

POLICY BRIEF

Cuts to Oil Derivative Subsidies: Consequences for Syria

Abstract

In the past decade, the price of oil derivatives in Syria has risen as state subsidies have fallen. Since October 2020, the rise in the price of gas oil has particularly hurt the Syrian population. Living costs, particularly transport and residential costs, have significantly increased, with major consequences for citizens. Similarly, economic actors, particularly manufacturers and farmers, have been affected and have seen production costs escalate.

Author

Joseph Daher

Joseph Daher is a part-time affiliate professor at the European University Institute, Florence (Italy). He works under the aegis of the 'Wartime and Post-Conflict in Syria' research project in the Middle East Directions Programme at the European University Institute in Florence. He has completed a doctorate in Development Studies at SOAS, University of London (2015), and a doctorate in Political Science at Lausanne University, Switzerland (2018).



Issue 2021/45

October 2021

**Wartime and Post-Conflict
in Syria Project**

**WPCS is a project of the
Middle East Directions
Programme (MED), part of
the Robert Schuman
Centre, EUI.**

Introduction

According to an IMF report, energy subsidies constituted around 13% of the MENA region's GDP in 2019, as against only 6.5% of GDP globally.¹ The recent removal of subsidies on oil derivatives, and the consequent increase in fuel, diesel and gasoline prices, has proved controversial in many MENA countries. Take, for instance, subsidy cuts in Sudan (gasoline and diesel in June 2021) and in Lebanon (the gradual removal of all subsidies on oil).

In Syria, the price of oil derivatives started to increase in the early 2000s. There were several arguments employed against subsidies: they were an excessive burden for the state budget; they did not benefit the most disadvantaged social classes in society;² they encouraged diesel oil smuggling from Syria to neighbouring countries; they damaged the environment; and they depleted water reserves.³ Compensations for subsidy reductions were suggested and sometimes implemented, such as direct cash aid for farmers and an increase in salaries. At the end of the 2000s, Syrian officials announced, on several occasions, that most energy products, and especially oil derivatives, would be sold at market price by 2015. The uprising in 2011 slowed this process. Officials began, however, explaining price jumps and rationing to individuals and economic sectors (both private and public) in terms of war conditions and oil shortages.

This policy brief seeks to analyse the consequences of increases in the price of oil derivatives and of reductions in the allocation of subsidised oil derivatives since October 2020. As a result of the importance of these products

in the structures of production, this paper looks at the transfer of costs from state to economic actors and the major social consequences for ordinary individuals.

1. Cuts in Subsidies and Reductions in Allocations

Oil derivative subsidies, particularly on fuel oil and gas oil,⁴ have represented a significant share of the state's general budget since long before the 2011 uprising: in 2010 15.5% was spent on oil derivative subsidies (SYP 117 billion, or, at that time, USD 2.46 billion).⁵ Despite a comparatively lower consumption of oil derivatives since 2011, due to the war and the economic crisis, the share of oil derivative subsidies had expanded to 31.8% of the total budget by 2021: SYP 2.7 trillion, or USD 2.15 billion at the official January 2021 exchange rate of 1256 SYP/USD.⁶

Damascus lost control of its oil fields in 2013. This has forced the Syrian government to rely almost completely on oil imports, particularly from Iran. Alternatively, Damascus can purchase oil from the Autonomous Administration of North and East Syria (AANES) through private intermediaries. Syria's daily production in regime-controlled areas is around 20,000 oil barrels. This is only 10% of its daily needs: estimated at 200,000 oil barrels in 2021, as against 300,000 in 2010. Moreover, available diesel oil (Octane 90 and 95), gas oil and fuel oil cover, according to the Syrian Prime Minister, at best 70% of market's needs.⁷ In September 2021, around 4.6 million litres of diesel oil and 5.6 million litres of gas oil were distributed daily. Some 7,500 tons of fuel were also delivered daily for the electricity and industrial sectors.⁸

1 David Coady, Ian Parry, Nghia-Piotr Le and Baoping Shang, "Global Fossil Fuel Subsidies Remain Large: An Update Based on Country-Level Estimates", Working Paper, *International Monetary Fund*, 2 May 2019, <https://bit.ly/3zwePPy>

2 International Monetary Fund, "Syrian Arab Republic: Selected Issues", August 2006, <https://bit.ly/39ky174>

3 Marwa Daoudy (2020), *The Origin of the Syrian Conflict, Climate Change and Human Security*, Cambridge University Press.

4 Fuel oil or industrial diesel oil is used by large industrial concerns and by power plants. Gas oil (or mazut) is used for heating, for diesel car engines, for generators (individuals and Small and Medium Enterprises, SMEs) and in the agricultural sector.

5 The Syria Report, "Oil Products Subsidies at Above USD 2.25 Billion in 2010", 7 February 2011, <https://bit.ly/2Z7eB4V>

6 The value of subsidies for oil derivatives corresponds to the differential between the cost of oil based on global oil market prices and the price at which it is sold on the local market. Large amounts of oil are, however, not purchased in cash because the Iranian authorities supply it on a credit basis. In other words, an important part of the support for oil products should not be considered as cash spending.

7 Al-Watan, "The Prime Minister Before the People's Assembly: The Economic and Terrorist War Against Us Is Not Over" (in Arabic), 20 September 2021, <https://bit.ly/2Xuebot>

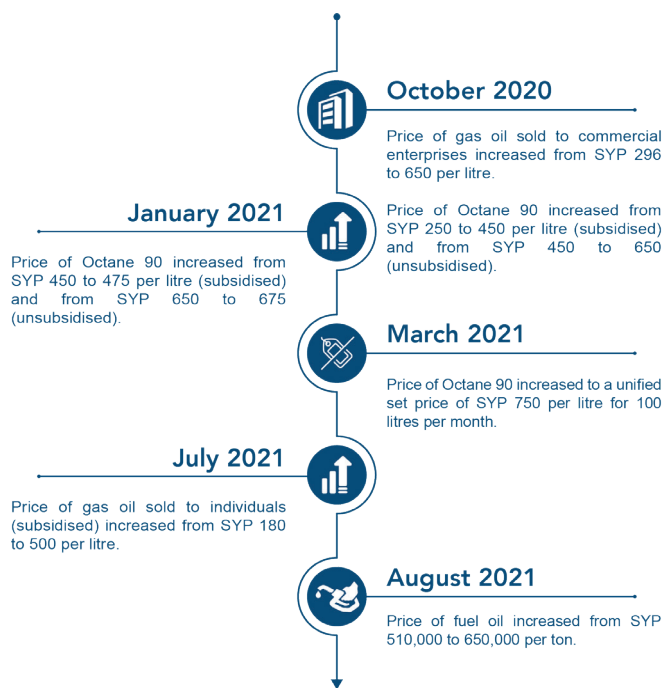
8 However, only half of electric sector needs are covered. Sinan Hatahet and Karam Shaar, "Syria's Electricity Sector After a Decade of War: A Comprehensive Assessment", Research Project Report, (Florence: European University Institute, Middle East Directions, Wartime and Post-Conflict in Syria, July 2021), <https://bit.ly/3ivWP2a>

Individuals mostly purchase diesel oil and gas oil with a smart card, which was established by the Ministry of Petroleum in 2014 to regulate the consumption of certain commodities. The smart card allows Syrians in government-held areas to buy limited quantities of fuel and oil products at a subsidised price. For example, in 2021, diesel oil allocations (Octane 90) for individual car owners are, on the smart card, officially 100 litres per month. Heating oil allocations are 100 litres per year for each family. When more is needed, individuals can also buy, on the 'free market': private stations selling at a price slightly lower than on the black market. Quantities on the 'free market' are, however, very limited and individuals with urgent needs often end up buying these products directly on the black market.

As for manufacturers and farmers, the state provides a given quantity of oil derivatives at set or subsidised prices. Manufacturers receive fuel oil at a set price (SYP 620,000, or USD 246.8 at the official October 2021 exchange rate of 2512 SYP/USD per ton), and a set amount of gas oil for each industrial facility according to its "production capacity". Capacity is calculated on the basis of the number of machines and equipment. Farmers are allocated two litres of subsidised gas oil for each dunam (equivalent to 1000 square meters).

Since October 2020, subsidised and unsubsidised oil derivative prices have increased again and again (Chart 1). Through these measures, the government aims to bring down subsidies and, with them, state expenditure.

Chart 1 – Increase in the Prices of Oil Derivatives (Gas Oil, Octane 90 and Fuel Oil)



Source: The author, based on a compilation of governmental sources

In addition, the quantity of subsidised oil derivatives allocated to individuals on the smart card has gone down and down. All Syrian families living in regime-controlled areas can, in theory, apply for a smart card by submitting the necessary documents to the local governorate. However, many Syrians lack the requisite documentation or live far from urban centres and so cannot easily apply.⁹ Even registered families receive less than the officially allocated quantities or what is assigned arrives late. For example, in Damascus in the first eight months of 2021, only 25,000 individuals out of the 350,000 registered received 50 litres of heating oil – half of what is officially allocated.¹⁰ Moreover, some of the subscribers who received allocations pay extra fees (a litre of subsidised gas oil between SYP 600 and 700), for transport costs. Private owners of cars with diesel oil allocations usually also face significant delays (between three and seven days).

9 3.8 million households were registered in the smart card system according to Ahmad Najm, the general manager of the Syrian Trading Establishment, in June 2021. The Syria Report, "Factsheet: Syria's Smart Card", 29 July 2021, <https://bit.ly/3ArrqVo>

10 The average annual consumption of oil heating for a family is, note, estimated at around 600 litres. Fadi Bek Sharif, "Only 7% of Damascus Families Got Heating Oil?" (in Arabic), *al-Watan*, 14 September 2021, <https://bit.ly/2XzH8PK>

Criticisms have grown in different cities. Individuals and families are pushed to buy extra diesel oil and gas oil at much higher rates on the black market (Charts 2 and 3). The lack of the state provision of gas oil through the smart card and shortages in the market have increased the prices of alternative products, such as firewood, for heating, as winter comes on.

2021, the government saved SYP 210 billion (USD 167 million at the official January 2021 exchange rate) through subsidy reduction and spent SYP 120 billion (USD 95.5 million) on bonuses.¹¹ These decisions, however, only partially make up for a significant decline in the population's purchasing power, while self-employed individuals do not benefit from any similar measures.

Chart 2 – Cost and Prices of Gas Oil Per Litre (in SYP and USD at the official October 2021 exchange rate)



Source: The author, based on a compilation of governmental sources and interviews

Chart 3 – Cost and Prices of Diesel Oil Octane 90 Per Litre (in SYP and USD at the official October 2021 exchange rate)



Source: The author, based on a compilation of governmental sources and interviews

The main government objectives are fiscal and monetary: stabilise the SYP; increase state revenues; diminish state expenditure (on subsidies); and accumulate foreign currencies. To compensate for the rise in oil derivative prices, the government granted bonuses to state employees and pensioners five times between October 2020 and July 2021 and increased the wages of teachers working on an hourly basis once. These bonuses came especially from the funds saved by the diminution in oil derivative subsidies. According to the Syrian Minister of Petroleum, between January and mid-March

2. A Disastrous Snowball Effect in Production Sectors

The rise in prices of oil derivatives negatively affects agriculture and manufacturing projects by increasing production costs.

The quantities of fuel oil and gas oil provided by the state to farmers and manufacturers at a set or subsidised price are often delayed by several days. They are generally insufficient for sustaining manufacturing and agricultural activities for more than a short period of time. While the country has faced repeated severe

11 The Syria Report, "Fuel Shortages Intensify as Iranian Oil Supply Disrupted", 7 April 2021, <https://bit.ly/3oGvDBJ>

supply shortages, farmers and manufacturers, therefore, purchase these goods on the black market, where prices are multiplied by as much as five to ten times depending on how much and how urgently goods are needed.

The rise in diesel oil prices also affects transport fees for manufacturers and farmers. Micro-vans and trucks transporting agricultural products are officially allocated 40 litres every 10 days for a set price of SYP 750 per litre: a trip from Tartous to Damascus or Sweida, needs, respectively, 160 and 200 litres. The delays and shortfalls in allocations to diesel oil truck owners force them to purchase oil on the 'free market' and more often on the black market. Fees for transporting vegetables and fruits to major cities have, unsurprisingly, increased considerably. For example, Aleppo witnessed a doubling of the cost for transports for goods transferred from the surrounding countryside or from other governorates. The transport costs of tomatoes from Izraa in Daraa governorate to Souk al-Hal in Damascus more than doubled.¹² Some farmers in Daraa governorate cannot afford to transport produce to the city of Daraa and have started to sell their products from home at lower prices to large traders.¹³

Private generators in small businesses, which compensate for the long hours of power outages, have been similarly affected by rising prices. These higher expenses prevent some small manufacturers from pursuing their activities at their normal rate. The owner of a textile manufacture in Aleppo explains that the 24 machines of his facility function for 12 hours per day with the assistance of a generator. If a client orders more goods whose production requires more than 12 hours per day, the client has to pay the additional necessary gas oil. Few clients can

afford, he added, to pay the extra cost.¹⁴

Many small farmers have stopped producing, including in Daraa and Latakia, because they are unable to cope with rising oil derivative prices.¹⁵ In the al-Ghab Plain (Hama governorate), 20,000 dunams of tobacco were cultivated in 2020. In 2021 it was 9,000 dunams. Farmers did not have the necessary gas oil or electricity to irrigate their land and they did not have the funds to buy additional gas oil or electricity on the black market.¹⁶ The head of the Marketing Office of the General Federation of Farmers, Khattar Imad, stressed that the cultivation of vegetables and fruits in 2021 fell by between 60 and 70%, as a result of higher production costs. Farmers had to deal with more expensive diesel oil, fertilisers, wages and transport fees.¹⁷

As one Aleppo manufacturer put it, "the rise in the prices of oil derivatives affects all levels of our structure of production, including labour wages, transport fees, generators, etc... and, what is more, our daily lives".¹⁸

3. Another Burden on the Population

The increase in the price of oil derivatives not only affects the economic production structure. It also affects society as a whole.

The most significant consequences have been in the transport sector, which has suffered a severe contraction since 2011. By 2020, the number of registered private cars had dropped to 787,298, as compared to well over a million before the uprising¹⁹ All other types of transport are managed by the General Establishment of Public Transportation (GEPT), which is affiliated with the Ministry of Transport. GEPT runs the

12 Ramez Mahfuz, "Vegetable Prices Rise in the Market, Tomatoes for a SYP 1,000 and Potatoes for SYP 1,200" (in Arabic), *al-Watan*, 24 August 2021, <https://bit.ly/3hN0cRS>

13 Insecurity in the governorate also encouraged this dynamic. Interview with Abdullah Al-Jabassini, 10 September 2021.

14 Interview with a businessman from Aleppo, 2 September 2021.

15 Interview with a Latakia resident, 10 September 2021.

16 A cultivated area of 50 dunams with vegetables and fruits needs up to 1,000 litres of diesel oil per day for irrigation, representing an expense of SYP 3 million (equivalent to USD 1,194) a day when the farmer purchases a litre of diesel at SYP 3,000 on the black market. Hassan al-Muhammad, "Diesel Undermines Tobacco Cultivation in the al-Ghab" (in Arabic), *al-Baath*, 15 August 2021, <https://bit.ly/3zmlSKM>

17 Mahfuz, "Vegetable Prices Rise in the Market."

18 Interview with a businessman from Aleppo, 2 September 2021.

19 Shaam Times, "Starting with Cars and Real Estate Next..." (in Arabic), 10 May 2020, <https://bit.ly/3of0x40>. Kevin Cullinane, Radwan al-Masri and Tariq Muneer, "The Effect of Transport on Air Quality in Urban Areas of Syria", *Energy Policy* 39, 2011.

transport systems in Damascus, Aleppo, Homs and Latakia, and it also runs specific lines within and between these cities and others, through a large network of private sector operators, micro-buses, services and taxis. In 2019, it was estimated that 1,175 buses out of the 1,400 operating before 2011 were out of service.²⁰

The decision to raise diesel oil prices in July 2021 led to a 200 to 300% hike in transport fees.²¹ This created veritable “chaos” – the word used by several newspapers – in the streets of Damascus and other cities. There were long queues as individuals waited for seat on buses or in taxis. The average monthly costs for transports for a family of three using taxis and services in Damascus skyrocketed some 138%, in July from approximately SYP 42,000 (USD 16.7) to 100,000 per month (USD 39.8).²² Taxi and micro-bus owners were also affected. Not only was there an increase in the price of diesel oil. Official fees imposed by the authorities for particular routes also came at a lower level than the one asked by taxis, services and micro-buses. Some who depended on allocations (40 litres every 10 days) closed down as they were unable to make things pay. Many sold their oil allocations on the black market as a rapid way to accumulate money. A member of the Executive Office of the Transportation and Hydrocarbons Sector in Quneitra stated in August 2021 that more than 40% of taxi drivers in that governorate sold their diesel allocations. They did not, consequently, work.²³ Something very similar has happened in other parts of the country including Daraa, Aleppo and Latakia.

The increase in transport fees has had a negative impact on individuals living outside the major urban centres where most of the state’s institutions and the main economic activities are located. Increasing numbers of university and secondary students living in peripheral areas

have simply stopped going to places of study because of the high transportation fees. Trips from the Latakia countryside to, Tishreen, the university city, now cost SYP 1,500, or SYP 30,000 to 40,000 per month (USD 12 to 16), too much for many students. Limited local initiatives have emerged. For example, in the governorate of Daraa, diaspora Syrians have rented buses to transport students from rural regions to the city of Daraa to exam centres.²⁴ The rise in transport fees has also meant more absenteeism in state institutions: fees sometimes account for almost half an employee’s salary.²⁵ For example, in Sweida governorate, 14,000 public employees from rural areas working in the city have been affected by their dependence on micro-buses and services to go to work. Some have decided to resign from their jobs as their monthly transport fees amount to SYP 60,000 to 80,000 (USD 24 to 32).²⁶ Similar cases are reported from Damascus and Latakia. *Ad hoc* solutions include taking days off every week or sharing shifts with other colleagues to reduce the number of working days.

Finally, the surge in oil derivative prices has had consequences for housing issues. The costs for operating private generators are too high, leading to longer power outages. This has led to changes in consumption habits as refrigerators are unable to operate without electricity, whether provided for by the state or private generators. Families, therefore, generally only purchase food for the day or buy products that can last for few days without being put in the fridge. Alternatives to oil derivatives and generators have increasingly appeared, such as solar panels. However, solar energy is unaffordable for most of society. The cost varies between SYP 6 and 8 million (between USD 2,388 and 3,185) for a modest house and SYP 11 and 13 million (between USD 4,380 and 5,175) for larger house and apartments.²⁷

20 The Syria Report, “Syria’s Bus Transport Companies Lost Billions since 2011”, 3 July 2019, <https://bit.ly/3mtZJWx>

21 Local provincial councils had already increased private and public transport fares in October 2020 and March 2021.

22 Kassoun, “Low Pay Levels After Raising It!” (in Arabic), 19 July 2021, <https://bit.ly/3nOoSxa>

23 Khaled Khaled, “Despite the Increase in Fees, the Transport Crisis Remains Unchanged in Quneitra!” (in Arabic), *al-Watan*, 26 August 2021, <https://bit.ly/3CqalGH>

24 Security considerations also accompanied this decision. Interview with Abdullah Al-Jabassini, 10 September 2021.

25 Interview with a Latakia resident, 10 September 2021.

26 Abeer Samua, “Transportation Fees Burden 14,000 Workers Who Are Not Served by Means of Transportation in Sweida” (in Arabic), *al-Watan*, 21 September 2021, <https://bit.ly/3kqdgOX>

27 Syria TV, “Electricity Rationing Revives the Solar Energy Market in Damascus” (in Arabic), 17 July 2021, <https://bit.ly/3klH7SK>

Another option are battery systems providing basic lighting and allowing for the operation of small electronic devices and phone charging. As most of these batteries are inferior or recycled, they have to be changed every once or twice a year. Communication fees increase by 40 to 100% in October 2021 because, in large part, of fuel oil hikes. Fuel oil is needed for the diesel engines that run the Syrian Telecom Company during power outages: outages have increased by some 50 percent in some governorates in the past months.²⁸

Cost transfers can be witnessed throughout society and there are no measures from the state for alleviating the population's suffering. Meanwhile, living costs continue to grow. The rise in diesel prices, together with the doubling in the price of bread, saw a food basket increase from SYP 550,000 (USD 219) at the end of March 2021 to SYP 766,000 at the end of July (USD 305). Moreover, the average cost of living for a family of five in Damascus jumped, from SYP 1,240,000 (USD 494) in July 2021 to SYP 1,847,000 in September 2021 (USD 735), This was a rise of 49% in two months.²⁹ The monthly minimum wage remains SYP 72,000 (USD 28.7), which covers less than 4% of costs.

Conclusion

The progressive lifting of subsidies on oil derivatives, and most probably on other goods, is likely to continue. This is a wider MENA issue and goes far beyond Syria. Measures for diminishing or ending subsidies have generally created or deepened social and political tensions. Significant sectors of society suffering poverty and unemployment, refuse to pay for cost transfers from the state to the population.

In this framework, ending subsidies can't be just about state fiscal savings, especially as no social compensation takes into consideration the structural consequences for the economy and society. Measures symbolically increasing

salaries or granting bonuses on specific occasions do not compensate for rising living costs and the loss of purchasing power. At the same time, propositions by some Syrian businessmen for allowing private actors to import fuel oil and gas oil are not sustainable, because this measure will only benefit large industrialists, wealthy farmers and landowners who can pay international prices. Furthermore, neither production costs nor ecological concerns are taken into account in government measures or propositions. Finally, solar energy is not possible as an alternative without massive state investment.

Solutions should try help the 90% of the Syrian population living below the poverty line. State investments in public industries and massive provisions of loans at low interest rates could be given to SMEs and small farmers to modernise their equipment and their infrastructure with efficient and renewable technologies. In this way they could break their dependence on oil derivatives and, therefore, progressively diminish their production costs. In agriculture, measures could notably support new irrigation technologies associated with cropping patterns that will help limit the depletion of groundwater aquifers, while diminishing the use of diesel oil for pump-waters. The development of public transport networks, including buses and rail, within and between cities, and between periphery and urban centres, would reduce transport fees, both for individuals and for economic actors, while bringing down the number of cars in cities.³⁰ These kinds of measures, which would need international assistance, would also mean more employment thanks to significant infrastructure projects.

28 Rami Saloum, "Telecom" Raises the Prices of its Services Between 40 and 100%" (in Arabic), *al-Baath*, 22 September 2021, <https://bit.ly/3CCvFOK>

29 The monthly minimum cost of living for a family of five in Damascus is about SYP 1,154,800. Kassioum, "SYP 1.8 Million Average Household Cost of Living in September 2021" (in Arabic), 19 September 2021, <https://bit.ly/3IGxsvj>

30 Informal bus drivers could be included in the development of public transport networks and given a public employee status, providing them with certain advantages.

Middle East Directions

The MIDDLE EAST DIRECTIONS Programme, created in 2016, is part of the Robert Schuman Centre for Advanced Studies. It has the ambition to become an international reference point for research on the Middle East and North Africa Region, studying socio-political, economic and religious trends and transformations. The programme produces academic outputs such as working papers and e-books. It also liaises with policy makers with a wide range of policy briefs, policy report and analysis.

middleeastdirections.eu

Robert Schuman Centre for Advanced Studies

The Robert Schuman Centre for Advanced Studies (RSCAS), created in 1992 and directed by Professor Brigid Laffan, aims to develop inter-disciplinary and comparative research on the major issues facing the process of European integration, European societies and Europe's place in 21st century global politics. The Centre is home to a large post-doctoral programme and hosts major research programmes, projects and data sets, in addition to a range of working groups and ad hoc initiatives. The research agenda is organised around a set of core themes and is continuously evolving, reflecting the changing agenda of European integration, the ex-panding membership of the European Union, developments in Europe's neighbourhood and the wider world.

© European University Institute, 2021. All rights reserved. Licensed to the European Union under conditions.
Editorial matter and selection © Joseph Daher, 2021

This work is licensed under the [Creative Commons Attribution 4.0 \(CC-BY 4.0\) International license](https://creativecommons.org/licenses/by/4.0/) which governs the terms of access and reuse for this work. If cited or quoted, reference should be made to the full name of the author(s), editor(s), the title, the series and number, the year and the publisher.

Views expressed in this publication reflect the opinion of individual authors and not those of the European University Institute.

Published by
European University Institute (EUI)
Via dei Roccettini 9, I-50014
San Domenico di Fiesole (FI)
Italy



This publication was produced with the financial support of the European Union. Its contents are the sole responsibility of the author and do not necessarily reflect the views of the European Union.

doi:10.2870/29334
ISBN:978-92-9466-094-7
ISSN:2467-4540
QM-AX-21-045-EN-N

