FULL TEXT OF THE LAW FOR THE TARGETING OF SUBSIDIES (DECEMBER 2009)

Article 1

The government is required to adjust the prices of energy resources as outlined by this law:

A. Domestic sales prices of gasoline, gas oil, fuel oil, kerosene, LPG, and other petroleum derivatives are to be priced based on the quality of the sources and in consideration of the related costs (including transportation, distribution, taxes, and legal fees), such that they are not lower than 90% of the price of delivery to the oil tanker (F.O.B. or "Freight on Board" price) in the Persian Gulf. This adjustment should be completed gradually by the end of the fifth 5-year Program of Economic, Social, and Cultural Development of the Islamic Republic of Iran [2015]*.

Clause. Petroleum and condensed gas sales prices to domestic refineries are designated as 95% of the F.O.B. price in the Persian Gulf; and the purchasing price of [Petroleum and condensed gas] products will be set in proportion to these prices.

B. The average domestic sales price of natural gas will be established such that it will eventually be equivalent to at least seventy-five percent (75%) of the average price of exported natural gas – after subtracting transportation costs, taxes and fees. This adjustment should be completed gradually by the end of the fifth 5-year Program of Economic, Social, and Cultural Development of the Islamic Republic of Iran.

Clause. To promote investment, the price of raw materials for industrial, refinery, and petrochemical plants will be set to a maximum of sixty-five percent (65%) of the export price per cubic meter at the Persian Gulf source (not counting transportation costs), for a period of at least 10 years after the legislation of this law.

C. Average domestic sales price of electricity will be set to be equivalent to cost. This adjustment should be completed gradually by the end of the fifth 5-year program of Economic, Social, and Cultural Development of the Islamic Republic of Iran.

Clause. The final price of electricity – the total cost for energy conversion, transfer, distribution, and fuel costs – should be calculated by respecting the appropriate standards, and be based on an expected target yield of at least thirty-eight percent (38%) for the nation's electrical plants.

Every year, at least 1% will be added to the expected yield for the nation's power plants such that by five years from the time of implementation of this law, they will reach a yield of forty-five percent (45%).

Likewise, the waste in transfer and distribution networks are to be reduced to fourteen percent (14%) by the end of the fifth 5-year Program of Economic, Social, and Cultural Development of the Islamic Republic of Iran.

The government is required to form a work group made up of government and non-government experts to rank electricity producers based on productivity; and to rank distributors based on the level of waste; and to establish the appropriate supportive and incentive policies.

Clause 1. In taking into consideration the geographic location, type, level, and period of usage, the government is allowed to set preferred rates for prices of electricity and natural gas.

In cases where several families or subscribers are using one tributary, and it is possible to add extra meters, the water, electricity, and gas companies are only required to increase the number of meters if they can recover the costs of the meter and its installation.

If increasing the number of meters is not possible, they must increase the number of subscribers to be equal to the number of users.

Clause 2. The price of energy sources for the years after the base year will be set based on the price of foreign currencies as designated in the annual budget.

Clause 3. Prices of the base year of implementing this law should be set such that for a period of one year, a minimum amount of one hundred trillion (100,000,000,000,000) *Rials,* and a maximum of two hundred thousand trillion (200,000,000,000,000) *Rials,* profits are earned.

Article 2

If energy prices fluctuate by up to 25% of the price of delivery on board ships (F.O.B.) at the Persian Gulf, the government is permitted to manage the effects of energy cost fluctuations on the national economy by providing the difference, or paying subsidies, without changing the price for the consumer.

These expenditures will be indicated in the account for managing the market for energy resources in the annual budget.

In case the price fluctuations cause a price increase beyond 25%, the government will reconsider the set price.

Article 3

Within the framework of this law, the government is permitted to set the price of water and the wages for sewage collection and disposal.

A. Average price of water for different uses, considering quality and method of extraction, will be determined nationally such that it will be equivalent to cost. This adjustment will take place gradually, to be completed by the end of the fifth 5-year Program of Economic, Social, and Cultural Development of the Islamic Republic of Iran.

Clause 1. The government is required to set the final price of water by taking into account the costs of provision, transfer, and distribution, versus the income generated from sales.

Clause 2. Establishing preferred and stepwise prices for different uses of water, in consideration of geographic location, type, and level of use, will be permitted.

B. Wages for sewage collection and disposal services will be based on the total cost of network maintenance and use after subtracting the intrinsic value of the delivered sewage and governmental assistance from the annual budget (related to incentive policies).

Article 4

The government is required to gradually initiate subsidy reform for wheat, rice, cooking oils, milk, sugar, postal services, airlines, and railroad services (passenger) by the end of the fifth 5-year Program of Economic, Social, and Cultural Development of the Islamic Republic of Iran.

Clause. Paid annual subsidies to producers in the agriculture sector must not be less each year than the previous year.

Article 5

The government is required to provide subsidies for bread and flour in the amount determined in the annual budget to consumers who request it, by utilizing the appropriate methods.

Clause. Bread subsidies per capita for villages and cities under a population of 20,000, and vulnerable segments of society in other cities (as determined by the government) will be at least 50% greater than the average per capita subsidy.

Article 6

The government is required to adopt policies to provide the necessary incentives and support to create and expand industrial units for production of bread and also to provide compensation for units of production of bread and flour whose continued activity has been affected by this law.

The executive bylaw of this law will be drafted by the Ministry of Commerce with cooperation from the related offices and be approved by the cabinet ministers within three months of the legislation of this law.

Article 7

The government is allowed to spend a maximum of fifty percent (50%) of the net funds generated from the implementation of this law according to the following:

A. Subsidies in the form of cash and non-cash payments will be paid to the head of each family in accordance with the income of each family relative to the average family income of the country.

B. Implementation of the comprehensive social security system for the target population including:

> **1.** Providing and expanding public insurance programs and medical services; providing and enhancing the health of society; and pharmaceutical and medical coverage of patients with special and difficult to treat illnesses.
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> **2.** Assistance with housing costs, reinforcement of residential units, and employment.
>
> **3.** Enabling and implementing social support programs.
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> **Clause 1.** The executive bylaw of this article (including how to identify the target population, formation and update of the needed databases, method of payment to the target population, and the payments that are the topic of this article) will be drafted by the Minister of Financial and Economic Affairs, Minister of Welfare and Social Security, and the director of the National Planning and Management Organization, to be approved by the cabinet ministers by a maximum of three months after legislation of this law.
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> **Clause 2.** The government may set up a targeted subsidies account in the name of the head of each eligible family, or otherwise eligible individuals (as determined by the government). The government is permitted to manage the manner of its expenditure for the funds for this account (including the permitted time-window, the manner of recovering costs, and the manner for the return of funds that have been deposited by mistake).

Article 8

The government is required to spend thirty percent (30%) of net funds generated from implementing this law towards paying assistance, subsidies for interest on loans, or subsidies for managed funds in the following areas:

A. Optimizing energy use in manufacturing, service, and residential units, and encouraging savings in energy use following the energy-use model introduced by the relevant executive body.

B. Renovating the technological infrastructure of manufacturing units to increase energy, water, and electricity yields from restorable resources.

C. Compensation for part of losses incurred by companies that provide water and sewage, electricity, natural gas, and petroleum products, as well as city and village municipalities, as a result of implementing this law.

D. Expansion and improvement of public transportation based on the "law of expansion of public transportation and management of fuel consumption"; and the payment of up to the maximum limit of the line of credit outlined in article 9 of that law.

E. Support of producers in the agricultural and industrial sectors.

F. Support for the industrial-scale production of bread.

G. Support for the expansion of non-petroleum exports.

H. Expansion of interactive electrical services with the aim to eliminate or reduce unnecessary traffic.

Clause. The executive bylaw of this article [HYPERLINK] (including the manner of supporting industry, agriculture, and services, as well as methods of payments stated in this article), will be drafted by the ministers of Economic and Financial Affairs, Mines & Industries, Agricultural *Jihad*, Commerce, Petroleum, Energy, and Interior; Chamber of Commerce, Industries, and Mines of Iran; Chamber of Cooperatives; and the director of the National Management & Planning Organization, to be approved by the cabinet ministers.

Article 9

The resources that are topics of article 7 and 8 of this law (including support, facilities, and managed funds) will be provided to the indicated individuals via banks and governmental and non-governmental financial and credit institutions.

Article 10

The receipt of the support and subsidies that are the topic of articles 7 and 8 of this law is dependant upon providing accurate information. If the provided information is shown to be incorrect, the government is required to stop the payments and initiate legal action to recuperate the paid funds.

If individuals deem themselves eligible to receive subsidies and assistance that are the topic of articles 7 and 8 of this law, they can submit their petitions to the commission that will be described in the executive bylaw [HYPERLINK] of this article.

The executive bylaw will be drafted by the ministers of Justice, Economic and Financial Affairs, Welfare and Social Security, and the director of the National Management and Planning Organization, and be approved by the cabinet ministers by at most three months after the legislation of this law.

Article 11

The government is permitted to spend up to twenty percent (20%) of the net funds generated by the implementation of this law to compensate for the loss of credits for expenditure [*'etebaaraat-e hazineh-i*] and capital assets that are caused as a result of implementing the law.

Article 12

The government is required to deposit all resources earned from implementing this law into a special fund at the national treasury named the "targeted subsidies" fund. One hundred percent (100%) of deposited funds will be allocated within the framework of the annual budget for issues indicated in articles 7, 8, and 11 of this law.

Clause 1. The government is required to state the credits for resources and expenditures of the indicated articles in four separate lines in the annual budget bill.

Clause 2. Cash and non-cash assistance to legal and real entities, if provided in accordance with the implementation of this law, is exempt from taxes on earnings that are outlined in the "law of direct taxes" (legislated in *Esfand* 1366 [March 1988]) and its later amendments.

Assistance to the indicated individuals for compensating all or part of the price of goods or services provided by them will not be subject to this clause.

Clause 3. The government is required to present a detailed report on this article to the National Audit Board and the Parliament [*Majles-e Showra-ye Eslami*] every six months.

Article 13

The funds necessary to implement this law will be indicated in the annual budget funds and will be deduced from the sources generated by implementing this law throughout the year.

Article 14

Changing the lines of credit related to articles 7, 8, and 11 of this law is permitted at a maximum of ten unit percent in the annual budget, such that all funds generated in the anticipated cases in this law are utilized.

Article 15

Within a period of one month after this law becomes binding, the government is permitted to establish an organization with the structure of a government company to be called "The Organization for Targeting Subsidies" by utilizing the available resources (facilities, human resources, and credits) in order to implement this law. This new organization may be established based upon the "Law of Planning", or by restructuring and combining already existing companies.

The government is allowed to continuously withdraw the funds that are deposited in the treasury as a result of the implementation of this law, after the receipt and subtraction of the government share (which is the topic of article 11), to provide the "Organization" for spending strictly for the implementation of the goals and duties outlined in article 7 and 8 of this law.

The "Organization" will have a centralized management, which will solely be allowed to include the staff, programming, and supervisory units at the central office. Ministers of Welfare and Social Security, Economic and Financial Affairs, Commerce, Roads and Transportation, Agricultural *Jihad*, Mines and Industries, Oil, Energy, as well as the head of the National Management & Planning Organization, will all be members of the General Assembly of the Organization.

The charter of the "Organization" will include its structure, as well as its rights and responsibilities, and will be drafted by the Ministry of Economic and Financial Affairs and the National Management & Planning Organization, and will be endorsed by the cabinet ministers.

Funds and credits related to this law, including articles 12 and 15, will be reflected in the national budget like all other government companies; and except for the authorities and permits related to this law, including articles 2 and 14, changes in the credit limits of the "Organization" during the year is only permissible by proposal from the government and the approval of the Parliament.

The “Organization’s” remaining funds from each year may be spent in the next year; and the “Organization” may, in each year, allocate funds to be spent in future annual budgets within the framework of this law.

The lines of credit covered by this law are covered by the “Law regarding method of spending credits that are exempt from the law of public accounting and other general regulations of the government” (passed on 6/11/1364 [9/12/1989]).

At the end of each six-month period, the “Organization” is required to submit a progress report on the receipt and expenditure of resources resulting from the targeting of subsidies, with individual headings for articles 7 and 8, to the Commission on Budget, Planning, and Accounting, as well as the other relevant commissions of the Parliament.

Every six months, The National Audit Board [*Divan-e Mohasebaat Keshvar*] is required to present to the Parliament reports on the activities and achievements of the “Organization” based on the goals set by this law.

Article 16

Starting from the year 1389, the government is permitted to increase the tax exemptions discussed in article 84 of the Law of Direct Taxation by a maximum of two-fold during a five-year period. This increase is to be proposed by the Ministry of Economic and Financial Affairs in addition to the annual increase of tax exemptions, and should be commensurate with the price changes and corrections discussed in this law.

The above law, which includes sixteen articles and sixteen clauses, was legislated in the open session of the *Majlis* [Parliament], on Tuesday, 15th of *Dey,* 1388 [January 5th, 2010], and was approved by the Guardian Council on 23/10/1388 [1/13/ 2010].

* Translator’s note: The fifth 5-year development plan runs between the years 2010-2015.