

PART C: REVIEW OF ROAD USER CHARGES

PHASE 2: REVIEW OF THE FUEL LEVY REFUNDING SYSTEM

FINAL REPORT

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Prepared for:

Road Fund Administration
Private Bag 13372
Windhoek
NAMIBIA

Prepared by:

Africon Namibia
C/o PO Box 5353
Windhoek
NAMIBIA



EXECUTIVE SUMMARY

The purpose of this report is to provide the findings of the review of the current Fuel Levy Refunding System, which forms part of the overall Road User Charges Review Study for the Roads Fund Administration. The study was aimed at reviewing the existing fuel levy refunding system and investigating and evaluating several options for the future operation of the system.

The current Fuel Levy Refunding System of Namibia has been in operation since 2001, following a study with regard to the design of such a system, including the determination of the system structure and refund levels. In terms of this system refunds are made on **total diesel** usage of eligible sectors. During August 2002 consultative workshops were held with the eligible sectors that qualifies for refunds. Several concerns were raised by stakeholders during the workshops. To address the concerns raised by stakeholders during and after the fuel levy refunding workshops, the RFA identified the need for a revision of the current system as part of a review of the road user charging system in its totality, to address the concerns of their stakeholders.

The first part of the study consisted of providing an overview of the current fuel levy refunding system. This was followed by presenting an overview of current constraints experienced with the system. To determine current constraints experienced, stakeholder consultations were held during October/November 2003 and January/February 2004, with the aim of establishing whether any new issues/concerns have originated since the August 2002 workshops.

Based on the stakeholder consultations, several constraints were identified. Constraints pertained mostly to equity and efficiency in the current system. Other constraints experienced include lack of sufficient information regarding the fuel levy refunding system (experienced mainly by SMMEs in the construction sector and the communal farmers) and the processing time of claims (experienced by all stakeholders).

The following main inequities were identified in the current system:

- (1) Inequity in terms of the exclusion of several individuals from the current system;
- (2) Inequity between users within a specific sector. It is an inherent weakness of the current system whereby users belonging to a certain sector are refunded based on an average refund rate per sector. This results in either under-compensation or over-compensation of users within a specific sector.
- (3) Inequity with regard to the administrative fee, where the cost per transaction is higher for certain sectors than for others. This is a result of some sectors submitting a number of smaller claims on a frequent basis, as opposed to other sectors that submit larger claims. This leads to cross-subsidisation between sectors. The question to be asked here is how the cost, and consequently the efficiency, of the fuel levy refunding system will be affected by the frequency of submitting claims.

To address the above inequities, several options for the improvement and future operation of the current system were analysed and evaluated. The four options were:

- Option 1: Continuation of the existing system with possible improvements;
- Option 2: Transition to a complex refund system;
- Option 3: Replacement with an exemption or rebate/marketing system;
- Option 4: Abolishment of the diesel levy and the refund system.

Analysis and evaluation of options for improvement and operation of the future refund system can be summarised as follows in terms of equity and efficiency:

OPTIONS	EQUITY	EFFICIENCY
Option 1: Continuation of the existing system with possible improvements	x	✓
Option 2: Transition to a complex refund system	✓	x
Option 3: Replacement with and exemption or rebate/marketing system	✓	x
Option 4: Abolishment of the diesel levy and refund system	✓	✓

Based on the above analysis and evaluation of options for improvement and operation of the future refund system, the following recommendations are provided:

1) Option 1: Continuation of the Existing System with Possible Improvements

It is recommended that the operation of the current fuel levy refund system be continued, by incorporating improvements to the current system, from the following list of options:

- a) Improving awareness of the current system by utilising several advertising mediums. It is expected that this would impose a minimal cost on the RFA.
- b) Reviewing the current refund rates.
- c) Basing the administrative fee on a fee per transaction instead of the current cent per litre.
- d) The accommodation of schools and hospitals under the current system whereby additional eligible sectors need to be established.
- e) The appointment of three additional personnel (data processors) to assist with the processing of claims. This would reduce the processing time of claims from 3 months to 1 month at an additional cost of N\$552 219 per annum.
- f) Outsourcing of the fuel levy refund function.
- g) A reduction in the number of fuel levy refund transactions. In this instance only 1 data processor would be required. This would decrease the current annual cost of the operating system by N\$184 073 (cost of 1 data processor).

It should be noted that options e), f) and g) are mutually exclusive.

2) Option 2: Transition to a Complex Refund System

Option 2 is not recommended, due to the following reasons:

- a) As a result of the number of users involved, a significant amount of auditors would be required.
- b) The system would be very complex due to the number of users involved. Due to the vastness of the country and the distribution of the number of potential users, the system would logistically not be practical to implement.
- c) Extensive auditing would result in significant auditing costs.
- d) The system would have to be monitored on a regular basis to ensure that the system is consistent with considerations of practicality.
- e) The MME would not necessarily support the proliferation of inclusion of small-scale users in the refund system, due to the complexity and logistical nature of such a system.

3) Option 3: Replacement with an Exemption or Rebate/Marking System

The implementation of Option 3 is not recommended, due to the following reasons:

- a) The implementation of the system would be characterised by excessive capital costs.
- b) Separate storage facilities would be required.
- c) It is not practical to add the fuel marker at the pump. The fuel marker needs to be added at the point of sale, which is at the fuel storage facilities, not at the pump. The implication of this is that the oil industry has to carry the related costs.
- d) The MME and oil industry is completely opposed to the implementation of a fuel marking system and would not support such a system.
- e) The implementation of such a system would require the RFA to fund such a system.
- f) A fuel colouring system is not practical as Namibia's fuel market is too small.

4) Option 4: Abolishment of the Diesel Levy and Refund System

The implementation of Option 4 is not recommended, due to the following reasons:

- a) A tried, tested and efficient source of revenue collection would be lost with the abolishment of the current fuel levy.
- b) Significant implementation costs are involved.
- c) The abolishment of the diesel levy would imply a decrease of 73 c/l in the current pump price. This could lead to possible fuel smuggling to neighbouring countries.
- d) There would be a significant gap between the pump price of petrol and diesel in Namibia.
- e) Namibia's diesel price would be significantly different from neighbouring countries.
- f) The loss of potential VAT refunds that the RFA is currently entitled to claim.

To determine the impact of the abolishment of the diesel levy, various scenario options were modelled in the NAMRUC model to determine the impact on the levels of the various road user charges and consequently revenue collected by the RFA. This is addressed in a separate report, namely **Draft Report: Review of Road User Charges**. The feasibility of a MDC System is also addressed in comprehensive detail in a separate report, namely **Draft Report: Review of Mass Distance Charges**.

Based on the above, the conclusion is that the RFA should continue with the operation of the current fuel levy refunding system, with improvements as identified and recommended.

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1. INTRODUCTION

The Road Fund Administration (RFA) was established to manage the road fund and the road user charging system. The RFA has been operational since 1 April 2000, with one of its main duties the maintenance of a system of refunds of fuel levies that is collected from fuel users using fuel (diesel), for off-road purposes.

In terms of Section 18(1) of the RFA Act, 1999 (Act No 18 of 1999), a fuel levy may be imposed as a road user charge. The purpose of the fuel levy is to recover the variable cost of road use. Fuel users who purchase fuel for off-road use however should be refunded. For this reason, the decision was made to investigate the possible implementation of a refund system, to ensure equitable treatment of off-road users.

Based on the above, the RFA submitted a request for a proposed fuel levy refund system to the Ministry of Works, Transport and Communication (MWTC). The Minister concurred with the proposed fuel levy refund system as an interim short-term solution in terms of subsection 18(5) of the RFA Act, 1999 (Act No 18 of 1999), and requested the immediate investigation, consideration and implementation of such a system for equity reasons, in terms of which (1) off-road fuel users are exempted from paying the fuel levy, (2) refunds are made based on actual fuel quantities consumed off-road, and (3) off-road fuel categories that qualify for exemption of the payment of the fuel levy are identified. During November 2000 Africon Namibia was appointed to assist the RFA with the design of a comprehensive fuel levy refunding system. During the design, several sectors were identified as eligible to qualify for refunds, as based on their respective quantities of fuel used for off-road purposes. Refund rates were determined accordingly and the system was implemented in 2001. During August 2002 stakeholder consultation workshops were held with all sectors eligible for fuel levy refunds. Following these workshops, the RFA received several requests for the revision of the refunding percentages for the respective sectors. It appears that the current fuel levy refund system is not entirely equitable. This is in conflict with the equity principle as motivated in the *Report of the Inter-Ministerial Committee of Technical Experts (ICTE)* of 1994, which is also captured in Clause 5 of the RFA Act as follows:

*“The Road Fund Administration shall, upon application in such form as it may determine, refund an amount equal to the amount of the levy paid by the purchaser of petrol or diesel as part of its selling price...”*The aim of this report is the following:

- To provide a review of the current operation of the existing fuel levy refunding system;
- Identification of constraints / problem areas;
- Investigation and evaluation of possible alternative options for disbursing off-road users;
- Provision of recommendations for improvements, or the abolishment of, the fuel levy refunding system.

This report represents the **Updated Draft Report (Second Draft Report)**, and is structured as follows:

- Section 1 (this section) provides the introduction.

- Section 2 presents the background to the current fuel levy refunding system in terms of underlying policy issues as well as the need for a system of fuel levy refunds.
- Section 3 presents the review of the operation of the current fuel levy refunding system as well as current constraints experienced;
- Section 4 provides an investigation and evaluation of options for the future operation of the system;
- Section 5 presents our summary and conclusions;
- Section 6 provides recommendations for the future operation of the fuel levy refund system.

2. BACKGROUND

This section presents the background to the study in terms of the following:

- Underlying policy issues;
- The need for a system to exclude the fuel levy from fuel used for off-road purposes.

These items are discussed in more detail below:

2.1 UNDERLYING POLICY ISSUES

This section provides a brief background regarding the policy issues that are underlying to the off-road use of fuel in Namibia, in terms of the following:

- The Road Fund Administration Act, 1999 (Act No 18 of 1999);
- The Interministerial Committee of Technical Experts (ICTE) investigation into road user charges (RUC); and
- The National Transportation Master Plan Study (NTMPS) work on designing the RUC.

2.1.1 The Road Fund Administration Act, 1999 (Act No 18 of 1999)

In terms of the RFA Act, several responsibilities are placed on the RFA with regard to the implementation of road user charges. The daily operation and management of the existing fuel levy refund system is also guided by the RFA Act, in terms of which refunds or exemptions may be granted to the extent that it is practicable and will not lead to evasion of the road user charges.

Subsection 18(5) the RFA Act states the following:

“Any system relating to exemptions or refunds referred to in subsection (4)(f) shall be designed in concurrence with the Minister and the Ministers responsible for Transport and Energy and such exemption or refund shall only be granted to the extent that it is practicable and will not lead to evasion of the road user charge”.

The above relates closely to the principles of equity and efficiency as captured in the *ICTE Report* (see discussion in Section 2.1.2 of this report), and the daily operation and management of the existing fuel levy refunding system should adhere to these principles as well as to the above statement to ensure the equitable treatment of all users that apply for a refund of the fuel levy.

Furthermore, the RFA Act also places the following responsibilities on the RFA with regard to the road user charging system:

- *Section 3: “...the object of the Administration is to manage the road user charging system in such a manner as to secure and allocate sufficient funding for the*

payment of expenditure..., with a view to achieving a safe and **economically efficient** road sector”;

- In terms of Section 15 it is the functions of the RFA to:
 - “...impose... road user charges, to determine the rates of those charges and to collect those charges” (Section 15(b));
 - “to determine...the amount of funding to be made available through the road user charging system (Section 15(c))”;
 - “to determine...the manner in which the funding ... shall be allocated” (Section 15(d));
 - “to implement appropriate measures for the effective monitoring of compliance” (Section 15(e));
 - “to advise and assist on...the financial aspects of the planning, design, construction, maintenance and safe and efficient use of roads...” (Section 15(g)(i));
- In terms of Section 17, the RFA shall utilise the RFA funds in such a manner as to contribute to the overall safekeeping of the national road network;
- In terms of Section 18(1), “... the Administration may from time to time..., impose... road user charges...”;
- In terms of Section 18(2), “... the Administration may... impose any road user charge at different rates in respect of different classes of motor vehicles, different roads, different categories of road-users or any other basis of differentiation...”;
- In terms of Section 18(3), “in determining the rates of road user charges... the Administration shall ensure”:
 - “to the extent practicable, that the rates and combinations of such charges affecting different classes of motor vehicles are **equitable** in relation to their use of the road network and the benefits derived from such use” (Section 18(3)(b));
 - “to the extent practicable, that the rates and combinations of such charges shall promote **efficiency** in the use of resources, including roads, motor vehicles and fuels” (Section 18(3)(c));
 - “that in respect of the rates and combinations of such charges there shall be **no discrimination** between local and foreign road-users” (Section 18(3)(c));
- In terms of Section 18(4), the following may apply:
 - “... the circumstances and the manner in which exemption from the payment of any road user charge imposed... may be granted, or a refund of an amount paid in respect of such charge may be made in respect of fuel sold for purposes other than on-road use” (Section 18(4)(f));
 - “any other provision which the Administration may consider necessary for the **efficient administration** of the imposition, payment or collection of the road user charge...” (Section 18(4)(h));
- In terms of Section 18(7), “in the absence of an appropriate instrument or means for measuring the travelling distance of a motor vehicle for the purpose of calculation of the amount payable in respect of any road user charge, where applicable, the Administration may apply, in respect of any class of vehicle, any method which the Administration considers to be **practical and fair** for determining that distance”;
- Section 19(1)(a) states the following: “...the Administration shall ensure ...the achievement of an **economically efficient road sector**”;

In terms of Section 19(2) of the RFA Act, the RFA is furthermore guided by the Rules and Principles that were finalised in October 2002. The following Rules and Principles highlights aspects relating to **efficiency**:

2.1.1.1 Interpretation of “Economic Efficiency” in Relation to the Road Sector and a Project or Programme

The meaning of the term “economic efficiency” as it is used for purposes of the road sector, refers to the minimisation of total transport costs (e.g. road user costs and agency costs). For purposes of a project or programme, the term “economic efficiency” refers to projects or programmes which are economically viable compared to the base option in terms of the economic evaluation criteria (Net Present Value (NPV), Internal Rate of Return (IRR), the Benefit Cost Ratio (BCR), location on the efficiency frontier and optimised timing).

2.1.1.2 Procedure for identifying Economically Efficient Projects or Programmes

This section of the RFA Rules and Principles refers to efficiency in terms of a master plan that is needed by the Roads Authority (RA) containing every project or programme to be implemented over the medium to long term.

2.1.1.3 Principle to be applied where Economic Efficiency is difficult to quantify

This section of the RFA Rules and Principles specifically refers to an evaluation of aspects difficult to quantify by a committee.

From the above responsibilities it is evident that the RFA has to provide a service to the road user in such a manner that it ensures equity between road users as far as possible, without compromising efficiency significantly, and *vice versa*.

Several policy issues arise out of the above responsibilities placed on the RFA by the RFA Act and the Section 19(2) Rules and Principles. With regard to the current fuel levy refunding system the most notable issues are those relating to equity and efficiency.

The review of the operation of the current fuel levy refunding system and related inequities of the system, as well as the investigation of the respective options for future operation of the system will be guided by the above responsibilities that are placed on the RFA in terms of the RFA Act.

2.1.2 The ICTE Report

The *ICTE Report on the Proposed System of Road User Charges* of August 1994 reflects the final policy recommendations on the Namibian RUC System. This report formed an important basis for the establishment of the RFA, and despite the fact that the report is almost 10 years old, is still the most comprehensive and inclusive policy document on road user charges.

The guidelines set in the *ICTE Report* with respect to the exemption of users of fuel for off-road purposes are that the bulk price of diesel fuel used off-road for the approved categories should be reduced. Furthermore, any additional costs of administering the exemption of off-road fuel use should be recovered from the beneficiaries. The *ICTE Report* indicated a preference for a rebate system and not a refund system.

The *ICTE Report* furthermore provides certain guidelines with regard to equity and efficiency with the RUC System.

2.1.2.1 Principle of Economic Efficiency

The *ICTE Report* states the following with regard to **efficiency**:

- “price the use of roads so as to improve **economic efficiency** in road transport by removing price distortions and charging road users according to their ‘consumption’ of roads” (Section 3(ii));
- “application of the principle that **efficiency** in the use of resources... should be promoted implies that a system of marginal cost pricing should preferably be used” (Section 4.2.3);
- “the types of charging instruments utilised, and the levels at which such instruments are set, should have as purpose to **generate the right pricing signals in order to promote economic efficiency** and the efficient utilisation of resources in road transportation and the transport sector in general” (Section 5.4.1(ii));
- With regard to the administration of expenditure on roads and revenues from road user charges and legal instruments to this effect, Section 5.7.1(ii) states “measures should be in place to ensure that expenditure on roads is **‘effective’**, i.e. expenditure should only be approved for projects or maintenance activities which meet economically justified transport needs”.

2.1.2.2 Principle of Equity

With regard to **equity**, the following are stated in the *ICTE Report*:

- “promote **equity** between different categories of road users” (Section 3(iii));
- “...future economically justified roads expenditure is envisaged to be fully recovered from road users in an **equitable** manner” (Section 4.1.2);
- “the levels and types of road user charges shall, as far as practical, be such that one class or category of road users (e.g. owners of light vehicles) does not subsidize another class or category (e.g. heavy vehicle operators)” (Section 4.2.1(3)(ii));
- With regard to the administration of expenditure on roads and revenues from road user charges and legal instruments to this effect, Section 5.7.1(ii) states “measures should be in place to ensure that expenditure on roads is **‘efficient’**, i.e. the least amount of resources should be deployed in meeting needs identified and approved”.

The above *ICTE Report* guidelines will be taken into consideration when reviewing the current fuel levy refunding system. The challenge is therefore to find an optimal solution that adheres to both equity and efficiency.

2.1.3 National Transportation Master Plan Study (NTMPS)

The final RUC Report dated May 1997 was produced under the NTMPS, which had as its purpose, amongst others, to design the final RUC System. Some evidence indicated that the NTMPS discarded the “dye and exempt” option as impractical, and preferred an *ex post facto* refund under strict control.

The report concluded that the RFA be given the statutory responsibility for the refunding of the RUC fuel levy and be permitted to contract refund processing to an appropriate agency such as the Customs & Excise Department. The report also concluded that a requirement should be placed on the agency processing the refunds to carry out checks from time to time to give reasonable assurance that refund claims are not fraudulent.

2.2 THE NEED FOR A SYSTEM TO EXCLUDE THE FUEL LEVY FROM FUEL USED BY OFF-ROAD USERS

When significant amounts of fuel are used for off-road purposes, and the fuel levy is perceived to be high, efforts must be made to ensure that off-road users do not have to pay the fuel levy. This problem applies primarily to diesel as petrol is used mainly for on-road purposes.

The need for a system to exclude the fuel levy from fuel used for off-road purposes arises from the structure of road user charges, which includes a levy on fuel.

The purpose of the fuel levy is to recover the variable cost of road use. However, those fuel users who purchase fuel for off-road use should be recompensed. This approach is captured under the “equity principle” as motivated in the *ICTE Report*.

The road user charges component of the fuel levy is one of many components of the fuel price. The different components of the diesel¹ price are shown in Table 2-1.

Table 2-1 – Components of the Diesel Price

Fuel Component	July 1999 (c/l)	September 2000 (c/l)	February 2001 (c/l)	September 2003 (c/l)
Basic List Price	84.505	164.90	191.08	161.33
Industry Margin	19.20	20.00	21.00	24.00
Dealer Margin	21.00	23.10	26.00	34.00
NEF Levy	8.10	7.00	7.00	-
Slate**	-	18.00	18.00	-
MVA Levy	2.20	2.20	2.20	7.00
Customs & Excise Duty	4.00	4.00	4.00	4.00

¹ The analysis mainly focuses on diesel, as petrol is considered to be used for mainly on-road purposes.

**Review of the Road User Charging System of the Road Fund Administration
Part C: Review of Road User Charges**

Fuel Component	July 1999 (c/l)	September 2000 (c/l)	February 2001 (c/l)	September 2003 (c/l)
RUC Levy	60.00	60.00	60.00	73.00
Fuel Levy	-	-	-	10.00
Fuel Tax	10.00	10.00	10.00	10.00
Storage & Handling	7.20	4.70	4.70	-
Delivery		3.00	3.00	-
Depot Railage		11.10	14.10	-
Service Differential	N/a	N/a	N/a	8.60
Over-(Under-Recovery)	(5.20)	0.00	0.08	28.07
Pump Price (Windhoek)	211.00	328.00	361.00	360.00

Note: * A breakdown between the Storage and Handling, Delivery and Depot Railage component was not available for the July 1999 diesel price.

** This levy is only temporary in nature.

N/a – Not available.

A Cabinet Memorandum in 1996 proposed the breakdown of the fuel tax to include two components, namely the RUC levy and a revenue tax (fuel tax). It was also proposed that the revenue tax be calculated as a percentage of the basic fuel price. The remainder of the fuel tax would then be the RUC levy.

The fuel tax breakdown in 1996, September 2000 and September 2003 is shown in Table 2-2.

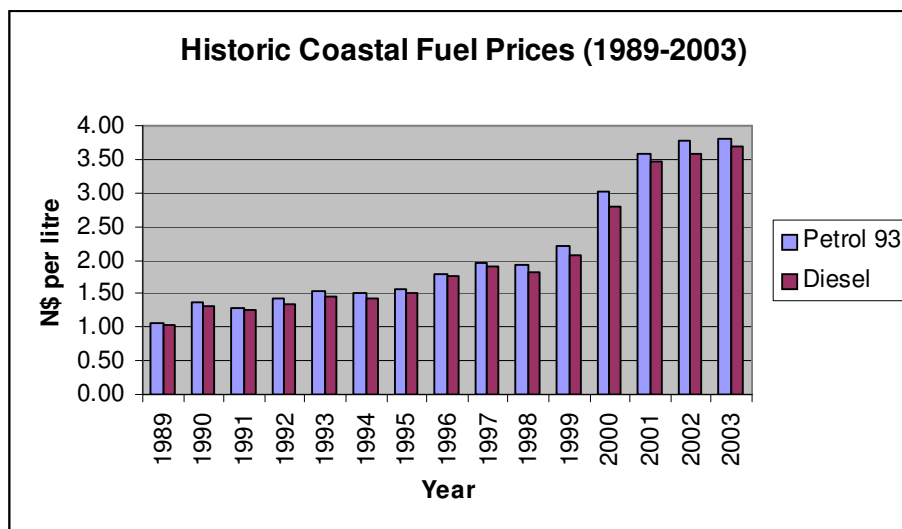
Table 2-2 – Fuel Tax Breakdown

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

Note: *Includes the fuel levy and the fuel tax.

Figure 2-1 indicates historic fuel prices (coast only) for the period 1989 to 2003.

Figure 2-1 – Historic Fuel Prices (1998-2003)



Source: Ministry of Mines and Energy

Table 2-3 indicates the levels of the fuel levy for the period 2000-2003.

Table 2-3 – 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

Table 2-3 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.

From the above it is evident that there is a need to recompense users who use fuel for off-road purposes.

3. REVIEW OF THE CURRENT OPERATION OF THE FUEL LEVY REFUND SYSTEM

3.1 INTRODUCTION

This chapter presents a review of the current fuel levy refund system, in terms of the following:

- The current operation of the fuel levy refunding system; and
- The identification of constraints experienced by users of the existing fuel levy refund system through stakeholder consultation.

3.2 CURRENT OPERATION

3.2.1 Eligible Refund Sectors

The fuel levy refunding system was introduced with the purpose of implementing the equity principle whereby off-road use of fuel should not be subject to road user fuel levies, and enables refunds to be made with respect to fuel purchased by users in certain qualifying/eligible sectors. Users in each of the eligible sectors are refunded a given proportion of the fuel levy included in the purchase price of the fuel.

With the design of a comprehensive fuel levy refund system in 2001, the following sectors were identified as eligible for receiving fuel levy refunds.

1. Agriculture
 - Agronomic production
 - Livestock farming
2. Construction
 - Building
 - Civil
3. Fishing
4. Mining
5. TransNamib (Rail)

Only users who have registered with the RFA qualify for refunds, which are calculated and established according to a predetermined formula.

3.2.2 Fuel Levy Refund Formula, Refund Rates and Levies Refunded

The fuel levy refunding formula is currently made up of the following components:

<i>Fuel levy refund rate</i>	<i>%</i>	<i>(varies per sector)</i>
<i>Fuel levy on diesel</i>	<i>73 c/l</i>	<i>(current level – may vary over time)</i>
<i>RFA administrative fee</i>	<i>1.5 c/l</i>	

The fuel levy refund formula is as follows:

$$\text{Level of levy to be refunded} = \text{Sectoral refund rate (\%)} * (\text{Fuel levy on diesel (c/l)} - \text{RFA administrative fee(c/l)})$$

The above relates to a certain amount that each sector is then refunded, while the RFA retains an administration fee of 1.5 c/l.

Table 3-1 shows the eligible sectors in terms of the current fuel levy refund system, their respective refund rates, and based on the above formula, the fuel levy refund that each respective sector obtains from the RFA.

Table 3-1 – Fuel Levy Refund Proportions per Sector

SECTOR	REFUND RATE (%)	LEVY REFUNDED (c/l)
Agriculture		
- Agronomic production	85	60.78
- Livestock farming	60	42.90
Mining	80	57.20
Construction		
- Building	40	28.60
- Civil	60	42.90
Fishing & Marine Transport	95	67.93
TransNamib	90	64.35

Table 3-1 indicates the difference in fuel levy refunds from sector to sector, with the fishing and marine transport sector receiving the largest proportion of fuel levy refunds and the building sub-sector within the construction sector receiving the lowest proportion of fuel levy refunds.

3.2.3 Current Sectoral Refunds

To review the sectors eligible for refunds as well as their respective refund rates, on- and off-road fuel usage per sector were determined. Table 3-2 indicates the diesel usage per sector for the financial years 2001/02 and 2002/03.

Table 3-2– Diesel Usage/Sector for the Financial Years 2001/02 and 2002/03

SECTORS	2001/02 (1 APRIL 2001 – 31 MARCH 2002) (LITRES) (MIL)	2002/03 (1 APRIL 2002 – 31 MARCH 2003) (LITRES) (MILL)
Agriculture	70.80	36.52
Mining	107.13*	60.96**
Construction	24.27	11.83
Fishing	256.94	146.64
TransNamib	23.83	9.83
TOTAL	482.25	265.78

Source: Caltex Oil (SA) (Pty) Ltd

Note: * Includes Consolidated Diamond Mines as well as Mining.

** Includes only Mining. Excludes Consolidated Diamond Mines.

Table 3-3 indicates the amount (N\$ million) of fuel levy refunds received by each sector, the quantity of fuel (million litres) for which refunds were given as well as the number of fuel levy refund transactions per sector.

Table 3-3 – Total Refunds per Sector (Amount and Quantities*) per Financial Year

Sector	Item	01/04/01 – 31/03/02	01/04/02 – 31/03/03	01/04/03 – Up to Date***
Agriculture	Amount(N\$(Mill)	2.43	5.3	1.71
	Quantity(litre)(Mill)	4.15	8.93	2.73
	Amount of Transactions	746	2 603	1 372
Construction**	Amount(N\$(Mill)	4.59	4.89	1.3
	Quantity(litre)(Mill)	7.86	8.16	1.84
	Amount of Transactions	11	117	67
Fishing	Amount(N\$(Mill)	41.97	97.97	45.76
	Quantity(litre)(Mill)	71.74	162.04	64.12
	Amount of Transactions	230	413	150
Mining	Amount(N\$(Mill)	12.23	26.76	14.14
	Quantity(litre)(Mill)	20.91	44.63	20.25
	Amount of Transactions	90	209	100
TransNamib (Rail)	Amount(N\$(Mill)	5.57	12.85	3.93
	Quantity(litre)(Mill)	9.51	21.54	5.63
	Amount of Transactions	11	27	5
Total	Amount(N\$(Mill)	66.79	147.77	66.84
	Quantity (litre)(Mill)	114.14	245.3	94.57
	Amount of Transactions	1 090	3 369	1 694

Source: RFA

Note: * Represent off-road volume of fuel

**RCC Included.

*** 6-Month Period April – September 2003.

From Table 3-2 and Table 3-3 it appears that there are some significant discrepancies in the data when comparing diesel usage per sector (Table 3-2) to the quantity of diesel on which refunds were paid out as presented in Table 3-3. The figures pertaining to the quantity as per Table 3-3 should in principle be lower than those in Table 3-2. This is however not the case for the sectors “Fishing” and “TransNamib” for the financial year 2002/2003, as the quantity of diesel on which refunds were paid out exceeds the total diesel usage of these two sectors by 15.40 million litres and 11.71 million litres, respectively. Possible explanations for this discrepancy are as follows:

- The time lapse of 2-3 months, which is the processing time of the claim, from the moment of receiving the claim of the sector by the RFA, up to the date of actual refunding of the claim by the RFA; and
- The possibility of discrepancies in fuel sales figures as supplied by Caltex Oil (SA) (Pty) Ltd. This possibility was also confirmed by Mr Rynier du Preez of Total Namibia when consulted during the January/February 2004 stakeholder consultations. Mr du Preez replied that discrepancies in fuel sales figures are possible, depending on how the sales figures are reported. He mentioned that although sales figures with regard to the export of fuel to neighbouring countries should actually be excluded, it is still sometimes included in the reported fuel sales figures. He further mentioned that international off-shore sales figures were included in fuel sales volumes on previous occasions. This was a main reason for discrepancies in reported sales figures. The notes on the discussion are attached as Annexure B to this report.

Based on Table 3-3, the refund levels (in cents per litre), which were in fact paid over to the various sectors can be calculated and compared to the actual refund levels based on the level of the diesel levy at the time and the sectoral refund rate, in the following way:

1. Based on Table 3-1, a weighted average was applied to the respective refund rates within the agriculture sector (agronomic and livestock), and also within the construction sector (civil and building). The actual refund rates for the respective main sectors are as follows:

Table 3-4 – Actual Refund Rates

SECTOR	REFUND RATE (%)
Agriculture	66.25
Mining	80.00
Construction	50.00
Fishing	95.00
TransNamib (Rail)	90.00

2. The diesel levy since the commencement of the fuel levy refunding system was taken into account (refer to Table 2-3).
3. The respective diesel levies for the respective time periods were used to determine the respective annual refund levels. By applying the current administrative levy of 1.5 c/l as well as the refund rates in Table 3-4, the actual annual refund levels of the respective sectors were calculated. These are indicated in Table 3-5.

Table 3-5 – Refund Levels of Respective Sectors

Period	Refund Levels (c/l)									
	Agriculture		Mining		Construction		Fishing		TransNamib (Rail)	
	Actual*	Calc**	Actual*	Calc**	Actual*	Calc**	Actual*	Calc**	Actual*	Calc**
01/04/01-31/03/02	45.99	58.55	55.53	58.40	34.71	58.50	65.95	58.49	62.48	58.57
01/04/02-31/03/03	47.37	59.35	57.2	59.82	35.75	59.72	67.93	59.81	64.35	59.66
01/04/03 – Up to Date***	47.37	62.64	57.2	70.65	35.75	71.37	67.93	69.83	64.35	69.80

* Based on the actual average refund rates as per Table 3-4 and the fuel levy levels as per Table 2-3

** Calculated by applying the amount (N\$ million) refunded to the quantity of fuel (million litres) on which refunds were paid as per Table 3-3.

*** 6-Month Period April – September 2003.

The differences between the **calculated** refund levels and the **actual** refund levels are shown in Table 3-6.

Table 3-6: Difference between Calculated and Actual Refund Levels

Period	Agriculture	Mining	Construction	Fishing	TransNamib (Rail)
01/04/01-31/03/02	12.57	2.96	23.69	-7.44	-3.91
01/04/02-31/03/03	11.98	2.76	24.18	-7.46	-4.69
01/04/03 – Up to Date***	15.27	12.63	34.90	3.44	5.45

From Table 3-6, the following is evident:

- The calculated refund levels are higher than the actual refund levels in all cases except for the sectors “Fishing” and “TransNamib (Rail)” for the financial years 2001/2002 and 2002/2003.
- The difference between the calculated and the actual levels is the highest for the “construction” sector.

It is recommended that this anomaly be investigated further, as the calculated and the actual levels should in fact be identical (especially for the sectors “Mining”, “Fishing” and “TransNamib (Rail)”, as no weighted averages were applied to these sectors).

Table 3-7 depicts the average transaction size per sector and per financial year.

Table 3-7 – Average Transaction Size (Volume of Fuel (litres) per Transaction)

Period	Agriculture	Construction	Fishing	Mining	TransNamib (Rail)	Total
01/04/01 – 31/03/02	5 563	714 545	311 913	232 333	864 545	104 716
01/04/02 – 31/03/03	3 431	69 744	392 349	213 541	797 778	72 811
01/04/03 – Up to Date	1 990	27 463	427 467	202 500	1 126 000	55 826
Weighted Average	3 995	319 208	367 198	218 850	890 129	82 176

From Table 3-7, the following is evident:

- The transaction sizes of the sector “Railways (TransNamib)” are by far the highest.
- Although the agricultural sector accounts for the majority of transactions (81% in the financial year 2002/2003 – refer to Table 3-3), it also accounts for the lowest quantity of fuel refunded, resulting in the lowest transaction size (on average 3 431 litres per transaction compared to the average for all sectors of 72 811 litres per transaction in the financial year 2002/2003).
- The average transaction size of the sectors “Agriculture”, “Construction” and “Mining” decreased from the financial year 2001/2002 to the financial year 2002/2003 and again to the current financial year. For the sectors “Agriculture” and “Construction”, the declining transaction size can be explained by the fact that these two sectors were only incorporated into the refund system during 2001, and were eligible for backdated claims for the period April 2000 to March 2001.

- It is interesting to note that the average transaction size of the construction sector was the second largest in the financial year 2001/2002. In the following two financial years, the transaction size of this sector represents the second smallest transaction size.

The fact that the agricultural sector has by far the lowest transaction size implies that the agricultural sector is refunded on a number of small claims, which is not necessarily cost-effective and justified when taking into account the frequency of the submission of claims as well as the levying of an administrative fee of 1.5 cents per litre. This aspect raises the following questions:

1. Could the cost of refunding be minimised by reducing the frequency of claims submitted by the agricultural sector, i.e. would the cost of refunding be more cost-effective when claims are submitted only once or twice a year rather than several times a year?
2. In the light of the fact that the transaction size has no or only a negligible effect on the processing time per transaction, does the current administrative fee which is based on a cent per litre fee send the correct pricing signals to users?
3. Should the administrative fee, which is currently based on cents per litre refunded, not rather be based on the actual cost of each refunding transaction?

The above questions with regard to inequities are addressed in more detail in section 3.3.2.2.

3.2.4 Operational Cost

The cost of operating the current fuel levy refund system, and to possibly extend the current system was estimated. For this purpose, the following cost components were taken into consideration:

Table 3-8 – Annual Operational Cost

Cost Item	N\$ Per Annum
Remuneration (Data processors)	368 146
Remuneration (Accountant)*	328 840
Stationary	138 180
Telephone	12 000
Rent of Building	25 586
Electricity	2 880
Hardware / System Implementation Costs**	200 000
Upgrading of current system***	150 000
TOTAL (N\$)	1 225 632
TOTAL (c/l)	0.61

Note: * Assuming 60% of the accountant's time is spent on the fuel levy refund system.

** Estimated at a total cost of N\$ 1 million to be depreciated over a period of 5 years.

*** Includes feasibility study for upgrading of the current system of N\$ 330 000 and development of the upgraded system of N\$ 420 000 to be depreciated over a period of years.

From the above it is evident that the cost of the fuel levy refund system amounts to approximately N\$ 1.23 million per annum or 0.61 cents per litre (compared to the current administrative fee of 1.5 cents per litre).

The above costs will be taken into consideration for purposes of comparing the cost of the current refund system with the cost of options for future operation of the system, and also for determining the impact of inequity issues on the efficiency of the system.

3.3 IDENTIFICATION OF CONSTRAINTS

3.3.1 Stakeholder Consultations

Since the inception and establishment of the current fuel levy refund system in 2001, and despite relative smooth operation and management of the system, several concerns were raised by stakeholders, notably during an initial stakeholder consultation workshop that was held in August 2002. During this workshop the RFA proposed to undertake the necessary actions required to put users of the system at ease and to ensure an effective and fair fuel levy refund system, and consequently identified the need for the review of the existing fuel levy refund policy and system.

As part of the process to review the current system, follow up on initial constraints and concerns identified, and to also determine the nature of present inequities and inefficiencies, further stakeholder consultations were held during October/November 2003 and also January/February 2004.

This section deals with the current inequities and inefficiencies of the system, as identified during the respective stakeholder consultations, and forms the basis for the investigation into, and discussion of, proposed options and solutions for the future operation of the current system in Section 4 of this report.

3.3.1.1 Stakeholder Consultations October/November 2003

The purpose of the meetings was to determine whether any new issues/concerns have originated since the August 2002 workshop and to establish what has been done to date in order to address some of the concerns. Meetings were held with the following sectors and respective representatives:

Table 3-9 – Meetings with Fuel Levy Refund Stakeholders

SECTOR	INSTITUTION	CONTACT PERSON	MEETING DATE
Mining	Namdeb Diamond Corporation (NAMDEB)	Mr Andries Wahl	13 October 2003
	Namdeb Diamond Corporation (NAMDEB)	Mr Johan Weich*	25 October 2003
	Namdeb Diamond Corporation (NAMDEB)	Mr Leon Botha*	30 October 2003
	De Beers Marine (DebMarine)	Mr Nick Hagan	13 October 2003
TransNamib	TransNamibHoldings	Mr Attie Bester	15 October 2003
Construction	Grinaker	Mr B Johnston, Ms Karen Gouws, Mr S Engelbrecht	16 October 2003
Construction	Huizen Construction	Mr Alden Dennis Z	17 October 2003

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SMMEs		Goagoseb	
Agriculture	National Agriculture Union (NAU)	Mr Isak Coetzee	17 October 2003
	National Namibian Farmers Union (NNFU)	Mr Olaf Munjano*	4 November 2003
Fishing	Ex Ad Hoc Fishing Committee Chairman	Mr B Edwards*	16 October 2003
	Possessions Fishing Co (Pty) Ltd	Mr Matthew Hambuda*	17 October 2003
	Chairman: Namibian Association for the Advancement of Black Companies in the Fishing Industry (NABFI)		

*Note: Telephonic discussions only.

Apart from the above, discussions were also held with the following institutions:

Table 3-10 – Additional Meetings Regarding the Fuel Levy Refund System

INSTITUTION	CONTACT PERSON	MEETING DATE
Road Fund Administration	Mr Günter Seydack	14 October 2003
	Ms Leilah Elago	14 October 2003
Ministry of Mines & Energy (MME)	Mr M von Jeney, Mr I Nghishongele	15 October 2003
Roads Contractor Company (RCC)	Mr J Novack, Mr A Jaf, Ms P Shilimela, Ms L van den Bosch	16 October 2003
Engen Namibia	Mr Chiappini*	17 October 2003

*Note: Telephonic discussions only.

The purpose of each of the respective meetings were the following:

- Meeting with RFA: To determine whether stakeholder concerns have been addressed since the August 2002 workshop and whether the RFA are experiencing any problems in the operation and administration of the fuel levy refunding system;
- Meeting with MME: To obtain data regarding fuel sales, fuel imports, breakdown of fuel prices/, off-road fuel usage and foreign components as percentage of the fuel price, as well as the views of the MME on the fuel levy refunding system as well as alternative means to recompensate off-road users for the fuel levy.
- Meeting with RCC: To determine views regarding the RFA's outlook that there is no benefit or gain for either the RCC or the RFA in providing the RCC with fuel levy refunds, as this leads to double administration for the RFA as the claim of the RCC needs to be processed, in addition to administrative work related to the allocation of funds by the RFA to the RA, who then again allocates funds to the RCC. It was however established that the number of fuel levy refund transactions of the RCC only amount to 0.3% of all transactions, and therefore this aspect was removed as a possible measure to reduce the processing time of the current fuel levy refund system.

3.3.1.2 Stakeholder Consultations January/February 2004

During January/February 2004 several additional meetings were held with stakeholders and relevant industry role-players. These meetings served as follow-up meetings to the stakeholder consultations that were held during October/November 2003, and the main purpose of the consultations were to obtain additional information regarding certain issues that were identified in the initial consultations.

The following meetings were held:

Table 3-11 – January/February 2004 Stakeholder Consultation

INSTITUTION	CONTACT PERSON	MEETING DATE
Road Fund Administration (RFA)	Mr G Seydack	29 January 2004
Private Consultant (check business name)	Mr M von Jeney	29 January 2004
FP du Toit Transport	Mr FP du Toit	29 January 2004
Etosha Furniture Transport (check name)	Mr A Burger*	30 January 2004
NaTIS	Mr W Brock*	30 January 2004
National Agriculture Union (NAU)	Mr I Coetzee	30 January 2004
Ministry of Works Transport & Communication (MWTC)	Mr KW Kauaria	2 February 2004
Total Namibia (Pty) Ltd	Mr R du Preez	2 February 2004
Ministry of Agriculture, Water & Rural Development	Mr B Rothkegel	2 February 2004
Ministry of Finance (MoF)	Mr JR Le Roux	3 February 2004

*Note: Telephonic discussions only.

Notes on discussions with the above stakeholders are attached as Annexures B and C, respectively.

3.3.2 Constraints

Africon Namibia was appointed during November 2000, to assist the RFA with the investigation into, and the design of, a comprehensive fuel levy refunding system. Following this, the current fuel levy refunding system was introduced by the RFA during the 2001/02 financial year, in terms of which refunds are to be made on **total diesel** usage of eligible sectors. The current system is a proportional fuel levy refund system. This means that the current system operates on an average refund rate per sector basis.

During 2001 the RFA submitted the proposed a fuel levy refund system to the Ministry of Works, Transport and Communication (MWTC) and requested the MWTC's response.

The MWTC expressed some concerns with regard to the implementation of a **proportional** fuel levy refund system, which mainly related to equity issues. The MWTC requested that the RFA should further investigate and if practicable, implement:

- The introduction of an exemption from the payment of the fuel levy by off-road fuel user groups;
- The change-over to an exemption and refund system based on actual fuel quantities consumed off-road; and
- An extension to the list of categories of off-road fuel consuming groups entitled to the refunds.

The inequity issues as raised by the MWTC, as well as other possible other inequity issues, are addressed in more detail below.

3.3.2.1 MWTC Equity Issues

The view of the MWTC concerning various options are presented below:

1. Refunding versus Exemption System

With regard to this option, the MWTC indicated that a refund system was the only viable alternative for off-road fuel user groups, as relevant role-players viewed the exemption system not feasible as a result of the administrative input required from the oil industry. The MWTC further expressed its view that ultimately, (1) the most equitable option should be implemented, taking into consideration the requirements of the equity principle, (2) the preferred option should be practical to implement, and (3) should not lead to the evasion of paying the road user charge.

2. Proportional Refunding System

The main concern raised by the MWTC with regard to this system was that it would lead to either under-compensation or over-compensation in individual instances.

The MWTC was of the view that a much more equitable system would result if the users within fuel-using categories qualifying for road user fuel levy refunds were enabled to apply for refunds, based on actual off-road consumption of fuel, on the submission of prescribed information (so-called **complex** refund system), as this would more accurately indicate the amount of actual fuel used by certain fuel categories for off-road purposes.

To determine the extent of inequity in such a system, the MWTC was of the opinion that a persuasive case could be made if a detailed analysis of the actual annual fuel consumption of the sectors that would qualify for refunds for fuel used for off-road purposes, were conducted.

3. Refunds for Off-Road Use of Petrol

With regard to the third option the MWTC agreed with the RFA's proposal to not initially grant refunds for off-road petrol usage, but to leave a possibility to consider substantiated claims.

During discussions held with Mr Kauaria of the MWTC, he mentioned that it should be taken into consideration that the restructuring of the MWTC is currently ongoing, with the implication that new personnel are appointed. This means that new personnel does not necessarily understand the issues raised previously with regard to the fuel levy refund system and the principle of equity, and does not necessarily have the required background with regard to the refund system. Therefore it would be complex to say whether the views of the MWTC are currently similar to the views as expressed during 2001.

Mr Kauaria mentioned that the MWTC is not in favour of cross-subsidisation. He further raised the question of whether the introduction of MDCs as the only RUC instrument would enable the RFA to recover the current under-recovery. He mentioned that MDC is preferable for heavy vehicles, and that such a system would be workable, but also raised a concern with regard to how the system would be implemented to be evasion proof.

3.3.2.2 Current System Inequities

In totality, the existing system is characterised by the following main inequities:

1. Inequity in terms of the exclusion of several individuals from the current system, as they do not currently form part of one of the eligible sectors (e.g. schools or hospitals using generators).
2. Inequity between users within a specific sector. It is an inherent weakness of the current system whereby users belonging to a certain sector are refunded based on an average refund rate per sector. This results in either under-compensation or over-compensation of users within a specific sector.
3. Inequity with regard to the administrative fee, where the cost per transaction is higher for certain sectors than for others. This is a result of some sectors submitting a number of smaller claims on a frequent basis, as opposed to other sectors that submit larger claims. This leads to cross-subsidisation between sectors. The question to be asked here is how the cost, and consequently the efficiency, of the fuel levy refunding system will be affected by the frequency of submitting claims.

The above inequities are addressed below in more detail.

3.3.2.2.1 Inequity in terms of the Exclusion of Several Individuals from the Current System

Currently several groups and individuals that use fuel for off-road purposes are excluded from the fuel levy refund system. The implication is that users that currently make use of the system and claim refunds have an advantage over the users that either cannot or do not claim, thereby creating inequity in the current system. Requests have also been received from 'special groups' such as schools or hospitals using fuel in generators (which is clearly an off-road activity), to apply for refunds.

The following two main distinctions of groups and/or individuals that are currently excluded from the system can be made:

- Groups and individuals that are currently excluded, as they cannot be accommodated in the current sectors. These pertain to groups or individuals who use fuel in generators (e.g. schools, hospitals); and
- Groups that fall within one of the existing refund categories but do not claim refunds due to a possible lack of awareness of the current system, namely:
 - Communal farmers (estimated at approximately 125 000) and SMMEs within the construction sector (estimated at approximately 22);
 - Some commercial farmers (of the estimated 4 500 commercial farmers, only 1 535 are registered on the current refund system).

Reasons for exclusion of the above groups and individuals from the current system are the following:

- Not all users are aware of the current system, how it operates, and who can claim refunds;

- Some communal farmers are under the impression that only commercial farmers can claim refunds, and blame lack of sufficient information regarding the operation of the fuel levy refund system for this;
- Some off-road diesel users (e.g. schools, hospitals) cannot claim refunds due to the absence of an accommodating eligible category or sector.

The questions raised by the above are the following:

- What would the impact be on the RFA in terms of personnel capacity and administrative workload if all groups or individuals are included and registered as claimants in the fuel levy refunding system?
- How would the inclusion of the above groups and individuals impact on the equity of the system?
- How would the inclusion of the above groups and individuals impact on the efficiency of the system in terms of operating costs and cost-effectiveness?

To address the inequity created by the exclusion of several groups and individuals from the current refund system, the impact of the inclusion of an estimated number of potential users in terms of equity, are addressed in detail in section 4 of this report.

3.3.2.2.2 Inequity With Regard to Refund Rates

Inequity with regard to the level of refund rates can be distinguished as follows:

1. Inequity with regard to the level of refund rates; and
2. Inequity within some sectors that are eligible to qualify for refunds.

The above are addressed in more detail below.

Inequity with regard to the level of refund rates

This relates to the request of some refund sectors for 100% refund rates. Although several sectors have requested higher refund rates, only NAMDEB submitted formal requests to the RFA, motivating the consideration of a 100% refund. The following correspondence were submitted:

- Correspondence dated 3 October 2001
- Correspondence dated 14 March 2002

The RFA responded to NAMDEB in December 2002, mentioning that the consideration of their request would be based on the outcome of the review of the Namibia Road User Charging System, which would include a review of the Fuel Levy Refunding System. The mentioned correspondence is attached in Annexure D.

Section 4 deals with the proposed improvement of the above situation.

Perceived Inequity within some sectors that are eligible to qualify for refunds

There is a perceived inequity within sectors, as some users within a specific sector are currently over-refunded while others are under-refunded. The approach for the quantification of this inequity is addressed in section 4.2.1.2.

3.3.2.2.3 Inequity with regard to the Administrative Fee

Currently, an administrative fee of 1.5 c/l is levied from users. However, calculations indicate the actual average cost as 0.61 c/l. Based on the current operational cost of the fuel levy refund system of N\$1.23 million and total refund transactions of 3 369, the actual transaction cost amounts to N\$364 per transaction (compared to an average transaction cost of approximately N\$837 based on the current administrative fee of 1.5c/l and the quantity of fuel in 2003/2004).

The current administrative fee of 1.5 c/l implies causes inequities in two regards:

- The current administrative fee of 0.89 c/l higher than the actual cost of the system.
- An administrative fee based on the quantity of fuel on which refunds are paid, causes cross-subsidisation between sectors, as sectors with larger transaction sizes (quantity of fuel per transaction) cross-subsidise sectors with smaller transaction sizes. This inequity is explained by means of a comparison between the agricultural and fishing sector in Table 3-12. It should however be noted that this inequity also occurs between the other sectors.

Table 3-12: Illustration of Inequity caused by Administrative Fee

When taking into consideration that the average transaction size for the agriculture sector is 1 990 litres of fuel per transaction (financial year 2003/2004), and the administrative cost of processing the refund transaction is 1.5 c/l, then the average cost per transaction for the agriculture sector amounts to approximately N\$29.84. The average cost per transaction for the fishing sector (with an average transaction size of 427 467 litres of fuel per transaction) amounts to N\$ 6 412. This indicates significant cross-subsidisation between the agricultural and fishing sectors.

Similarly, the extent of cross-subsidisation pertaining to all sectors in terms of the transaction fee can be calculated. This is shown in Table 3-13 based on data for the financial year 2003/2004.

Table 3-13: Transaction Fee based on current 1.5c/l Administrative Fee

	Agriculture	Construction	Fishing	Mining	TransNamib (Rail)	Total
Transaction Fee (N\$)	29.8	411.9	6 412.0	3 037.5	16 890.0	837.4

From Table 3-13, it is evident that the agricultural and construction sectors are currently cross-subsidised by the other sectors (especially “TransNamib (Rail)” as well as “Fishing”), as their transaction fees are lower than the total transaction fee of N\$ 837.4.

In order to address the inequity caused by the current administrative fee, the introduction of a fixed fee per transaction (N\$ 364 per transaction) could be considered. This would however imply that some small-scale users would be unable to claim

refunds, as the administrative fee payable would exceed the amount of fuel levy refunds receivable.

This situation can possibly be remedied by increasing the “age” of the invoices to be submitted to the RFA from the current “age” of three months to an “age” of one year. This would also reduce the number of claims received by the RFA, and would in turn improve the processing time of claims by the RFA, as it can be assumed that the number of claims would reduce by a factor of four.

Two additional alternative options to accommodate the agricultural sector in particular are addressed in more detail in Section 4 of this report.

3.3.3 Equity versus Efficiency

Equity refers to the similar or equivalent treatment of all current- and potential users of the system. This implies not only equity with regard to refund rates, but also equity with regard to the inclusion of all groups and individuals that qualify and are eligible for refunds. Equity gain can be defined as the amount of refunds estimated to be refunded by the RFA as a result of the inclusion of several groups and individuals that were previously excluded from the system and/or the more equitable treatment of users by means of applying individual refund rates, thereby creating a more equitable system.

Efficiency refers to the operational cost of the system. Efficiency gain or loss refers to the cost decrease or increase of operating the refund system.

The trade-off between equity and efficiency should always be taken into consideration. The improvement in equity would not necessarily imply a more efficient system. There should be aimed as best as possible to maintain an equitable system without compromising efficiency, and vice versa.

3.3.4 Equity Loss

To determine the implications of the respective RUC instruments, the instruments were assessed through analysis of several scenarios in the NAMRUC Model to recover road costs from road users. One of the scenarios modelled were fuel levies as only RUC instrument. Each of the scenarios was analysed in terms of several criteria, including equity loss. The equity loss for fuel levies was quantified and determined as the total under-recovery or over-recovery.

The analysis indicated that the fuel levy as only RUC instrument is the most beneficial when analysed in terms of the specified criteria. The implication of this is that, should the fuel levy be the only RUC instrument, the operation of the current fuel levy refunding system will continue, and will not be abolished to be replaced by a mass distance charging (MDC) system.

A detailed presentation of equity loss for fuel levies is provided in a separate report in Part C of this study, namely the Road User Charges Review.

3.4 CONCLUSIONS

The current operation of the fuel levy refunding system was reviewed as a basis for investigating and determining any constraints in the current system. For these purposes, several meetings were held with relevant stakeholders and other interested parties during October/November 2003 and January/February 2004. The meetings were aimed at obtaining the views and inputs of the relevant stakeholders with regard to the operational and administrative working of the fuel levy refund system. The RFA was also consulted on whether they were experiencing any problems from an administrative- and management viewpoint.

Constraints were identified and analysed in terms of the concerns raised by MWTC during 2001, as well as concerns raised by stakeholders.

The meetings revealed that although most stakeholders were in general satisfied with the working of the system, there were still some problem areas such as the time that it takes for the RFA to process the claims. The purpose and working of the fuel levy refunding system was also not well known to all stakeholders.

Issues identified as main constraints related primarily to inequity within the system and efficiency of the system. Stakeholders provided several reasons for the current inequity in the system. This included lack of knowledge of the refund system for some users (e.g. construction sector SMMEs and communal farmers), as well as insufficient refund categories for other users.

Discussions with the RFA indicated that the RFA is aware of the constraints experienced by the stakeholders and are in the process of addressing these constraints. The RFA further noted that, as the institution responsible for the fuel levy refunding system, they too, are experiencing problems with the administration and operation of the system, such as the backlog of claims that have been addressed by employing two additional personnel.

Notes on discussions with all stakeholders are attached as Annexures B & C (for October/November 2003 and January/February 2004 respectively).

4. INVESTIGATION AND EVALUATION OF OPTIONS FOR ADDRESSING EQUITY, EFFICIENCY AND THE FUTURE OPERATION OF THE FUEL LEVY REFUNDING SYSTEM

4.1 INTRODUCTION

The aim of this chapter is the investigation and evaluation of several options pertaining to the improvement and future operation of the current fuel levy refund system, as based on the concerns raised by the MWTC during 2001, and also the constraints identified in the stakeholder consultations (refer to Section 3 of this report).

The investigation and evaluation of the respective options includes an overview of international experience in this regard, to ascertain the nature of similar practices and systems in the rest of the world, including problems experienced and how they have been addressed.

The international experience have been combined with the evaluation of the above four options, per option evaluated.

4.2 INVESTIGATION AND EVALUATION OF OPTIONS

The following four options were investigated and evaluated.

1. Continuation of the existing system with possible improvements (Maintain Status Quo);
2. Transition to a complex refund system;
3. Replacement with an exemption or rebate system; and
4. Abolishing the diesel fuel levy and refund system.

These options are addressed in more detail below.

4.2.1 Option 1 – Continuation of the Existing System with Possible Improvements (Maintain Status Quo)

Currently a simplified or proportional refund system is used in Namibia. A simplified or proportional refund system can be described as a hybrid refund system, and has the following features:

- A sector specific percentage refund is applied to the total fuel consumption of the user which eliminates the need for logbooks of a complex refunding system (in other words off-road use of fuel need not to be proven by the user); and
- Each sector can formulate its case for a different percentage refund, if it is not content with the percentage refund defined by the RFA.

The following measures are proposed to improve the current system in terms of equity and efficiency and to continue with the system as a simplified or proportional refund system.

4.2.1.1 Improving awareness

To ensure that all potential refund users are informed of the current refund system, awareness of the existence, purpose and operation of the system could be created, addressed and improved by utilising several advertising mediums, such as the following:

- (a) Electronic media (i.e. internet): the current RFA website, which is not yet fully active, should be developed and presented in such a manner that all operational information regarding the fuel levy refunding system is available to all potential users of the system. Electronic information could be made available in the format of a comprehensive *"Diesel Refund Guide"*, which should have as its aim to provide information and guidelines relating to the fuel levy refund system. The information and guidelines should address the following:
- Definitions of important terms relevant to the fuel levy refund system, such as definitions of sectors, sectoral activities, etc;
 - The refund system itself:
 - Fuel types considered for refunds;
 - Purpose of the system;
 - Refund sectors;
 - Important dates (e.g. submission dates, validity periods etc);
 - How to claim;
 - Re-selling of diesel;
 - Across land borders (which should eliminate the current problem experienced of irrelevant claims such as fuel purchased in South Africa);
 - Record keeping, e.g. requirements of a valid tax invoice;
 - Registering for diesel refund;
 - Who can register;
 - Where can one register;
 - Registration form;
 - General notes on registration;
 - Cancellation of registration.
 - Calculation of the refund rate;
 - Compliance;
 - General information and assistance.
- (b) Newspapers: advertisements can be placed in newspapers.

- (c) Radio: As this is a costly way of advertising, the advertisement could be kept short with general reference to the existence of a fuel levy refunding system and that detailed information can be found on the website or at the offices of the RFA.
- (d) Television.

Annexure D contains an example of such a guide, which is the Diesel Refund Guide of the South African Revenue Service (SARS).

The registration- and claim forms currently used, as obtained from the RFA and as available on the RFA website is attached as Annexure C.

Currently the applicable refund forms are only available at the RFA offices in Windhoek. In order to ensure that all users are equally informed of the system and have access to the applicable forms, it is proposed that the fuel levy refund information pamphlets as well as the relevant forms (i.e. registration and claim forms) should be distributed to the Post Offices countrywide. This will ensure that potential users who currently are not informed and/or do not have access to the forms because they do not have the opportunity to visit Windhoek on a regular basis.

This will ensure that the current system will become more equitable, as no potential users are being excluded due to their location of their residence. This will also contribute to the empowerment of previously disadvantaged individuals or companies.

It is believed that the costs of improving awareness of the system will be minimal, and that the benefits in terms of equity gains will outweigh the costs by far.

4.2.1.2 Inequity with regard to refund rates

To address the inequity of the current system with regard to refund rates (refer to Section 3.3.2.2.2), the following options are proposed:

Inequity with regard to the level of refund rates

It is proposed that the RFA consider an increase of NAMDEB's current 80% refund rate to a 100% refund rate, subject to an annual audit and review. Other mining companies could also qualify if audited.

Although it is understood that NAMDEB's operation is completely ring-fenced, the same does not necessarily apply to other especially smaller companies within the mining sector. The same applies to various companies within the broader fishing industry.

In order to address the issue of different refund rates to companies within the same sector, one possibility would be the transition from the current simplified (proportional) refund system to a more equitable complex refund system where refunds are based on **actual** off-road usage and not on a perceived and aggregated off-road usage as is currently the case. Although a complex refund system will address the issue of greater equity, it could potentially have a negative impact on efficiency, as such a system would require significantly more administration. Proper monitoring and reporting

mechanisms have to be put into place to ensure proper record keeping for auditing purposes to avoid fraudulent practices by claimants.

A complex refund system is discussed in more detail in Section 4.2.2.

Inequity within some sectors that are eligible to qualify for refunds

To determine the actual average refund rate and levy refunded for the agriculture and construction sectors, a weighted average was applied to the respective refund rates and total fuel usage within each respective sector (refer to Table 3-4). The actual average refund rate for the agriculture sector is 66.25%, and for the construction sector as 50.00%, and the actual average levy refunded as 47.37 c/l for the agriculture sector and 35.75 c/l for the construction sector.

For illustrative purposes of showing the equity gain or loss within these sectors, the so-called 80/20 principle was applied, and the following assumptions were made:

1. The current average refund rate applies to 80% of all users within a specific sector (e.g. 80% of all farmers have a fuel off-road usage of 66.25%).
2. The off-road usage of 10% of the users within a specific sector is 10% higher (except for the fishing sector where for practical considerations the variance from the average is only 5%) than the average off-road usage of fuel of that specific sector (e.g. in the case of farmers this relates to a rate of 76.25%).
3. 10% of users would qualify for a refund rate which is 10% lower (again, except in the case of the fishing sector where this percentage equals 5%) than the average refund rate (e.g. in the case of the broader agricultural sector, this would relate to a rate of 56.25%).

The number of current users in the respective sectors is indicated below.

Table 4-1 – Current Users of Fuel Levy Refund System

SECTOR	CURRENT USERS
Agriculture	1 535
Construction	45
Fishing	58
Mining	39
TransNamib (Rail)	1

The 80/20 principle, as described earlier, can be applied to all sectors (except for TransNamib (Rail), as there is only one user in that sector), for the purposes of illustrating equity loss as a result of inequity within the sectors. This is done in Table 4-2.

Table 4-2 – Modelled Inequity Within Sectors

Sector	A Quantity Fuel Refunded for Total Sector (million litres)	B=10% of A Quantity Fuel Refunded for 10% of Sector (million litres)	C Levy Refunded for Total Sector (c/l)	D Required Levy Refunded for "upper" 10% of Sector (c/l)	E=D-C (c/l)	F=(B*E/100) Equity Loss for Total Sector (N\$)
Agriculture	8.93	0.89	47.37*	52.11	4.74	42 301
Mining	44.63	4.46	57.20	62.92	5.72	255 284
Construction	8.16	0.81	35.75*	39.33	3.58	29 172
Fishing	162.04	16.20	67.93	71.33	3.40	550 369
TOTAL						877 126

Note: *Average levy refunded (c/l) by applying weighted average.

Table 4-2 indicates a total equity loss of N\$877 126 for all sectors (excluding TransNamib (Rail)) in terms of the current system, and if a complex refund system should be implemented, the equity gain pertaining to the current inequity within sectors would therefore amount to an estimated amount of N\$ 877 126 per annum which must be compared to the envisaged efficiency loss of implementing a complex refund system.

4.2.1.3 Claim Processing Times

Previously claims processing took approximately 6 months from receiving the claim until payment of the refund due. This created a significant backlog, which appears to be mainly due to the following reasons:

- Insufficient personnel capacity for processing of claims (there are currently only two persons employed to assist with the processing of refund transactions);
- Significant volumes of transactions to be processed (the number of total refund transactions for the financial year 2002/2003 was 3 369), which, based on 2 available persons to process the transactions, amounts to approximately the following:
 - 1 685 transactions per person per year;
 - 140 transactions per person per month;
 - 6 transactions per person per day (based on 22 working days per month).
- Processing of backdated claims;
- Insufficient/incorrect completion of forms required for the refund claims (based on complaints by the RFA during October/November 2003 stakeholder discussions) (detailed results of stakeholder consultations attached as Annexure B). The implication of this is that, instead of being able to address and process claims immediately, personnel have to phone claimants in order

to obtain sufficient/correct information, thereby wasting time that could have otherwise been used to process claims.

From the above it appears that the reason for the long processing time of refund claims is mainly due to a lack of sufficient personnel capacity. To address the problem the RFA employed two additional personnel, and claims now take approximately 2-3 months to process, which indicates that the backlog is in the process of being reduced. It is however the intention of the RFA to decrease the processing time of claims to approximately one (1) month.

In order to address the claim processing time, the following two options exist:

- Appointment of additional personnel;
- Outsourcing of the fuel levy refund function; and
- Reduction of the number of transactions.

These are discussed in more detail below.

4.2.1.3.1 Appointment of Additional Personnel

An increase in personnel capacity (data processors) for the purposes of assisting with the processing of claims, would result in the following:

- A significant reduction in the current workload per person;
- Shorter processing times;
- Increased personnel-, and consequently, annual operating costs for the RFA.

To reduce the processing time of claims from 3 months to 1 month, three additional personnel (data processors) have to be employed, implying a total of 5 data processors. Based on the total annual transactions for the financial year 2002/2003 (3 369), this would reduce the current workload as follows:

- 674 transactions per person per year;
- 56 transactions per person per month;
- 2.55 transactions per person per day (based on 22 working days per month).

Based on the estimated potential users (4 648) with the inclusion of additional users (e.g. SMMEs and some commercial farmers that are currently excluded as well as smaller groups such as schools, hospitals and individuals), this relates to an estimated 9 332 potential transactions (which is an increase of 5 963 transactions on the current number of 3 369 transactions, or a 177% increase).

To maintain the processing time of 1 month and 3 transactions per person per day, an additional eight personnel (data processors) have to be employed, implying a total of 11 data processors. This would amount to the following:

- 848 transactions per person per year;
- 71 transactions per person per month;
- 3.21 transactions per person per day (based on 22 working days per month).

At the current cost of N\$184 073 per annum for a data processor, eight additional data processors would amount to N\$1 472 584 per annum. The complete cost of the Improved Refund System is indicated in Table 4-12.

Should the amount of refund transactions be reduced from 3 369 to 842 (when submitting claims on a less frequent basis as described in section 4.2.1.3.3 of this report), and to maintain the processing time of 1 month and 3 transactions per person per day, only one person would be needed to process claims. This would amount to the following:

- 842 transactions per person per year;
- 70 transactions per person per month;
- 3.19 transactions per person per day (based on 22 working days per month).

This would imply a cost saving equal to the annual cost of one data processor, namely an annual saving of N\$184 073.

It is also proposed that the RFA inform the claimants (on either the RFA website, the refund registration form or the refund claim submission form), of the importance of submitting the complete required details of refunds, and that timely processing of refund claims are, amongst others, also dependant on the submission of correct details.

4.2.1.3.2 Outsourcing of the Fuel Levy Refunding Function

One way of addressing the claim processing times as a result of human resource capacity constraints is to consider the outsourcing of the administration, operation and management of the fuel levy refunding function to an independent party. Should the fuel levy refunding function be outsourced, the outsourcing party will be responsible for the following operational requirements:

1. Staff recruitment: Staffing required should be based on the estimated total workload and personnel recruited and employed accordingly.
2. Staff training: Focus on empowerment of staff with job-specific skills that are required to carry out tasks related to claims processing, e.g. checking of claim documentation, data-capturing, etc.
3. Staff management: Management should be provided on a regular basis to assist with any problems experienced and to provide general guidance.
4. Provision of infrastructure: The party to who the fuel levy refunding system function will be outsourced need to provide the following facilities and services: computer hardware – server, work stations, printers and software – SQL, Access (or similar database software), Windows 2000 Server and Windows 2000 Professional (or similar operating system).
5. Software installation;
6. Software operation;
7. User registration;
8. Initialising processing and verification of claims prior to approval of claims;
9. Maintenance and support.

General services to be rendered by the outsourcing party include data management, data quality control and system backups.

The above have the following implications for the RFA:

1. The RFA will be able to concentrate on its core business;
2. The outsourcing party will be fully responsible for the administration and operation of the system, while the RFA will only have the responsibility of managing the system;
3. Transfer of the operational cost of the refund system to the outsourcing party;
4. A cost saving equal to the cost of currently operating the fuel levy refund system, which is approximately N\$1 225 632, thereby avoiding any additional financial burden on the RFA.
5. The system will be maintained on a continuous basis based on feedback from the RFA and the users.

At this stage, it was not possible to accurately quantify the costs of outsourcing the operation of the refund system, as it is believed that this will only be possible once the operation of the refund system will be put on tender.

4.2.1.3.3 Reduction in the number of fuel levy refund transactions for the Agricultural Sector

The Agricultural Sector currently accounts for approximately 77% of the total amount of transactions. This amount of transactions to be processed is costly for the RFA, and therefore not very efficient. To address this issue, the following two options are proposed.

Option 1 – Reducing the Frequency of Claim Submissions

To minimise the cost of the refund transactions for the agriculture sector, it is proposed that claims be submitted to the RFA on a less frequent basis. For illustrative purposes of showing the efficiency gain, should claims be submitted on a less frequent basis, it is proposed that the current claims be submitted only once per year. This reduces the number of claims per annum from 2603 to 651 for the agriculture sector.

The same was done for the other refund sectors as well, and are indicated below.

Table 4-3 – Transaction Submissions Per Sector

SECTOR	ANNUAL TRANSACTIONS* (01/04/02-31/03/03)	ANNUAL TRANSACTIONS**
Agriculture	2 603	651
Construction	117	29
Fishing	413	103
Mining	209	52
TransNamib	27	7

Note: *Submission of claims not older than 3 months (claims are submitted 4 times per year).

** Submission of claims not older than 1 year (claims are submitted once per year).

To determine the efficiency gain in terms of a decrease in the number of transactions per year, the respective cost components of the current fuel levy refunding system (refer to Table 4-4) was split into fixed- and variable cost components.

Table 4-4 – Fixed- and Variable Cost Components of Fuel Levy Refund System

COST ITEM	COST COMPONENT		
	FIXED (N\$)	VARIABLE (N\$)	TOTAL (N\$)
Remuneration (Data Processors)*	184 073	184 073	368 146
Remuneration (Accountant)**	-	328 840	328 840
Stationary	-	138 180	138 180
Telephone	12 000	-	12 000
Rent of Building	25 586	-	25 586
Electricity	2 880	-	2 880
Hardware / System Implementation Costs***	200 000	-	200 000
Upgrading of current system****	150 000	-	150 000
TOTAL	574 539	651 093	1,225 632

Note: *There are currently 2 data processors. An equal split between fixed- and variable cost was assumed.

**Assuming 60% of the accountant's time is spent on the fuel levy refund system.

*** Estimated at a total cost of N\$1 million to be depreciated over a period of 5 years.

**** Includes feasibility study for upgrading of the current system of N\$330,000 and development of the upgraded system of N\$240,000 to be depreciated over a period of 5 years.

Based on the number of total transactions for all sectors (3,369), the fixed cost per transaction is N\$171, the variable cost per transaction is N\$193, and the total cost per transaction N\$364.

The variable cost component was then applied to the number of current refund transactions, as well as the number of reduced refund transactions, to determine the efficiency gain. The variable cost of the refund transactions is indicated below.

Table 4-5 – Cost of Current- and Reduced Refund Transactions

SECTOR	CURRENT VARIABLE COST OF ANNUAL TRANSACTIONS* (N\$) (01/04/02-31/03/03)	VARIABLE COST WITH DECREASED ANNUAL TRANSACTIONS** (N\$)
Agriculture	503 056	125 764
Construction	22 611	5 653
Fishing	79 816	19 954
Mining	40 391	10 098
TransNamib	5 218	1 305
Total	651 093	162 773

Note: *Submission of claims not older than 3 months (claims are submitted 4 times per year).

** Submission of claims not older than 1 year (claims are submitted once per year).

Based on the assumption that fixed costs remain the same, the efficiency gain can then be indicated as follows:

Table 4-6 – Efficiency Gain (Option 1)

COST COMPONENT	COST OF CURRENT SYSTEM (N\$)	COST OF SYSTEM WITH DECREASED ANNUAL TRANSACTIONS (N\$)
Variable	651 093	162 773
Fixed	574 539	574 539
Total	1 225 632	737 312
Efficiency Gain (N\$/annum)	488 320	

From the above table it is evident that a reduction in the number of transactions per year would have an estimated efficiency gain of N\$488 320 per annum. Discussions with Mr Isak Coetzee of the National Agriculture Union (NAU) on 30 January 2004 indicated that the agriculture sector would be in favour of submitting claims on a less frequent basis if it is more cost-effective. The notes on discussions are attached as Annexure C.

Option 2: Agriculture Special Fund

Option 2 proposes the transfer of an amount, as percentage of total income from diesel levies for the relevant financial year, by the RFA to the Ministry of Agriculture, Water & Rural Development.

For illustrative purposes data for the 2002/03 financial year is used. The percentage is based on the amount refunded to the agriculture sector during the last financial year (2002/03) (N\$5.3 mill), the diesel levy for 2002/03 (73c/l) and the annual diesel consumption for **all sectors** in Namibia for 2002/03 (447.68 million litre). This relates to 1.62%. Therefore, 1.62% of the total income from diesel levies for the 2002/03 financial year has to be transferred to the Ministry of Agriculture, Water & Rural Development.

The above percentage of 1.62 is based on the amount of current users (1 535). Should the above be applied to the number of potential future users (4 500), the percentage total income from diesel levies to be transferred to the Ministry of Agriculture, Water and Rural Development would be approximately 4.78. The percentage of the total income from diesel levies to be transferred from the RFA to the Ministry would therefore range between 1.62 % and 4.78 %. The estimated fuel levy refunds transferred to the Ministry of Agriculture, Water and Rural Development would amount to N\$5.3 million and N\$15.54 million per annum.

The above transfer from the RFA to the Ministry would then amount to the following cost for the RFA, if assumed that the transfer represents one transaction for the RFA, and that all other transactions for the respective refund sectors remains the same (refer to Table 4-3).

Table 4-7 – Efficiency Gain (Option 2)

COST COMPONENT	COST OF CURRENT SYSTEM (N\$)	COST OF SYSTEM WITH DECREASED ANNUAL TRANSACTIONS (N\$)
Variable	651 093	148 230
Fixed	574 539	574 539
Total	1 225 632	722 769
Efficiency Gain (N\$/annum)	502 863	

From the above table it is evident that the creation of a special fund for the agriculture sector at the Ministry of Agriculture, Water & Rural Development would mean a significant efficiency gain for the RFA.

The creation of a special fund is similar to the principle applied in Mozambique, in terms of which 20% of the diesel levy is paid into a special fund, which provides financial support to the agriculture sector in the form of subsidies. Creating such a fund in Namibia would also be more equitable than the current system, as the funds held in the special fund would then be allocated to all farmers within the agriculture sector that are not currently registered users of the fuel levy refund system (i.e. some commercial farmers). This would also contribute to the empowerment of communal farmers, as funds would then be available to them to apply for the development of smaller scale schemes such as irrigation, training of labourers, inoculation programmes etc.

Discussions with Mr Bernd Rothkegel of the Ministry of Agriculture, Water & Rural Development on 2 February 2004 however, indicated that the agriculture sector would not necessarily be in favour of a special fund. Mr Rothkegel's main concerns related to the following: (1) how would the allocation of funds be determined, (2) who will be responsible for the management of the special account, and (3) will the funds in reality be allocated to the farming sector. The detailed discussions are attached as Annexure C.

4.2.2 Option 2 – Transition to a Complex Refund System

A complex refunding system has the following features:

- Self-declaration by users by means of logbooks that puts the burden of proof on the user to prove off-road usage of fuel; and
- Extensive auditing needed to protect the integrity of the system.

This system is currently being used in South Africa. In Namibia, several potential users are currently excluded from the refund system. To address this issue and include these potential users, would require a transfer from the current system to a complex refund system. The investigation into the number of potential users is addressed in the following section.

4.2.2.1 Re-visit Sectors

In an attempt to address the exclusion of some potential refund users from the current refund system, and to determine and quantify the equity impact of the inclusion of the above groups and individuals in the current system, the following methodology was applied:

1. The number of potential users that are currently excluded from the system, and that was estimated, based on the following assumptions:
 - Commercial farmers: Of the estimated 4 500 commercial farmers, only approximately 1 535 are registered on the current system. For quantification purposes it was assumed that all commercial farmers would make use of the system, thereby implying that the remaining 2 965 that are currently excluded would also be included;
 - SMMEs: Of the estimated 22 SMMEs it was assumed that 20% (or 4) would make use of the system;
 - Generators: There are currently approximately 3 000-4 000 generator users in Namibia. It was assumed that 950 generator users could be eligible for refunds. This figure was arrived at in the following way:
 - Generators used on farms were excluded, as the agricultural sector already qualifies for refunds;
 - Only generators used by schools and hospitals were considered;
 - The number of households with electricity was established (112,424), and calculated as a percentage of the total households (32.44%). The remainder represent the percentage of households without electricity (67.55%) to estimate the number of schools without electricity;
 - This percentage (67.55%) was then applied to the number of schools (1 351) in all 13 regions of Namibia, which amounted to 913 schools;
 - The number of hospitals (excluding clinics and health centres) in Namibia was established as 37 which need to use generators as back-up in case of power failures;
 - The number of current generator users to make use of the refund system in future, was therefore estimated as 950 (913 schools plus 37 hospitals).

Communal farmers were not included as potential users, as it is understood that the vast majority of them do not own fuel powered agricultural equipment such as tractors but often rent required equipment from commercial farmers at a 'wet rate' (i.e. fuel included), and communal farmers are therefore not entitled to fuel levy refunds, as they are not the end users.

The number of current users and the number of potential users per sector can then be summarised as per Table 4-8. It should however be noted that the exclusion of users within the agricultural as well as the construction sectors is due to a lack of awareness of the current system, and will not necessarily be addressed should a complex refund system be implemented.

Table 4-8 – Number of Current- and Potential Fuel Levy Refund System Users

SECTOR	NR CURRENT USERS	NR POTENTIAL USERS
Agriculture	1 535	4 500
Construction	45	50
Fishing	58	58
Mining	39	39
Railways	1	1
Total	1 678	4 648

2. To determine the annual diesel consumption of generators the following assumptions were made:
 - (1) Generator usage is approximately 2 hours per day (for both schools and hospitals);
 - (2) The estimated amount of generators to make use of the refund system is 950;
 - (3) The diesel consumption of generators are 6 litres per hour (for both schools and hospitals); and
 - (4) School generators operate for 201 days per year (after exclusion of school holidays and weekends) and hospital generators operate for 365 days per year.

Based on the above, annual diesel consumption of generators amounted to 2 202 156 litres per year for schools and 162 060 litres per year for hospitals. This implies an equity gain of N\$1.69 million, should the current refund system be upgraded to a complex refund system and the generators users be included.

When considering this loss, as well as the equity loss of users within sectors (refer to Table 4-2) (N\$1.69 million plus N\$ 0.88 million = N\$ 2.57 million), and comparing it to the cost of upgrading the current system to a complex refund system (N\$2.58 million), it is evident that the current system compromises on equity, while upgrading the current system to a complex refund system and consequently improved equity, would compromise on efficiency. There would thus be a total loss (in terms of equity and efficiency) when upgrading the current system to a complex refund system of N\$ 0.01 million or N\$ 10 000 per annum.

3. The impact of the additional users was then quantified and determined in terms of equity gain, which, in this case, can be defined as the amount of refunds estimated to be paid by the RFA as a result of the inclusion of several groups and individuals that were previously excluded from the system, thereby creating a more equitable system.

The estimated equity gain is indicated below in terms of the amount of potential refunds (N\$), as compared to the amount of current refunds (N\$).

Table 4-9 – Estimated Total Equity Gain

SECTOR	AMOUNT OF REFUNDS PAID (N\$ MILL)		EQUITY GAIN (N\$ MILL)
	CURRENT	POTENTIAL	
Agriculture	5.3	15.54	10.24
Construction	4.89	5.43	0.54
Fishing	97.97	97.97	-
Mining	26.76	26.76	-
Railways	12.85	12.85	-
Sub-Total	147.77	158.55	10.78
Generators Diesel	-	1.69	1.69
Total	147.77	160.24	12.47

The above table indicates the total equity gain as N\$12.47 million, which equals the amount of additional refunds to be paid out by the RFA, should the number of current refund users increase with 2 970, as shown in Table 4-8. This also implies a N\$12.47 million loss of revenue to the RFA. Again, it should be noted that the exclusion of users within the agriculture and construction sectors can be attributed to a lack of awareness of the current system, and cannot necessarily be rectified by upgrading the current system to a complex refund system.

To include schools and hospitals that make use of generators, two possible options exist:

- A transfer from the current refund system to a Complex Refund System. This would imply extensive auditing on the part of the RFA to protect the integrity of the system, as well as related auditing costs (refer to Table 4-12).
- The accommodation of schools and hospitals under the current proportional or simplified refund system whereby additional eligible sectors need to be established.

Should it be decided to create a refund category for individual refund claims, transition to a more complex refund system would be required. This would imply that all current users of the refund system, as well as potential users such as communal farmers, SMMEs, schools, hospitals, and other individuals would have to declare, and prove, their off-road usage of fuel. The following implications would then have to be considered:

- Self-declaration by users would require extensive auditing from the RFA;
- If it is assumed that the current- as well as potential users of the refund system are scattered throughout the country, this would require that auditors travel to the respective locations on a frequent basis for auditing purposes;
- Taking into consideration (1) the potential number of users to be audited, and (2) the vast distances between locations, this would imply the availability of sufficient human resource capacity for auditing purposes;

- Is the auditing of a significant number of users that are located all over the country practical?
- Extensive auditing such as the above would imply significant costs;
- How would such a system impact on the efficiency of the system?

The estimated cost of a complex refunding system will be similar to the cost of the fuel levy refunding system currently in use in Namibia, except for auditing costs, which will be in addition to the normal administrative- and operational costs, and which will increase the cost of the system significantly. The implication of this is a system that would be more equitable (all potential refund users are taken into account), but the efficiency of the system will be compromised (due to much higher operational cost than the current system).

It should be kept in mind that, should a transfer from the current system to a complex refund system be adopted, this would make the refund system very complicated and would possibly be in conflict with Subsection 18(5) of the RFA Act, which states that such a system should be “practicable”.

The advantages/disadvantages of a Complex Refund System can be summarised as follows:

Advantages

- System integrity enhanced by tailoring per sector;
- All initial revenue to RFA;
- Consumer should prove off-road use;
- Auditing per claimant improves integrity.

Disadvantages

- More complicated administration;
- Individual claims;
- More transactions, higher cost.

4.2.3 Option 3 – Replacement with an Exemption or Rebate System

4.2.3.1 Introduction

In investigating the option of fuel colouring for the purposes of distinguishing between fuel used for off- and on-road purposes, the Ministry of Mines and Energy (MME) indicated that it is opposed to such a system because of the administrative inputs and cost involved, and that the outcome of a fuel colouring system in Namibia would not be positive as the fuel industry will also be opposed to such a system.

The *Terms of Reference* specifically required that the replacement of the current fuel levy refunding system with a system of marking fuel for on- or off-road purposes should be studied, and therefore, although note is taken of the views of the MME on the fuel colouring system, this section presents the findings of the studies conducted in this regard.

4.2.3.2 Fuel Colouring System

4.2.3.2.1 Function/Purpose

The fuel colouring system or exemption of off-road fuel users from having to pay the fuel levy is used mainly to make a distinction between fuel (mainly diesel as it is considered that petrol is mostly used for on-road purposes) used for on- and off-road purposes, and is investigated for the purposes of this study to provide information regarding the feasibility of a colouring/rebate/exemption system, as opposed to the current fuel levy refunding system. Diesel fuel is made available to non-road users either tax-free or at a reduced tax rate. The system is generally applied only to large users of diesel, which is easier to administer as there are few users. Under this system, when exemption applies to a category, which includes a large number of users, the users are required to file an exemption certificate certifying that the diesel being purchased will not be used for on-road purposes.

4.2.3.2.2 Operation

To distinguish between fuel (mainly diesel) used for on- and off-road purposes diesel fuel are coloured and road vehicles are then periodically inspected for use of untaxed fuel. Road vehicles are prohibited from having dyed diesel in their fuel tanks, with penalties for non-compliance. Documentation to purchase coloured untaxed fuel may or may not be required, depending on the country. There can be one or several colours used in a single country. This taxation system is sometimes combined with elements of a system whereby certain categories of road vehicles are exempt from taxation or levies.

The fuel marking process is characterised by licensed wholesalers who are authorised to mark fuel. In order to be able to mark/colour fuel authorised persons must hold a valid licence and also a valid authorisation to mark/colour fuel for each location at which fuel is coloured.

In terms of the marking and dyeing procedures the following actions are required:

- The person authorised to mark the fuel shall add the dye, and is also responsible for the safe and proper disposition of the empty dye containers.
- The authorised person shall also take all reasonable precautions for the safe keeping of the dye to prevent unauthorised use of the dye.
- Sufficient quantities of dye must at all times be available to the authorised person.
- Inventory control and record keeping are required to ensure sufficient records of the quantities of dye sold.
- Colouring mixture is kept in sealed containers placed in premises situated close to the location where fuel marking is executed.
- Necessary equipment for fuel marking shall be acquired, installed and maintained.
- Equipment must be installed in such a way that it is easily accessible for maintenance and/or inspection purposes.

For monitoring purposes the following actions are required:

- A wholesaler authorised to mark fuel shall maintain sufficient records (e.g. sales invoices, details of tax collections and payments, quantities of dye received, number of litres of all tax exempt fuel sold, details of all sales of tax exempt fuel, including proof of the tax exemption) in order to disclose an accurate account of the dye consumed.
- Records must be maintained for at least 7 years.
- Records shall be made available for inspection by an inspector or an auditor or any other designated person.

Routine audits and inspections will also be conducted to verify record keeping requirements and to ensure that dye-mixing procedures are performed in accordance with set Regulations.

4.2.3.3 International Experience

4.2.3.3.1 Fuel Colouring/Marking

4.2.3.3.1.1 USA

As a result of the magnitude of tax evasion losses for diesel fuel taxes², a feasibility study was conducted to determine the desirability of using motor fuel dyes and markers for reducing consumer fraud and tax evasion. The study was completed in August 1993, during which enforcement strategies were identified that would be required for the implementation of such a system. The project started as a pilot program of 12 States, and expanded into a nationwide effort encompassing every region of the country (Federal Highway Administration 1996: 1).

Following the feasibility study, a diesel fuel dyeing/colouring system as an enforcement tool began in the USA in 1993 under the Environmental Protection Agency (EPA) regulations and was expanded for tax enforcement purposes with effect from 1 January 1994.

The two fuel-dyeing programs that were implemented can be briefly described as follows:

1. The EPA fuel-dyeing program, effective from 1 October 1993, which required fuel that did not meet the EPA sulfur content and cetane index specifications to be visibly marked with a blue dye.
2. The Internal Revenue Service (IRS) fuel dyeing program, effective from 1 January 1994, for the purposes of identifying fuel sold tax-exempt from the Federal excise tax on diesel fuel and available only for non-taxable uses specified in the tax code. In terms of this programme the point of taxation for diesel fuel were moved up the distribution chain to the point of removal from

² Tax evasion losses for diesel fuel taxes were estimated as between 15% and 25% of the taxable gallons and ranged from US\$623 million to US\$1,038 million annually.

bulk storage at the terminal rack³, and required that only dyed fuel may be removed from bulk storage after that date without payment of the Federal diesel fuel excise tax.

While EPA dyeing regulations had been adopted 2 years prior to the effective date, IRS had only a few months from enactment until the legislated effective date. The IRS enforcement procedure included the following:

- Informative visits to explain new requirements;
- Recruitment and training of dyed diesel compliance officers;
- Funding of agreements to conduct roadside sampling.

Motor fuel tax enforcement activities included activities that were quantifiable and also not quantifiable. Activities that could be quantified included the following:

- Office reconciliation;
- Office audit;
- Field audit;
- Criminal investigation.

Activities that are more difficult to quantify include:

- Taxpayer registration procedures;
- Improved uniformity in State reporting requirements;
- More stringent criminal penalties.

To monitor enforcement activities, a reporting mechanism was implemented in terms of which fuel tax enforcement information was first supplied on a quarterly basis, and later on a twice-yearly basis. The reports included a 2-part data summary (limited to those activities that could be quantified, were reasonably uniform among the respective States, and had associated tax assessment or loss estimates), expenditures table and narrative highlights.

In Texas, all agricultural users of diesel fuel for off-road purposes are required to register with the Texas Comptroller of Public Accounts. These users are then issued with a signed statement to purchase tax-free, diesel coloured fuel. All signed statement purchases are limited to single transactions of 3,000 gallons (13 638 litres) or less and to no more than 10,000 gallons (45 460 litres) per calendar year. To purchase larger quantities of tax-free diesel fuel, a special permit is required. When purchasing uncoloured diesel fuel, tax must be paid, but the end user is eligible to file for a refund when the fuel is used in off-road equipment. Only agricultural users are authorised to purchase tax free uncoloured diesel fuel. For monitoring purposes a record of purchases, used and monthly inventories must also be maintained.

The United States experienced the fuel colouring system as “...*the best method for preventing fraud, assuring that honest retailers and wholesalers do not have to*

³ The terminal rack is the facility where fuel from bulk storage tanks is loaded into tanker trucks for delivery to retail stations or to bulk users.

compete with those supplied with untaxed fuel, and securing adequate revenue to support the nation's transportation infrastructure and for deficit reduction". Since enactment of the fuel colouring programme at least 60% of the estimated evasion losses are now being recovered.

4.2.3.3.1.2 Japan

In Japan the fuel levy is collected from wholesalers. The diesel tax is a local government tax and collected and earmarked for spending on local government roads. Diesel is sold to end users through wholesalers, special assigned traders and retailers. The following users are exempted from paying the diesel tax (Heggie 1996:6):

1. Chemical manufacturers;
2. Boat users with diesel engines;
3. Maritime Safety Agency and the Self Defense Force;
4. Railway and tramway operators;
5. Farmers using diesel equipment;
6. Pottery manufacturers and wood processors.

Users who are exempted from paying the diesel tax have to apply for a certificate. Proof also need to be submitted of the equipment that uses diesel fuel, together with estimated annual fuel consumption for the year that exemption is sought. Based on this information, a "Certificate of Tax Exempted Diesel Fuel User" is issued. In order to purchase fuel tax free, the user must obtain a "Tax Exemption Card". Cards are issued to cover purchase of *inter alia*, 100, 1,000 or 10,000 litres of fuel and are valid for one year. End users of diesel are required to submit a monthly report to the prefectural office stating the amount of fuel purchased during the month and the name of the trader from whom the fuel was purchased.

Specific experience with regard to fuel colouring is addressed in Section 4.2.2 of this report, where fuel colouring is considered as an option to replace the operation of the fuel levy refunding system.

4.2.3.3.1.3 Canada

With effect from 1 April 1998, New Brunswick in Canada introduced a marking program for tax exempt diesel fuel, stove oil and furnace oil to distinguish it from tax motive fuel. To ensure proper distribution of tax-exempt products, retailers must maintain separate storage facilities for coloured fuel (Department of Finance 2000: 4).

The following categories are entitled to purchase tax exempt fuel, provided that the specified conditions are met.

1. Aquaculturists / farmers / fishermen / wood producers;
2. Manufacturers;
3. Mining or quarrying;
4. Operation of vessels;
5. Production of electricity;

6. Preparation of food, lighting and heating of premises or heating of domestic hot water;
7. Construction and maintenance of wood roads for the purpose of harvesting trees;
8. Persons under contract with wood producers;

4.2.3.3.1.4 South Africa

During March 2000 the South African Revenue Service (SARS) established a Road Fuel Testing Unit (RFTU) with the purpose of preventing the mixing of paraffin with diesel to avoid having to pay fuel levies. The following institutions and contact persons were contacted with regard to the RFTU in South Africa:

Table 4-10 – RFTU Information Contact List

INSTITUTION	CONTACT PERSON	DATE
Department of Minerals and Energy	Mr Hein Baak	3 November 2003
South African Petroleum Industry Association (SAPIA)	Mr Patrick Henderson	6 November 2003
Caltex	Mr Hannes Kleyn	4 November 2003
South African Revenue Service (SARS)	Mr André Joubert	4 November 2003
	Mr Mark McLoughlin	4 November 2003

At the time that the SARS decided to implement the RFTU system, the South African Petroleum Industry Association (SAPIA) estimated government revenue losses to be approximately R300 to R500 million annually due to the illegal mixing of diesel and paraffin. This necessitated drastic action to prevent further revenue losses.

To accommodate the prevention of mixing diesel and paraffin, the Customs and Excise Act was amended to make it compulsory for manufacturers and importers of paraffin to blend a chemical tracer (marker)⁴ in paraffin. In order to enforce the amended Customs and Excise Act, the SARS made available 10 specially designed vehicles at a cost of R1-million to the RFTU.

Operation

The RFTU consists of specialist investigators that are authorised to investigate non-compliance with the relevant section of the Customs and Excise Act. The 10 vehicles are fully equipped to conduct roadside tests on diesel-powered vehicles and diesel carriers for signs of the chemical tracer, which would indicate that the diesel contains paraffin. The unit focuses on heavy vehicles, which use diesel worth an average R100,000 per month or 833 litre/day (@R4/litre).

The investigators are authorised to perform the following activities:

- Conducting roadside tests (roadblocks) (the SARS works closely with the traffic department as well as the police in setting up road blocks, which was decided for safety purposes);
- Taking fuel samples;

⁴ The marker is colourless and a specifically formulated chemical that is added to paraffin in small quantities, but is still detectable even when diluted twenty-fold, and can be traced when mixed with diesel. The marker added to paraffin in South Africa is Mortrace MP.

- Reporting on fuel samples taken;
- Submitting of fuel samples to laboratories for further analysis.

The following forms were required to be completed by investigators:

- Officers' Report Relating to Analysis of Fuel Sample;
- Officers' Report Relating to a Vehicle or Mobile Apparatus or Tanker or Tank Trailer;
- Officers' Report Relating to Premises: Sample Taken in terms of Section 37A(5) of the Customs and Excise Act, 1964 (Act No 91 of 1964);
- Report of a Designated Person Relating to the Analysis of a Fuel Sample: Analysis Procedure in terms of Section 37A(5) of the Customs and Excise Act, 1964 (Act No 91 of 1964).

Examples of the above forms are attached as Annexure C.

Enforcement consists of random testing of diesel fuel in the bulk storage tanks of wholesalers, resellers, retailers and consumers.

It should be noted that although the RFTU is still in existence, they are not performing as they should due to lack of sufficient resources. This is currently being addressed.

Training

Training courses (e.g. Hazchem, road blocks, medical aid etc) of officials is required.

Penalties

Offenders include farmers, transport companies and service stations. Consumers that are discovered to have marked fuel in the tank of their cars, trucks, tractors or mine locomotive are liable to prosecution and payment of the penalties in terms of the Customs and Excise Act. The maximum penalty imposed up to date was a fine of 200% on the value of illegal fuel discovered.

Costs

Cost of Policing System

The implementation and operation of a system such as the RFTU to act as policing mechanism is quite costly. The following typical costs indicated are the costs that were involved in setting up the RFTU in South Africa.

- 10 Vehicles – N\$1 mill.
- Equipment (test kits, protective clothing, cell phones, vehicle fuel, office accommodation, rent, furniture, fuel sample tins, stationary, lights, generators, laboratory tests⁵, tables etc) – N\$5-10 mill.
- Staffing costs dependable on quantity of units needed, which will affect all other costs.

⁵ A fuel sample of 500 ml is tested at a cost of approximately N\$350-N\$400 per test.

Although policing mechanisms are in place, it is still difficult to enforce in South Africa. It is therefore expected that policing will be much more difficult in a country such as Namibia because of the vastness of the country and very sparse population.

Cost of Marking Fuel

Discussions with Caltex indicated that the cost of marking/colouring diesel is extremely expensive. The once-off capital cost involved in setting up the necessary required marking facilities⁶ for paraffin (e.g. terminals and depots) was approximately R50-60 million. This excluded the actual cost of marking the paraffin. According to SAPIA the cost of a marker is R159.50/kg, which has to be used 25 parts per million parts of diesel. This translates roughly to 0.33 c/l (if the density of diesel fuel equals 1200 litres per ton).

The cost of marking diesel is very high, as different tanks have to be set up for the different uses (e.g. on-road and off-road use) and separate dispensing equipment need to be installed at customer and retail sites. The different types of marked/coloured diesel also need to be delivered separately, thereby different distribution channels are involved, which also increases the costs involved. To recover the costs involved in setting up the marking facilities, a levy of 0,03 c/l was added to the diesel price. However, this additional levy on diesel was cancelled earlier in 2003 due to the fact that sufficient reserves have been built up to now also cover the cost of the marker used in the paraffin.

Constraints

Very little constraints were experienced with the implementation of the RFTU. However, constraints are currently being experienced with the operation of the system, as there are not sufficient resources available to perform the functions of the RFTU as required.

4.2.3.3.1.5 Conclusions:

Based on the above case studies, the following conclusions can be made with regard to the marking/colouring of fuel to distinguish between diesel used for on- and off-road purposes:

1. Where fuel colouring is used to prevent fuel mixing for tax evasion purposes, the system has the advantage of significantly increasing the revenue levels and decreasing tax evasion.
2. The disadvantages of a fuel colouring system are that alternative evasion schemes will still emerge and prevail⁷.
3. Administration of the system is complex.
4. Enforcement is difficult, as this system require significant resources for enforcement and prosecution of violators.
5. Should it be possible to put proper and sufficient enforcement mechanisms in to place, the fuel colouring system is an effective way of distinguishing between diesel used for on- and off road purposes.

⁶ There are currently 8 marking facilities in South Africa, which include 4 refineries and 4 coastal depot facilities.

⁷ Apparently a neutralising agent was used in the USA to neutralise the colouring agent used for fuel colouring, thereby changing the colour of the fuel back to its original colour.

6. The larger the nature and extent of the system and corresponding enforcement mechanisms, the more complex the administration of the system.
7. With a large number of exempted users the exemption certificates are costly to administer.
8. In some countries, this system has been shown to be susceptible to infiltration and domination by organized crime groups.
9. The MME in Namibia is completely opposed to the implementation of a fuel colouring system in Namibia (please refer to Section 4.2.2 of this report for more detail).

4.2.3.3.2 Other African Countries

In Tanzania it was estimated that one third of the total fuel in Tanzania was smuggled during 1997/1998. Due to the relative high level of taxes on fuel in Tanzania, some of the transit fuel which is in fact intended for sale to neighbouring countries is apparently sold on the domestic market at Tzn Shs 300 during May 2001 (approximately N\$2.72 at that time or 52.6% of the total price of petrol in Tanzania at that time) less than the fuel intended for the domestic market, as no taxes, duties and levies are levied on transit fuel.

Consequently certain measures were introduced by the Tanzania Revenue Authority (TRA) to curb the practice of fuel smuggling, which included the bio-coding of fuel (marking of fuel intended for the domestic market) (TISCO 2001: 24).

In Mozambique 20% of the diesel levy is paid into a special fund, which provides financial support for agriculture. In Latvia, the Ministry of Finance estimates how much diesel is consumed by each main non-road user group and relates this to the output of each group. The groups are then compensated on the basis of their output and the average number of litres of diesel fuel consumed per unit of output.

The Zambia Road Fund Board has addressed the concerns of the farming community in the following ways:

1. Farmers are represented on the board and participate actively in all decisions about the level of the fuel levy and how the proceeds will be spent.
2. The funds nominally allocated for spending on rural roads (i.e. to rural district councils) are higher than might otherwise have been the case.

4.2.3.3.3 Other International Experience

Other options that are used internationally to attempt to ensure that off-road users do not have to pay the fuel levy include the system of reimbursing/compensating non-road users who have already paid the diesel levy/devising special ways of compensating farmers.

In terms of this system off-road users are permitted to apply for subsequent reimbursement and are compensated for having to pay the diesel levy. The non-road user therefore pays the fuel levy and then submits a request for a refund (together with a receipt). Documentation required differs from country to country. This method tends

to be the easiest to implement in developing and transition economies. Attention is also given to finding special ways of compensating farmers (Heggie 1999:4).

New Zealand

In New Zealand the administration of reimbursing/compensating off-road users is administered under contract by the Land Transport Safety Authority (LTSA), who, in turn, use the New Zealand Post Ltd as their agents. Applications for refunds have to be accompanied by invoices covering the purchases on which refunds are being claimed and random audits are undertaken by the LTSA Audit Unit to discourage fraud.

Latvia

In Latvia a number of sectors are reimbursed/compensated to ensure that they do not have to pay the diesel levy that is paid into the road fund. The sectors that are reimbursed are agriculture, fisheries, industry, railways and public transport.

1. Sector: Agriculture

Owners or leasers of agricultural land are entitled to claim a refund of the fuel levy, provided they have at least one hectare of land under cultivation. The refund is equal to the levy paid on 120 litres of diesel fuel per hectare of cultivated land, which is the estimated amount of diesel fuel used to cultivate one hectare of land.

Supportive documentation include:

- (a) an application for refund of the diesel levy;
- (b) copy of the area of applicable land (certified by the head or deputy head of the regional municipality);
- (c) invoices showing purchase of diesel during the year for which reimbursement is claimed.

The refund is issued within 2 weeks.

2. Sector: Fisheries

A refund of the diesel levy equal to the levy paid on 500 litres of diesel for each ton of fish caught during year can be claimed, which represents the estimated amount of diesel used to land one ton of fish. Fishery enterprises and individual fishermen are allowed to claim.

3. Sector: Industries

It is planned to extend the reimbursement system to cover the use of diesel as a raw material in the manufacturing process.

4. Railways

Refunds are claimed of the levy paid on diesel used to operate and maintain the railways.

5. Public Transport

Refunds are claimed by rural bus services of the diesel levy, which is administered by the Ministry of Transport. They are also entitled to a subsidy to

cover operating losses. The subsidies are administered by the Regional Subsidy Commission.

In Japan the entire fuel tax is deposited into a fund called the Road Improvement Special Account. This tax is collected from wholesalers and since there are very few exempt users (mainly chemical manufacturers) it is relatively easy to exempt them.

4.2.3.4 Implementation of a Fuel Colouring System in Namibia

Based on the above background regarding fuel colouring, the related international experience and stakeholder consultations held, the following information are provided to the RFA for consideration in the decision making process regarding the implementation of a fuel colouring system in Namibia.

Discussions with the MME indicated that the MME is completely opposed to the implementation of such a system. The MME raised the following points:

1. Fuel colouring/marketing is viewed as an outdated system;
2. Who would be responsible for the implementation and management of a fuel colouring system? The Oil Industry would not take the responsibility for the implementation and management of such a system, as it would impose additional costs on the administration of the industry in terms of policing and management, which they feel is not related to their core function. If the Oil Industry is not responsible, the implication is that the RFA, who want to implement the system, should be responsible.
3. With regard to administrative responsibilities and workload that would arise out of the implementation of a fuel colouring system, the question is not as much about the practicality of the system as it is about who would take the responsibility for the workload that goes hand in hand with the administration, operation and management of the fuel marking system. He further mentioned that the fuel marking system is not the responsibility of the fuel industry, and that the oil industry would not take the responsibility and workload for a system that they do not support, especially since it is not the oil industry that wants to implement such a system.
4. Separate storage facilities would be required. Such a system would be very costly to implement. The MME estimated the cost to install a dual tank system for diesel for marked- and unmarked diesel to be approximately between N\$30-40 million. The costs involved do not really justify the problems that go hand in hand with a fuel marking system (e.g. policing, enforcement and administration).

The point of sale for fuel is at the depot/retailer, not at the pump. For this reason separate storage facilities will be required, as coloured fuel will have to be stored separately, before distribution to the actual respective pump centres. If the fuel marker can not be added at point of sale, separate storage tanks have to be provided for fuel marking at fuel storage depots/facilities, which means oil companies would have to carry these costs. Oil companies would not be in favour of carrying costs for system that they do not support and that RFA wants to implement.

The view of the Ministry is that should the RFA go ahead with the decision to choose and implement such a system, the RFA would not have the support of the Ministry and the Namibian Government. Notes on discussions with the MME are attached as Annexures B (October/November 2003 consultation) and C (January/February 2004), respectively.

Mr Rynier du Preez of Total Namibia stated that the costs involved in the implementation of a fuel marking system are extremely high. As an example he mentioned that a diesel tank facility was established at Luderitz at a cost of approximately N\$15 million for a 10 million-litre tank. He further added that the Namibian market is too small for a fuel colouring system, and that it is not practical to add a fuel marker at the pump. To split the coloured fuel would require separate storage facilities. He asked whether the RFA would fund the installation of separate storage facilities for coloured fuel, and also who would be responsible for the management, operation and auditing of a fuel marking system.

According to Mr Patrick Henderson of SAPIA it would not be economically viable for Namibia to have two different refineries (one for marked and the other one for unmarked diesel), as the country uses very little fuel due to low population numbers, and would be considered impractical. In Namibia, as is the case in South Africa, oil companies carry the costs of supplying tanks where fuel is stored and therefore it is expected that oil companies would resist the marking of fuel as they would have to supply separate storage tanks for marked fuel and unmarked fuel. Mr Henderson further mentioned that the Fuel Levy Refund System of the SARS in South Africa, in terms of which off-road users are refunded for fuel, is functioning very well. He added that oil companies are opposed to a rebate system as it puts the onus on fuel companies to decide who qualifies for rebate, as fuel companies are responsible to collect levies.

The implications of the above are the following:

1. The RFA would have to consider taking up the responsibility for the implementation and management of the fuel colouring system.
2. The RFA would then be responsible for the management- and administrative activities relating to the implementation of such a system.
3. The RFA would be responsible for the cost of implementing and operating a fuel colouring system.

Based on the above, the RFA would have to consider the following aspects:

1. The implementation and management of a fuel colouring system should be of such a nature as to not impact on the core business of the RFA.
2. Would it be possible for the RFA to manage the system? The management of such a system would require fulltime personnel capacity and resources to carry out related administrative responsibilities.
3. Management- and administrative responsibilities imposed on the RFA would include the following:
 - Daily operation and supervision of fuel marking storage facilities at the respective depots/retailers

- Policing costs;
- Testing costs;
- Establishing the required safety mechanisms;
- Enforcing safety precautions;
- Inventory control and record keeping to ensure sufficient records (e.g. sales invoices, details of tax collections and payments, quantities of dye received, number of litres of all tax exempt fuel sold, details of all sales of tax exempt fuel, including proof of the tax exemption);
- Execution of routine audits and inspections to verify record keeping requirements;
- Execution of routine audits and inspections to ensure that fuel marking procedures are performed in accordance with set Regulations;

The estimated costs pertaining to the implementation and operation of a rebate/marketing system are indicated below:

Table 4-11 – Estimated Annual Costs of Rebate/Marking System

ITEM	UNIT	REBATE/MARKING SYSTEM
Dual Storage System (Depreciation 20 Years) ¹	N\$	1 750 000
Policing Costs ²	N\$	1 440 000
Testing Costs ³	N\$	730 000
Sub-Total 1 (N\$)	N\$	3 920 000
Off-road litres of diesel ⁴	Litres	200 700 000
Sub-Total 1 (c/l)	Cents/litre	1.95
Cost of Marker ⁵	Cents/litre	0.33
Total (incl. Policing and Testing Costs)	Cents/litre	2.28
Total (excl. Policing and Testing Costs)	Cents/litre	1.20
Total (incl. Policing and Testing Costs)	N\$	4 582 310
Total Annual Cost (excl. Policing and Testing Costs)	N\$	2 412 310

¹ The MME estimated the costs of a dual storage system necessary for coloured and uncoloured diesel as between N\$30 and N\$40 million based on the costs of introducing a second grade on petrol during 1997, which was about N\$23 million. Subsequently a cost of N\$35 million was assumed. Furthermore, it was assumed that the storage system depreciates over 20 years.

² Based on 5 additional full-time roadblocks to minimise evasion. Monthly costs of 5 roadblocks (BG Consulting, pg 43): 10 Traffic Officers N\$50,000, 5 vehicles leased N\$20,000, operational costs N\$25,000, contingencies 25%.

³ Based on figures of the SA RFTU where the analysis of fuel samples of 500ml cost between R350 and R400. For purposes of this study it was assumed that the cost of analysing one sample is N\$400 and that on average 5 tests per day are undertaken.

⁴ This reflects the estimated quantity of diesel used for off-road purposes which was estimated by applying the perceived percentage of off-road usage to the total diesel consumption of each sector. The estimated percentage diesel off-road usage amounts to 45% of total diesel usage.

⁵ The cost of a marker is R159.50/kg, which has to be used 25 parts per million parts of diesel. This translates roughly to 0.33c/l (if the density of diesel fuel equals 1200 litres per ton).

Based on the above, it does not seem feasible, practical or cost-effective to implement a fuel colouring system in Namibia. Apart from not having the support of the MME and the industry in this regard, the implementation of such a system would also impose significant costs on the RFA.

The advantages/disadvantages of a rebate/marketing system can be summarised as follows:

Advantages

- Applied by fuel companies;
- Applied at point of wholesale;
- Less transactions, lower cost;
- Pre-point of sale auditing simpler (less users);

Disadvantages

- Off-road integrity doubtful in some sectors;
- Reduced revenue to RFA;
- No burden of proof on consumer;
- Complicated post point-of-sale auditing

4.2.4 Option 4 – Abolish Diesel Fuel Levy and Refund System

4.2.4.1 Introduction

In this option the imposition of a MDC system is considered as a replacement for the diesel fuel levy and the fuel levy refunding system. This implies that the fuel levy on diesel will be abolished together with the proposed refund system, and that the variable costs of diesel vehicles will be recovered by means of a MDC.

4.2.4.2 Operation of MDSCS

Under this method charges will be based on distance travelled on the roads and also vehicle mass. The basic principle is that all diesel vehicles must buy a license graduated according to axle configuration and gross vehicle mass (GVM). The charges are administered through sealed hub odometers or other certified distance meters. The charges are lower for vehicles with multiple axles, and increases with gross vehicle weight. The mass-distance fee is administered separately from the general tax system and can be administered effectively by collecting fees under contract. This system works best when it is effectively administered by collecting fees under contract. All revenues collected from the sale of mass-distance licenses are paid in a special account set aside to support spending on roads.

4.2.4.3 International Experience

New Zealand and Iceland use mass-distance fees to charge diesel vehicles for usage of roads. In New Zealand licenses are issued in multiples of 1,000 km. In addition to mass-distance fees, they also levy a special charge on petrol and the revenues obtained from this charge are also paid into the same special account into which revenues obtained from the diesel charge is put into. Revenues paid into the special account are set aside to support spending on roads. Norway and Sweden used a system of mass-distance charges until the early 1990s but have now abolished them (Heggie 1999:2)

A mass-distance fee has been implemented in Europe, namely the *Euro Vignette*. The aim of the *Euro Vignette* is to address other taxes on heavy goods vehicles (HGVs) such as vehicle taxes, tolls and road user charges. The *Euro Vignette* fee charges foreign vehicles travelling through member countries and applies to vehicles of more than 12 tons. The fee consists of two price levels, namely a price for vehicles of 3 axles and a price for vehicles of 4 and more axles. The *Euro Vignette* can be bought for 1 day, 1 week, 1 month or 1 year. Up to date, 5 countries, namely Belgium, Denmark, Luxembourg, Germany and the Netherlands, have introduced this fee (Swedish Environmental Protection Agency 2000:31, Heggie 1999:2).

In terms of HGVs, the European Union (EU) is promoting development of standards for electronic charging technologies. Member States would then be encouraged to harmonise interoperable systems for road pricing either through existing toll or *Euro Vignette* systems or, preferably, through the development of more cost related electronic kilometre charges, which would lead to a much larger degree of distance-related charging.

Constraints of the MDC system are mainly that considerable scope for evasion exists (mainly by understating travel distance), and that the system is difficult to administer.

4.2.4.4 Implications for the RFA

The implications of abolishing the fuel levy and related fuel levy refund system and replacing it with a MDC System, are the following:

1. Abolishment of the diesel levy.
2. Abolishment of the fuel levy refund system, which would imply a cost saving equal to the operational cost of the current refund system (N\$1 225 632).
3. The abolishment of the diesel levy would imply a decrease of 73 c/l in the current pump price (N\$3.60/litre). Currently the pump price of fuel in Namibia compares as follows with the neighbouring countries:

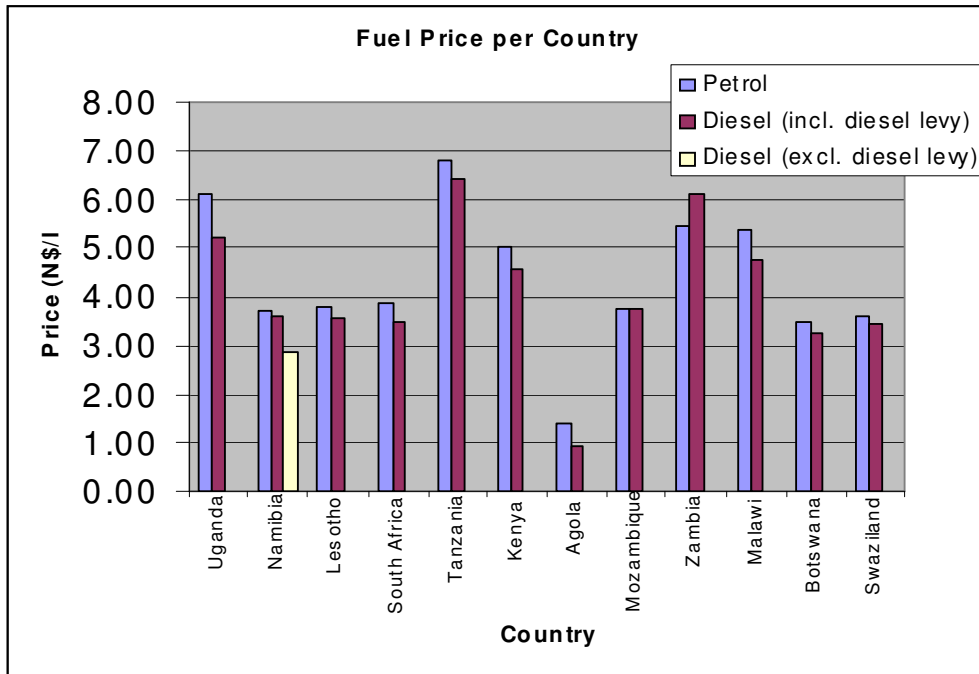


Figure 4-1 – Current Fuel Prices of Namibia and Neighbouring Countries

Prices as at October 2003. Converted to N\$ at the following exchange rates as at 29 October 2003:

Ugandan Shilling 286,13: 1N\$
 Malawi Kwacha 15,14: 1N\$
 Mozambique Metical 3 331,80: 1N\$
 Zambian Kwacha 678,16: 1N\$
 Botswana Pula 0,67: 1N\$
 Tanzanian Shilling 150,87: 1N\$
 Namibia, Lesotho, South Africa, Swaziland 1: 1N\$
 Kenyan Shilling 11,33: 1N\$
 Angolan New Kwanza 8.50048: 1N\$

From Figure 4-1 it is evident that Namibia's current fuel prices are in the same region as the fuel prices of the neighbouring countries. The diesel price is also similar to the petrol price, with only 10 c/l difference.

However, should the diesel levy be abolished and the current pump price of diesel (N\$3.60/litre) consequently decreases with 73 c/l, this would imply a pump price of N\$2.87/litre. This would be a significant decrease in the diesel pump price, and would mean that the diesel price would be lower than all of Namibia's neighbouring countries, except for Angola. There would also be a significant gap between the diesel- and petrol price in Namibia (83 c/l).

The following figure indicates the comparison of Namibia's current percentage taxes, levies and duties on fuel:

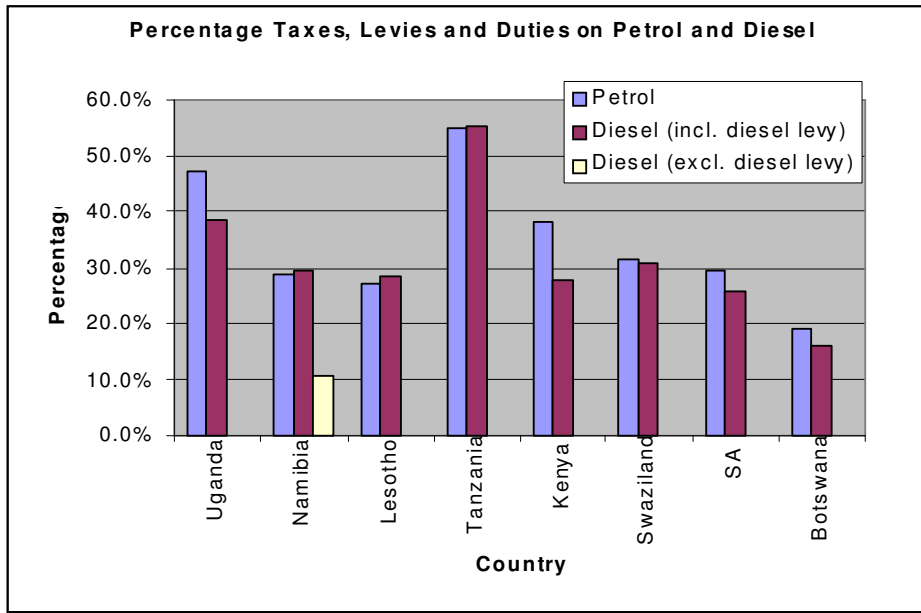


Figure 4-2 – Current Taxes, Levies and Duties on Fuel

Source:

1. Uganda Road Management Agency, 2000, Uganda Road Management and Financing - prep by BKS
2. Ministry of Mines and Energy - Namibia, 2003
3. Road Fund (Ministry of Finance), 2003, Review of the projected Road Maintenance Needs and the Generation of Road Fund Revenue - prep by Africon
4. The Road Fund Board, 2001, Study to review Road User Charges and Rates for Sustainable Road Financing as prepared by Africon & TISCO
5. Ministry of Public Works & Transp, 2001, Institutional Study on Road Management and Financing as prepared by Africon & ED Simelane & Associates
6. Roads Ministry of Works, Transport and Communication, 1999, Study to Develop a Domestic RUC System for Botswana

From the above figure it can be seen that Namibia's current taxes, levies and duties constitute approximately 29% of the total pump price, and that it compare similar to the taxes, levies and duties of the neighbouring countries, as well as to the Namibian petrol price. With the abolishment of the diesel levy, it is evident that there is a significant decrease in the percentage taxes, levies and duties. The percentage taxes, levies and duties would then be significantly lower than that of Namibia's neighbouring countries, and there would also be a significantly gap between the percentage taxes, levies and duties of diesel and petrol in Namibia.

The abolishment of the diesel levy would also lead to the possibility that the current levy on diesel will be diverted to the current fuel tax used for general revenue purposes.

4. The loss of the potential VAT refunds on the fuel levy that the RFA are currently entitled to claim.
5. There would be no need for a rebate/marketing system.

The issue of VAT refunds, inequity due to evasion loss and the number and categories of vehicles to be included in the MDC System are addressed in detail in a separate report, namely the **Draft Report: Review of Road User Charges**.

The impact of a MDC system in the long run in terms of the effect on the macro-economy, revenue collected, and policing mechanisms required as well as related costs, will determine whether it would be an effective and feasible option for replacing the diesel levy and related fuel levy refund system.

4.2.4.5 Detailed Investigation of MDCS

The investigation of such a system based on vehicle mass and –distance, is investigated in a separate part of this study.

The study addresses the following:

- A review of previous studies done to establish the experience in this regard;
- Related MDC technology for effective implementation of such a system;
- The feasibility of the implementation of a MDC system;
- Estimated cost of such a project, depending on the chosen and preferred technology;
- Advantages/disadvantages of such a system.

As part of a study separate to the review of the fuel levy refund system and the MDCS investigation, the impact of the abolishment of the diesel levy was determined. Various scenario options were modelled in the NAMRUC model to determine the impact on the levels of the various road user charges and consequently revenue collected by the RFA. The following scenarios were modelled:

- Scenario 1: Maintain Status Quo;
- Scenario 2: Maintain Status Quo with Implementation of MDCs for Diesel Vehicles;
- Scenario 3: Fuel Levies Only;
- Scenario 4: Licence Fees Only;
- Scenario 5: MDCs Only.

The above scenarios were modelled in terms of the following criteria:

- Equity loss (fuel levies);
- Equity loss (licence fees);
- VAT Refunds;
- Collection costs (fuel levies);
- Collection costs (licence fees);
- Collection costs (MDCs);
- Evasion loss;
- Dead weight loss due to evasion; and
- Fuel Levy Refund System.

The information obtained from the scenario options were used as inputs in the MIEERS study. The abolishment of the diesel levy, and consequently the ensuing change that it would have on the diesel price and on revenue collected by the RFA, was also investigated in terms of the overall impact on the macro-economy of Namibia. These results are presented separate from this report in the MIEERS Report.

The cost of the MDC System is addressed in separate reports (Draft RUC Review Report as well as the Draft MDCS Report). The cost analysis makes provision for the potential loss of VAT refunds that the RFA are currently entitled to claim on the fuel levy, due to the abolishment of the fuel levy.

4.2.5 Option Comparison

4.2.5.1 Cost Comparison

The following table indicates the cost of the respective options (Options 1, 2 & 3). The cost of the MDC System is addressed in separate reports (Draft RUC Review Report as well as the Draft MDCS Report).

Table 4-12 – Cost Comparison of Respective Options (Annual costs – N\$)

ITEM	UNIT	CURRENT REFUND SYSTEM	CURRENT REFUND SYSTEM (with impr.) ¹	CURRENT REFUND SYSTEM (with reduced transact.) ²	COMPLEX REFUND SYSTEM ³	REBATE/MARKING SYSTEM
Cost of Operating System (incl. Depreciation) ²	N\$	1 225 632	1 777 851	1 041 559	3 802 654	-
Dual Storage System (Depreciation 20 Years) ³	N\$	-	-	-	-	1 750 000
Policing Costs ⁴	N\$	-	-	-	-	1 440 000
Testing Costs ⁵	N\$	-	-	-	-	730 000
Sub-Total 1 (N\$)	N\$	1 225 632	1 777 851	1 041 559	3 802 654	3 920 000
Off-road litres of diesel ⁶	Litres	200 700 000	200 700 000	200 700 000	200 700 000	200 700 000
Sub-Total 1 (c/l)	c/l	0.61	0.89	0.52	1.89	1.95
Cost of Marker ⁷	c/l	-	-	-	-	0.33
Total	c/l	0.61	0.89	0.52	1.89	2.28
Total (excl. Policing and Testing Costs)	c/l	0.61	0.89	0.52	1.89	1.20
Total (excl. Policing and Testing Costs)	N\$	1 225 632	1 777 851	1 041 559	3 802 654	2 412 310
Total (incl. Policing and Testing Costs)	N\$	1 225 632	1 777 851	1 041 559	3 802 654	4 582 310

Note: ¹ Include the current operational cost of the refund system, as well as the cost of 3 additional data processors at an annual cost of N\$184 073 per person. (Three additional personnel are required to reduce the processing time of claims from 3 months to 1 month).

² Include the current operational cost of the refund system, as well as the cost of only 1 data processor at an annual cost of N\$184 073. (With a reduction in the number of transactions when claims are submitted only once per year, only 1 data processor is required).

³ The cost of a complex refund system was based on the assumed annual cost of N\$184 073 per auditor, for 6 auditors and an estimated 8 additional data processors, at the current annual cost of NR184 073 per data processor. This cost was added to the current operational cost of the refund system to arrive at the cost for a complex refund system.

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- ⁴ Actual costs of operating current refund system equals N\$1.23 million / year (including depreciation of hardware and software). If depreciation is excluded, the costs amount to N\$240,000 per year.
- ⁵ The MME estimated the costs of a dual storage system necessary for coloured and uncoloured diesel as between N\$30 and N\$40 million based on the costs of introducing a second grade on petrol during 1997, which was about N\$23 million. Subsequently a cost of N\$35 million was assumed. Furthermore, it was assumed that the storage system depreciates over 20 years.
- ⁶ Based on 5 additional full-time roadblocks to minimise evasion. Monthly costs of 5 roadblocks (BG Consulting, pg 43): 10 Traffic Officers N\$50,000, 5 vehicles leased N\$20,000, operational costs N\$25,000, contingencies 25%.
- ⁷ Based on figures of the SA RFTU where the analysis of fuel samples of 500ml cost between R350 and R400. For purposes of this study it was assumed that the cost of analysing one sample is N\$400 and that on average 5 tests per day are undertaken.
- ⁸ This reflects the estimated quantity of diesel used for off-road purposes which was estimated by applying the perceived percentage of off-road usage to the total diesel consumption of each sector. The estimated percentage diesel off-road usage amounts to 45% of total diesel usage.
- ⁹ The cost of a marker is R159.50/kg, which has to be used 25 parts per million parts of diesel. This translates roughly to 0.33c/l (if the density of diesel fuel equals 1200 litres per ton).

From the above table it appears that the actual current administrative cost of operating the existing fuel levy refunding system amounts to 0.61 c/l. This is less than the current fee of 1.50 c/l that the RFA currently deducts from every fuel levy refund transaction for administration of the fuel levy refunding system and therefore the current RFA fee sufficiently covers the administration cost of the system. It is therefore recommended that the current administrative fee be lowered.

In comparison, the estimated cost of operating a rebate/marking system amounts to 2.28 c/l (which is considerably higher than the current administrative fee of 1.50 c/l or 1.20 c/l (excluding policing costs)).

From the above it is evident that the current refund system and the Improved Refund System are the less costly options. Although the above cost represent the current system without any improvements, the additional cost related to improving the system would still amount to less than the cost of a rebate/marking system or a MDC system.

5. SUMMARY AND CONCLUSIONS

This report represents the **Final Report**.

The administration and operation of the current fuel levy refunding system of the Road Fund Administration was reviewed. An overview was provided of current operational procedures and a review done of concerns raised by stakeholders during the August 2002 workshop consultations. This served as a basis for stakeholder consultations that were held during October/November 2003 and January/February 2004, with the aim of establishing whether previous concerns have been identified and to what extent, and also to determine whether there were any new concerns and issues.

Based on several constraints identified (mainly equity and efficiency) in the current system, several options for the improvement and future operation of the current system were analysed and evaluated. The four options were:

- Option 1: Continuation of the existing system with possible improvements;
- Option 2: Transition to a complex refund system;
- Option 3: Replacement with an exemption or rebate/marketing system;
- Option 4: Abolishment of the diesel levy and the refund system.

International experience was reviewed to determine international 'best practice', to use as input and guidelines for decision-making regarding the future of the Namibian fuel levy refunding system.

Analysis of the system in terms of equity indicated that there are currently several groups that are excluded from the current system and not registered as users. Several options were proposed to have a more equitable system. These options indicated an equity gain, should additional users make use of the system, thereby creating a more equitable system for users.

The system was also analysed in terms of efficiency. Two options to decrease the current number of transactions for the RFA were proposed. These options indicated a less costly and consequently more efficient system.

The analysis of the respective options for improvement and future operation of the fuel levy refund system indicated the maintaining of the current refund system, with improvements as recommended.

The following significant conclusions were drawn with regard to the administration and operation of the current fuel levy refund system.

1. Constraints are experienced by stakeholders as well as by the RFA.
2. The main constraints experienced pertain to equity and efficiency.
3. Other constraints experienced include lack of sufficient information regarding the fuel levy refunding system (experienced mainly by SMMEs and the NNFU) and the processing time of claims (experienced by all stakeholders).
4. Although some constraints exist, the general administration and operation of the current fuel levy refunding system seems satisfactory.

5. From a cost perspective, Option 1 – Continuation of the Existing System with Possible Improvements (Maintain Status Quo), would be the more cost-effective for future operation, as the system is already in place with all initial capital costs already incurred. The only costs therefore currently involved are the annual administration and operational expenses, which are covered by the administrative fee per litre that the RFA retains for the quantity of fuel claimed for refunds.

To improve the current system two options were proposed, namely (1) the employment of three additional personnel (data processors) to reduce the processing of claims from 3 months to 1 month, and (2) a reduction in the number of refund transactions. The cost implications for the RFA would be the following: With the employment of three additional personnel would the total cost of the refund system would amount to N\$1.77 million, as compared to the current cost of N\$1.23 million per annum. With a reduction in the number of transactions the total cost of the system would amount to N\$1.04 million per annum. When compared to the total annual costs of the other proposed options, the improved system would still be the most cost-effective option. This would imply an **efficient, but not equitable** system. Equity would be compromised as the system currently does not make provision for the inclusion of all potential users.

6. The cost of Option 2 – Transition to a complex refund system will be significantly higher due to the appointment of auditors to protect the integrity of the system, as well as additional data processors to accommodate for the increased workload due to the estimated increase in refund users and –transactions, with the inclusion of SMMEs, communal farmers, some commercial farmers, and groups such as schools and hospitals and individuals. The system would be **more equitable, but less efficient**, than the current system.
7. The cost of Option 3 – Replacement with a Rebate/Marking System will be extremely expensive to implement, as this system have not yet been implemented. Due to the excessive costs involved, **efficiency would be compromised** significantly. However, the system would be **more equitable** than the current system as all users of diesel for off-road purposes would be taken into account.
8. The cost of Option 4 – Abolishment of the Diesel Levy and Refund System will involve no cost and would therefore be **efficient**. As there would be no need for a refund system, the system would also be **equitable** as there would be no discrimination between users.

However, when the diesel levy and refund system will be abolished, a MDC System will be implemented. This will involve significant costs, as the system will have to be implemented from start. This means that sufficient funds will have to be available to cover initial capital costs, and thereafter, annual administration, operational expenses and revenue risks.

The detailed costs of the MDC System are addressed in separate reports, namely the **Draft Report: Review of Road User Charges**, and the **Draft Report: Review of a Mass Distance Charges System**.

The above can be summarised as follows:

OPTIONS	EQUITY	EFFICIENCY
Option 1: Continuation of the existing system with possible improvements	✓x	✓
Option 2: Transition to a complex refund system	✓	x
Option 3: Replacement with an exemption or rebate/marketing system	✓	x
Option 4: Abolishment of the diesel levy and refund system	✓	✓

Our recommendations for the future operation of the fuel levy refunding system are addressed in the following section.

6. PROVISION OF RECOMMENDATIONS FOR THE FUTURE OPERATION OF THE FUEL LEVY REFUND SYSTEM

The following recommendations are provided:

1) Option 1: Continuation of the Existing System with Possible Improvements

It is recommended that the operation of the current fuel levy refund system be continued, by incorporating the following proposed improvements to the current system, from the following list of options:

- a) Improving awareness of the current system by utilising several advertising mediums. It is expected that this would impose a minimal cost on the RFA.
- b) Reviewing the current refund rates.
- c) Basing the administrative fee on a fee per transaction instead of the current cent per litre.
- d) The accommodation of schools and hospitals under the current system whereby additional eligible sectors need to be established.
- e) The appointment of three additional personnel (data processors) to assist with the processing of claims. This would reduce the processing time of claims from 3 months to 1 month at an additional cost of N\$552 219 per annum.
- f) Outsourcing of the fuel levy refund function.
- g) A reduction in the number of fuel levy refund transactions. In this instance only 1 data processor would be required. This would decrease the current annual cost of the operating system by N\$184 073 (cost of 1 data processor).

It should be noted that options e), f) and g) are mutually exclusive.

2) Option 2: Transition to a Complex Refund System

Option 2 is not recommended, due to the following reasons:

- a) As a result of the number of users involved, a significant amount of auditors would be required.
- b) The system would be very complex due to the number of users involved. Due to the vastness of the country and the distribution of the number of potential users, the system would logistically not be practical to implement.
- c) Extensive auditing would result in significant auditing costs.
- d) The system would have to be monitored on a regular basis to ensure that the system is consistent with considerations of practicality.
- e) The MME would not necessarily support the proliferation of inclusion of small-scale users in the refund system, due to the complexity and logistical nature of such a system.

3) Option 3: Replacement with an Exemption or Rebate/Marking System

The implementation of Option 3 is not recommended, due to the following reasons:

- a) The implementation of the system would be characterised by excessive capital costs.

- b) Separate storage facilities would be required.
- c) It is not practical to add the fuel marker at the pump. The fuel marker needs to be added at the point of sale, which is at the fuel storage facilities, not at the pump. The implication of this is that the oil industry has to carry the related costs.
- d) The MME and oil industry is completely opposed to the implementation of a fuel marking system and would not support such a system.
- e) The implementation of such a system would require the RFA to fund such a system.
- f) A fuel colouring system is not practical as Namibia's fuel market is too small.

4) Option 4: Abolishment of the Diesel and Refund System

The implementation of Option 4 is not recommended, due to the following reasons:

- a) A tried, tested and efficient source of revenue collection would be lost with the abolishment of the current fuel levy.
- b) Significant implementation costs are involved.
- c) The abolishment of the diesel levy would imply a decrease of 73 c/l in the current pump price. This would lead to possible fuel smuggling to neighbouring countries.
- d) There would be a significant gap between the pump price of petrol and diesel in Namibia.
- e) Namibia's diesel price would be significantly different from neighbouring countries.
- f) The loss of potential VAT refunds that the RFA is currently entitled to claim.

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ANNEXURE A
STAKEHOLDER CONSULTATION AUGUST 2002
(CONCERNS USED AS BASIS FOR 2003 & 2004
STAKEHOLDER CONSULTATIONS)

STAKEHOLDER CONSULTATION AUGUST 2002

During August 2002 consultative workshops were held with the following eligible sectors:

- Agriculture
- Fishing
- Construction
- Mining

The purpose of the workshops was to inform stakeholders on certain aspects of the Namibia Fuel Levy Refunding System, to consult with the users of the system and to obtain their inputs.

During the workshops, the following issues/concerns were raised by the respective sectors:

1. Processing of claims takes long.
2. In some cases users are not sure if and when payment have been made.
3. The fishing industry has concerns about the administration fee and the refund percentage applying to them (95%).
4. It appeared that refunds to the fishing industry have been made at various rates since the beginning of 2002.
5. How are small emerging contractors in the construction sector accommodated by the system?
6. Apart from the RFA that needs the original tax invoice for the purposes of processing the refund claims, the Receiver of Revenue also requires the original tax invoice.
7. The mining sector also includes marine mining, which uses fuel entirely for off-road purposes. The current system does not make provision for this as the mining sector only receives an 80% refund.

The above concerns were used as a basis for stakeholder consultations conducted during October/November 2003, of which the results of the detailed discussions are attached as Annexure B.

ANNEXURE B
STAKEHOLDER CONSULTATION
OCTOBER/NOVEMBER 2003

STAKEHOLDER CONSULTATIONS OCTOBER/NOVEMBER 2003

1. MINING SECTOR: DISCUSSIONS WITH NAMDEB

Initially a meeting was held with Mr A Wahl but he mentioned that he would not know of any constraints, and subsequently referred us to Mr Johan Weich who is dealing with the fuel levy refunds, and is stationed in Oranjemund. Telephonic discussions were held with Mr Johan Weich of NamDeb on 25 October 2003. Mr Weich replied that although he was aware of the fuel levy refunding system, he did not have any knowledge with regard to specific constraints experienced, and referred us to Mr Leon Botha.

Mr Leon Botha provided the following details with regard to claims that have been submitted to the RFA for the past 6 months:

Table 6-1 – NAMDEB Claims for Period April-September 2003

MONTH OF CLAIM (2003)	VALUE CLAIMED (N\$)	DELIVERY DATE TO RFA	DATE OF DEPOSIT BY RFA INTO NAMDEB ACCOUNT
April	1,027,116	13 May 2003	16 August 2003
May	897,044	16 June 2003	1 October 2003
June	997,400	15 July 2003	1 October 2003
July	1,354,354	14 August 2003	-
August	1,201,452	15 September 2003	-
September	1,329,584	17 October 2003	-

NAMDEB submit claims to the RFA on a monthly basis, with an average monthly value of N\$1,134,500. Claims take on average 2-3 months to process. Mr Botha mentioned that this time period is too long and does not meet NAMDEB's needs efficiently. Mr Botha furthermore suggested that the fuel levy be refunded at a 100% rate and also suggested that **petrol** used for mining purposes at NAMDEB also be considered for refunding as the company maintains all of its roads itself and mainly petrol is used on these roads.

2. MINING SECTOR: MEETING WITH DE BEERS MARINE MINING (DEBMARINE)

A meeting was held with Mr Nick Hagan of DebMarine on 13 October 2003. The main subject was the issue raised by the mining sector during August 2002, namely that the mining sector also includes marine mining, which uses fuel entirely for off-road purposes, and that the current fuel levy refunding system does not make provision for this sub-sector.

Mr Hagan however mentioned that they did not claim fuel levy refunds as they do not bring their ships into Namibian ports, mainly because it is not cost-effective and also as a result of poor/insufficient infrastructure, lack of engineering capacity and lack of dry docks. DebMarine therefore fuel their ships at either South African ports or at sea. For re-fueling at sea, permission is obtained from MWTC and customs have to provide clearance. He further mentioned that they do not use diesel, but marine gasoil. He also mentioned that the issue of the current system only receiving an 80% refund, which does not cover marine mining, did not originate from DebMarine but probably from the vessel owners, who are contracted out to NAMDEB.

3. RAIL SECTOR: MEETING WITH TRANSNAMIB HOLDINGS (TNH)

Discussions were held with Mr Attie Bester on 15 October 2003. Mr Bester mentioned that currently there are no major problems being experienced with the fuel levy refunding system. Claims take on average 2-3 months to process and the average of the claims vary approximately between N\$800,000 and N\$900,000 per month. Claims are submitted on a monthly basis and payment is made via electronic transfer by the RFA to TNH's bank account.

Mr Bester further mentioned that the fuel levy refunding rate of TNH is currently still 90%, and that they have not been approached by the RFA with regard to decreasing the rate to 75%.

The reduced refund rate of 75% is based on an audit by the RFA at the TransNamib Depots of Keetmanshoop, Otjiwarongo and Walvis Bay during 2002. Mr Bester said that the audit of the RFA was not based on a representative sample, as the three depots that were audited only represent approximately 38% of the diesel consumed by all of TNH's diesel depots (Keetmanshoop 15%, Otjiwarongo 14% and Walvis Bay 9%).

Mr Bester added that they were in general satisfied with the working of the current fuel levy refunding system.

4. CONSTRUCTION SECTOR: MEETING WITH GRINAKEER

A meeting was held with Mr B Johnston and Ms Karen Gouws of Grinaker on 16 October 2003. Mr Johnston mentioned that they were currently not experiencing any major problems with the fuel levy refunding system. Ms Gouws mentioned that claims were submitted on a monthly basis and take on average 2-3 months to process and that the average of the claims is approximately N\$200,000 per month. Mr Johnston said that the construction sector was in general satisfied with the working of the current fuel levy refunding system.

On the issue whether SMMEs within the construction industry are currently being accommodated by the fuel levy refunding system, Mr Johnston mentioned that Grinaker currently uses various SMMEs, and referred us to Mr S Engelbrecht (Grinaker Site Manager) to provide us with a list of SMMEs. Mr Johnston also mentioned that most SMMEs do not own any equipment and that Grinaker as well as other construction companies rent out equipment at a "wet rate" (i.e. fuel included). In this case SMMEs would therefore not be entitled to fuel levy refunds, as they are not the end users. However, some other big construction companies rent out equipment to SMMEs at a "dry rate" (i.e. fuel excluded). In that case SMMEs would therefore qualify for fuel levy refunds.

Ms Gouws mentioned that they managed to obtain duplicate invoices from their fuel supplier (BP), as this previously posed a problem as both the Receiver of Revenue as well as the RF requires original invoices for income tax and fuel levy refunds, respectively. Mr Johnston also mentioned that the fuel levy refund is taken into consideration for tendering purposes (i.e. the estimated fuel levy refund is subtracted from the tender amount).

5. CONSTRUCTION SECTOR: MEETING WITH HUIZEN CONSTRUCTION (SMME)

A meeting was held with Mr Alden Dennis Z. Goagoseb of Huizen Construction on 17 October 2003, regarding the concern of whether the small emerging contractors (SMMEs) are accommodated by the fuel levy refunding system.

Mr Goagoseb replied that the SMMEs were not accommodated by the fuel levy refunding system as they were not aware of the fuel levy refunding system, and therefore did not submit any claims. He further said that there are currently 22 SMMEs in Namibia, and that Rolf Becker Project Management (RBPM) in South Africa supplied training on labour-intensive construction to them during 1999, with the purpose of creating employment opportunities for the SMMEs. Mr Goagoseb also mentioned that he currently employs 35 people on-site, of which 20 are permanent workers with the rest being contract workers. He added that his permanent equipment consists only of a mixer and a bitumen sprayer, and that any additional equipment needed was rented.

The operational working of the fuel levy refund system was explained to Mr Goagoseb during the meeting, and he was also handed a pamphlet compiler by the RFA with additional information on the fuel levy refunding system. Furthermore, Mr Goagoseb was requested to convey the message of the existence as well as the working of the current fuel levy refund system to other SMMEs.

6. FISHING SECTOR

Due to the fact that the fishing sector does not have representative offices in Windhoek, a telephonic discussion was held with Mr B Edwards, formerly with the Ad Hoc Fishing Committee, on 16 October 2003. Mr Edwards said that the fishing sector should in fact qualify for a 100% refund. The fishing sector however did not make a fact supported submission to the RFA for a 100% refund, as the Fishing Ad Hoc Committee does not exist anymore. He also mentioned that the RFA undertook to audit the fishing sector after the Workshop held in 2002, but that this was never done.

Mr Edwards also mentioned that it would not be too difficult to audit the fishing sector as there are only 16 fuelling points for ships in Walvis Bay and Lüderitz. He also mentioned that the fishing industry received a refund of 18.6 c/l under the previous Ministry of Finance (MoF) refund system but that the fishing industry was able to prove that they were in fact entitled for a refund of 38 c/l. Subsequently the fishing industry took the MoF to court and won the court case.

The MoF under the previous South African Receiver of Revenue had to disburse the fishing industry, and apparently paid interest on a claim for the first time in history. Mr Edwards also complained about the time it takes for the RFA to process the claims (± 90 days).

A telephonic discussion was also held with Mr Matthew Hambuda of Possessions Fishing Co (Pty) Ltd on 17 October 2003. Mr Hambuda is also the Chairman of the Namibian Association for the Advancement of Black Companies in the Fishing Industry (NABFI).

Mr Hambuda added that his company is a small company and that they buy their fuel from larger fishing companies, who in turn purchase from retailers. The larger fishing

companies submit their fuel levy refund claims to the RFA, and once they have received their payment, the smaller fishing companies receive the fuel refund. The average processing time of refund claims are 2-3 months.

7. FUEL COMPANIES: ENGEN

A telephonic conversation was held with Mr Chiappini (Representative of Engen) on 17 October 2003. He mentioned that he is not aware of any problems experienced by his clients on the fuel levy refunding system. He mentioned that Caltex and Engen are the main fuel suppliers for the fishing industry. He mentioned that big fishing industries normally have fuel tanks on their premises with a big pump for ship re-fueling purposes only and sometimes a smaller pump, which is accessible to vehicles for re-fuelling purposes.

8. AGRICULTURE SECTOR: MEETING WITH THE NATIONAL AGRICULTURE UNION (NAU)

A meeting was held with Mr Isak Coetzee on 17 October 2003, regarding the fuel levy refunding system. Mr Coetzee stated that the agriculture sector was in general satisfied with the working of the fuel levy refunding system and that they were not experiencing any major problems. He indicated that processing of claims takes long, but this matter has been taken up with Adv. S Masiza on 28 April 2003, upon which it was agreed that processing and payment of claims would be completed within 60 days.

Mr Coetzee requested whether there was a possibility of a decrease in vehicle license fees as some farmers used their vehicles for transport on average once a month, therefore not justifying high vehicle license fees. Mr Coetzee was informed that the current review of the road user charging system would address this.

9. NATIONAL NAMIBIAN FARMERS UNION (NNFU)

Telephonic discussions were held with Mr Munjano on 3 November. Mr Munjano mentioned that although the NNFU was aware of the fuel levy refunding system, he was unable to comment as the NNFU is currently not making any use of the system. He stated that the main reason for this is lack of information regarding the fuel levy refunding system which means that they do not know how the system works, who qualifies for refunds, how the claiming process works etc.

Mr Munjano further mentioned that as far as he knows, only commercial farmers make use of the system and that one needs to be a farm owner to make use the system. As most of the NNFU's members are not farm owners, they do not use the fuel levy refunding system. Mr Munjano also added that he did attend the Consultative Workshop that was held in August 2002, but that he still does not have sufficient information regarding the operational working of the refunding system.

Mr Munjano was informed of the fact that the NNFU can make use of the refunding system, should they adhere to the criteria as set by the RFA to qualify for refunds, and that one does not need to be a farm owner to be able to use the system. He was also informed of the fuel levy refunding system pamphlets available from the RFA's offices, and also of the RFA fuel levy refunding website.

10. MEETING WITH ROAD FUND ADMINISTRATION (RFA)

Discussions were held with Mr Günter Seydack and Ms Leilah Elago on 14 October 2003, and with Mr Desmond Basson on 17 October 2003, regarding the concerns raised by stakeholders during the August 2002 workshop and whether these concerns have been addressed by the RFA.

The section below presents the questions put to the RFA as well as their reply towards addressing the concerns.

Question 1: Has the current backlog with regard to processing of refund claims been eliminated and addressed by the RFA?

RFA Reply: The RFA mentioned that there is still a backlog in claims processing but that the backlog was significantly reduced since August 2002. The RFA has employed two additional personnel to assist with the processing, administration and payment of fuel levy refund claims submitted by eligible sectors. Where processing, administration and payment previously took approximately 6 months, it now takes only 2-3 months and therefore progress has been made in this regard.

Question 2: Stakeholders raised the issue that both the Receiver of Revenue as well as the RFA required that the original tax invoice be submitted to them. This created problems for claimants as fuel companies only issue one original tax invoice. Did the RFA approach fuel companies to provide duplicate tax invoices to stakeholders?

RFA Reply: Fuel companies have not yet been approached by the RFA to issue duplicate tax invoices to fuel users⁸.

Question 3: With regard to the obtaining of new claim forms the RFA mentioned that in future blank forms will be sent together with the notice of payment of previous claims, and also added that a website will be created from which blank claim forms can be subtracted from. Has this been done yet?

RFA Reply: Blank forms are not yet being sent together with the notice of payment of previous claims. A website has been created (<http://www.rfanam.com.na>), however, it is not yet completely active. The following forms are available on the website:

- Application for Registration as an Off-road Fuel User
- Claim in respect of Fuel Levy (Sample Only) (i.e. the offices of the RFA still need to be visited by claimants in order to obtain claim forms).

Question 4: Has the RFA circulated realistic time frames for processing and payment of claims?

RFA Reply: No, this has not been done on a regular basis but only on an ad hoc basis.

Question 5: Did the RFA receive any motivation from the fishing industry for increasing their refund rate and has the motivation been considered by the RFA?

RFA Reply: No such motivation was received by the fishing industry. The mining sector (more specifically NamDeb) however submitted a motivation for increasing their refund rate.

⁸ The Representatives of the construction industry (Grinaker) however solved this problem by approaching their fuel supplier (BP) directly, who then issues them with duplicate invoices (refer to Section 3.2.3.4).

Question 6: Did the RFA investigate allegations made by the fishing industry that refunds appear to have been made at various rates since the beginning of 2002?

RFA Reply: This was rectified. Refunds were made at various rates because of the RUC fuel levy increase. Subsequently ± N\$ 1.7 million was paid back to the fishing industry.

Question 7: Based on a concern of the civil sub-sector of the broader construction sector, that they receive the lower bound (50%) of their estimated off-road usage (60%-75%) as percentage refund, whilst the building sub-sector receives an approximate average (40%) of their off-road usage (27%-58%) as percentage refund, the RFA proposed that a submission be made to the RFA, stating the need for a higher percentage refund to be applied to the civil industry. Did the RFA receive such a submission for consideration?

RFA Reply: The RFA did not receive any such submission.

Question 8: Based on a concern that the mining sector also includes marine mining which uses fuel entirely for off-road purposes and that the current system does not make provision for this as the mining sector only receives an 80% refund, NamDeb submitted a request for a 100% refund rate during October 2001 (see attached Annexure A). The RFA furthermore proposed that in order to accommodate other companies that are involved in marine mining operations, the marine fishing sector can be extended to a marine operations sector which will then accommodate not only the fishing sector but also the marine mining sector. This can be achieved by changing provisions in the RFA Act.

RFA Reply: The RFA mentioned that the NamDeb request is pending and the outcome is dependent on the RUCS review, which will also provide an indication of whether the fuel levy refunding system will be ongoing, or abolished. No changes to the provisions of the RFA Act have yet been made.

Question 9: Based on a statement of the mining sector that the implementation of a rebate system for the mining sector be investigated, the RFA replied that the operation of 2 different systems (i.e. a rebate system for the mining sector and a refund system for the other sectors) is not feasible. The RFA however proposed that if the mining sector can prove complete ring-fencing of their off-road fuel storage facilities and usage, the introduction of a 100% refund or a possible rebate system could be investigated.

RFA Reply: The RFA replied that the granting of a 100% refund or a possible rebate system is depending on the outcome of the RUCS review.

The RFA further mentioned that they are experiencing the following constraints in the operation and administration of the fuel levy refunding system:

1. Details on registration forms of potential fuel users eligible for fuel levy refunds that are submitted to the RFA, are sometimes incorrect.
2. The mail service is not always reliable, with the result being that claims are not always received in time. Claims have to be submitted frequently and the RFA does not accept any claims older than 3 months. The RFA takes into account the stamp date on the envelope of the claim submitted, from which the claims are then valid for a 3-month period.

3. Invoices submitted to the RFA should contain the name and reference details of the invoice.
4. The RFA should clearly state all necessary information required from claimants for purposes of processing the claims, on the registration and claim forms.
5. Users of the system do not have sufficient knowledge of the purpose and operation of the fuel levy refund system, therefore irrelevant claims are being submitted to the RFA (e.g. the RFA receive claims for fuel purchased in South Africa).
6. The RCC is currently tendering for road construction and maintenance, which includes the use of diesel. As the RA, who allocates funds to the RCC for construction and maintenance work, is already deducting any fuel levy refunds received by the RCC from the RCC's tender amount. The RFA is of the opinion that the RCC do not need to submit any claims for fuel levy refunds to the RFA, as this creates duplicate administration for them, and that no institution (i.e. RFA, RCC or RA) gains anything if the RCC submits fuel levy refund claims or not.
7. On the issue of whether any fact supporting submissions on possible fuel levy refunds on petrol were received, the RFA replied that no such submissions have yet been received.

11. MEETING WITH MINISTRY OF MINES AND ENERGY (MME)

A meeting was held with Mr M von Jeney and Mr I Nghishongele on 15 October 2003. The purpose of the meeting with MME was to obtain fuel statistics such as fuel sales, fuel imports etc. During this meeting Mr von Jeney was also asked what the view of the MME is with regard to the fuel levy refunding system as well as any other alternative means to recompensate off-road users of fuel for the fuel levy.

Mr von Jeney replied that the use of fuel colouring as method for distinguishing between fuel used for on- and off-road purposes is costly and that it is very difficult to apply sufficient policing measures to such a system. There is also scope for evasion with such a system, thereby implicating revenue losses of considerable amounts. Mr von Jeney mentioned that during a trial run for a similar system in South Africa, the cost of fuel colouring was approximately 1,5 c/l. The implementation of the system was however not very successful and failed. Mr von Jeney added that the MME is opposed to the administrative inputs and cost of such a system, and that the outcome of a fuel colouring system in Namibia would not be positive as the industry will also be opposed to such a system.

Mr von Jeney also raised a concern that should the fuel levy on diesel and the related fuel levy refunding system be abolished, then there is a possibility that the RUC levy might be "taken over" by another institution, without the concomitant decrease in the fuel price.

12. MEETING WITH THE RCC

A meeting was held with Mr J Novack, Mr A Jaf, Ms P Shilimela and Ms L van den Bosch on 16 October 2003. Ms Shilimela mentioned that their claims that they submit to the RFA take on average between 2-3 months to process. She added that the value of the RCC's claims is approximately N\$350,000 per month.

The RCC was informed that it appears that they do not need to submit any claims for fuel levy refunds to the RFA, as the RA is already deducting fuel levy refunds received by the RCC from the RCC's tender amount. According to the RCC they have not been approached yet by the RFA in this regard.

ANNEXURE C
STAKEHOLDER CONSULTATION
JANUARY/FEBRUARY 2004

STAKEHOLDER CONSULTATIONS JANUARY/FEBRUARY 2004

1. MEETING WITH RFA

Two separate meetings were held with Mr Günter Seydack of the RFA, namely on 27 and 29 January 2004 respectively. The purpose of the meetings was to present the progress of the project and initial results to Mr Seydack, and also to obtain further guidance with regard to the needs of, and constraints experienced by, the RFA in terms of the operation of the current fuel levy refunding system.

Mr Seydack stated that one of the most important issues to address with regard to the fuel levy refunding system is how to improve efficiency without sacrificing equity, and that inequity to individuals for whom it might have been worth it to register for, and claim refunds on frequent basis, should not be allowed. He mentioned that the smaller users, such as communal farmers, SMMEs and individuals have to be accommodated in the system to ensure that it is more equitable, and said that the major reason for the refund system is the equitable treatment of diesel off-road users. He further mentioned that the system has to take place in concurrence with the Ministry of Works, Transport and Communication (MWTC) and the Ministry of Finance, and also that the potential inequity issues of the current fuel levy refund system as raised by the MWTC in 2001 needs to be considered.

Main questions raised by Mr Seydack were the following: (1) How could individual users be accommodated to ensure equity and efficiency? (2) Is there any conflict with the RFA Act? (3) Would this be practical and applicable to 'smaller' (individual) users? (4) If a refund category is not provided for individual users, how much inequity will be caused? (5) Will it be possible to apply the Mozambique scenario of a special fund for the agriculture sector to Namibia? (6) How would the cost of the fuel levy refunding system be affected by the frequency of submitting claims? What would the impact be if claims are submitted and processed maximum once or twice per year rather than submitting claim on monthly basis?

Mr Seydack mentioned that equity will not be sacrificed by the Cabinet, and that a scenario of only fuel levies will not be accepted, despite the benefits and the efficiency, as it would not be 100% equitable because of significant cross-subsidisation that will still take place. However, should this option be more efficient, fuel levies as only RUC instrument should be considered.

2. MEETING WITH MR M VON JENEY

A meeting was held with Mr von Jeney on 29 January 2004. The purpose of the meeting was to obtain Mr von Jeney's views with regard to several issues relevant to the current RUC Review study. The following issues were discussed:

Separate Refund Category for Special Groups (e.g. schools, hospitals, etc as well as individual users.

With regard the provision of a separate refund category to accommodate groups such as schools and hospitals that use diesel for power generation purposes, as well as individuals that apply for refunds, the MME would not necessarily support the proliferation of inclusion of small-scale users in the refund system, due to the complexity and logistical nature of such a system.

He mentioned that groups such as schools and hospitals, as well as individual users, do not have as significant impact on the economy and do not contribute as significantly to the overall economy as the major role-players. The current system already captures the major economic role-players that influence the economy. There is no relevance and practicality of establishing a separate group for smaller users. He further mentioned that schools for example currently use approximately 30% of the Government budget and have significant costs, and use this as a reason for wanting to obtain a refund on the diesel used for power generation.

Fuel Colouring System

With regard to the questions of (1) why separate fuel tanks are required at fuel storage facilities for the fuel marking system and not at the point of sale, and (2) why can the fuel marker not be added at the point of sale, Mr von Jeney replied that the point of sale is at the depot/retailer, not at the pump. For this reason separate storage facilities will be required, as coloured fuel will have to be stored separately, before distribution to the actual respective pump centres. If the fuel marker can not be added at point of sale, separate storage tanks have to be provided for fuel marking at fuel storage depots/facilities, which means oil companies would have to carry these costs. Oil companies would not be in favour of carrying costs for system that they do not support and that RFA wants to implement. With regard to implementation costs of the system Mr von Jeney replied the costs involved do not really justify the problems that go hand in hand with a fuel marking system, (e.g. policing, enforcement and administration).

With regard to the administrative workload that would arise out of the operation of such a system, and why the fuel industry be opposed to any additional work that might arise, Mr von Jeney replied that the question is not as much about the practicality of the system as it is about who would take the responsibility for the workload that goes hand in hand with the administration, operation and management of the fuel marking system. He further mentioned that the fuel marking system is not the responsibility of the fuel industry, and that the oil industry would not take the responsibility and workload for a system that they do not support, especially since it is not the oil industry that wants to implement such a system.

Fuel Levies

With regard to the issue of increasing the fuel levy, Mr von Jeney replied that fuel prices are a significant contributor to increasing inflation. Fuel price increases must be sensitive to the inflationary impact. He referred to a Fuel Elasticity Study conducted by the University of Pretoria, which indicated that a small change in the fuel price does not impact too significantly on elasticity.

He further mentioned that the principle of not recovering all costs from fuel levies is not currently being honoured by the RFA. There is never a process of discussion between the MME and the RFA, as the RFA does not consult the MME on the fuel levy issue. The RFA should involve the MME in the discussion- and decision-making process with regard to the fuel levy and also the principles of equity and efficiency.

With regard to the introduction of LPG in Namibia in January 2004, Mr von Jeney asked whether fuel levies are included or excluded in the price of the fuel? If fuel levies are excluded, he mentioned that there would automatically be a saving of

approximately a 40%. He further mentioned that he did not foresee a problem with applying a fuel levy on LPG. The implication of using LPG is that more kilometres are driven on less fuel, and therefore the levy has to be adapted or escalated to get some return per kilometre. He mentioned that a dual system would be implemented in Windhoek to accommodate LPG.

Fuel Smuggling

Mr von Jeney said that although fuel smuggling did take place previously, it is being contained now.

It should be noted that Mr von Jeney has retired and is not in the employment of the Ministry of Mines and Energy (MME) anymore. The above views were provided in his private capacity and do not necessarily reflect the views of the MME.

3. MEETING WITH FP DU TOIT TRANSPORT

A meeting was held with Mr FP du Toit of FP du Toit Transport on 29 January 2004. The purpose of the meeting was to inform Mr du Toit of the various road user charging options considered for possible implementation, which include (1) Maintaining the Status Quo, (2) Maintaining the Status Quo, plus Mass-Distance Charges (MDCs) for heavy vehicles, (3) Fuel Levies as only RUC instrument, (4) License Fees as only RUC instrument, and (5) MDCs as only RUC instrument, and also to obtain his views on the various options considered for implementation.

Mr du Toit replied that his company, and most of the industry, is not in support of a MDC system. He stated that the MDC system is a very complex system and further raised the question of how are revenues going to be collected? He raised some concerns with regard to the efficient operation of a system as complex as a MDCS.

He also mentioned that the industry supports the user-pay principle on two conditions (1) it has to be kept as simple as possible, and (2) everyone has to pay. He said that the industry is in favour of a combination between license fees and fuel levies where license fees are higher and fuel levies lower. He further noted that it has to be kept in mind that, instead of increasing trailer license fees significantly, rather put the cost increase on the power units. He also mentioned that an efficient system is more favourable than an equitable system.

He also proposed that the current under-recovery of the RFA could be financed through short-term loans, which can then be paid off later with over-recoveries. He also mentioned that the impact of the equity principle on macro-economy should be taken into consideration.

4. ETOSHA FURNITURE TRANSPORT

A telephonic conversation was held with Mr Abrie Burger of Etosha Furniture Transport on 30 January 2004. Mr von Jeney provided Mr Burger as a reference for obtaining information regarding the transport component of products. Mr Burger provided the required information.

5. NATIS

A telephonic conversation was held with Mr W Brock of NaTIS on 30 January 2004, regarding the quantity of all transactions per function performed by NaTIS. The required information was provided.

6. NATIONAL AGRICULTURE UNION (NAU)

A meeting was held with Mr Isak Coetzee of the NAU on 30 January 2004. The purpose of the meeting was to obtain the NAU's opinion regarding whether a system such as the one applied in Mozambique (in terms of which farmers pay a certain percentage of the diesel levy into a 'special account', which then provides financial support for agriculture in the form of subsidies) could be adopted in Namibia, and whether such a system would be equitable.

Mr Coetzee replied that the NAU would in principle not be against such a system. However, it should be kept in mind that the situation in Namibia is completely different than that from Mozambique. The main concern is the management of such an account. Such an account would have to be held and managed independently to ensure that the funds paid into the account are allocated back into the agriculture sector. With the current refund system, farmers depend on the refund that they receive and take this into account for budgetary purposes. Should farmers be refunded in another way, such as being subsidised from a special account, they would not have that refund to depend on. Therefore, should the current refund system be replaced by a practice such as the one in Mozambique, this would have a significant impact on their cash flow positions.

The other concern that Mr Coetzee raised was the issue of whether farmers would in reality benefit from such an account. Farmers would be hesitant to contribute to an account when there is no guarantee that the funds would be allocated back into the agriculture sector.

A further concern is that not all farmers currently claim for refunds as not all use diesel for off-road purposes. Therefore only farmers that currently claim refunds will contribute to such a fund. The implication is that farmers that currently do claim refunds, as well as farmers that currently do not claim refunds, will benefit from a special account. This would create an unfair situation. He said that farmer that currently do not claim refunds, should then contribute to such a special account to justify the fact that they also then obtain subsidies from the fund.

7. MINISTRY OF WORKS, TRANSPORT & COMMUNICATION (MWTC)

A meeting was held with Mr KW Kauaria of MWTC on 2 February 2004. The purpose of the meeting was to discuss the correspondence between MWTC and the RFA in 2001 concerning the implementation of a proposed fuel levy refund system, to determine whether the MWTC's views on the matter are currently similar to the views expressed during 2001, and to to inform Mr Kauaria of the various road user charging options considered for possible implementation.

Mr Kauaria replied that the current system must be implemented as it was approved. He mentioned that it should be taken into consideration that restructuring of the MWTC is currently ongoing, with the implication that new personnel are appointed. This means that new personnel does not necessarily understand the issues raised previously with regard to the fuel levy refund system and the principle of equity, and does not necessarily have the required background with regard to the refund system. Therefore it would be complex to say whether the views of the MWTC are currently similar to the views as expressed during 2001.

Mr Kauaria mentioned that the MWTC is not in favour of cross-subsidisation. He further raised the question of whether the introduction of MDCs as the only RUC instrument would enable the RFA to recover the current under-recovery. He mentioned that MDC is preferable for heavy vehicles, and that such a system would be workable, but also raised a concern with regard to how the system would be implemented to be evasion proof.

8. TOTAL NAMIBIA (PTY) LTD

A meeting was held with Mr Rynier du Preez of Total Namibia on 2 February 2004. Mr du Preez's opinion was requested on the view of the fishing sector that they should obtain a rebate upfront from Total, instead of claiming a refund. Mr du Preez replied that this was a Government decision and out of the hands of Total Namibia. He was also asked whether the mining activities of the mining sector are 100% ring-fenced, to which he replied that it was not.

On the question regarding the probability of discrepancies in the fuel sales figures of Caltex, Mr du Preez replied that discrepancies in fuel sales figures are possible, depending on how the sales figures are reported. He mentioned that although sales figures with regard to the export of fuel to neighbouring countries should actually be excluded, it is still sometimes included in the reported fuel sales figures. He further mentioned that international off-shore sales figures were included in fuel sales volumes on previous occasions. This was a main reason for discrepancies in reported sales figures.

Mr du Preez mentioned that transit fuel is sold on the domestic market on a very small scale. He mentioned that provision is currently made for a transit fuel loss as a result of evaporation of fuel when being transported. A loss of 0,25% is being allowed for, although the loss can sometimes be up to 5%. He stated that reasons for evaporation loss include incorrect loading and high temperatures when transporting fuel through the desert.

With regard to a proposed fuel marking system, Mr du Preez stated that the related costs involved are extremely high, and added that only a diesel tank facility was established at Luderitz at a cost of approximately N\$15 million for a 10 million litre tank. He further added that the Namibian market is too small for a fuel colouring system, and that it is practical not possible to add fuel marker at the pump. To split the coloured fuel would require separate storage facilities. He asked whether the RFA would fund the installation of separate storage facilities for coloured fuel, and also who would be responsible for the management, operation and auditing of a fuel marking system.

With regard to fuel smuggling, Mr du Preez mentioned that it currently takes place, but not significantly, and that it is limited to diesel smuggling. He said that Angola fuel quality is very poor and not up to international fuel standards and specifications. He further mentioned that, to counteract fuel smuggling, NAMCOR and the Angolan fuel company SONAGO, is currently in the process of putting into place agreements anti-fuel smuggling agreements.

9. MINISTRY OF AGRICULTURE, WATER & RURAL DEVELOPMENT

A meeting was held with Mr Bernd Rothkegel on 2 February 2004. As Mr Rothkegel was not consulted during the stakeholder consultation held in October/November 2003,

he was informed of the study currently being conducted with regard to the review of road user charges, and in particular the review of the current fuel levy refund system.

The purpose of the meeting was to obtain the views of the Ministry with regard to the current fuel levy refund system. Mr Rothkegel was also asked whether he is of the opinion that a system such as the one applied in Mozambique (in terms of which farmers pay a certain percentage of the diesel levy into a 'special account', which then provides financial support for agriculture in the form of subsidies) could be adopted in Namibia, and whether such a system would be equitable.

Mr Rothkegel replied that the agriculture sector is not in favour of a system such as the one on Mozambique. He mentioned that the main concerns with regard to such a system were the following: (1) how would the allocation of funds be determined, (2) who will be responsible for the management of the special account, and (3) will the funds in reality be allocated to the farming sector.

He further mentioned that the only way that such a fund could work is to be project orientated, where farmers have inputs with regard to the manner in which funds are being disposed of. He also added that a monitoring system should be in place to ensure the proper spending of funds allocated to farmers. The other option would be to put into place an earmarked fund. However, the implementation of such a fund would require that certain procedures be followed.

To estimate and quantify equity and efficiency, Mr Rothkegel estimated that there is currently approximately 125 000 communal farmers and 4 500 commercial farmers.

10. MINISTRY OF FINANCE (MOF)

A meeting was held with Mr JR Le Roux on 3 February 2004. The purpose of the meeting was to obtain the views of the Ministry with regard to zero-rated fuel levies and the possibility of license fees becoming zero-rated.

Mr Le Roux mentioned that in terms of Section 40(2) of the VAT Principal Act, 2000 (Act No 10 of 2000), it is not possible to claim VAT on fuel bought and used. VAT can only be claimed on goods. VAT is therefore only applicable to the fuel levy, and not the purchase price of the fuel itself. Therefore, the advantage of VAT refunds is only applicable to fuel levies. Zero-rated VAT is normally only applicable to exports, and fuel usage in Namibia does not fall under this category.

Mr Le Roux added that fuel levies are applied in terms of Section 1 of the Customs & Excise Act, and that it does not currently appear that the fuel levy will in future **not** be zero-rated and become 15% VAT-rated. He stated that there is no possibility that licence fees will become zero-rated.