



TECHNICAL ASSISTANCE REPORT

REPUBLIC OF CONGO

Assessment and Reform of Petroleum Product Subsidies

JULY 2025

Prepared by

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Abbreviations and Acronyms

ARAP	Regulatory Agency for the Downstream Petroleum Sector
BEAC	Bank of Central African States
CA	Additional Centime
CEMAC	Central African Economic and Monetary Community
CET	Common External Tariff
CFAF	CFA Franc
CGI	General Tax Code
CORAF	Congolaise de Raffinage
CTSAPA	Technical Committee of the Downstream Petroleum Activities Sector
DGI	Directorate General of Taxes
EDP	Entry Distribution Price
GDP	Gross Domestic Product
IP	Import Price
IPP	Import Parity Price
LPG	Liquefied Petroleum Gas
MHC	Ministry of Hydrocarbons
PSR	Ex-Refinery Price
SCLOG	Société Commune de Logistique
SGS	Société Générale de Surveillance
SNPC	Société Nationale des Pétroles du Congo
VAT	Value-Added Tax

Preface

At the joint request of the Minister of Economy and Finance and the Minister of Hydrocarbons of the Republic of Congo, Delphine Prady, Nicolò Bird, and Ignatius de Bidegain (from Washington), from the Fiscal Affairs Department of the International Monetary Fund (IMF), and Grégoire Rota-Graziosi (FAD expert), visited Brazzaville from June 5 to 19, 2024, in order to analyze fuel products' price structures, recommend adjustments to these structures, develop a strategy for the gradual transition from administered prices to their automatic adjustment, and propose a comprehensive reform plan.

The mission met with H.E. Jean-Baptiste Ondaye, Minister of Economy and Finance, and H.E. Bruno Jean Richard Itoua, Minister of Hydrocarbons. It also held discussions with the Committee on Economy, Finance, and Budget Execution Control of the National Assembly of the Republic of Congo.

The mission met with representatives of the following institutions: Ministry of Hydrocarbons; Ministry of Economy and Finance; Directorate General of Taxes; Directorate General for Large Enterprises; Directorate General of Customs; Directorate General of Downstream Oil; Technical Committee of the Downstream Oil Activities Sector; Federation of Large Enterprises; UNICONGO; SNCP; CORAF; ARAP; SCLOG; and marketer representatives. The mission thanks all participants in the various meetings for their active and constructive participation.

The mission would like to express its gratitude to the authorities for their close cooperation, particularly Ted Galouo, Director of Natural Resources, and Richard Ngola, Director General of Downstream Oil Sector, for their assistance in organizing the mission. It would also like to thank the IMF Resident Representative's team, Edith Lounkokobi and Tonadio Tsongui. Lastly, the services of the driver Motsara were greatly appreciated, and the mission thanks him very warmly.

Executive Summary

With an estimated cost of 4.5 percent of gross domestic product (GDP) in 2022 and 2.5 percent of GDP in 2023, fuel subsidy spending is higher than public expenditure on health (2.3 percent of GDP) and comparable to that on education (3.6 percent of GDP). The fall in international fuel products' prices in 2023 and the 30-percent increase in pump prices by the authorities have helped contain the cost of subsidies. However, that cost remains very high, crowding out limited fiscal space and exposing the budget to significant international volatility.

Most of the subsidies do not directly benefit Congolese households, but rather companies that consume a lot of domestic Jet A-1 fuel and diesel. While premium gasoline consumption occurs almost entirely at pump stations, 60 percent of diesel and 100 percent of domestic Jet A-1 fuel consumption is attributed to industrial customers. In addition, the unit subsidy for diesel and domestic Jet A-1 fuel is higher than that for premium gasoline. Most subsidies therefore benefit companies, including multinational exporters (e.g., upstream oil sector and timber industry).

In addition to consumer subsidies, the refinery (CORAF) and the national oil company receive producer subsidies estimated at more than 2 percent of GDP per year on average. Between 2018 and 2023, the *Société Nationale des Pétroles Congolaise* (SNPC) received subsidies estimated at 0.3 percent of GDP per year on average to cover additional costs related to inefficiencies in its import procedures. Direct support for the operation of the CORAF refinery is substantial and amounted to an average of 1.8 percent of GDP per year between 2018 and 2023. It took the form of purchases at a preferential price (0.5 percent of GDP per year on average) of government crude and direct budget transfers (1.3 percent of GDP per year on average).

In light of this assessment, the mission recommends the following priority measures:

- 1) Reduce the scope of subsidies,** by leaving out from the regulated price system the consumption of domestic Jet A-1 fuel and diesel by large industrial consumers exporting unprocessed products (e.g., upstream oil tankers and timber exporters). A plan to reduce CORAF subsidies will also have to be implemented based on an operational assessment of the refinery's activities.
- 2) Improve the procedure for importing and valuing CORAF production,** by arranging a competitive bidding process for imported volumes and by valuing CORAF's production at the price resulting from that process.
- 3) Reform the price structure, levy VAT on pump prices, and review the customs clearance procedure for fuel imports.** The current application of VAT does not comply with the General Tax Code (CGI) and creates significant risks of VAT credit for the government. The current process involving the direct release of imported volumes is not digitally monitored and leads to significant customs revenue losses. Lastly, reducing an opaque parafiscal system and introducing a line dedicated to the final price subsidy mechanism will help reduce the pursuit of profits and the unpredictability of potential subsidies.

Recommendations

Overhaul import procedures			
1	Establish a competitive bidding process for imported fuels	Q4 2024	Estimated annual gain of 0.3 percent of GDP over the last five years
2	Systematically monitor with digital tools (or discontinue) the direct release of fuel imports	Q4 2024	Estimated annual gain of 0.6 percent of GDP over the last five years
3	End the SNPC's de facto monopoly on imports	End 2024	
Reform the price structure and gradually reduce subsidies			
4	Modify the price structure by levying VAT on pump prices, changing the parafiscal system, and introducing a line dedicated to the calculation of the potential unit charge/subsidy	Q1 2025	
5	Align fixed pump prices with prices from the new structure, starting with diesel (end of 2025) and then premium gasoline (end of 2026)	2025–2026	
6	Commission an external audit of the margin and cost items in the price structure	Q4 2024	
Scope of subsidies			
7	Liberalize all consumption of domestic Jet A-1 and diesel for exporting companies	Q1 2025	Estimated floor gain of 0.3 percent of GDP per year over the last five years
8	Put an end to the “resilience” diesel system and ensure better oversight of recipients of fishing diesel	Q1 2025	Gain not estimated
9	Update the 2008 operational assessment of CORAF activities and prepare a plan to reduce subsidies to the refinery	Q1 2025	
Governance			
10	Clarify ARAP's mandates, strengthen its independence, and give it the legal means to oversee and sanction the downstream sector	Q4 2024	

I. Introduction

1. The Republic of Congo is the third-largest oil-producing country in sub-Saharan Africa (after Nigeria and Angola), and its economy and public finances are highly exposed to fluctuations in oil revenues. Diversifying the Congolese economy is a priority as its oil production is expected to begin to decline in the short term if no new fields are put into operation. In terms of public finances, this means strengthening non-oil tax revenues, which in 2023 amounted to just 8 percent of GDP, well below the sub-Saharan African and low-income countries' medians of 13 percent and 16 percent, respectively. In terms of development, this means prioritizing expenditure that encourages inclusive growth and a development more independent from oil revenues.

2. Development issues are sizeable, and despite their recent policy prioritization, improvements have yet to materialize. During the decade from 2010 to 2020, the Republic of Congo saw stagnation in human capital development, with a score on the World Bank's Human Capital Index of 0.42 in 2020 compared to 0.41 in 2010 (min 0 – max 1). Between 2015 and 2021, the proportion of the population living below the poverty line of \$1.90 a day increased from 39 percent to 54 percent. This is due to the decrease in oil revenues between 2014 and 2020, a lack of prioritization of development spending by the authorities, and poor execution of the scarce resources allocated. The Republic of Congo spends 3.6 percent of GDP on public education, which is low compared to the average of 5.8 percent of GDP in sub-Saharan Africa. The gap in investment and maintenance of key infrastructure is also important: just 13 percent of the road network is paved, compared to 18 percent for sub-Saharan Africa; infrastructure maintenance is underfunded, with public spending representing 0.08 percent of GDP in 2020, much lower than that observed in most countries of the Central African Economic and Monetary Community (CEMAC); the access rate to electricity in urban areas is 50 percent, and 13 percent in rural areas.

3. Fuel subsidy reform must be integrated into a medium-term strategy: (i) to increase public spending towards the country's development and mobilize tax revenues; and (ii) to increase transparency in governance and formulate a national strategy for the development of the downstream oil sector.

- Domestic consumption of petroleum products must contribute to the tax revenues collected by the government. However, shortcomings in the price structure and governance of the downstream oil sector lead to lower tax revenues than expected. In addition to lost tax revenues, there are budgetary expenditures in connection with pump prices that are lower than the country's *accepted* supply costs. In the context of higher international oil prices in 2022, this budgetary expenditure became unbearable, and the Congolese authorities gradually raised the pump price of premium gasoline and diesel by 30 percent between December 2022 and December 2023. Under the Extended Credit Facility (ECF) program, the authorities committed to continuing these efforts to reduce subsidies, and deep adjustments will be necessary to prevent the subsidies from returning in the medium term.
- Beyond its cost to public finances, the current system of petroleum product subsidies entails significant sectoral inefficiencies that are neither assessed with transparency nor questioned in the context of budget discussions. For example, the priority given to the national refinery in covering domestic demand for refined products means (i) heavily subsidizing its structurally high operations' costs and (ii) resorting to imports that make up for the structural gap in domestic production, which

happens without transparent competitive bidding by the State oil company, *whatever the cost*. Given the urgent need to diversify the Congolese economy, these industrial and institutional choices must be examined, particularly in the context of a fuel subsidy reform.

II. Description of the Downstream Oil Sector

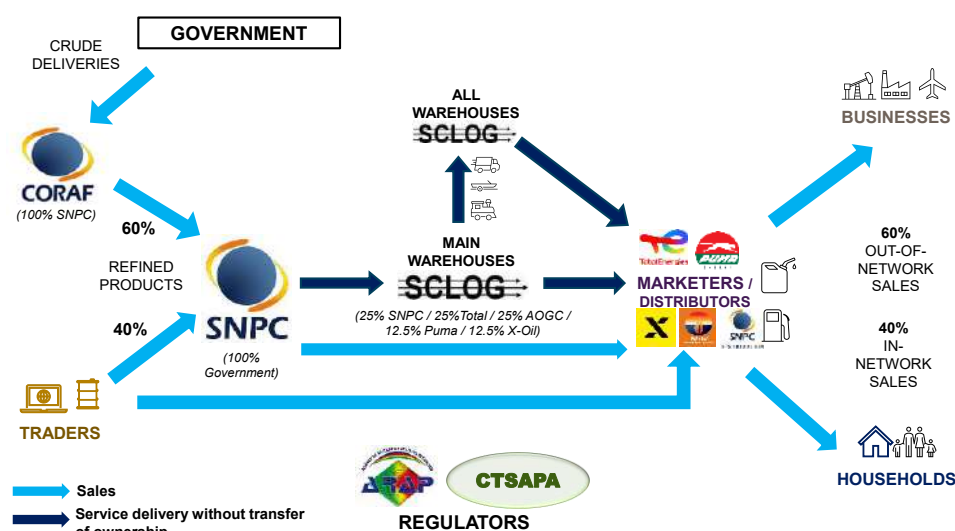
A. Market: Players, Roles, and Size

4. **The Société Nationale du Pétrole du Congo (SNPC) procures all fuel products consumed in the country, even though the legal texts regulating the downstream oil sector do not provide for such an exclusive role.** In the past few years, SNPC, which is fully State-owned, has been the sole supplier of fuels to licensed marketers in the Republic of Congo (Figure 1). It is the sole buyer of the output of the national refinery, Congolaise de Raffinage (CORAF), which it fully owns. It also has a de facto monopoly on fuels it imports on behalf of all marketers. These imports are necessary to cover the country's demand because CORAF output has become insufficient. However, there is nothing in the regulatory framework (Decree No. 2007-30) that stipulates SNPC must be the sole importer of fuel products. When CORAF output is insufficient, licensed marketers can take turns and import refined products on behalf of all the others, after having made a request to the Ministry of Hydrocarbons (MHC). However, imported volumes, like the volumes produced by CORAF, must be resold to marketer-distributors at a regulated official price. When the import price is higher than the regulated official price, private marketers have no incentive to import, a situation that has persisted for about six years. SNPC therefore plays the role of de facto "importer of last resort", thus assuming the risk associated with importing products with highly volatile prices to avoid chronic shortages.

5. **The output of the country's only refinery covers on average 60 percent of annual domestic consumption, with the remaining 40 percent being covered by SNPC imports (Figure 1).** CORAF is a SNPC subsidiary, held at 100 percent by the national oil company. The maximum processing capacity is 1 million tons of crude oil per year. The State sells crude to CORAF to supply the domestic market. Approximately 75 percent of the crude delivered is of Djeno quality (i.e., relatively lower quality), while 25 percent is of N'Kossa quality (i.e., relatively higher quality). The refinery's efficiency is 45 percent, partly due to the use of Djeno. The CORAF utilization rate was 83 percent at the beginning of 2024, a significant increase compared to previous years (66 percent between 2021 and 2023). The construction of a new private refinery is underway in Pointe-Noire. With an initial processing capacity of 1.5 million tons per year, this new refinery is expected to come online in 2026.¹ The authorities hope the production of this new refinery will *complement* that of CORAF in supplying the domestic market, thus reducing the need for imports.

¹ This new refinery is a project of the Chinese investor Beijing Fortune Dingheng. Its eventual processing capacity is expected to reach 5 million tons per year.

Figure 1. Downstream Oil Sector Organizational Chart

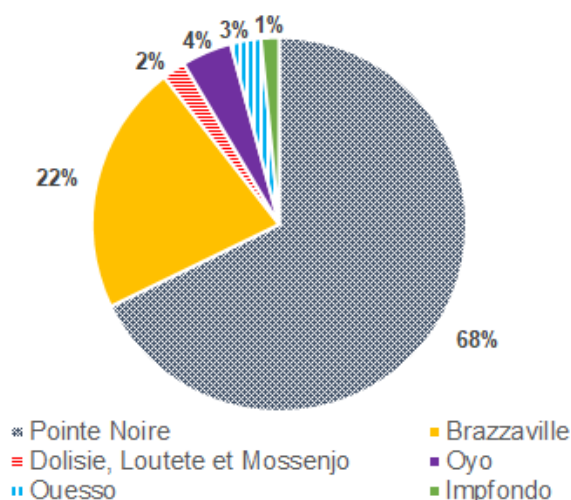


Source: IMF mission

6. The Société Commune de Logistique (SCLOG) is responsible for the storage and mass transport of refined products throughout the country (Figure 1). SCLOG is a limited liability company licensed in 2002 that was created after the privatization of the State-owned company Hydro-Congo. It is owned by the main players working in the downstream oil sector. Since 2013, the shareholders have been: Total Energies (25 percent), SNPC (25 percent), AOGC (25 percent), PUMA (12.5 percent), and X-OIL (12.5 percent). SCLOG is fully responsible for the storage of refined products, whether they come from CORAF, are imports from SNPC, or are authorized imports from private marketers. However, SCLOG never owns the refined products. SCLOG receives the fuel at its two main storage facilities in Pointe-Noire and Brazzaville and then organizes mass domestic transport (by truck, rail, or barge) to six other storage facilities located in Oyo, Dolisie, Ouessou, Mossendjo, Impfondo, and Loutete. Total storage capacity of the eight facilities is 97,000 m³, with nearly 70 percent of this capacity located in the main facility in Pointe-Noire (Figure 2). The cost of mass transport varies according to the distance from the facility at the point of departure, which is set in Pointe-Noire.² According to SCLOG, the average cost is CFAF 35/L to supply Brazzaville and increases to CFAF 117/L for Ouessou and Impfondo. SCLOG estimates the weighted average cost of mass transport to be CFAF 47/L.

² Imports through Brazzaville have been discontinued for a few years now.

Figure 2. SCLOG Storage Capacity
(Share of total capacity)

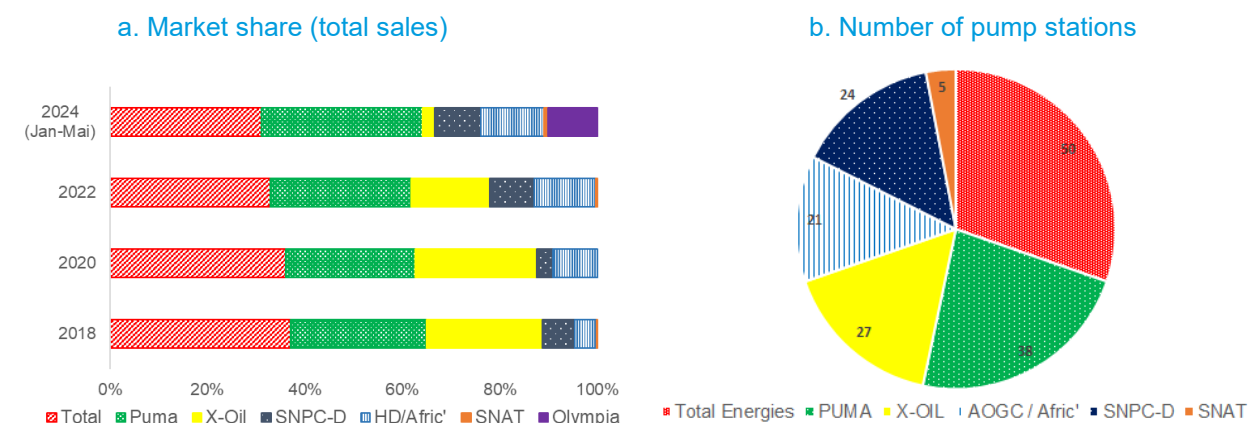


Source: IMF mission based on SCLOG data.

7. Several private and public marketers operate in the distribution segment of refined fuel products (Figure 1). The market for the distribution of refined products is regulated. In accordance with Decree No. 2018-317, marketers wishing to be licensed must submit documentation and payment of CFAF 300 million to the MHC (down from the 2002 amount of CFAF 700 million). The license is valid for 15 years and includes a commitment to establish at least one pump station in each administrative region. Distributors may purchase refined products stored in SCLOG facilities, either from SNPC or from any other product owner, at the regulated official price, plus applicable margins and fees. They then sell these products at the regulated pump price set in the price structures, and collect regulated margins provided for distributors and dealers.³ Reducing marketers' role to distribution alone makes their activity very low risk, since their turnover and costs are regulated, determined by the price structure. This differs from other market organizations in CEMAC countries where marketers are also often importers, thus bearing the risk of a gap between their variable supply costs and regulated selling prices, as well as a financial cost associated with the delay between the purchase of fuel products and their sale in their respective networks. The main distributors are PUMA and Total Energies, which respectively held 30 percent and 29 percent of the refined product market share at the beginning of 2024 (Figure 3a). They are followed by AOGC (Afric') with 12 percent, Olympia with 9 percent, the distribution subsidiary of SNPC (SNPC-D) with 9 percent, and X-Oil, which has lost a significant share of the market since 2022, with 2 percent. Lastly, SNAT, which holds less than 1 percent of the market, is a limited liability company owned by SNPC and AOGC. Its objective is to build service stations in remote areas, and it currently operates five stations in the country.

³ Licensed distributors can either subcontract terminal transport to private carriers or integrate vertically.

Figure 3. Marketers Operating in the Downstream Distribution Sector



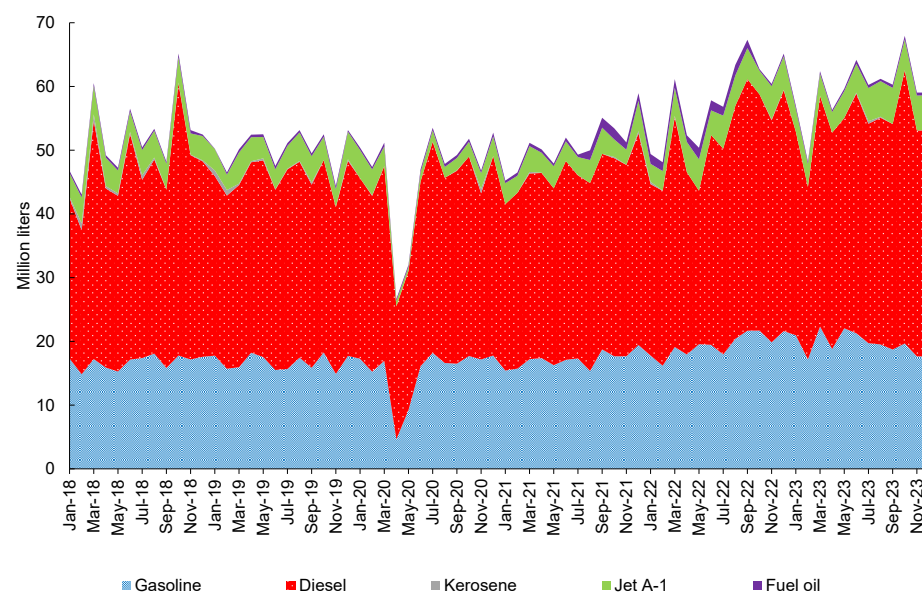
Source: IMF mission based on SGS Congo data.

Source: IMF mission based on ARAP data.

8. Total domestic fuel consumption is trending upwards, driven by diesel consumption.

Except for a decline observed in 2020 during the COVID-19 pandemic, monthly consumption of refined products increased slightly from 52 million liters per month in 2018 to 60 million liters in 2023 (Figure 4). In 2023, diesel accounted for 58 percent of total consumption, followed by premium gasoline (33 percent), domestic Jet A-1 fuel (8 percent), fuel oil (0.7 percent), and finally kerosene (0.1 percent).

Figure 4. Monthly Consumption of Refined Petroleum Products
(Million liters)

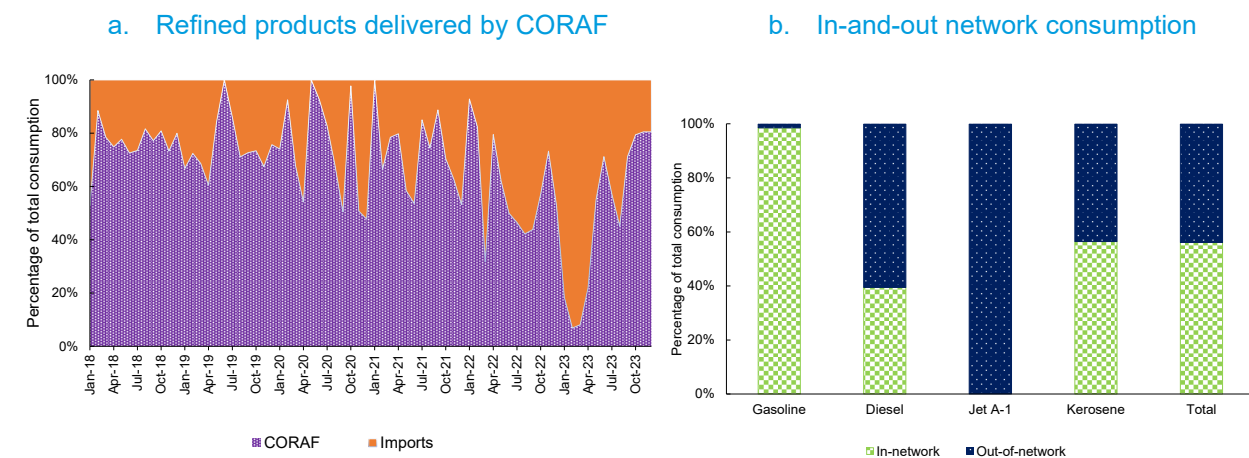


Source: IMF mission based on SGS data.

9. The country increasingly depends on imports to cover its fuel demand. The share of refined products supplied by CORAF on the domestic market has decreased in recent years from 75 percent in 2018 to 56 percent in 2022. Following upgrades in 2023 (major turnaround in the first quarter), production

increased from mid-2023, reaching 78 percent of domestic consumption between September and December 2023 (Figure 5a). Although consumption data by different sectors and economic agents are limited, most fuel is consumed outside the network of pump stations by large consumers (mainly businesses), with the exception of premium gasoline, 99 percent of which is consumed in pump stations (Figure 5b).

Figure 5. Domestic Production and Consumption



Source: IMF mission based on SGS data.

B. Governance

10. Article 4 of Law No. 6-2001 covers the governance of the downstream oil sector. The downstream oil sector institutions are the MHC; the Regulatory Agency for the Downstream Petroleum Sector (ARAP); and the Technical Committee of the Downstream Petroleum Activities Sector (CTSAPA). The MHC is responsible for the sector's general policy orientations, including the refining, import, export, transit, re-export, storage, mass transport, distribution, and marketing of refined products. It is responsible for imposing administrative sanctions when a company operating in the sector fails to comply with its commitments set out in Law No. 6-2001, such as noncompliance with approvals or violation of safety or hygiene requirements.

11. ARAP is responsible for regulating the downstream sector. Created in 2006 under the oversight of the MHC, ARAP has a mandate to regulate the activities and evaluate the performance of the downstream oil market.⁴ ARAP's four main statutory missions are as follows: (1) to ensure compliance with the implementation of supply stabilization mechanisms and the regularity of the distribution of finished products on the domestic market; (2) to ensure the establishment and management of strategic and security stocks; (3) to ensure compliance with the implementation of price stabilization mechanisms through a fund; and (4) to ensure compliance with the specifications and standards applicable by law. ARAP currently has 50 agents, including 11 officials from the Accounting Agency delegated by the Public

⁴ Namely the refining, import, export, transit, re-export, storage, transport, distribution, and marketing of hydrocarbons, as governed by Law No. 6-2001 of October 19, 2001.

Treasury and 9 budget control officials from the Directorate General of Budgetary Control. ARAP is notably financed by a levy in the petroleum product price structure of 0.40 percent of the Entry Distribution Price (EDP), according to Decree 2005-699,⁵ and receives complementary government transfers.

12. CTSAPA's mission is to establish the regulated oil price structure monthly. In accordance with Article 7 of Law No. 6-2001, it is composed of representatives of the public administrations of the Ministries of Hydrocarbons, of Economy and Finance, of Trade, Supply and Consumer Affairs, and of Budget, Public Accounts, and the Public Portfolio, as well as professionals and companies from the downstream market. Decree No. 2002-281 on the establishment and organization of CTSAPA stipulates that the committee meets once a month at the invitation of its chair, i.e., the MHC, or one-third of its members. CTSAPA is responsible for submitting an annual activity report to the MHC.

C. CORAF Weight in Public Finances

13. The government's decision to make CORAF the country's leading fuel supplier comes at a significant cost. In Congo, imports are ancillary to CORAF output. In other words, fuel imports can only take place *once* CORAF production has run out. However, financial indicators suggest that it is impossible for CORAF to produce without broad public support.

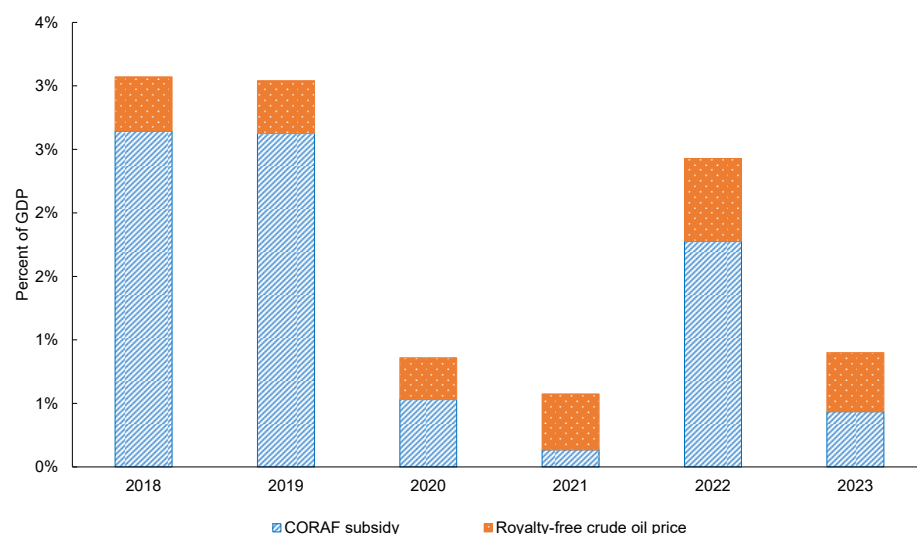
14. CORAF receives several types of financial support, including access at a preferential price to a portion of the government's crude oil it receives as in-kind royalty. Between 2018 and 2023, the Congolese government sold an annual average of 5.9 million barrels of crude oil to CORAF, or about 10 percent of its in-kind royalty. This crude is sold at a "fiscal price"⁶ minus the 15 percent mining royalty. This subsidy on crude oil sales amounts to CFAF 37 billion on average over the same period, corresponding to 0.45 percent of annual GDP (Figure 6).

15. Another type of support provided to CORAF is a direct budget subsidy, which can be a considerable burden on public spending. The national refinery receives large government transfers to finance its operations and investments. These amounts vary significantly over time, accounting for an average of CFAF 111 billion per year between 2018 and 2023, or 1.4 percent of GDP (Figure 6).

⁵ However, this rate is not respected in the various decrees setting product prices (see Section III).

⁶ This fiscal price is "negotiated" with oil producers and includes as a reference the price at which the latter sell their crudes.

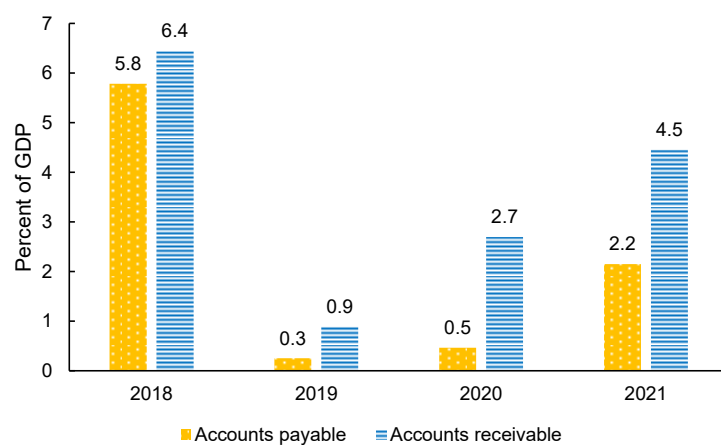
Figure 6. Transfers to CORAF and Mining Royalties
(As a percentage of GDP)



Source: IMF mission based on SNPC and Downstream DG data.

16. Despite significant government financial support, CORAF appears to have difficulty paying its suppliers and getting paid by its customers, signaling deep structural inefficiencies and/or deep governance failures within the State-owned company. CORAF financial statements reveal significant levels of payables and receivables. These payables (first and foremost to the government for its crude oil) and receivables (first and foremost from SNPC, which buys its refined products) are very large (Figure 7). These considerable cross-debts between public entities burden CORAF operational capacity, which may lead to delay or cancel investments and other maintenance operations necessary for its production. Furthermore, they undermine the transparency of public finances, which do not necessarily reflect these risks.

Figure 7. CORAF: Accounts Payable and Receivable
(As a percentage of GDP)



Source: IMF mission based on CORAF's 2019 and 2021 financial statements certified by EY.

III. Analysis of Fuel Price Subsidies

A. Pricing Formula and International Comparison

17. Decree No. 2005-699 (hereinafter Decree 699) of December 30, 2005, establishes the price structure of petroleum products in the Republic of Congo. Price structures cover domestic premium gasoline, diesel, kerosene, Jet A-1 fuel, and Avgas, liquefied petroleum gas (LPG), diesel, and fuel oils from domestic bunkers.⁷ This decree provides for regular reviews of the various cost items and taxes; every month, the government may decide to modify the ceiling prices for the sale of petroleum products. Article 17 of the Decree specifies the applicable taxation, including the Common External Tariff (CET, or customs duties) of 10 percent levied on imported volumes, supplemented by community levies (1.65 percent) and an IT fee (2 percent), value-added tax (VAT) at a rate of 18 percent, and additional centimes (*Centimes Additionnels* – CAs) of 0.9 percent (5 percent of 18 percent)⁸ levied on the volumes imported and produced by CORAF and on services rendered along the distribution chain. VAT is not explicitly collected on the final price of petroleum products. Since 2005, a number of decrees, orders, and instructions have modified or clarified initial price structures and the procedures for applying certain charges or taxes.⁹

18. Petroleum products are valued differently depending on whether they are produced locally by CORAF or imported (Table 1). CORAF production is valued at the ex-refinery price (*prix sortie raffinerie* – PSR, line 18 of Table 1), which is not the result of an analysis of the cost of refining the crude products, but of the calculation of an import parity price (IPP) plus an economic adjustment coefficient. The IPP is derived from an international reference (CIF New ARA price) to which multiple fees and costs are added. The adjustment coefficient was 25 percent in 2008 when the CORAF performance contract was established, then gradually decreased to 8 percent in 2024.¹⁰ This economic adjustment aims to protect CORAF from larger, more sophisticated and modern refineries. Imported products are valued at the import price (IP, line 19 of Table 1) taken from the invoices declared by SNPC. Pursuant to Decree 2005-699, VAT and CAs should apply to the PSR, while CET, VAT, and CAs should apply to the IP. According to the same decree, all fuel products to be distributed should be valued at the weighted average of the PSR and IP, inclusive of all taxes.

19. SNPC resells fuel products at an official Entry Distribution Price (EDP) that differs from the weighted average of the PSR and IP. The official EDP is the central, and highly political, element of fuel price structures because the government sets it discretionarily. It is the price at which SNPC resells fuel

⁷ The prices of lubricants, bitumen, white spirit, and paraffin are freely determined, as are those of petroleum products for international transport.

⁸ CAs are additional levies based on the main taxes and duties intended for local authorities.

⁹ In particular: Order No. 839 of March 13, 2003, for white fuel products; Order No. 4550 of August 9, 2002, for fuel oil; Order No. 14335 2018 revising the prices of petroleum products subject to the price structure; Order No. 8674 of June 30, 2023, setting the price of premium gasoline; and Order No. 14335/MCAC/MEF/MHC/MBCPPP of November 11, 2023, revising the prices of liquid finished petroleum products subject to the price structure.

¹⁰ Article 6 of the Performance Contract between the Congolese Republic and CORAF. Under this contract, the adjustment factor, initially set at 25 percent, would be reduced by 3 percent per year over five years. The mission did not assess the consistency of CORAF's modernization actions with the reduction of the adjustment coefficient. Similarly, the authorities did not share with the mission the contract revision adjusting the economic coefficient to 8 percent.

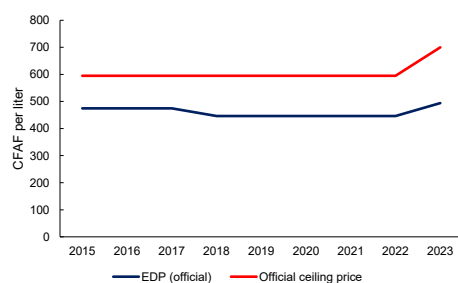
products to marketers. The difference between the official EDP and the weighted average of the PSR and IP (or “real EDP”) corresponds to a financial support of SNPC if positive or to a loss for SNPC if negative, in which case it should give rise to an offsetting transfer. Marketers can also import petroleum products with exceptional authorizations not only for the network of pump stations, but also for out-of-network customers. In order to supply all in-network demand, marketer-importers sell part of their products purchased to other competing marketers at the official EDP. When they resell to out-network customers, marketer-importers freely negotiate resell prices with their customers (particularly in extractive industries).

20. Ceiling pump prices are derived from the respective official EDPs of each product by adding different charges, margins, and taxes (Table 1).

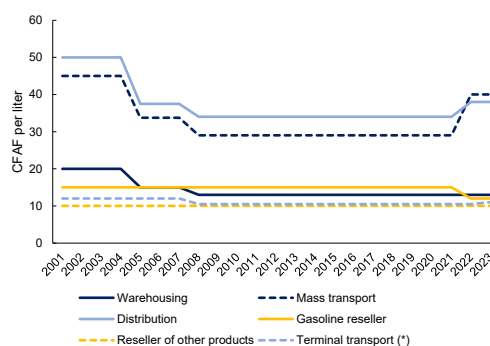
- Official price ceilings and EDPs are expected to be revised on a monthly basis by different committees or authorities, but they have remained largely fixed until the 2023 increases (Figure 8a).¹¹
- Fees and margins are formally negotiated every year. However, they have changed little over the past several years (Figure 8b). SCLOG oversees warehousing and mass transport to the eight storage facilities spread out across the Congolese territory (lines 23 and 25, Table 1). The policy regarding a single price at the pump involves territorial equalization borne by the mass transport item in the price structure. In other words, additional costs associated with supplying storage facilities in the north of the country are “financed” by lower costs of supplying facilities in the south. Marketers finance themselves through distribution fees and margins, the dealer margin, and the terminal transportation cost (lines 28, 32, and 34, Table 1).
- SNPC collects the EDP, VAT, and associated CAs, logistics losses, financial fees on security stock, and fees for the environmental risk, the regulatory body (ARAP), the financing of the technical committee, and the stabilization contribution. This last item is adjusted to equalize the official EDPs plus fees, margins, and costs on the one hand with pump prices on the other (line 39, Table 1). This contribution is supposed to go to a stabilization fund through an escrow account held at the BEAC.

Figure 8. Changes in the Official EDPs, Ceiling Prices, and Supply Cost Items in the Price Structure Since 2001

a. Official EDPs and Ceiling Prices



b. Cost Items



Source: SNPC, IMF mission.

¹¹ CTSAPA is in charge of the monthly calculation of the real EDP, on the basis of which it issues recommendations for changes to the official EDP, which it transmits to the government. It is then up to the government to set the ceiling pump price. The PSR is ARAP's responsibility.

Table 1. Price Structure of Premium Gasoline and Diesel in May 2024

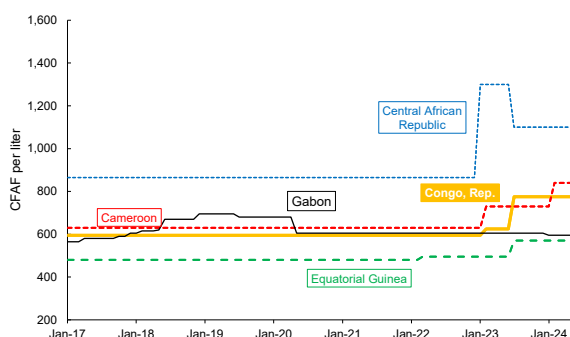
		Description	Calculation details	Premium gasoline	Domestic diesel
USD/MT	1	CIF NEW ARA price (previous month)		882.25	666.67
	2	Sea freight	Worldscale New Worldwide Tanker	50.47	50.47
	3	Insurance	=1.5%*((1)+(2))	13.99	10.76
	4	Pointe-Noire CIF price	=(1)+(2)+(3)	946.71	727.90
	5	Losses at sea	=0.5%*(4)	4.73	3.64
	6	Letter of credit fees	=(1+18.9%)*(3%*(4)+1.07)	35.04	27.24
	7	Demurrage	Cost per MT	3.20	3.20
	8	Port and tooling fees	Autonomous Port of Pointe-Noire	1.27	1.27
	9	Inspection and control fees	=1%*(1)	8.82	6.67
	10	Total forwarding charges	Sum of (5) to (9)	53.07	42.01
	11	Total import fees (TIF)	=(4)+(10)	999.78	769.91
	12	USD/CFAF exchange cost	=(1+18.9%)*(1.5%*(1+9%)*(11)+0.99)	20.61	16.14
	13	Import parity price (IPP)	=(11)+(12)	1,020.39	786.05
CFAF/MT	14	Import parity price (CFAF/MT)	=(13)*606.806 (USD/CFAF exchange rate)	619,180.57	476,980.69
	15	Density		0.755	0.845
	16	Import parity price (CFAF/m3)	=(14)*(15)	467,481.33	403,048.68
CFAF/L	17	Import parity price (CFAF/L)	=(16)/1000	467.48	403.05
	18	Ex-refinery price (PSR)	=(1+8%)*(17)	504.88	435.29
	19	Import price (IP)	Price on import invoice from SNPC or the marketer Backup source, not provided for May 2024		
	20	Real Entry Distribution Price (EDP)	Average weighted IP and PSR		
	21	EDP - Official (excl. taxes)	Order 14335/MCAC/MEF/MHC...	487.66	360.29
	22	VAT and CA on EDP	=18.9%*(21)	92.17	68.09
	23	Warehousing margins and fees		13.00	13.00
	24	VAT on warehousing margins and fees	=18.9%*(23)	2.46	2.46
	25	Cost of mass transport		40.00	40.00
	26	VAT on the cost of mass transport	=18.9%*(25)	7.56	7.56
	27	Logistics losses	=0.5%*((21)+(23)+(25))	2.70	2.07
	28	Distribution fees and margins		38.00	38.00
	29	VAT on distribution margins and fees	=18.9%*(28)	7.18	7.18
	30	Financial charges on security stocks	=0.97%*(21)	4.73	3.49
	31	Financing of regulatory body	=0.4%*(21)	1.95	1.44
	32	Reseller margin		12.00	10.00
	33	VAT on reseller margin	=18.9%*(32)	2.27	1.89
	34	Cost of terminal transport		11.00	11.00
	35	VAT on the cost of terminal transport	=18.9%*(34)	2.08	2.08
	36	Financing of environmental risk	=0.2%*(21)	0.98	0.72
	37	Financing of technical committee	=0.05%*(21)	0.24	0.18
	38	Intermediate price	=Sum of (21) to (37)	725.98	569.45
	39	Stabilization contribution	=(40)-(38)	49.02	55.55
	40	Ceiling selling price (incl. taxes)		775.00	625.00

(*): The density rate specified in the decree and in accordance with the international standard is 0.745, but the one used is 0.755.
Source: Decree 2005-699, Order 8674 of June 30, 2023, and Order 14335 of November 11, 2023, authors.

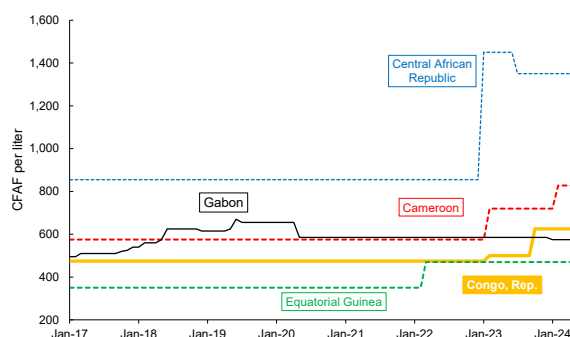
21. Following the 2022 global energy crisis, the Congolese authorities, like other CEMAC governments, increased pump prices for premium gasoline and diesel (Figure 9 a and b). Until December 2022, pump prices for premium gasoline and diesel remained largely fixed in all CEMAC countries, with the exception of Gabon where more frequent adjustments at the pump were made. Between December 2022 and December 2023, the ceiling price for premium gasoline and diesel increased by 30 percent in the Republic of Congo. Cameroon and the Central African Republic have further increased the regulated price of diesel (25 percent in Cameroon to nearly 60 percent in the Central African Republic), while Equatorial Guinea has left the pump price of diesel unchanged. Increases in the regulated price of premium gasoline have been lower: 15 percent in Equatorial Guinea to nearly 30 percent in the Central African Republic. Gabon stood out in the first few months of 2024 by slightly lowering pump prices.¹² After the 2023 increases, Congolese pump prices are median compared to those of other CEMAC countries.

Figure 9. Monthly Changes in the Pump Prices of Premium Gasoline and Diesel in CEMAC Countries, 2017–2024

a. Premium Gasoline



b. Diesel



Source: IMF mission.

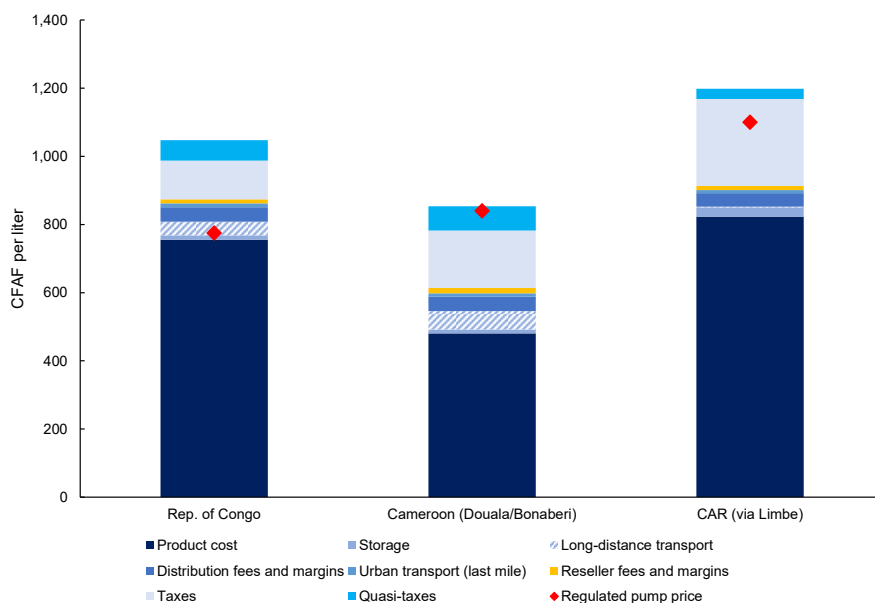
22. A comparison of the components making up pump prices with other CEMAC countries suggests additional costs for the acquisition of fuel and lower taxation in the Republic of Congo (Figure 10). Among CEMAC countries, Congo has a product cost comparable to that of the Central African Republic (CAR). However, the relative share of the cost of the product in the price of premium gasoline is higher in Congo than in CAR (71 percent versus 69 percent, Figure 11) for higher volumes consumed in Congo than in neighboring CAR, suggesting inefficiencies in the acquisition of fuels in Congo. At first glance, these inefficiencies seem to be due more to the costs of the products imported by SNPC than to the valuation of CORAF's production because the latter is based on an international reference plus relatively reasonable destination charges (Table 1).¹³ The prices for volumes imported by SNPC seem very high and disconnected from international reference plus fees and a reasonable

¹² It is important to note that Gabon charges different prices in the pump station network versus those it charges out-of-network industrial customers. The latter prices are significantly higher than the prices in the service station network.

¹³ The degree of some of these destination charges may be questioned, and alternatives are proposed in the recommendation on overhauling the price structure (Section IV).

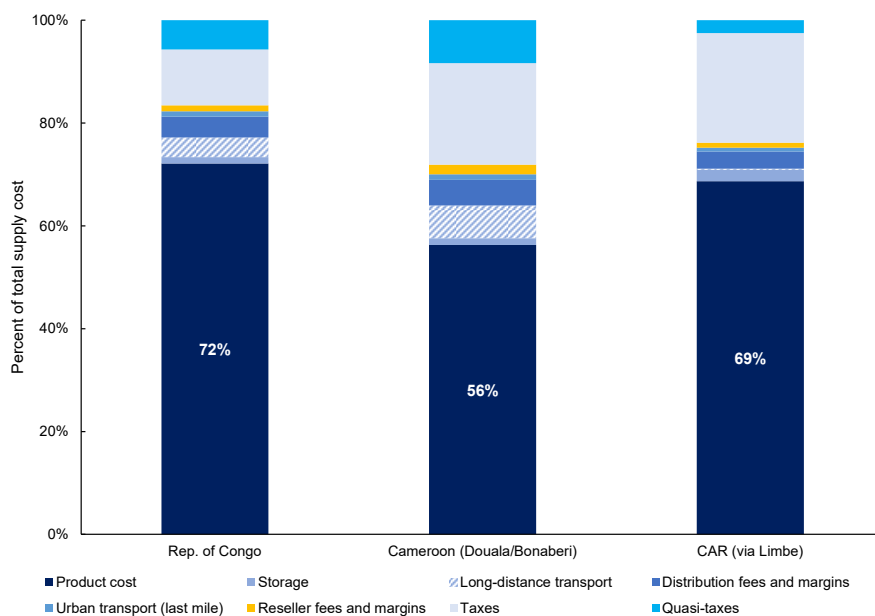
premium. Finally, the weight of taxation is relatively low in the price of fuel in Congo: it was 11 percent in June 2024, compared to double on average in other CEMAC countries. This suggests a significant tax opportunity cost in Congo.

Figure 10. Structure of Premium Gasoline Pump Prices in Selected CEMAC Countries, June 2024



Source: IMF mission.

Figure 11. Share of Cost and Tax Items in the Total Pre-Subsidy Price of Premium Gasoline in Selected CEMAC Countries, June 2024

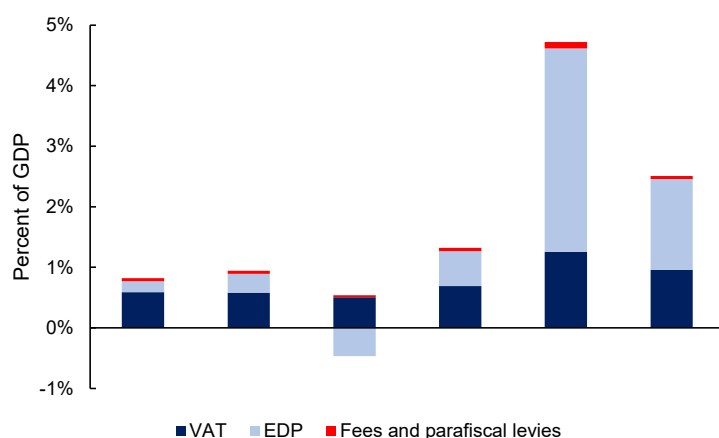


Source: IMF mission.

B. Quantification of Total Fuel Subsidies

23. The imperfect application of the price structure described above has led to significant subsidy expenditures, ranging from 0.2 percent of GDP in 2020 to 4.5 percent of GDP in 2022 (Figure 12). This subsidy is derived from the difference between the regulated price, i.e., set by decree, for the main petroleum products consumed (premium gasoline, diesel, and Jet A-1 fuel) and the actual price that would result from a strict application of Decree 2005-699 (Box 1). Over the period under consideration, subsidy expenditures were at a maximum in 2022, during the surge in world prices, reaching CFAF 409 billion, or 4.5 percent of GDP. Subsidies can be broken down into three main types of expenditure: an over/underestimation of the product cost (i.e., the difference between the official and real EDP collected by SNPC), a loss of VAT revenue, and a loss of parafiscal revenues and other minor cost items. The difference between the official EDP defined by decree and the real EDP resulting from the application of Decree 2005-699 represented more than two-thirds (71 percent) of the subsidy. In 2020, the official EDP was higher than the real EDP, yielding a parafiscal revenue for SNPC of nearly CFAF 24 billion (or 0.4 percent of GDP). In other years, the official EDP was lower than the real EDP, meaning that SNPC had to be compensated for this recognized (but not audited) difference. Another important element of these subsidies is the VAT gap, varying from 0.47 percent of GDP in 2023 to 1.25 percent in 2022. This gap, which cannot be deducted from VAT reduced rates or exemptions, is not tax expenditure, but the result of an inadequate definition and application of this tax on petroleum products (see subsection III. C.).

Figure 12. Breakdown of Subsidies by Expenditure Type, 2018–2023
(As a percentage of GDP)

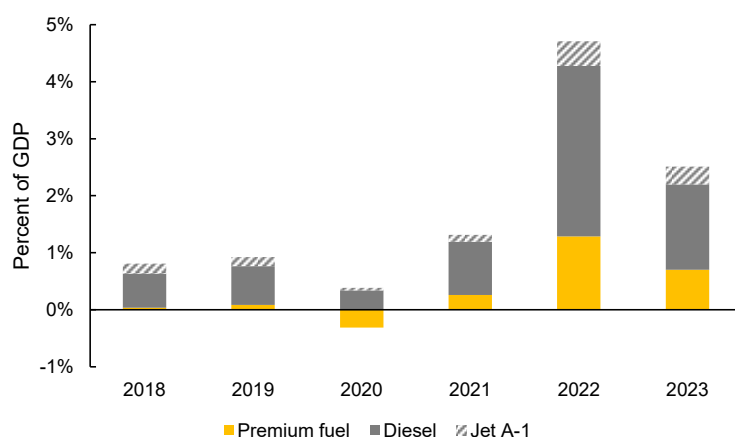


Source: IMF mission based on SNPC data.

24. Between 2018 and 2023, an average of 70 percent of annual fuel subsidies were for diesel consumption (Figure 13). Except for 2020—a year marked by the COVID-19 pandemic with diesel subsidy representing more than 200 percent of the total subsidy (premium gasoline being not subsidized but taxed that year following the drop in international prices relative to the official EDP, even though unchanged)—the diesel subsidy represented on average 70 percent of total fuel subsidies. This relative weight of the diesel subsidy can be explained both by a larger unit subsidy (a lower official EDP) and by a larger volume consumed. The subsidy for Jet A-1 fuel and premium gasoline represents on average 30 percent of the total annual subsidy, with Jet A-1 fuel subsidized more than premium gasoline until

2020. This breakdown highlights the fact that the consumption of industrial customers, accounting for 60 percent of the annual consumption of diesel and 100 percent of the consumption of Jet A-1 fuel, is more heavily subsidized than that of households (55 percent of the total annual subsidies on average over the period).

Figure 13. Breakdown of Subsidies by Fuel Type, 2018–2023
(As a percentage of GDP)



Source: IMF mission based on SNPC data.

Box 1. Definition and Calculation of Petroleum Product Subsidies

The real price is determined by taking the real EDP, i.e., the weighted average of the IP and IPP, and not the official EDP published in successive decrees (Annex 1). This difference impacts VAT, CAs, and any fees or taxes calculated as a percentage of the EDP. A second distinction between the regulated price and the real price is the strict application of taxation. The mission thus includes customs duties at a rate of 10 percent and miscellaneous customs taxes at 3.65 percent, which increases the IP and EDP. VAT is calculated on the final price excluding taxes and then incorporated to reach the final price all-tax included.

Table 2 below shows the details between the official price defined by decree and the real price resulting from a strict interpretation of Decree 2005-699 for premium gasoline and diesel in December 2023 (the month in which Arrêté No. 14335 was applied).¹⁴ The real EDP is significantly higher than the official EDP. This difference represents the bulk of the subsidy: nearly 77 percent for premium gasoline (CFAF 121/L) and 78 percent for diesel (CFAF 164/L). The logistics losses, financial costs, regulatory agency financing, and the financing of the environmental risk and technical committee are theoretically percentages of the EDP according to Decree 2005-699 but are set at significantly lower nominal amounts by the Arrêté. Despite considering VAT on the EDP, there is still a fairly wide VAT difference resulting, on the one hand, from a higher real EDP and, on the other, from the assumption of considering VAT on final prices, i.e., at the pump. This approach replaces the one that consists in collecting VAT on the EDP and on service fees, excluding some financial charges and parafiscal fees.

¹⁴ Order No. 14335/MCAC/MEF/MHC/MBCPPP of November 11, 2023, revising the prices of liquid finished petroleum products subject to the price structure.

Table 2. Details of the Difference in the Official and Theoretical Price for Premium Gasoline and Diesel in December 2023 (CFAF/L)

	Premium fuel			Diesel fuel		
	Official price	Real price	Difference	Official price	Real price	Difference
Entry Distribution Price - CFAF	487.66	609.00	- 121.34	360.29	524.56	- 164.27
VAT and CA on EDP	92.17	115.10	- 22.93	68.09	99.14	- 31.05
Warehousing margins and fees	13.00	13.00	-	13.00	13.00	-
VAT on warehousing margins and fees	2.46	2.46	-	2.46	2.46	-
Cost of mass transport	40.00	40.00	-	40.00	40.00	-
VAT on the cost of mass transport	7.56	7.56	-	7.56	7.56	-
Logistics losses	2.70	3.04	- 0.34	2.07	2.62	- 0.55
Distribution fees and margins	38.00	38.00	-	38.00	38.00	-
VAT on distribution margins and fees	7.18	7.18	-	7.18	7.18	-
Financial charges on security stocks	4.73	5.91	- 1.18	3.49	5.09	- 1.60
Financing of regulatory body	1.95	2.44	- 0.49	1.44	2.10	- 0.66
Reseller margin	12.00	12.00	-	10.00	10.00	-
VAT on reseller margin	2.27	2.27	-	1.89	1.89	-
Cost of terminal transport	11.00	11.00	-	11.00	11.00	-
VAT on the cost of terminal transport	2.08	2.08	-	2.08	2.08	-
Financing of environmental risk	0.98	1.22	- 0.24	0.72	1.05	- 0.33
Financing of technical committee	0.24	0.30	- 0.06	0.18	0.26	- 0.08
Stabilization contribution	49.02	49.02	-	55.55	55.55	-
Ceiling selling price	775.00	784.93	-	625.00	703.23	-
VAT collected	113.72	148.35	- 34.63	89.26	132.91	- 43.65
Price incl. taxes	775.00	933.28	- 158.28	625.00	836.14	- 211.14
Total subsidy (difference final price incl. taxes)			158.28			211.14
EDP subsidy			121.34			164.27
VAT subsidy			34.63			43.65
Fees and parafiscal levies subsidy			2.31			3.22

Source: IMF mission based on SNPC data.

C. Limits of the Current Pricing Formula and its Governance

25. In addition to the unsustainability for public finances of the policy of a ceiling pump price below the formula price, the structural limitations of the pricing formula and its poor governance have significant negative fiscal and economic consequences. The structural limitations of the pricing formula are related to (i) the irregular application of VAT, (ii) the “invisibility” of the unit subsidy at the pump price, and (iii) the imposition of inconsistent parafiscal measures. Poor governance of the pricing formula stems from (i) the lack of coordination between the central administrations of the Ministry of Hydrocarbons (in particular the new Directorate General of the Downstream Petroleum Sector) and those of the Ministry of Finance (Directorates General of Taxes and Customs), (ii) the discretionary (non-)application of the existing regulatory framework, and (iii) the lack of control over the actions and declarations of public and private players in the distribution chain. These limits and their economic and fiscal consequences are described in the paragraphs that follow.

26. The current application of VAT in the structure of pump prices generates VAT credits, estimated to be 0.05 percent of GDP at end-March 2024. CORAF collects VAT on its deliveries of petroleum products to SNPC.¹⁵ According to Decree 699, VAT is also levied on so-called service items,

¹⁵ Invoice of 4/4/2024 from CORAF to SNPC for the sale of finished products, provided by SNPC.

such as warehousing and mass transport fees,¹⁶ terminal transport, and distribution and dealer fees and margins. Until a recent change (July 2023 for premium gasoline and November 2023 for diesel), VAT was not levied on the official EDP. Despite these changes, the invoices as of June 2024 consulted by the mission and issued by SNPC to marketers still did not show VAT on the official EDP.¹⁷ In addition, VAT does not appear explicitly in the final pump price, which can create a significant difference between a small VAT amount collected by marketers because it is calculated on their costs and margins alone and the VAT paid by these same marketers along the supply chain and which they can deduct. According to data from the Directorate General of Taxes (*Direction Générale des Impôts* – DGI), some marketers accumulated substantial levels of VAT credits (not audited or certified by the DGI) of around CFAF 4.6 billion in March 2024 (Table 3).¹⁸ The question of VAT credit reimbursements is beyond the scope of this mission, but appears to be critical for an effective application of VAT.

Table 3. VAT Revenue and Credits on the Consumption of Petroleum Products

CFAF millions	VAT paid			VAT credits
	2021	2022	2023	March 2024
Marketers				
Africa Oil & Gas Corporation	0	0	0	463
Total	0	0	0	2,735
XOIL Congo	48	264	0	152 (*)
Puma	0	0	0	1,009
AOGC Distribution		0	105	235 (*)
State-owned enterprises				
SCLOG	4,548	4,582	3,287	-
SNPC	174	213	216	-
Total	4,770	5,059	3,608	4,594
Percent of GDP	0.06%	0.06%	0.04%	

(*): December 2023.

Source: DGI and mission calculations.

27. The recent tax instruction no. 252 of June 2024 creates a structural VAT credit situation for all marketers. This instruction was intended to offset the absence of VAT invoiced by SNPC on the EDP to marketers. It stipulates that marketers must *reverse charge* the VAT due on the EDP. However, this provision automatically places marketers in a structural VAT credit situation since no VAT is collected on the pump price. On a liter of premium gasoline sold in June 2024, the marketer pays VAT at 18 percent through a reverse charge on the official EDP, i.e., CFAF 92.17/L and collects VAT at 18 percent on distribution fees and margins, the dealer margin, and the cost of terminal transport, i.e., CFAF 11.53/L for the same petroleum product. However, the reverse-charged VAT on the official EDP is deductible by Law No. 12-97, which introduced VAT in Congo in 1997, included in the CGI, specifies the deductibility of VAT

¹⁶ Invoice of 4/22/2024 from SCLOG to SNPC for the storage and mass transport of finished products, provided by SNPC.

¹⁷ Invoice dated 6/3/2024 from SNPC to AOGC for the sale of finished products, provided by AOGC.

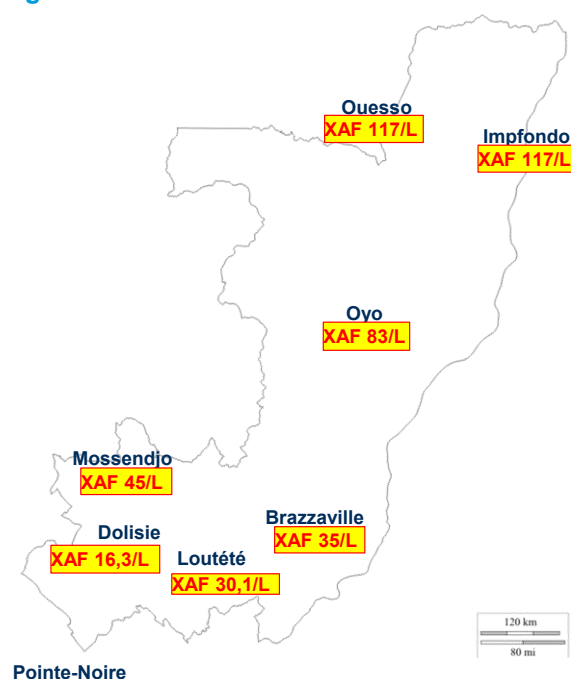
¹⁸ These credit amounts may also be the result of substantial investments that have resulted in a high amount of deductible VAT.

on the purchase of fuel for marketers.¹⁹ Marketers are therefore structurally VAT creditors to the tune of CFAF 82.64/L of premium gasoline after centralization, i.e., after calculating the difference between the VAT collected (CFAF 11.54/L) less the deductible VAT (CFAF 92.17/L).

28. The absence in the pricing formula of a line dedicated to the difference between the official and real EDP makes the subsidy (or the levy, as applicable) applied to the fixed pump price invisible. This “invisibility” has major repercussions for the budget since it prevents a reliable prediction of the size of subsidies and a consistent and informative characterization between subsidies for producers (SNPC and CORAF when the official EDP is higher than the real EDP) and for consumers (when the ceiling pump price is lower than the formula price). This “invisibility” decreases fiscal transparency because it masks the budget’s exposure to volatility in the international prices of petroleum products that are included in the calculation of the real EDP. It also prevents parliamentary control of this expenditure. In addition, the single price for mass transport throughout the country masks a de facto equalization between the different Congolese regions to maintain a single price at the pump country-wide. However, SCLOG, which is in charge of supplying the eight storage facilities in the country, signals a very large variance in the unit costs of transport between the country’s northern and southern regions (Figure 14). This equalization is not clearly stated in the pricing formula, unlike in other countries of the subregion. For example, the fuel pricing formula includes a line dedicated to territorial equalization in CAR, while in Cameroon, transport prices vary according to the depot location. In addition, the one-price policy for the entire country strongly encourages smuggling in the border regions of countries where prices are higher than those in Congo, particularly for diesel in Cameroon and CAR (Figure 10).

¹⁹ More specifically, according to Article 2 of Law No. 12-97, VAT applies to operations carried out for consideration as part of an economic activity. An economic activity is defined in Article 3 of the same law and includes, *inter alia*, the refining, distribution, and release for consumption of petroleum products. According to Article 20, petroleum products are excluded from allowable deduction, **with the exception** of fuel purchased for resale by importers or wholesalers or purchased for the production of electricity to be resold. In other words, VAT on the purchase of fuel is a deductible VAT for marketers. This deductibility is also confirmed in the two CEMAC Directives governing the application of this tax by member states (Directive No. 07/11-UEAC-028-CM-22 of December 19, 2011, and Directive No. 11/22-CEMAC-UEAC-010A-CM-38 of November 10, 2022).

Figure 14. Variance in Petroleum Product Transportation Costs by Depot, 2024



Source: SCLOG.

Note: Average cost of all-mode mass transport (road, rail, or waterway) from Pointe-Noire, which covers the remuneration of service providers, but does not include SCLOG costs and margins.

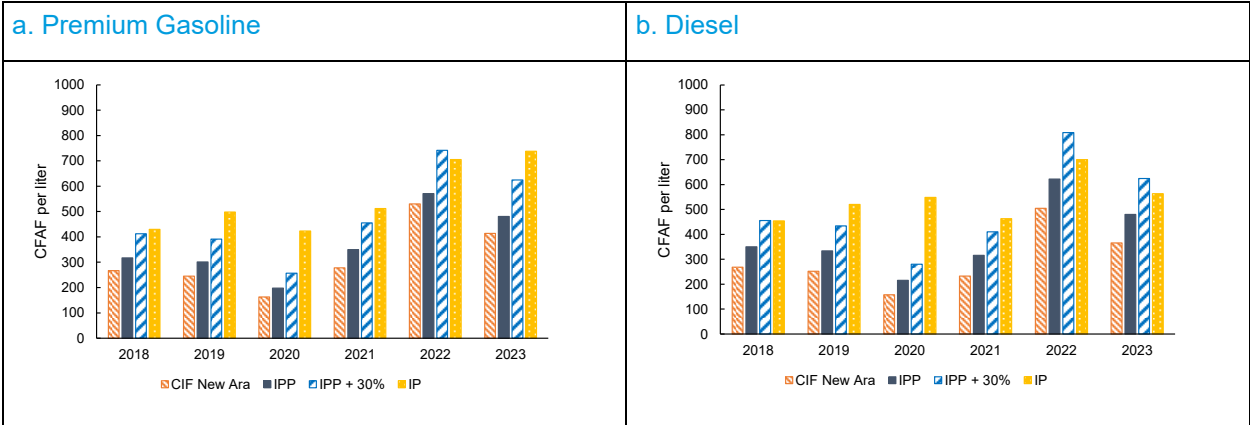
29. Lastly, the number of parafiscal items in the pricing formula is high, making it complex and not transparent; the theoretical earmarking of their revenues to multiple entities with unclear mandates and activities is questionable. The IP is supposed to include an IT fee of 2 percent on the international reference of the import price (Decree 699). First, this fee is very high. Second, it should benefit Customs, but Petrocam's invoice to SNPC for the sale of refined products,²⁰ which the mission was able to consult, does not provide any details on this IT fee. The fees financing CTSAPA and ARAP, even modest ones, have no place in the pricing formula, and the rates defined in Decree 2005-699 are not respected in the successive orders establishing pump prices. The end consumer should not finance dysfunctional bodies that are clearly not empowered by stakeholders and the government. The price structure committee rarely meets, and the mission did not have access to the minutes of its meetings, which are supposed to be monthly (Decree 699). The regulatory agency was unable to provide the mission with any quantitative or qualitative information on the sector and the players it is supposed to supervise. The agency does not regularly collect sectoral data and has difficulty obtaining essential information from SNPC, nor does it produce sector studies or evaluations to inform decision-makers. Finally, the stabilization contribution is an ad hoc line, making it possible to equalize the formula price resulting from a discretionary official EDP and the ceiling pump price resulting from a government decision that is also discretionary. The final beneficiary of this parafiscal levy collected by SNPC remains unclear.

²⁰ Invoice of 6/29/2022 from Petrocam to SNPC for the sale of petroleum products, provided by SNPC.

30. The technical limitations of the pricing formula described above are largely due to significant governance shortcomings in the downstream oil sector. These shortcomings correspond to the absence of intergovernmental coordination, a discretionary application of legal instruments, and a lack of oversight of private and public players in the supply chain.

- **Absence of intergovernmental coordination.** The general tax and customs administrations are not direct stakeholders in CTSAPA, although the Minister of Finance is a cosignatory of the decrees establishing the official EDP. This failure to consult with tax experts can lead to inefficient taxation of fuel products (see the VAT analysis above) and to substantial revenue losses. It is worth stressing that the direct release procedure for petroleum products is surprising, as this exemption system usually applies to perishable goods, more than fuel products, to expedite their release for rapid consumption by authorizing the payment of taxes and duties after the imported goods are released. It is also deficient because it is not computerized, meaning that no imports from SNPC, the sole importer, appear in the data extracted from the ASYCUDA customs tracking software. Assuming that customs duties and VAT on imports were not collected between 2018 and 2023, the revenue loss thus generated would be estimated at 0.6 percent of GDP per year on average (reaching 1 percent of GDP per year in 2022 and 2023).
- **Discretionary application of legal instruments.** Decree 699 remains partially applied. For example, the real EDP that is to be reviewed on a monthly basis and used as a reference for the official EDP recommended by CTSAPA must be the weighted average of the PSR and IP. However, the Directorate General of Downstream Oil considers a simple average, thus giving more weight to the IP, which is often higher than the PSR. Similarly, there is no compliance with parafiscal rates, resulting in an estimated cost of 0.5 percent of GDP per year on average between 2018 and 2023.
- **Lack of oversight of stakeholders.** The system to oversee stakeholders in the supply chain is costly for the government because it is essentially declaration-based and not monitored. SNPC declares its import invoices without having them verified or discussed by ARAP or the MHC Downstream Directorate General, even though the IPs are systematically higher than the IPPs, even when the latter prices are increased by 30 percent for illustrative purposes (except in 2022, see Figure 15). The details of the SNPC competitive bidding process were not shared with the mission. The fiscal cost of this documented inefficiency of the import process amounted to 0.3 percent of GDP per year on average between 2018 and 2023. In the same way, declarations of customs duty and VAT bases submitted by SNPC and marketers are neither challenged nor audited by the tax or customs administrations, which do not run any crosschecks with tax revenue forecasts.

Figure 15. Comparison of International Prices, IPPs, and IPs of Premium Gasoline and Diesel, 2018–2023



Source: IMF mission based on SNPC data.

IV. Subsidy Reform

A. Recommendations and Proposed Timetable

31. The proposed adjustments have three objectives: (i) to reduce the fiscal cost of fuel subsidies, (ii) to increase the revenue effectively collected from fuel consumption, and (iii) to strengthen the sector's governance and strategic planning. Each of these objectives corresponds to short- and medium-term measures.

Objective 1: Reduce Subsidy Expenditures

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32. The first measure is to reduce the scope of subsidies to make them more progressive and less economically inefficient. Companies consume 100 percent of Jet A-1 fuel and 60 percent of diesel. A complete and immediate liberalization of Jet A-1 fuel and a gradual and progressive liberalization of diesel, starting with exporters, will immediately reduce the fiscal cost of subsidies while having a controlled impact on domestic consumer prices, which have a relatively weak correlation with the prices of exported goods such as crude oil or timber. An immediate first step is to liberalize the domestic Jet A-1 fuel market (which would therefore no longer be subject to a regulated price structure), to exclude onshore oil producers²¹ from the consumption of diesel at the regulated price, and to put an end to the temporary arrangement introduced in 2022 known as “resilience diesel,” which consists in authorizing certain “large consumers” to consume heavily subsidized fishing diesel.²² Over the period from 2018 to 2023, this measure would have resulted in an estimated minimum gain of 0.3 percent of GDP per year.²³ In the context of this measure to reduce the scope of subsidies, it is clear that regulating the prices of international Jet A-1 fuel and international bunkers as presented in the two draft orders received by the mission on June 17, 2024, would make no sense and is not recommended by the mission. In addition, subjecting these products to VAT, as indicated in these draft orders, is in violation of the VAT law in Congo and the CEMAC Directives.

33. To implement this first measure, Article 9 of Law No. 6-2001 will have to be amended in order to discontinue the exceptional import authorization process for licensed marketers. This measure will allow marketers to offer fuel supply contracts to airlines and large consumer-exporters without going through the current unique supplier, SNPC, or the official EDP valuation.

²¹ This is already the case for offshore oil tankers.

²² The current list of recipients of “resilience diesel” has not been shared with the mission. The fiscal impact of ending this arrangement cannot therefore be assessed, although it should be marginal. The biggest positive effect expected from this elimination will be in terms of governance, insofar as the procedure for authorizing access to this arrangement is very opaque and encourages the trafficking of fuel purchased at a low price and possibly resold at a much higher price either in the country or in border countries where the pump price is higher.

²³ The subsidy for Jet A-1 fuel averaged 0.2 percent of GDP over the last five years, while that for diesel was on average 1.3 percent of GDP. However, upstream oil activity consumes nearly a quarter of petroleum products, mainly diesel, according to the 2016 Ressources Emplois table. Part of this consumption is under a private “ship-to-ship” contract for offshore extraction. The subsidy expenditure on diesel estimated at 0.1 percent assumes that the upstream sector (mainly onshore) consumes about 20 percent of the sector's total consumption of petroleum products.

34. The third measure consists in standardizing in the price structure the valuation of the volumes imported by SNPC with the valuation of CORAF products by using the same international price reference. This measure will reduce the additional costs associated with the significant documented inefficiencies in SNPC's import procedures.²⁴ In concrete terms, this means that the IP must be equal to the IPP, plus the customs duties and community taxes in force, and to the PSR. Over the period from 2018 to 2023, this measure would have resulted in an estimated gain of 0.3 percent of GDP per year.

35. To implement this third measure, a transparent competitive bidding procedure will have to be put in place that respects the international best practices for the volumes imported by SNPC and intended for the regulated market. The authorities can draw inspiration from Cameroon, where the Ministry of Hydrocarbons regularly holds competitive bidding processes for the import of petroleum products to meet domestic demand. This will ensure that SNPC practices are monitored, in particular by ARAP.

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36. A plan to reduce subsidies to CORAF will have to be implemented based on an operational assessment of the refinery's activities. This plan may be based on an update of the 2008 operational assessment of CORAF's activities.²⁵ Given the size of the annual subsidies to CORAF (estimated at 1.4 percent of GDP per year on average from 2018 to 2023) and the fiscal risk involved, the policy of prioritizing coverage of local demand with output from a refinery with aging and limited capacities must be examined. In addition, the complexity of cross-debts between SNPC and its subsidiary CORAF and the upcoming opening of a new refinery with larger, more modern capacities are additional arguments encouraging the objective evaluation of CORAF's support and its relevance.

Objective 2: Increase the Tax and Parafiscal Revenues Effectively Collected

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37. The current process involving the direct release of SNPC imports is not computerized and appears to be leading to significant customs revenue losses. Direct release is not an exemption regime, but a facility for importers to allow them to pay their duties and taxes after their products have been released. However, the mission has not been informed of any tax revenue on imports of petroleum products by SNPC despite its repeated requests. Data on imports of these products extracted from ASYCUDA reveal only imports by marketers of unregulated products, such as oils, or exceptional imports under very specific regimes that account for just a very small fraction of total imports (for example, CFAF 16 billion for diesel in 2021).²⁶ However, the direct release of other imports is entered in the computer system, according to the customs administration. The systematic computerization and review of the direct release procedure in ASYCUDA is a priority to secure revenues from customs duties and VAT levied on imports of petroleum products by SNPC and by marketers in general. The establishment of a warehousing regime for petroleum products, a common practice in the region, does not seem appropriate

²⁴ Amendment of Decree 699-2005 to be expected.

²⁵ Operational assessment carried out by KPMG and Beicip-Franlab in 2008.

²⁶ Despite its requests, the mission has not received a list of additional codes.

in Congo given the relative complexity of monitoring products under such a regime and the lack of intergovernmental coordination in this area.

38. Parafiscal levies, that is, the financing of the regulatory body, the technical committee, and the environmental risk, should not be collected by SNPC, but rather by marketers who would remit them to the Treasury. SNPC should remove the amounts in question from these invoices. This revenue is not paid back by SNPC like VAT (which is nevertheless implicitly invoiced). It seems more efficient to entrust marketers who sell their products at the final price by collecting these levies.

39. There is an urgent need to suspend the application of June 5, 2024, instruction on the reverse charge of VAT, which places marketers in a structural VAT credit situation. The accumulation of VAT credits by marketers might lead them to offset the return of these credits against other taxes. Clearing these credits requires a DGI verification policy and close coordination between the tax and customs administrations. Lastly, subjecting petroleum product pump prices to VAT will lead to higher VAT collection, which will lead to a faster reduction of VAT credits validated by the DGI.

40. Finally, another immediate measure is to apply Decree 699 and to launch an audit of cost and margin items to avoid abrupt changes after several years of rigidity. The periodic revaluation of the cost and margin items in the price structure is a good practice to avoid the formation of profits and to add transparency to the current territorial equalization through the mass transport line.

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41. The introduction of a new price structure will clarify the cost items, taxation, and fuel subsidies by eliminating the structural deficiencies described above and by reducing the risk of failed implementation. The proposed petroleum product price structure for premium gasoline and diesel adopts the approach set out in Decree 699 by using an international reference price (CIF NEW ARA) for the two sources of supply (import and local production). Table 4 shows the details of this new structure. The main change is to equalize the import price (IP) with the ex-refinery price (PSR) and the Entry Distribution Price (EDP). These three strictly equal prices can be derived from an international reference: the CIF NEW ARA price plus various fees and costs and a new “importer” margin of 10 percent (line 8, Table 4), which could be reduced (or increased) depending on the outcome of the competitive bidding contract with selected trader(s). The import margin (10 percent), customs duties and taxes (11.65 percent), and destination charges such as insurance, letters of credit, and inspection fees (4 percent), increase the import cost by more than 25 percent and therefore automatically protect CORAF’s local production.²⁷ Other changes to the price structure include:

- The line “losses at sea” has been modified to remove from its base insurance costs, which already include the more or less significant value of this part of the products loaded on the ship and recorded at departure, but which will not be recorded on the ship’s arrival.

²⁷ It is equivalent in terms of “protection” of the refinery to (i) valuing CORAF’s production with a specific correction coefficient (but not necessarily transparent and benefiting only the refinery) and (ii) valuing its production at the same level as imports incorporating a customs duty and, possibly, another ad hoc protectionist tariff (to be validated in a budget law and benefiting the State budget).

- Credit charges have been halved from 3 percent to 1.5 percent of the cargo value (including sea freight) and excluding losses at sea.²⁸
- The IT fee (line 16, Table 4) has been significantly reduced to a flat rate per liter (CFAF 2/L) or even per cargo or customs clearance operation (if such a cost is justified). Financing an IT fee is all the more arguable considering that customs clearance services are essentially carried out manually.²⁹ More generally, some fees like inspection fees (1 percent) hardly justify being a percentage of the cargo value similar to a tax levy.
- Parafiscal taxes, that is, the financing of the regulatory body, technical committee, and environmental risk, have been abolished.
- A subsidy/levy line replaces the stabilization contribution line and allows for a transparent adjustment of the pump price.

42. Line 31 “Subsidy/Levy” is the only line in the proposed price structure that is the result of a political decision on whether or not to support the consumption of petroleum products. Its positioning at the end of the structure means that marketers will be the ones to support the political decision. In other words, they will collect the levy that will be remitted to the Treasury or will advance the subsidy that will have to be reimbursed to them. The risk of non-reimbursement exists and is not negligible. The difficulty with which VAT credits are repaid is an example of this risk. However, the positioning of this line in the structure reinforces the transparency of political decision-making, but places responsibility with the entire downstream sector by having marketers bear the risk of government default in the event of non-repayment. This risk is nevertheless limited because marketers are the ones who ultimately deliver petroleum products to consumers and therefore have considerable bargaining power to ensure that subsidies are effectively reimbursed or that pump prices are quickly adjusted to the realities of the domestic and international markets. In this respect, the introduction of an automatic price adjustment mechanism can serve as a safeguard and an instrument of “trust” between the government and marketers (see simulations below).

43. The proposed price structure limits the risk of VAT credits and allows for the application of the VAT law as defined in Congo. VAT is collected on import by Customs or on local sale by CORAF. It is paid by SNPC, the local importer and buyer, or by any other importer in the event that SNPC loses its de facto monopoly on imports ancillary to CORAF output. The products are then resold by SNPC to marketers. The latter pay VAT on the EDP and on the handling charges invoiced by SCLOG. After centralization, SNPC remits the VAT collected on marketers, less the deductible VAT paid at Customs or to CORAF. Finally, marketers collect VAT when they sell petroleum products to their customers, whether these are customers at pump stations (in-network) or larger companies out-of-network. Again, after centralization, marketers pay the difference between the VAT collected and the deductible VAT (paid to SNPC). Therefore, in the new pricing structure, VAT is only collected when there is an effective transfer of ownership of petroleum products (chargeable event for VAT). An exception remains for SCLOG, however, which sells services (warehousing and mass transport), and which never owns petroleum products.

²⁸ Ibid.

²⁹ Operations involving the direct customs release of products imported by SNPC are not recorded in ASYCUDA.

44. The new price structure will require monthly publication online and wide distribution. The current practice of capping pump prices only requires the publication of orders at the discretion of the authorities. By basing the entire price structure of local or imported products on an international reference, there will be monthly variations in the various items, which will have an impact on the pump price and/or on the subsidy/levy line. These variations resulting from international price fluctuations and domestic policy decisions must be communicated through the regular publication of the price structure.

Table 4. New Proposed Price Structure for Premium Gasoline and Diesel

		Description	Calculation details	Premium gasoline	Domestic diesel	
USD/MT	1	CIF NEW ARA price (previous month)		882.25	666.67	Competitive bidding contract
	2	Sea freight	Worldscale New Worldwide Tanker	50.47	50.47	
	3	Insurance	=1.5%*((1)+(2))	13.99	10.76	
	4	Losses at sea	=0.5%*((1)+(2))	4.66	3.59	
	5	Letter of credit fees	=1.5%*((1)+(2))+1.07	15.06	11.83	
	6	Demurrage	Cost per MT	3.20	3.20	
	7	Port and tooling fees	Autonomous Port of Pointe-Noire	1.27	1.27	
	8	Inspection and control fees	=1%*(1)	8.82	6.67	
	9	Import margin (10%)	=10%*(1)	88.23	66.67	
	10	Import fees	=Sum of (2) to (9)	185.70	154.45	
	11	USD/CFAF exchange cost	=1.5%*(1+9%)*((1)+(10))+0.99	18.45	14.42	
	12	Pointe-Noire CIF price	=(1)+(10)+(11)	1,086.41	835.53	
CFAF/L	13	Pointe-Noire CIF price (CFAF/MT)	=(12)*606.806 (USD/CFAF exchange rate)	659,237.59	507,002.36	
	14	Density		0.745	0.845	
	15	Pointe-Noire CIF price (CFAF/m3)	=(13)*(14)	491,132.01	428,417.00	
	16	Pointe-Noire CIF price (CFAF/L)	=(15)/1000	491.13	428.42	
	17	IT fee (2%)	=Min(2 CFAF/L;1%*(16))	2.00	2.00	
	18	Community taxes (1.65%)	=1.65%*(16)	8.10	7.07	
	19	Customs duty (10%)	=10%*(16)	49.11	42.84	
		VAT (collected at Customs)	=18.9%*((16)+(17)+(18)+(19))	104.02	90.78	
	20	Import price (IP) (excl. taxes)	=Sum of (16) to (19)	550.35	480.33	
	21	Valuation of CORAF products (excl. taxes)	=IP	550.35	480.33	
		VAT (collected, ex-refinery)	=18.9%*(21)	104.02	90.78	
	22	Entry Distribution Price (EDP) (excl. taxes)	=IP	550.35	480.33	
	23	Warehousing margins and fees		13.00	13.00	
		VAT on warehousing margins and fees	=18.9%*(23)	2.46	2.46	
	24	Cost of mass transport		40.00	40.00	
		VAT on the cost of mass transport	=18.9%*(25)	7.56	7.56	
	25	Ex-works price	=(22)+(23)+(24)	603.35	533.33	
		VAT, ex-works	=18.9%*(25)	114.03	100.80	
	26	Logistics losses	=0.5%*((22)+(25)+(27))	3.02	2.67	
	27	Financial charges on security stocks	=0.97%*(22)	5.34	4.66	
	28	Distribution fees and margins		38.00	38.00	
	29	Reseller margin		12.00	10.00	
	30	Cost of terminal transport		11.00	11.00	
	31	Subsidy/Levy	Political decision	X	X	
	32	Ceiling selling price (excl. taxes)	=(25)+(26)+(27)+(28)+(29)+(30)	#VALUE!	#VALUE!	
	33	VAT (collected, marketers)	=0.198*(32)	#VALUE!	#VALUE!	
	34	Ceiling selling price (incl. taxes)	=(32)+(33)	#VALUE!	#VALUE!	
	31bis	Subsidy/Levy		0.00	0.00	
	32bis	Ceiling selling price (excl. taxes)	=(25)+(26)+(27)+(28)+(29)+(30)	672.70	599.65	
	33bis	VAT (collected, marketers)	=0.198*(32)	127.14	113.33	
	34bis	Ceiling selling price (incl. taxes)	=(32)+(33)	799.85	712.99	

Source: IMF mission.

Note: The structure illustrates two cases: (i) a case where the subsidy/levy line is zero and (ii) a case where the subsidy/levy level is not indicated because it leaves it to the political decision of support or additional taxation of fuel consumption.

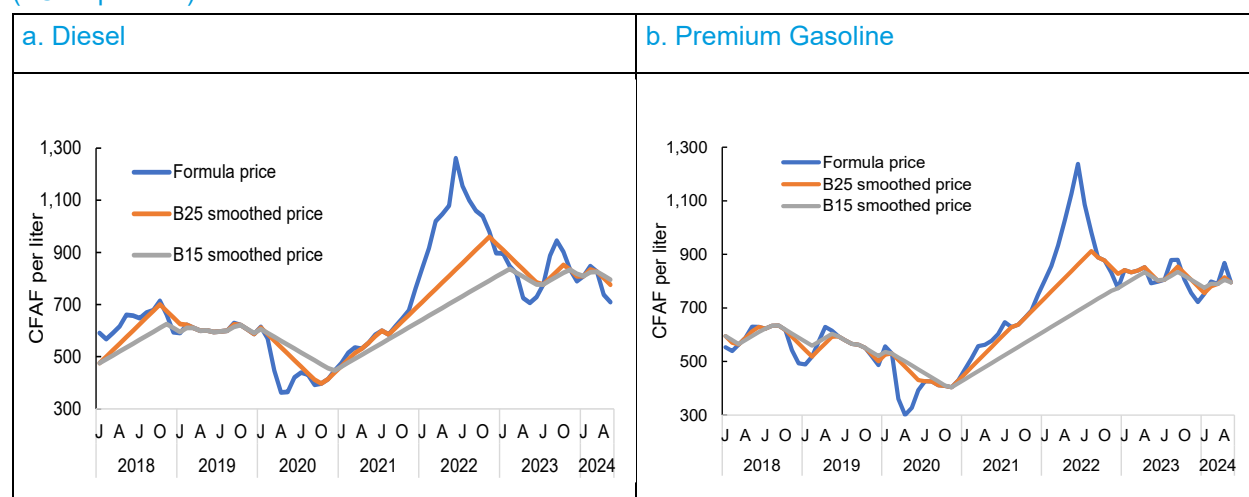
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45. Once the new price structure is adopted, the establishment of an automatic price adjustment mechanism can allow for a gradual convergence of regulated pump prices to formula prices and then a sharing of the volatility in international prices between the government and end consumers. The current price cap system completely eliminates the transmission of the world price volatility to end consumers. This has an extremely protective effect, until the cost of this protection to public finances becomes unsustainable, pushing authorities to sharply raise prices. A mechanism for the partial transmission of world price variations strikes a balance and splits the volatility of world prices between consumers and the government. Two scenarios for an automatic adjustment mechanism are proposed and illustrated (Figure 16):

- A mechanism with a band at CFAF 25/L. Such a “band” would limit the absolute maximum monthly (upward and downward) variation in the pump price of fuel to CFAF 25/L. For instance, if a hypothetical increase in the international price leads to a CFAF 50/L increase in the formula price, the official price would be adjusted by only CFAF 25/L, without closing the entire gap. The following month, if there continues to be a gap, an additional increase in the pump price will be necessary, within the CFAF 25/L range.
- A similar mechanism but with a band at CFAF 15/L.

These simulations are run by taking historical CIF price and volume data since January 2018 and applying the new recommended pricing formula, with and without smoothing, in order to assess the effect that these different bands would have had. Smoothing mechanisms can be seen to slow the catch-up of both rapid increases and falls in the price of petroleum products.

Figure 16. Effect of the Application of an Automatic Price Adjustment Mechanism on Premium Gasoline and Diesel Pump Prices
(FCFA per liter)



Source: IMF mission.

46. The fiscal impact of the various smoothing options can be quantified through simulations (Table 5). The smoothing effect is referred to as a “subsidy” where smoothing slows down the formula price catch-up following a rapid rise in international prices and as a “levy” where, conversely, smoothing slows down the reduction in the official price following a fall in international prices. Adding the tax revenue collected and the subsidy or levy gives the net revenue. These figures show that, in the medium term, levies and subsidies may not fully offset each other, especially as the selected price band is narrow.

Table 5. Results of the Automatic Pump Price Adjustment Scenarios for Premium Gasoline and Diesel

	CFAF 25 band						CFAF 15 band					
	2018	2019	2020	2021	2022	2023	2018	2019	2020	2021	2022	2023
Premium fuel												
Average price	602.2	553.6	452.8	586.0	836.9	825.0	602.4	567.3	466.1	516.6	696.2	811.8
Revenue percent of GDP	0.3	0.3	0.2	0.4	0.6	0.5	0.3	0.3	0.2	0.4	0.6	0.5
Sub(-)/Lev(+) percent of GDP	0.0	0.0	0.1	-0.1	-0.3	0.0	0.0	0.0	0.1	-0.3	-0.7	0.0
Net revenue percent of GDP	0.3	0.3	0.3	0.3	0.3	0.5	0.3	0.3	0.3	0.1	-0.1	0.5
Diesel fuel												
Average price	600.0	607.1	487.6	574.9	842.8	831.8	555.0	603.2	523.8	544.4	724.4	808.8
Revenue percent of GDP	0.6	0.6	0.5	0.6	1.0	0.9	0.6	0.6	0.5	0.6	1.0	0.9
Sub(-)/Lev(+) percent of GDP	-0.1	0.0	0.2	-0.1	-0.8	0.0	-0.4	0.0	0.4	-0.2	-1.4	-0.1
Net revenue percent of GDP	0.5	0.6	0.7	0.5	0.2	0.9	0.3	0.6	0.9	0.4	-0.3	0.8

Source: IMF mission

Objective 3: Strengthen the Sector’s Governance and Strategic Planning

47. Improving downstream oil sector monitoring and management could lead to a significant reduction in government spending. ARAP should enhance import transparency and control to ensure that imports comply with competitive bidding practices that follow international procurement’s best practices. In addition, greater visibility regarding medium-term import needs would make it possible to plan imports over a longer period of time to negotiate better prices. It is up to the Directorate General of the Downstream Sector to quickly strengthen its sector forecasting and monitoring capacities.

48. Financing ARAP outside the price structure is crucial. Financing of regulatory bodies should happen through the general budget, to allow discussions and vote in Parliament, and to delink its financing means from the quantities of refined products consumed on the domestic market. In addition, the fact that ARAP and CTSAPA are currently financed through fees levied by SNPC on the price structure creates a risk of conflict of interest between regulators and the public company they are responsible for supervising.

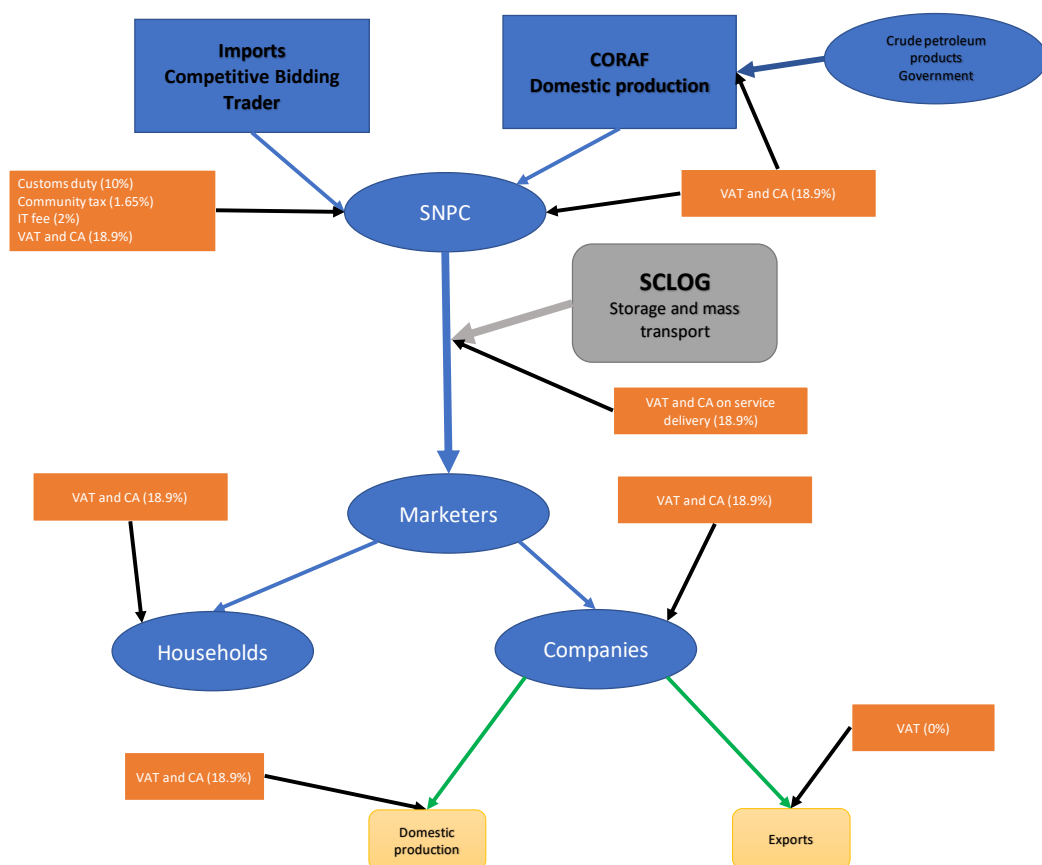
49. Improving coordination between regulatory agencies, the DGI, and the customs administration. At present, there is a significant lack of coordination between the ministries and public directorates responsible for regulating and taxing the downstream oil sector. Cooperation between ARAP, the DGI, and the customs administration is necessary to ensure that all imports of refined products are declared to customs, that the corresponding taxes are collected on these quantities, and that the DGI can audit these data and controls. Similarly, closer coordination between the Ministries of Finance and

Hydrocarbons would enable the preparation of revenue forecasts, adjusted for the anticipated import and consumption quantities, to improve budget programming.

Annex 1. Illustration of VAT Collection

Figure A1 shows the flows of petroleum products (in blue) and the transfers of ownership rights that generate collected and deductible VAT according to a strict application of the Congolese CGI. SNPC plays a central role: it acquires petroleum products either from imports or from CORAF. VAT on imports is collected by Customs, while VAT on local production is collected by CORAF. The latter pays VAT on its crude oil purchases and remits the difference between the VAT collected and the deductible VAT after centralization. In both cases (imports and local purchases), SNPC bears a VAT that will be deductible. The products are then sold to marketers. VAT is collected by SNPC, which will remit the difference between the VAT collected and the deductible VAT monthly. Marketers collect VAT on their pump stations' sales or from industrial customers (out-of-network direct sales) and in turn remit the monthly difference between the VAT collected and the deductible VAT. SCLOG, which ensures warehousing and mass transport, is never the owner and bills a service that is subject to VAT. Finally, petroleum products are sold by marketers to households (end consumers) or to companies. They can deduct or request a reimbursement of the VAT paid on these products in a very small number of cases (e.g., the extractive industry).

Figure A1. Flows of Petroleum Products, Transfers of Ownership, and VAT



Source: Mission.

Annex 2. Reform Example: Morocco

Since 1997, Morocco has carried out two major reforms of its downstream oil sector: (1) the privatization in 1997 of its national refinery, SAMIR, until its closure in 2015, and (2) the elimination of subsidies on refined petroleum products between 2012 and 2015.

Privatizing the Refinery

In 1997, the government decided to privatize SAMIR, the country's only operating refinery. This measure was taken in the context of the sector's liberalization. Alongside the privatization of SAMIR, the government put in place two measures to protect it from foreign competition for 12 years after its privatization: (1) a customs duty on imports of refined products ranging from 17.5 percent to 27.5 percent depending on the product; and (2) an additional margin in the price structure for SAMIR, gradually reduced from 6.5 percent in 1997 to 2.5 percent in 2002. The margin was finally eliminated in 2009.

Phasing Out Subsidies

Prior to the reform, fuel subsidy spending was high at close to 6 percent of GDP in 2012. An impact analysis showed that, with the exception of LPG, wealthier households consumed more fuel than poorer ones and therefore benefited more from subsidies. Having made the decision to gradually reduce these costly and regressive subsidies, the authorities developed an action plan that included the following measures:³⁰

Political Acceptance — Coordination and government buy-in for the reform and its objectives were key, helping build consensus between the head of state and newly elected government around a reform platform. Implementation was carried out gradually, in consultation with civil society and private actors. A social dialog initiated in 2011, involving trade unions and the business community, led to improved social spending for public sector workers. This precedent fostered acceptance by a large part of the population.

Effective Communication Campaign — The government organized a communication campaign (1) to highlight the risks of the status quo, including the regressive nature of subsidies and the lack of budget revenue for development spending, and (2) to reassure the population that policies will be introduced to protect vulnerable families. During the first price adjustment, the head of state gave a televised interview explaining the importance of the reform.

Policies to Support Vulnerable Populations — To limit negative impacts on the population, the government: (1) postponed the reform on LPG, which was consumed more by low-income households; (2) adopted measures to support the transport sector, including targeted support linked to price moderation agreements with the sector; and (3) introduced cash transfers for disadvantaged groups. With the fiscal savings, the government strengthened health insurance for the poorest (RAMED), a cash

³⁰ The publication entitled *Energy Subsidy Reform: Lessons and Implications* (IMF 2014) presents several case studies of countries that have successfully reformed their energy subsidies and offers crosscutting findings.

transfer to reduce school dropout rates in rural areas (Tayssir), and donations of school materials to disadvantaged children.

Favorable Macroeconomic Conditions — The subsidy reform was supported by a decline in international oil prices, limiting the expected increase in pump prices.