Namibia.

The aim of this report is the following:

- To provide a background of the current fuel taxation in Namibia;
- To review current fuel taxation;
- To present a brief discussion of fuel prices, fuel taxation practice and fiscal policy in general;
- To provide a brief discussion of fuel taxation practice in Namibia;
- To provide recommendations regarding the continuance and future of the existing fuel taxation in Namibia.

This report represents the **Final Report,** and is structured as follows:

- Section 1 (this section) provides the introduction;
- Section 2 presents the background to the current fuel taxation in terms of the ICTE Road Taxation Study and also the 1996 Cabinet Memorandum on an Integrated Fuel Taxation Policy for Namibia;
- Section 3 presents fuel prices, fuel taxation practice and fiscal policy in general, and includes a brief discussion on the regional approach to fuel taxation;
- Section 4 provides a brief discussion of fuel taxation practice in Namibia;
- Section 5 concludes the report and provides recommendations regarding the continuance of the existing fuel taxation practice in Namibia.

2. BACKGROUND

The following distinction is made between a fuel levy and purely revenue type taxes.

A fuel levy, of which the purpose is to recover the variable cost of road use, is one of the instruments that can be implemented as a road user charge. The purpose of road user charges is to have road users pay for their use of roads. Users of fuel used for off-road purposes should be excluded from having to pay the fuel levy, and should be refunded for diesel purchased for off-road purposes. This mainly pertains to diesel. Currently, such users are being refunded through means of the fuel levy refunding system[1].

Purely revenue type taxes on fuel refer to general taxes. Revenue obtained from these taxes is used for general purposes and is therefore not dedicated such as is the case with the fuel levy in Namibia.

For purposes of this report a fuel tax refers to a general tax while a fuel levy refers to a dedicated source of revenue for the road sector.

This section presents the background to the current fuel taxation policy in Namibia in terms of the following:

- The ICTE Issues Paper on Fuel Taxation Principles; and
- The 1996 Cabinet Memorandum on an Integrated Fuel Taxation Policy for Namibia.

These items are discussed in more detail below.

2.1 ICTE ROAD TAXATION STUDY

During August 1994 the Inter-Ministerial Committee of Technical Experts (ICTE) proposed a document entitled *A Proposed Policy on Road User Charging,* with the aim of providing guidelines for the implementation of a RUC System in Namibia. As part of the proposed policy on road user charges, the ICTE undertook a special investigation into the principles to be applied to revenue taxation of fuel products, by focussing on fuel pricing and taxation policy. This investigation culminated in the *ICTE Issues Paper on Fuel Taxation Principles* of March 1994.

The main findings of the ICTE investigation with regard to the fuel price and revenue taxation were the following:

- The total final pump price of fuel is composed of elements consisting of (a) the cost of supplying fuel (including normal profits), (b) levies earmarked for a specific purposes and (c) taxes on fuel for general revenue purposes;
- The necessity to keep the fuel price as stable as possible provides a strong motivation for stable expenditure programmes on roads maintenance and especially new capital works.
- Revenue taxation on fuel should be transparent to consumers.

[1] The fuel levy refunding system is aimed at refunding users that purchase fuel for off-road purposes. During 2003/2004 a review was carried out of the fuel levy refunding system, as part of the overall review of the road user charges. The operation of system is addressed in detail in a separate report, namely the *Final Report: Review of the Fuel Levy Refunding System.*

- If it is deemed necessary to impose revenue taxes on fuel sales, the consumers of petrol fuel should be taxed rather than the consumers of diesel fuel.
- Revenue taxes on fuel should not impact negatively on the competition between road and rail transport modes.

With regard to revenue tax on fuel sales, the *ICTE Issues Paper* recommended that the imposition of purely revenue type taxes on fuel sales be considered in accordance with the following principles:

- Purely revenue type taxes on fuel should be avoided altogether, if at all possible;
- If purely revenue type taxes are imposed on fuel sales they should, as far as possible, be levied in accordance with principles applicable to other commodities in the economy;
- If purely revenue type taxes are levied on fuel sales they should take account of the income distributional implications and preferably be biased towards levies on petrol rather than diesel sales;
- The implications of increasing the price of fuel by the addition of a purely revenue type tax for the inter-modal competition between road and rail should be taken into account;
- Purely revenue type taxes, if calculated as a proportion of the fuel price (i.e. *ad valorem* type taxes), should be calculated on the price of fuel nett of user levies;
- The effect of fuel price increases in Namibia on the relative price of fuel in Namibia and neighbouring countries be taken into account whenever purely revenue type taxes are considered;
- Purely revenue taxes should be levied in a manner transparent to the consumers and the general taxpayer; and
- The effect of fuel price increases on inflation should be taken into account.

In general, the *ICTE Issues Paper* recommended that the principle of an integrated fuel pricing policy be adopted.

2.2 1996 CABINET MEMORANDUM ON AN INTEGRATED FUEL TAXATION POLICY FOR NAMIBIA

Based on the recommendation of the ICTE that the principle of an integrated fuel pricing policy be adopted, and the need that existed to set fuel taxes in terms of a clearly defined policy framework, a request for such a policy was submitted to the Office of the Prime Minister: Cabinet Secretariat.

The submission request to the Cabinet can be summarised as follows:

- The pump price of fuel should be seen as consisting of three fundamental components, namely (a) the basic price of fuel, (b) the user levies included in the price of fuel and (c) taxes on fuel.
- The basic price of fuel should be regulated in accordance with the following principles:
  - Be kept as low as possible, by effective monitoring of the oil importing, -refining and –distribution industries;
  - Be kept as stable as possible;
  - Be adjusted periodically to more closely reflect price movements internationally and in neighbouring countries.

- The various user levies included in the price of fuel should conform to the following general principles, but subject to specific objectives and principles which may be applicable in a specific case:
    - Only be included where fuel consumption is a reasonable proxy for the service concerned;
    - Only apply to the fuel user categories concerned;
    - Reflect the cost of efficient and effective provision of the service concerned;
    - Be based on specific and not *ad valorem* rates;
    - Be transparent and accountable to the legislator and tax payers;
    - Be stable over time; and
    - Be subject to independent regulation to ensure adherence to principle.

- Revenue taxes such as customs duties and sales taxes should be set according to the following principles:
    - At similar tax rates and according to similar principles as other commodities;
    - Be ad valorem type taxes;
    - Be calculated on the cost of fuel nett of other levies;
    - Be applicable to all fuel users;
    - Take account of income distributional effects;
    - Take account of inflationary effects;
    - Take account of fuel prices in neighbouring countries; and
    - Be transparent.

Cabinet approved of the proposed policy framework for fuel taxation as set out above in December 1996.

3. FUEL PRICES, GENERAL FUEL TAXATION PRACTICE AND FISCAL POLICY

3.1 INTRODUCTION

Taxation of petroleum products affects 3 major sectors, namely (1) the transport sector (mainly road, rail and air transport), (2) the industrial sector (mainly electricity production and (3) the household sector (in developing countries mainly for cooking purposes). It is general practice to tax petroleum products by variable percentages depending on their end use. As a rule of thumb, the taxation of transport fuels also smoothes the way for the taxation of fuels and energy in other sectors. A sound transport policy requires a sector policy, which essentially comprises the following major steps:

a) The elimination of fuel subsidies;
b) The taxation of transport fuels to cover all costs of road maintenance and construction in the country;
c) Further taxation to balance the total expenditure in the transport sector.

Within the highly sophisticated tax systems of industrialised countries, fuel taxes play an increasingly important role. In developing countries, collection of income taxes and sales taxes as the main sources of state revenue is problematic. Therefore the easy-to-collect fuel tax is an important financial source for government. In some cases, the tax on fuel may even be the single most important tax.

A distinction should be made between fuel price increases due to (1) a road user charge increase, and (2) fuel price increases due to other causes, such as the price of crude oil and exchange rate[2] fluctuations, and the impact that these respective fuel price increases have on the inflation rate. For these purposes, this section aims to explain and describe the functioning of fuel prices and corresponding fuel price increases, and the related factors that influence the price of fuel.

3.2 FUEL PRICE

There are two main types of factors affecting the price of petrol and diesel, namely:

1. External factors, which refer to the dollar price of the products on world markets multiplied by the respective exchange rate. This is also referred to as the In Bond Landed Costs[3] (IBLC). The external factors move constantly and account for most of the movements in prices.
2. Internal factors, which refer to the dealer and oil company marketing margins, transport costs, taxes and levies. Movements in internal factors may be subject to Government control.

[2] The exchange rate is the value of one currency in relation to another currency. The price of a currency depends on supply and demand, which is affected by many factors, including interest-rate differentials, relative inflation, export competitiveness, economy growth, deficits and debt.
[3] The world price of a refined product landed in Namibia at any given time is referred to as the In Bond Landed Cost (IBLC). The IBLC is dependent on factors such as the N$/US$ exchange rate, crude oil costs etc.

3.2.1 External Factors

World oil and financial markets respectively drive movements in petroleum products prices together with the US$/N$ exchange rate. Crude oil prices are determined internationally through the OPEC[4] cartel arrangement. Oil is an internationally traded commodity, and therefore the margins between the cost of crude oil and refined products in international markets fluctuate in line with global trends in supply and demand, and also the perceptions of a global marketplace. External factors such as world prices of oil and exchange rate fluctuations are outside the control of the authorities or other interested parties in Namibia.

OPEC also provides in world oil demand, and any constraint on oil production capacity by OPEC, such as oil supply disruptions, leads to price increases in the oil commodity, and subsequently to increases in the price of fuel, which will have a secondary impact on the prices of consumer goods and services. The impact of a fuel price increase will be more significant when a country is (a) a large-scale importer of oil and (b) has many industries that use oil as an essential input in the production process.

<u>Inflationary Impact of External Factors</u>
An increase in oil prices results in an increase in the price of petroleum products, which lead to price increases in the production process of goods and services, as well as an increase in the cost of road transport. A sustained rise in oil prices would therefore be expected to translate into higher production costs and increased inflation, lower profitability and reduced incomes, depressed consumer and business confidence and spending, and ultimately, more subdued economic growth.

It is unavoidable that external factors such as the price of crude oil and exchange rate fluctuations will have an impact on domestic prices of a country, and consequently on inflation.

3.2.2 Internal Factors

The pump price of fuel consists of the basic fuel price, as well as various components such as the RUC component of the fuel levy, other taxes, levies and duties as well as industry and retail margins and transport costs. Internal factors are all within the control of Government.

<u>Inflationary Impact of Internal Factors</u>
The imposition of fuel taxes results in an increase in the basic price of fuel, which lead to an increase in road transport costs, an increased tax burden on transport users and ultimately, an increase in inflation.

Government should therefore take into consideration the inflationary impact when imposing taxes on fuel, and should take care to impose gradual and even increases in such taxes to avoid a negative impact on the consumer and the national economy in general.

[4] OPEC (Organisation of Petroleum Exporting Countries) is an international organisation of 11 developing countries, all of who are substantial net exporters of oil.

3.3 GENERAL FUEL TAXATION PRACTICE AND FISCAL POLICY

Fuel taxation can be described as the difference between the *Normal Sales Price (excluding fuel tax)* and the sales price at the service station. Levies on fuel serve a variety of purposes:

- It represents an important source of general government revenue;
- It can have positive environmental effects, to the extent that it limits fuel consumption;
- The limitation of consumption has positive effects on the balance of payments.

Fuel (revenue) taxes are a government fiscal instrument that is implemented in terms of the fiscal policy[5] of a country, as compared to a fuel levy, which is used for dedicated purposes, and which is not determined by fiscal policy.

In order to develop a sustainable transport system it is important that the decision-making process allows the development and implementation of policies such as fiscal policy that could contribute towards the attainment of such a system.

In developing fiscal policy, Governments should take into mind that fuel price increases through means of fuel taxes should not impose in a significant way on the income- and expenditure levels of households and the fuel consumer. Fuel taxation policy should be balanced and appropriate both to the fiscal needs and to the nature of the economy of a country.

The price of fuel is a highly sensitive matter as it impacts on individual businesses, and ultimately on the national economy as a whole. The taxation of fuel is a worldwide fiscal practice. However, care should be taken not to have the effect that a fuel taxation policy impact negatively on the general road user, and to have policies in place that ensure fair fuel taxation.

Several concerns have been raised in the past with regard to fuel taxation of road users and the policies that governs it. These concerns include the following:

- That revenues obtained from fuel taxation is being used to support other sectors of the economy;
- That negligence and lack of government control on semi-legal practices in the fuel sector may lead to substantial losses of tax revenues;
- Inadequate control over local fuel companies;
- Difficulty of practical control.

A sound transport policy requires a sector policy, which essentially comprises the following major steps:

- The elimination of fuel subsidies;
- The taxation of transport fuels to cover all costs of road maintenance and construction in the country;
- Further taxation to balance the total expenditure in the transport sector.

[5] The term fiscal policy refers to the budgetary policy of a country, and is used to describe the revenue, expenditure and borrowing policies of central government, and also the taxing practices that government uses to achieve certain economic goals, especially economic growth and full employment, through its overall budgetary decisions.

Fuel taxation distorts and increases transport costs, affects the inter-modal competition between road and rail, increases inflationary pressure and, if levied on diesel fuel, increases the cost of production in almost all sectors of the economy. However, fuel prices must be increased from time to time for the following two reasons:

- To compensate for the gradual “relative adjustment” to what are often quite considerable national inflation[6] levels and/or as a direct result of local currency devaluation;
- To effect “structural price increases”.

An increase in the fuel price generally sets in motion an inflationary spiral, which results in the relative price of petrol. Fuel price increases should never exceed 10% of the pump price at any one time in real terms. Instead, long-terms price strategies based on numerous regular but modest price increases are to be recommended. This would be a fairer way of imposing fuel price increases onto the fuel consumer, who is very sensitive with regard to its own purchasing power.

During an investigation undertaken in 1989 by the University of Pretoria in South Africa[7], it was indicated that taxation through the fuel price has much greater implications for the affluent part of the population who already carry a far greater tax burden than the less affluent. The study furthermore indicated that the demand for fuel is relatively price inelastic[8] and therefore increases in the fuel price have a relatively small effect on the demand for petrol. Very large fuel price increases are necessary to influence fuel consumption.

Governments should therefore not only be aware of price levels in neighbouring countries to ensure a harmonised fuel system as far as possible, but should also take into consideration the purchasing power of the fuel consumers of the specific country.

To support the general goal of economic growth, the allocation of taxes has to follow certain principles. In the case of transport, the GTZ Document[9] states that the following 5 principles for fuel taxes have to be considered and applied in strict hierarchical order.

1. <u>Principle 1: User-Pays Concept of Fuel Taxes as a “Road Fee”</u>

The fee for using and damaging the road is levied by way of a fuel surcharge. Thus, the financing of the roads sector via fuel surcharges is the primary pricing-policy task in all countries.

2. <u>Principle 2: Road Network Concept for Limited Cross-Subsidisation</u>

In developing countries, cross-subsidisation takes place between the national roads of the main network on the one hand and rural roads on the other hand.

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[6] Inflation can be described as an increase in the overall price level of goods and services, with a corresponding decrease in the purchasing power of money. The primary cause of inflation is an increase in the supply of money, relative to the availability of goods and services.
[7] Source: ICTE Issues Paper on Fuel Taxation Principles, March 1994.
[8] Price elasticity of demand refers to the measurement of the responsiveness of a change in demand for a product, as a result of a change in the own price of the product. If the value of price elasticity of demand > 1, then demand is price elastic. If the value of price elasticity of demand < 1, then demand is price inelastic.
[9] GTZ, 2003. International Fuel Prices, 3rd Edition. Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ). May 2003.

3. Principle 3: The Sector Concept: "Transport Finances Transport: for the Balance of State Transport Budgets

A balanced transport sector budget at a national level is required. This means that deficits for other transport undertakings, which cannot be eliminated in the short run, have to be covered by the profits/surplus achieved in other sub-sectors of the 'transport family'. This refers primarily to fuel revenue from road transport.

4. Principle 4: The Concept of Surplus "Luxury" Taxation of Gasoline for Non-Commercial (Private) Passenger Vehicles

The taxation of petrol-driven passenger cars are viewed as more justified than the taxation of commercial diesel-driven vehicles which consequently means that petrol often costs more than diesel at the pump.

5. Principle 5: The Commercial VAT Concept of Value Added Tax, or Sales Tax for General State Taxation Purposes

This tax is needed to help defray the cost of general state administration and is calculated on the basis of the sales value of the goods, including all other previous taxes.

3.4 REGIONAL APPROACH TO FUEL TAXATION

As a general principle road user charging systems in neighbouring countries should be in harmony. For this purpose fuel prices in neighbouring countries should be taken into consideration when determining fuel tax levels for a country.

Table 3-1 indicates the following:

- fuel prices (petrol and diesel) in Namibia and other countries in the region;
- percentage taxes, levies and duties on fuel for Namibia and other countries in the region;
- countries where the fuel levy is used for dedicated purposes;
- countries that make provision for a refund of the fuel levy to users of fuel for off-road purposes.

Table 3-1: Fuel Prices (N$ / litre) and Taxes, Levies[1] and Duties on Fuel (%)

Country	Petrol Price (N$/l)[2]	Diesel Price (N$/l)[2]	Taxes, Levies & Duties on Petrol (%)[1]	Taxes, Levies & Duties on Diesel (%)[1]	Fuel Levy For Dedicated Purposes	Refund to Off-Road Users
Namibia	3.70	3.60	28.65	29.44	Yes	Yes
Lesotho	3.78	3.55	27.06	28.47	Yes	No
South Africa	3.84	3.50	29.22	25.71	No	Yes
Tanzania	6.80	6.40	54.83	55.29	Yes	No
Kenya	5.03	4.59	38.00	28.00	Yes	N/a
Angola	1.41	0.94	N/a	N/a	No	N/a
Mozambique	3.74	3.74	N/a	N/a	Yes/No[3]	Yes/No[4]
Zambia	5.44	6.10	N/a	N/a	Yes	N/a
Malawi	5.38	4.75	N/a	N/a	Yes	N/a
Botswana	3.48	3.25	18.93	15.99	No	No
Swaziland	3.60	3.45	31.32	30.64	Yes	No
Uganda	6.08	5.21	47.15	38.54	No	No

Source: Various

[1] Dedicated fuel levy included.
[2] Prices as at the respective exchange rates on 29 October 2003.
[3] Not specifically dedicated but partly transferred to Road Fund.
[4] No refund system as such but Special Agricultural Fund to compensate agricultural users.
N/a = Not available.

From Table 3-1 it can be deducted that fuel prices in Namibia are in the same region as those of Lesotho, South Africa, Mozambique, Botswana and Swaziland. Fuel prices in Uganda, Kenya, Zambia and Malawi are much higher than in Namibia.

Furthermore, it is also evident from the above table that several countries (Namibia, Lesotho, Tanzania, Kenya, Zambia, Malawi, Swaziland, and partly Mozambique) apply the practice of distinguishing between a fuel levy, which is used for dedicated purposes, and a general tax, which is paid to the General Fiscus. Provision is made for fuel levy refunds for fuel used for off-road purposes in Namibia, South Africa and partly in Mozambique.

The next section aims to present fuel taxation practice in Namibia, in more detail.

4. FUEL TAXATION PRACTICE AND FISCAL POLICY IN NAMIBIA

Namibia's main development objectives are:

- Poverty reduction;
- Reduction of income inequality;
- Sustainable economic growth and employment creation.

A sound fiscal policy is vital for economic development, and, in the light of the above objectives, when developing and applying fiscal policy, care should be taken in the application of fiscal instruments such as fuel taxes and road user charges, as methods of revenue collection for general revenue and for the use in the road transport sector.

Current fuel taxation policy and principles in Namibia is based on the *1996 Cabinet Memorandum on an Integrated Fuel Taxation Policy for Namibia*, as approved by Cabinet.

The current components of the Namibian fuel price consist of the following breakdown:

- Basic list price;
- Industry margin;
- Dealer margin;
- NEF levy;
- Slate levy[10];
- MVA levy;
- Customs & excise duty;
- RUC levy;
- Fuel levy (for dedicated purposes);
- Fuel tax (revenue tax paid to General Fiscus);
- Storage and handling;
- Delivery;
- Depot railage;
- Service differential;
- Over-/under recovery;

The current fuel tax consists of a fuel (revenue) tax[11] and also a road user charges levy[12], as was proposed in the Cabinet Memorandum. The fuel tax breakdown in 1996, September 2000 and September 2003 is shown in Table 4-1.

[10] The slate levy is only temporary in nature.
[11] The revenue tax is calculated as a percentage of the basic fuel price.
[12] The RUC levy is normally calculated as the remainder of the fuel levy after calculation of revenue tax. However, in September 2000 and September 2003 the RUC levies were not calculated in this manner, as the levies were set by agreement between the Ministry of Mines and Energy (MME) and the RFA.

Table 4-1: Fuel Tax Breakdown

Fuel Type	Fuel Tax Component	Cabinet Memo 1996 (c/l)	September 2000 (c/l)	September 2003 (c/l)
Petrol	RUC Levy	57.4	68.0	73.00
	Revenue Tax	2.5	12.0	22.00
	Total	59.9	80.0	95.00
Diesel	RUC Levy	49.9	60.0	73.00
	Revenue Tax	2.5	10.0	20.00
	Total	52.4	70.0	93.00

Table 4-2 indicates the levels of the fuel levy (RUC levy component) for the period 2000-2003.

Table 4-2: Levels of Fuel Levy

Date	Levy (c/l)		% Levy Increase	
	Petrol	Diesel	Petrol	Diesel
1 January 2000	70*	80*	N/A	N/A
1 April 2000	60	68	N/A	N/A
1 September 2001	62	73	3.33%	7.35%
15 January 2003	73	73	17.74%	0.00%

Note: *Before conversion of fuel tax into RUC component and revenue tax component.
Source: RFA
N/A Not applicable.

Table 4-2 indicates a gradual increase in the levels of the fuel levy from 2000 until 2003 except for a drastic increase in the petrol levy from 62 cents per litre to 73 cents per litre on 15 January 2003.

During 2003/2004 a RUC Review study was carried out with the main purpose of investigating and determining whether (1) current revenue levels are sufficient and adequate and (2) the current RUC System adheres to the principles of equity and efficiency. This included a review of the fuel levy, which was implemented as a road user charging instrument and which is used for dedicated purposes in the road sector in Namibia. The review indicated the following main conclusions and recommendations:

- Although the use of the fuel levy as only RUC instrument is attractive in terms of low collection cost, low revenue risk and simplicity, there are various disadvantages. Such an approach would require high increases in the fuel price and the inequity in cost recovery between vehicle classes will increase. This option is therefore not considered practical.
- The current RUC instruments should be maintained, namely the fuel levy, license fees and the cross-border charges system, and MDCs should be implemented.
- The levels of the fuel levies should be increased and can be phased in over time to increase revenues up to the optimal long-term level required for sustainable funding.

Detailed information regarding the above can be found in the report: **Part C: Review of Road User Charges: RUC Policy Document, Revised NAMRUC Model & RUC Strategy.**

5. CONCLUSIONS AND RECOMMENDATIONS

The purpose of this report was to provide a review of the existing fuel taxation policy in Namibia, to use as a basis to provide recommendations to the RFA with regard to the future and continuance of the existing fuel taxation policy.

As a first step, the existing fuel taxation policy was reviewed in terms of the *ICTE Issues Paper on Fuel Taxation Principles* of March 1994, as well as the Cabinet Memorandum of 1996 regarding an *Integrated Fuel Taxation Policy for Namibia.* The proposed policy was approved by Cabinet in 1996, in terms of which the current fuel tax consist of a revenue tax (calculated as a percentage of the basic price of fuel) and a road user charges levy (calculated as the remainder of the fuel levy after calculation of revenue tax).

This was followed by a brief explanation of the composition of fuel prices, fuel taxation practice and fiscal policy in general, as well as a short review of the regional approach to fuel taxation, including general fiscal policy, in terms of which general (revenue) taxes are implemented. The brief review of the regional approach indicated that several countries follow an approach where a distinction is made between a fuel levy for dedicated purposes and a general (revenue) tax which is paid to the General Fiscus. These countries are Namibia, Lesotho, Tanzania, Kenya, Zambia, Malawi, Swaziland and partly Mozambique. Only in some countries provision is made for a refund of the fuel levy to users of fuel for off-road purposes.

A brief discussion was also provided with respect to fuel taxation practice in Namibia, where a clear distinction is made between a fuel levy for dedicated purposes and a general (revenue) tax. The RUC Review study that was carried out, which included a review of the fuel levy as only road user charging instrument, indicated that the use of the fuel levy as only RUC instrument is attractive in terms of low collection cost and low revenue risk and simplicity, but that various disadvantages accompanies this approach, including high increases in the fuel price and the inequity in cost recovery between vehicle classes will increase. For these reasons the fuel levy as only road user charging instrument is not considered a practical option.

The study indicated that the fuel levy as road user charging instrument should be maintained, but that it should be used as is the current practice, in combination with license fees and the cross-border charges system, and the introduction of MDCs. The levels of the fuel levies should be increased and can be phased in over time to increase revenues up to the optimal long-term level required for sustainable funding.

It can be concluded that maintaining the fuel levy as road user charging instrument is in line with current fuel taxation policy as practiced in Namibia in terms of the *1996 Cabinet Memorandum on an Integrated Fuel Taxation Policy for Namibia,* which distinguishes between a fuel levy for dedicated purposes, and a general fuel (revenue) tax. It can therefore be concluded that the current fuel taxation policy, as practiced in Namibia, will support the recommendations as per the report: Part C: Review of Road User Charges: RUC Policy Document, Revised NAMRUC Model & RUC Strategy, April 2004.

Based on the above, and taking into consideration that the current fuel taxation policy is a function of the mix of the RUC instruments analysed, the following recommendations are made:

1. That the current fuel taxation policy, which consist of a breakdown of the fuel tax into a revenue tax and a road user charge levy, be maintained;

2. That the fuel levy be maintained as RUC instrument, and that a combination of the current RUC instruments (e.g. fuel levy, license fees and cross-border charges system) should be considered, where a more even increase in the fuel levy would be acceptable, and with introduction of a Mass Distance Charging System (MDCS).
3. That the existing fuel taxation practice in Namibia, where a distinction is made between a fuel levy for dedicated purposes and a general (revenue) tax be continued and finalised in accordance with the combination of RUC instruments to recover road user costs.

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