EXPLANATORY MEMORANDUM

EXPLANATORY MEMORANDUM ON THE REVIEW OF FUEL PRODUCTS CLASSIFIABLE UNDER CHAPTER 27 IN PARTS 1, 2A, 5A AND 5B TO SCHEDULE NO.1 AND CONSEQUENTIALS UNDER SCHEDULE NO. 6, TO THE CUSTOMS AND EXCISE ACT, ACT 91 OF 1964

1. BACKGROUND

The 2025 budget proposals announced that the fuel industry in South Africa has increasingly shifted from local manufacturing to importing refined petroleum products such as petrol, diesel, illuminating kerosene and aviation kerosene. Companies importing fuel levy goods highlighted the challenges they encounter in moving imported products (especially aviation kerosene) through the national multi-product pipeline. SARS proposes to review the legislation pertaining to the fuel industry to align it with changes in this industry and to facilitate the movement and storage of fuel products.

These draft amendments to the Schedules to the Customs and Excise Act, Act No. 91 of 1964 (the Act) are intended to refine the classification and regulatory framework for petroleum and related products, taking into account evolving industry practices, environmental considerations, and applicable national and international standards. The amendments support alignment with fuel industry changes, promote standardisation through recognised specifications (including SANS, ISO and ASTM), and respond to industry requests for clearer product differentiation, particularly in relation to blending components and low-carbon fuel alternatives. In addition, the amendments seek to improve the accuracy of tariff classification, facilitate compliance, and ensure that obsolete provisions are removed.

The last fuel products review as classified in Chapter 27, was conducted by SARS in 2009. Since then, the fuel industry in South Africa has increasingly shifted from local manufacturing to importing, while new products have also emerged in the market. The amendments are made in accordance with SARS's strategic objective: provide clarity & certainty for taxpayers and traders of their obligations.

The proposed amendments are in respect of fuel products classifiable under tariff headings 2710.12 and 2710.19. In addition, respective consequential amendments are as follows–

- amendments in Part 1 of Schedule No. 1;
- amendments in Part 2A of Schedule No. 1;
- amendments in Part 5A of Schedule No. 1;
- amendments in Part 5B of Schedule No. 1; and
- amendments of Schedule No. 6

2. AMENDMENTS IN PART 1 OF SCHEDULE NO. 1

Introduction of tariff subheading and definition for Bioethanol

Bioethanol is defined as ethyl alcohol produced from various organic resources, and denatured bioethanol must comply with South African National Standards. Further, denatured bioethanol must comply with South African National Standard (SANS) 465 and such certification to be presented to the customs officer upon request.

- **Introduction of tariff heading and definition for synthetic ethanol**

Synthetic ethanol is defined as ethyl alcohol produced through chemical synthesis from petrochemical renewable feedstocks. Further, this fuel shall comply with SANS 1164:2013 Title: Automotive fuels – Requirements and specifications for fuel ethanol as a blending component with petrol and must be supported by a Fuel Quality Testing Report and such report to be presented to the customs officer upon request.

- **Deletion of Power Kerosene subheading**

Tariff subheading 2710.12.09 that provides for Power Kerosene is deleted due to its obsolescence in the South African market, as evidenced by import statistics.

- **Introduction of an 8-digit tariff subheading petrol component**

A new tariff subheading for petrol component intended for blending with petrol is introduced, with specification requirements in line with industry. These components must comply with SANS 1598, with certification to be presented to the customs officer upon request.

- **Introduction of an 8-digit tariff subheading and definition of sustainable aviation fuel (SAF)**

A new tariff subheading for “Sustainable Aviation Fuel” is created and defined as renewable, low-carbon alternative to conventional jet fuel, produced from waste oils and fats, agricultural and forest residues, municipal solid waste and other similar non-fossil, sustainable feedstocks. This fuel must comply with ASTM D7566 - Standard Specification for Aviation Turbine Fuel Containing Synthesized Hydrocarbons and be supported by an originator’s Certificate of Quality in accordance with ASTM D7566 and such certification to be presented to the customs officer upon request.

- **Distillate fuel compliance requirements**

An additional requirement is introduced for distillate fuels to comply with SANS 345, with certification to be provided upon request.

- **Introduction of an 8-digit tariff subheading for Diesel Component**

A new tariff subheading for diesel components for blending with distillate fuels, with specification requirements in line with industry. The components must comply with SANS 345 with certification to be presented to the customs officer upon request.

- **Fuel Oils Classification by Sulphur Content:**

New tariff subheadings are introduced for fuel oils based on sulphur content, with specific definitions. Below are the proposed definitions:

  - "**Very-Low Sulphur Fuel Oil (VLSFO**)", being products intended for use, advertised for use, put for use or otherwise marketed or disposed of for use in furnaces, boilers, ships and boats. Further we propose that this fuel must be manufactured in accordance with the ISO 8217:2024 and such certification to be presented to the customs officer upon request.
  - "**High Sulphur Fuel Oil (HSFO)"**, being products intended for use, advertised for use, put for use or otherwise marketed or disposed of for use in furnaces, boilers, ships and boats. This fuel must be manufactured in accordance with the ISO 8217:2024 and such certification to be presented to the customs officer upon request.

- **Circumscribe the application of 2710.19:** The application of tariff subheading 2710.19 is limited to:
  - medium oils and preparation of which less than 90% by volume (including losses) distil at 210°C and 65% or more by volume (including losses) distil at 250°C according to the ISO 3405 method (equivalent to the ASTM D 86 method) and such certification to be presented to the customs officer upon request.
  - heavy oils and preparation of which less than 65% by volume (including losses) distil at 250°C according to the ISO 3405 method (equivalent to the ASTM D 86 method) and such certification to be presented to the customs officer upon request, or of which the distillation percentage at 250°C cannot be determine by that method.

- **Additional 8-digit tariff subheadings provided for Naphtha**

A new tariff subheading to provide for Naphtha is introduced under tariff subheadings 2710.12 and 2710.19.

Naphtha is defined as a petroleum-derived product consisting of a complex mixture of hydrocarbons, with a hydrocarbon molecule that ranges between 4 and 12 carbon atoms.

- **Additional 8-digit tariff subheadings for other kerosene**

New subheadings for other aviation kerosene and other illuminating kerosene are introduced under 2710.12 and 2710.19.

The new subheadings provide for the kerosene products whose intended use falls outside the scope of the Additional Notes 1(d) and 1(e).

- **Creation of a separate 8-digit tariff subheading for Liquefied petroleum gas and mixtures**

A new tariff subheading to provide for Liquefied petroleum gas and mixtures is introduced under tariff subheading 2710.19. Compliance requirements with SANS specification 1774:2016 are prescribed and such certification to be presented to the customs officer upon request.

3. AMENDMENTS IN PART 2A OF SCHEDULE NO. 1

Additional tariff subheadings have been inserted in Chapters 22 and 27 to Part 1 of Schedule No. 1, and as a result, consequential amendments are made in Part 2A of Schedule No. 1.

Tariff subheading 2207.20.10, 2207.20.20 and 2207.20.90 to provide for denatured bioethanol, synthetic ethanol and "other", have been inserted in Part 1 of Schedule No.1, and as a result, new items in Part 2A of Schedule No. 1 are inserted.

The amended structure pertaining to fuel products classifiable under tariff heading 2710.12 in Part 1 of Schedule No.1 has also resulted in consequential amendments in Part 2A of Schedule No.1.

4. AMENDMENTS IN PART 5A and 5B OF SCHEDULE NO. 1

Petrol and Diesel are subject to the general fuel levy and RAF levy in Parts 5A and 5B of Schedule No.1. Due to the addition of new tariff subheadings for petrol and diesel components in Part 1 of Schedule No. 1, Parts 5A and 5B are amended accordingly as a consequence.

5. AMENDMENTS IN SCHEDULE NO. 6

Rebates and refund of specific excise duties on spirits and spirituous beverages and on mineral products in Part 1D and 1F of Schedule No. 6, respectively, are being amended as a result of new tariff subheadings inserted in Part 1 of Schedule No. 1. The opportunity is used to correct the structure of Schedule No.6 where applicable.