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Regulating Subsidies of fuel to Rationalize Consumption

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A brief overview of the Iraq Policy Program

The Iraq Policy Program aims to bridge the gap between youth elites and decision-makers by training young elites to effect positive change through influencing the decision-making process. The program aims to empower participants to prepare policy papers and propose policy alternatives aimed at enhancing system performance and supporting its legitimacy. This program enables participants to communicate with decision-makers and understand the main difficulties and problems affecting the implementation and follow-up of public policies. Additionally, the program seeks to provide participants with a realistic understanding of the decision-making environment in Iraq, as well as an understanding of the opportunities and challenges of change.

The program stages

Preparation: Assisting participants in acquiring the fundamental skills to prepare policy papers and effective advocacy campaigns. **Discovery:** Clarifying important public policies in Iraq by experts through stakeholder engagement, frameworks and institutional procedures, practical realities, and discussions surrounding each public policy, as well as reform prospects. **Engagement:** Training participants to develop promotional campaigns and coordinate meetings with government officials to initiate their campaigns. **Enrichment:** Supervising participants to prepare a policy paper in their area of interest to enrich dialogues, develop policy alternatives, which can help address current challenges.

About the Center

The Platform for Sustainable Development is a registered center with the Non-Governmental Organizations Department at the General Secretariat of the Council of Ministers under the number (1S2106012). It serves as a space for thought, dialogue, and action towards positive change.

Vision

We seek to establish a platform for dialogue and policies that contribute to achieving the Sustainable Development Goals in Iraq.

Mission

Filling the gap between the state and society to ensure the essence of democracy by engaging citizens in the decision-making process through training, monitoring, analysis, research, awareness, and advocacy.

Strategic Goals

- Preparing a youth elite that rises to its social responsibilities through studying problems, proposing policy alternatives, and working towards their implementation.
- Utilizing knowledge outputs and encouraging youth to work towards achieving the Sustainable Development Goals
- Presenting statistics and issues that occupy the political arenas and societal circles to reflect a deeper understanding of the Iraqi reality.
- Creating a network of active, informed, and committed citizens dedicated to the project of building the Iraqi government.



Executive Summary

Despite Iraq's significant role in the global oil industry as one of the major oil exporters, it faces significant problems in the production, refining, and energy sectors. Daily consumption ranges from 27 to 31 million liters of gasoline and over 26 million liters of diesel, and this consumption is continuously increasing. These quantities represent a large proportion compared to other countries, such as Turkey, where the daily gasoline consumption rate is around 11 million liters, despite Turkey having a larger population than Iraq.

The main reason for this difference is the absence of support for public transportation, along with low fuel prices that have led to increased use of cars, which now number over 7 million, increasing by 2% annually.

This paper discusses the high fuel consumption in Iraq. Iraq imports daily between 11 to 13 million liters of gasoline, costing the state more than 2.5 billion dollars annually. In addition to what was mentioned, the state supports gasoline and diesel prices by a percentage ranging from 30% to 65% of their actual cost, encouraging unacceptable consumption. Fuel prices have also increased in the Kurdistan region and Turkey, making smuggling to these regions a profitable trade.

The paper proposes alternative policies, such as lifting the fuel subsidy without harming the poor or lower-middle-class, which would help reduce consumption and smuggling, leading to reduced imports and state losses due to unregulated subsidies, saving more than 7 trillion Iraqi dinars annually. The funds saved can be invested in building a refinery of the same size as the Karbala refinery, capable of meeting local demand and exporting the surplus at the global price, resulting in significant economic benefits and job opportunities.



Introduction:

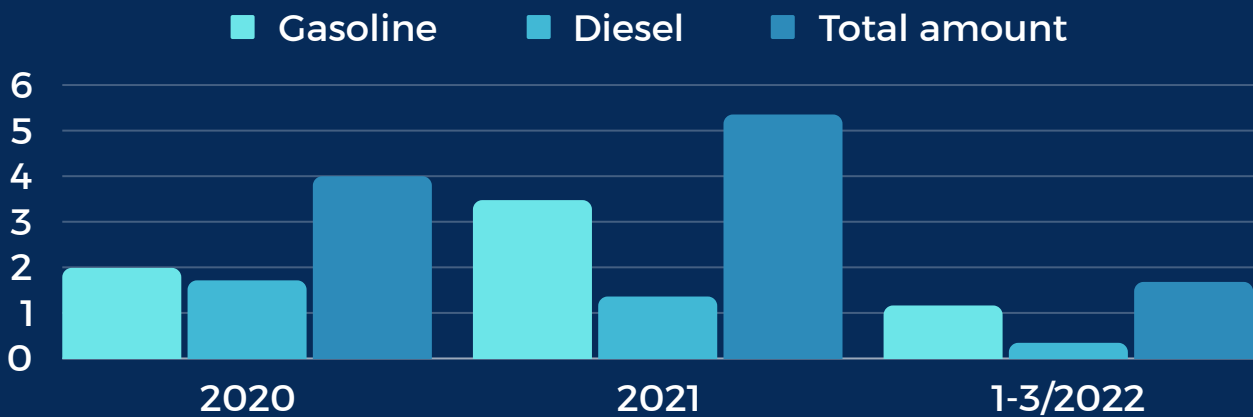
Iraq possesses massive reserves of crude oil, estimated at around 145 billion barrels, ranking fourth among oil-exporting countries and second among OPEC nations. Additionally, Iraq ranks eleventh in natural gas reserves with more than 131 trillion cubic feet, making it one of the most prominent players in the oil industry.

However, Iraq faces fundamental problems in managing this sector. It imports over 50% of its demand for petroleum products, and this number is likely to increase in the future, particularly concerning gasoline and diesel. Importing these products incurs losses estimated at over 2.5 billion dollars annually. Several reasons contribute to the exacerbation of this issue, including:

1. Security and political conditions that have plagued Iraq, including the war with terrorist organizations like ISIS, which took the Baiji refinery offline.
2. A surge in the number of vehicles without proper planning or a clear policy to support public transportation.
3. Increased demand for electricity due to population growth, rising temperatures, and the proliferation of private generators.
4. Incorrect pricing policies for oil products, leading to increased smuggling and consumption.
5. Poor management and insufficient investment in the refining industry, with less attention compared to the extraction industry



Figure (1): Quantity of imported gasoline and diesel annually from 2020 to 2022.



Background:

When examining the energy, petroleum derivatives, and processing industries in Iraq, significant distortions are evident. Despite Iraq's daily production of approximately 4 million barrels of crude oil, it imports petroleum products and consumes nearly double the amount of vehicle fuel compared to Turkey, despite Turkey having roughly twice the population of Iraq. Figure 1 illustrates the volume of petroleum product imports. It's also noticeable that consumption is continuously increasing by more than 600,000 liters daily, which is the annual increase rate. This increase corresponds to wasted funds, along with price fluctuations and the rise in oil prices in 2022, resulting in increased gasoline prices, as shown in Figure 2.

Figure (2): Cost of gasoline and diesel imports annually from 2019 to 2022.

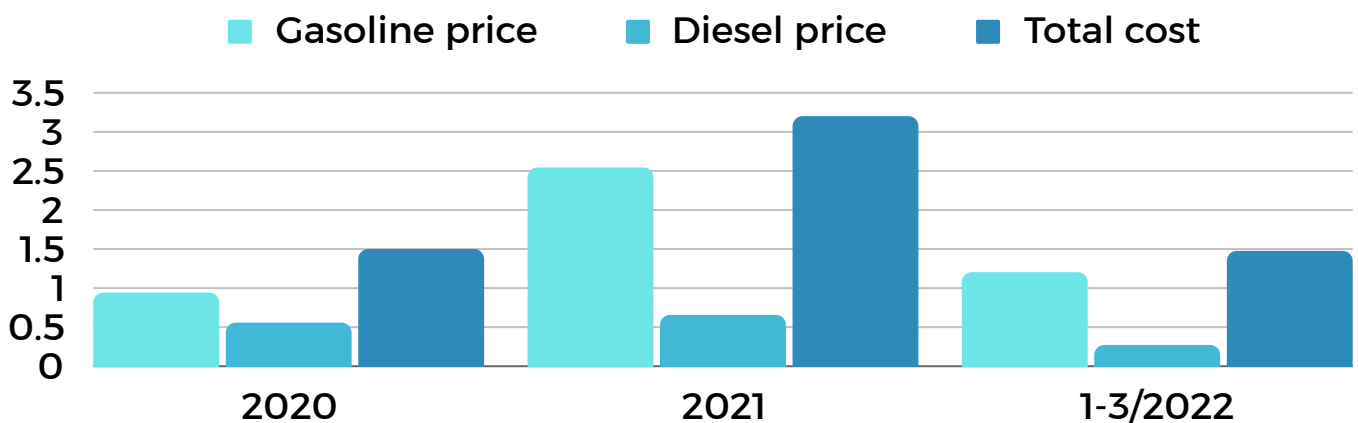
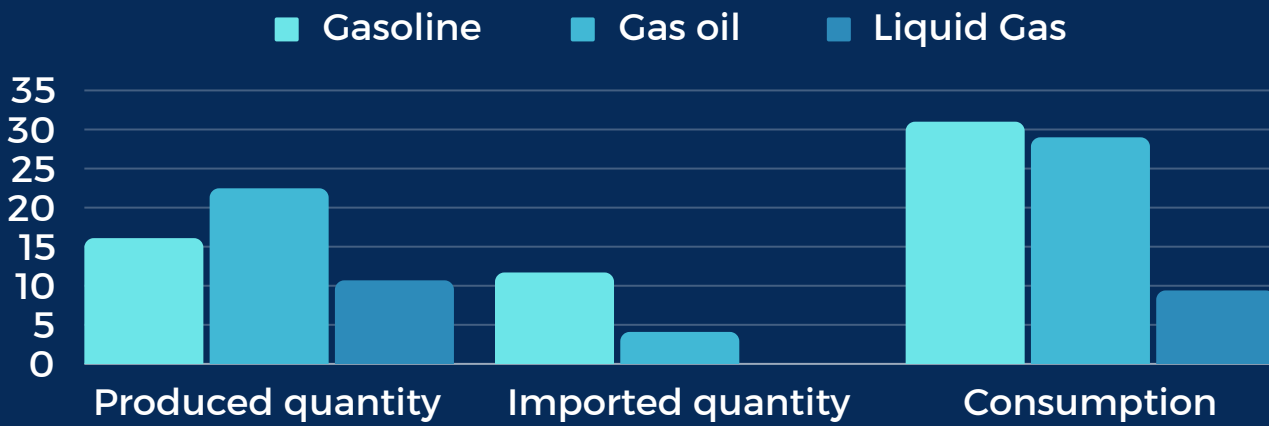




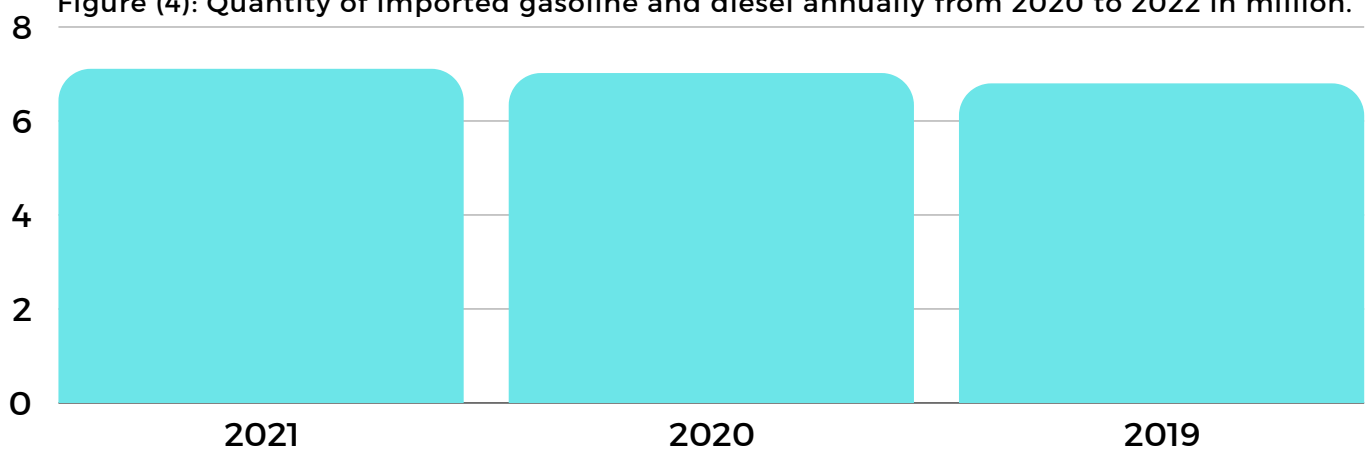
Figure (3): Daily consumption, production, and imports during the summer season in 2022.



Daily gasoline consumption is around 31 million liters in the summer and approximately 25 to 27 million liters in the winter. As for diesel, daily consumption is about 25 million liters in the winter and around 28 to 31 million liters in the summer. Figure 3 illustrates the approximate quantities of imports, consumption, and production during the summer season.

Furthermore, there's an increase in the number of vehicles in Iraq, with an annual growth rate ranging from 80,000 to 100,000 vehicles, as shown in Figure 4. Most of these vehicles are private cars. From the above, it's clear that fuel consumption is increasing annually, matched by an increase in the number of vehicles. The main reason for increased consumption is unregulated fuel subsidies, causing significant financial losses estimated at over 4 billion dollars annually.

Figure (4): Quantity of imported gasoline and diesel annually from 2020 to 2022 in million.





Policy Alternative: Subsidy Regulation

Addressing the aforementioned problem requires finding suitable alternatives, presenting us with two choices: first, regulating the subsidy process, and second, completely removing the subsidy, as Iran has done. However, implementing the second option in Iraq is challenging due to the lack of real databases for impoverished and vulnerable categories, as well as comprehensive information about individual incomes. Moreover, it could lead to inflation through price increases and the potential formation of a popular base opposed to this mechanism. Therefore, regulating the subsidy appears to be the more realistic choice.

Figure (5): A chart illustrating the categories affected by subsidies.

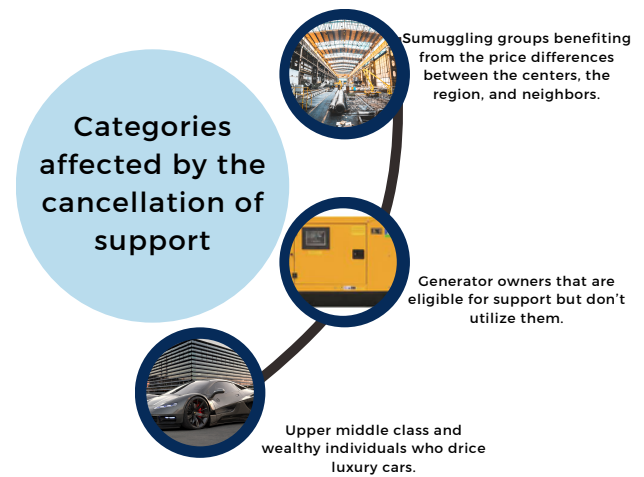
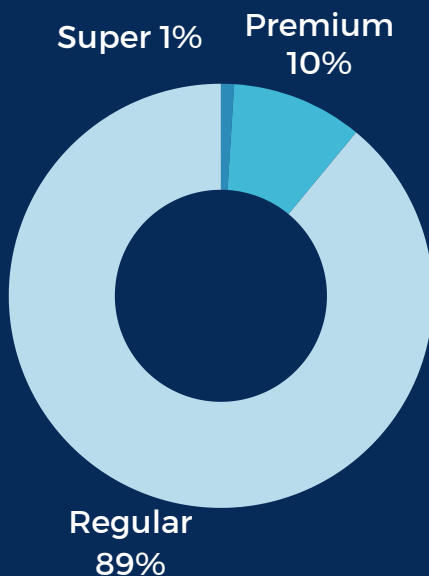


Figure (6): The percentage of each type of consumption in the total consumption.

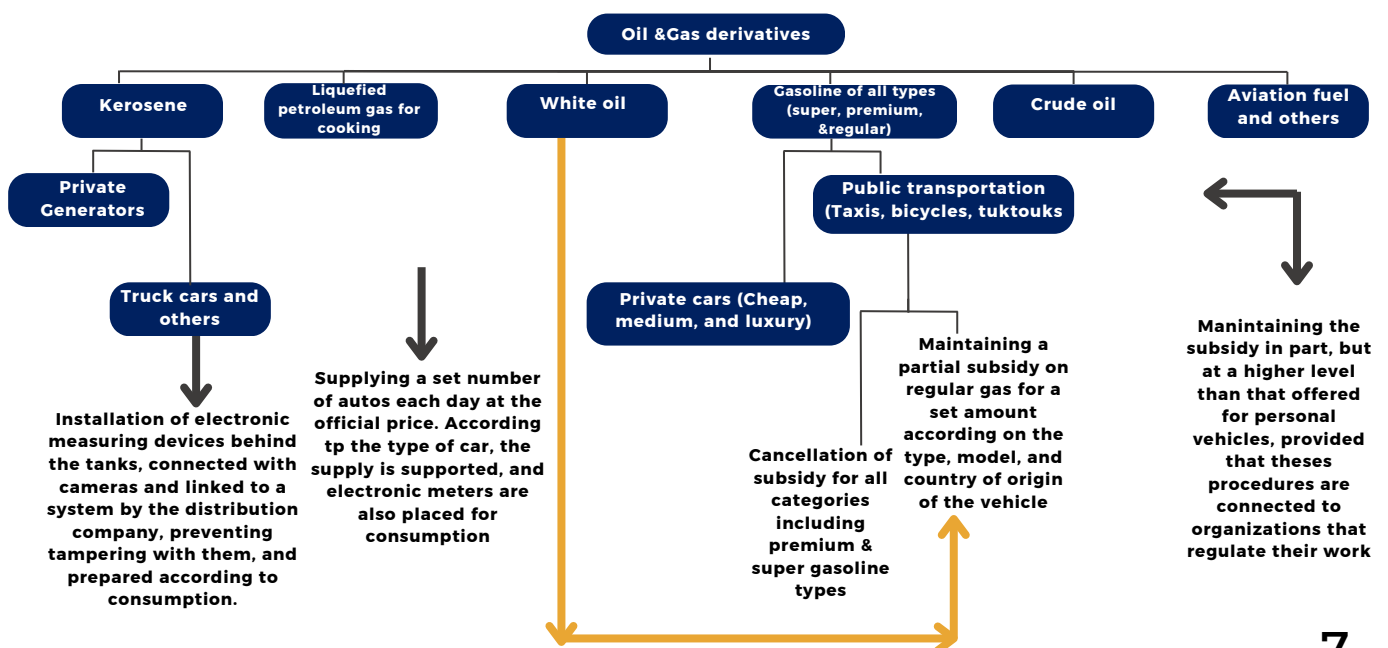


When considering the scale of the problem and the amount of money wasted due to petroleum product imports and increased consumption, it's evident that more than 2.5 billion dollars are squandered annually due to imports, in addition to the smuggling of significant quantities of fuel to the Kurdistan region and Turkey due to higher fuel prices in those areas. Most of the beneficiaries of fuel subsidies are the middle and upper-middle-class, as vehicles using high-octane gasoline are typically luxurious and expensive.

Proposed Mechanisms for Subsidy Regulation:

1. Eliminate Subsidies for Premium and Super Gasoline: Premium and super gasoline should no longer be subsidized and should be sold at cost with a small profit margin.
2. Daily Quantity Allocation per Vehicle: The supported quantity for each vehicle should be determined daily based on the vehicle's registration document, including type, model, and category. All this information is available electronically with the General Directorate of Traffic.
3. Smart Meters and Cameras for Private Generators: Private generators and government facilities should be equipped with smart meters and tamper-proof cameras connected to the distribution company's system, especially in Baghdad. The cost should be borne by the stakeholder, as more than 30% of diesel goes to private generators and is prepared based on monthly consumption.
4. Promote LPG Usage as an Alternative: With the expected increase in investment in the gas industry in the next two years and the current surplus in LPG production, which can serve as an alternative to premium gasoline, it can be utilized by the middle class.
5. Legislation with Deterrent Penalties for Smuggling: Enact a law with deterrent penalties for individuals proven to be involved in smuggling (exporter, transporter, and receiver).
- 6.6. Partial Subsidy for Regular Gasoline and Diesel: Provide partial support for regular gasoline and diesel, as these types of fuel are used in public transportation and by low-income groups.

Figure (7): Types of crude derivatives and the beneficiary of each product





Expected Challenges

1. Resistance from Wealthy Classes: The wealthy classes benefiting from subsidies may attempt to garner public sympathy by mobilizing the poor and staging protests. This can be countered by presenting facts and data and clarifying which groups are affected and unaffected.
2. Opposition from Smuggling Interests: Entities benefiting from smuggling may use their private media outlets to oppose this project and try to thwart it. Firm measures may be necessary to confront them.

Expected Results of Fuel Subsidy Reform

1. Foreign Currency Savings: By reducing imports and consumption, citizens will gradually reduce their consumption due to rising fuel prices and a shift towards public transportation, which will also reduce smuggling, accounting for about 15% to 20% of total consumption.
2. Reduction in Public Funds Wastage: Subsidy reform will reduce public funds wastage, as subsidies currently account for over 40% to 60%, depending on the type of gasoline.
3. Promotion of LPG Usage: LPG (liquefied petroleum gas) usage in vehicles will be encouraged as an environmentally friendly alternative to gasoline, reducing carbon dioxide emissions.
4. Directing Funds into Investments: The funds saved will be directed towards investments in refineries and the manufacturing sector, creating more job opportunities and helping to preserve foreign currency reserves.
5. Increased Employment in Public Transportation: Additional job opportunities will be created in the public transportation sector.
6. Reduction in Traffic Congestion: Reduced fuel consumption will lead to decreased traffic congestion.

Expected Savings from Subsidy Reform:

- By removing subsidies on premium and super gasoline, approximately 700 billion Iraqi dinars will be saved annually.
- If subsidies on half of the regular gasoline consumed, which represents about 25 to 26 million liters per day, are removed, more than 2.5 trillion Iraqi dinars will be saved annually.



- The total number of registered cars in Iraq exceeds seven million vehicles registered with the General Traffic Directorate.
- The number of taxi cars is about one million (passenger + sedan), which is equivalent to (14%) of the total number of cars.
- The poverty rate in Iraq has reached (25%) according to the data of the Planning Agency.
- Redirecting fuel support towards registered taxi owners within private transportation companies and the poorer segments, which comprise more than half of those who do not own a car, as well as economical and medium-sized cars with a specific share, is proposed. We suggest allocating (25) liters for taxi owners and only (15) liters for owners of private cars in the economical and medium categories and those with limited income, through an electronic system linked to the vehicle registration permit according to its type and model. Since the consumption of these categories does not exceed (%50) of the total consumption of regular gasoline, a financial return of more than (2.5) trillion dinars annually will be achieved.

- There is a significant loss through liquefied gas (LPG), as it is prepared for private generators at a price of (250) dinars per liter, while its price in the region exceeds (1250) dinars. Therefore, generator owners sell the allocated share at a subsidized price through smuggling. They use a cheap heavy product priced at (300) dinars per liter. Therefore, it is better to link electronic meters online to the tank meter to measure fuel consumption for each generator and measure the density of the product at the same time with cameras. From this process, we can achieve about (3.9) million liters of the current total consumption of generators, which is (6) million liters. We will achieve a profit of about (3.9) billion dinars daily. If we add (10) million liters, representing half of the total consumption of liquefied gas by making subsidized fuel for a specific quantity daily and for certain categories, where the consumer category for this type represents:
 - Cargo vehicles, and partial support can be provided to them without affecting the prices of goods.
 - Vehicles of foreign companies and the private sector operating in the oil industry and construction. This category does not need support. The amount realized will be about (4) trillion dinars annually.



The total amount resulting from lifting the subsidy will become more than (7) trillion dinars annually. This figure is sufficient to build a refinery the size of the Karbala refinery through an investment company, in addition to several other options that can be utilized. From the above, it can be inferred the necessity of adopting an alternative policy, represented by lifting subsidies with a policy capable of eliminating excessive consumption, leading to expanding the production base and diversifying non-crude oil exports. The following table, Table 1, illustrates the quantities and amounts in detail and as an approximate average. If consumption in the summer exceeds the quantities below (refer to Figure 3).

Figure (8) the expected benefits to be achieved from organizing the support and how to utilize it

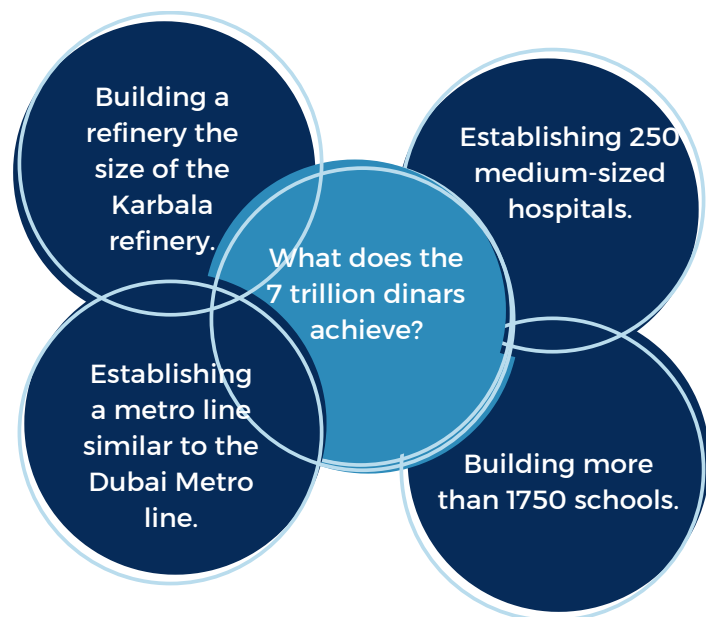


Table (1) the expected annual savings from subsidy in details the quantities and amounts

#	Product type	Quantity without subsidy (Liters)	Price per liter without Subsidy (dinars)	Price per liter adter subsidy (dinars)	Daily achieved amount (billion dinars)	Expected Annual Saving (trillion dinars)
1	Regular Gasoline 50%	13000000	1050	450	7.8	2.5-2.8
2	Premium	3000000	1250	650	1.8	0.648
3	Super	200000	1450	1000	0.1	0.036
4	Liquefied Gas	13600000	1250	400	12.46	4.485
5	Total	29800000			22.16	7.97



Conclusion

Findings

- There is a significant annual financial waste of more than 7 trillion Iraqi dinars due to the incorrect and unregulated fuel subsidy.
- Continuing fuel subsidies would lead to increased consumption due to the rising number of vehicles, resulting in environmental damage.
- Iraq is losing over 2.5 billion dollars annually due to the import of petroleum derivatives.

Recommendations:

- Completely stop subsidies for premium and super gasoline products.
- Maintain partial subsidies for regular gasoline for specific quantities and categories.
- Implement electronic meters and surveillance cameras for private generators.
- Encourage investment companies to invest in the public transportation sector, with management transferred to these investing companies.

- Encourage investment companies to invest in both the gas and refining sectors and promote the conversion of gasoline-powered vehicles to liquefied petroleum gas (LPG). International support can be sought for this transition, as LPG has a lower environmental impact.
- The Ministry of Electricity should implement organized taxation to increase grid connections and reduce the need for generators through support for residential solar cell projects.

References:

- Statement from the Director of the Inspection Authority at the Oil Products Distribution Company to the Iraqi News Agency.
- International Energy Agency <https://www.iea.org/>.
- General Directorate of Traffic <https://www.itp.gov.iq/>.
- Oil Marketing Company, Annual Data <https://somooil.gov.iq/announcements/products>.
- Personal interviews with officials in the Iraqi Ministry of Oil.

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YOUR JOURNEY IN POLICY WORK STARTS WITH US



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