



Subsidy Reform in the Gulf Monarchies

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The Gulf Cooperation Council (GCC) countries



Key Issues

- Energy subsidies are exacerbating domestic consumption of chief export commodities
- Reform is needed to extend the lives of exports, and monarchical rule that depends on export revenues
- This is difficult in the context of an unelected monarchy
- Only **two of six** countries appear likely to impose price reforms

The Problem



Growing Domestic Consumption

| Oil consumption in the Gulf monarchies | | | | | | |
|--|-------------------------|-------------------------|--------------------------------------|-------------------------------|--|---|
| | 2009 oil produced (MMt) | 2009 oil consumed (MMt) | % of oil production consumed in 2009 | Average % growth/year 2000-09 | Yrs to reach 50% of 2009 production, at current rates (YEAR) | Yrs to reach 100% of 2009 production, at current rates (YEAR) |
| Bahrain | 9.5 | 2.2 | 23% | 5.1% | 15 (2024) | 29 (2038) |
| Kuwait | 119.0 | 19.7 | 17% | 4.6% | 24 (2033) | 40 (2049) |
| Oman | 43.0 | 6.7 | 16% | 8.3% | 15 (2024) | 23 (2032) |
| Qatar | 58.0 | 6.5 | 11% | 11.5% | 14 (2023) | 20 (2029) |
| KSA | 457.0 | 107.2 | 23% | 5.4% | 14 (2023) | 28 (2037) |
| UAE | 126.0 | 27.8 | 21% | 4.2% | 20 (2029) | 37 (2046) |

Source: IEA, BP; author's calculation

Other Estimates: End of Saudi Exports

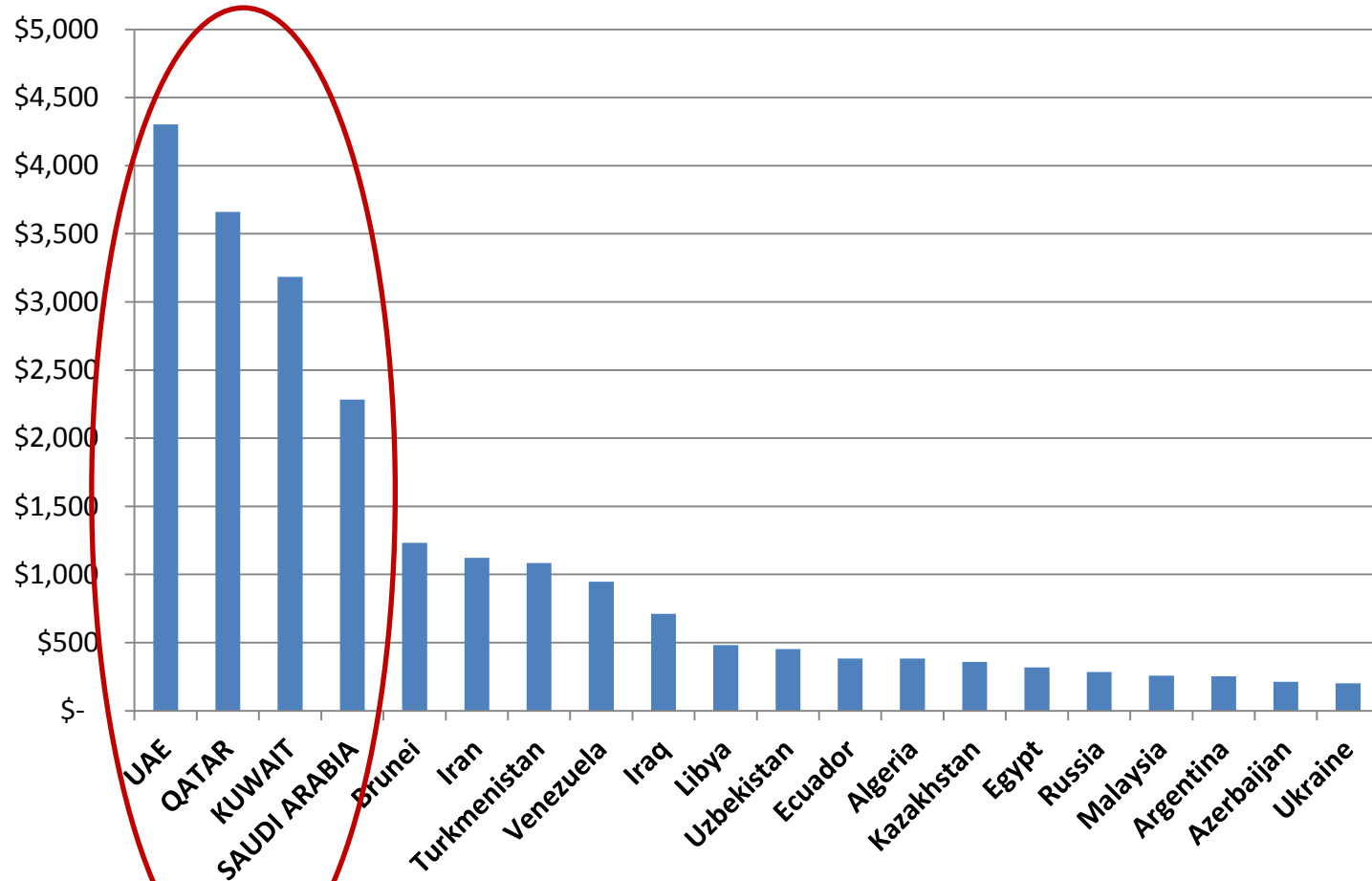
- EIA: “We do expect Saudi Arabia will make necessary changes to retain its position as a major oil exporter over the next decades.”
- Citi: Exports end by 2030 (all things equal)
- Jadwa: Exports end by 2043

Energy Subsidies and Reform



World's Largest Subsidizers

Fossil fuel subsidy per capita 2011, US\$ (IEA)



GCC Subsidy Issues

- Some of world's lowest energy prices
- Demand doubling roughly every decade
- Energy inefficiency and path-dependence
- Raising prices (or setting a price, in some cases) is a prerequisite for efficiency
- Reducing consumption can extend the export model
- Family-based regimes get another decade or two to diversify economies and maintain control

Why Reform is Difficult

- Always tough for big subsidy programs
- Energy subsidies are considered “rights” of citizenship (80% of experts and policymakers agreed)
- Key source of legitimacy that substitutes for political participation
- Reform perceived as conduit for the Arab Spring
- Residential sector largest, most problematic

The Future: Can They Reform?



Dubai Shows it is Possible

- 15% tariff hike in 2011, including on citizens in residential sector; LNG surcharge
- Power consumption drops 3% per account; water by 7%
- Six LNG shipments saved, but political outcry, backsliding

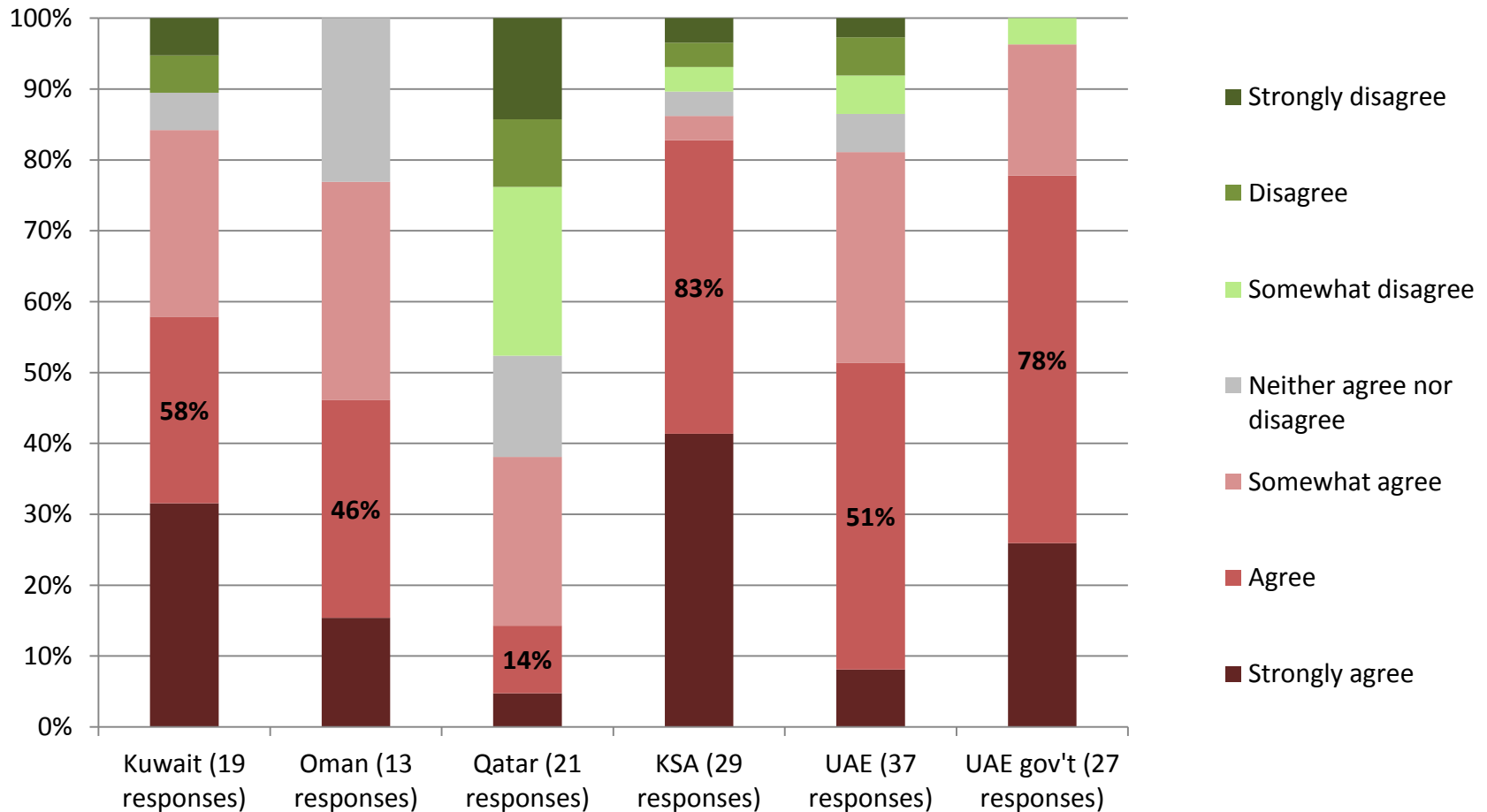


Expert Elicitation Particulars

- **Expert Elicitation 1:** Predictions of energy policy.
 - 135 responses by country; 92 respondents
 - Policymakers, economists, bankers, academics, energy sector managers (one energy minister, two electricity regulators)
- Five of six countries well-represented
- **Expert Elicitation 2:** 35 UAE gov't policymakers
 - UAE only
 - Minority involved in energy policy

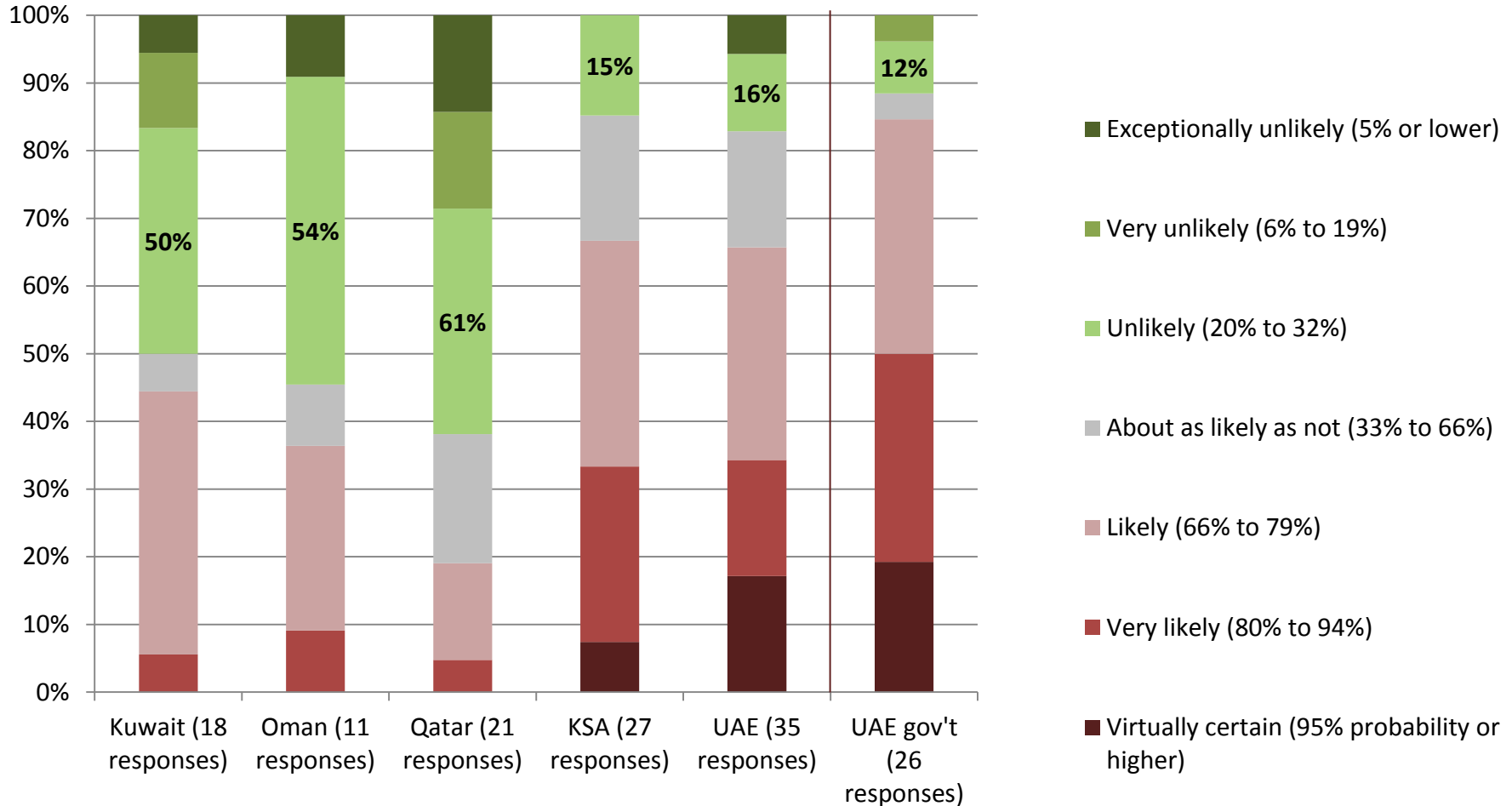
Expert Elicitation Results 1

Does energy consumption growth threaten the economy?



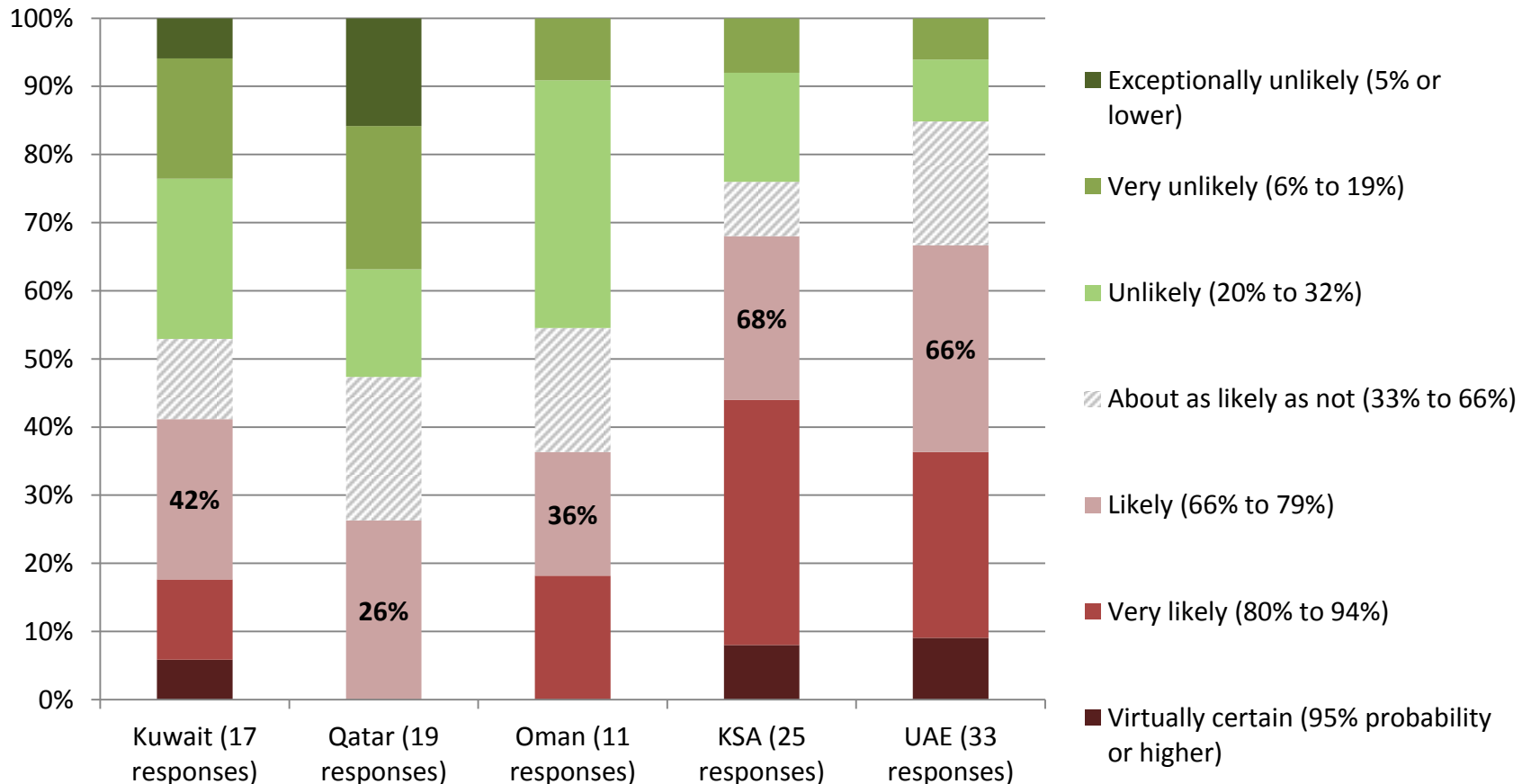
Expert Elicitation Results 2

Will rising consumption trigger residential electricity tariff hike?



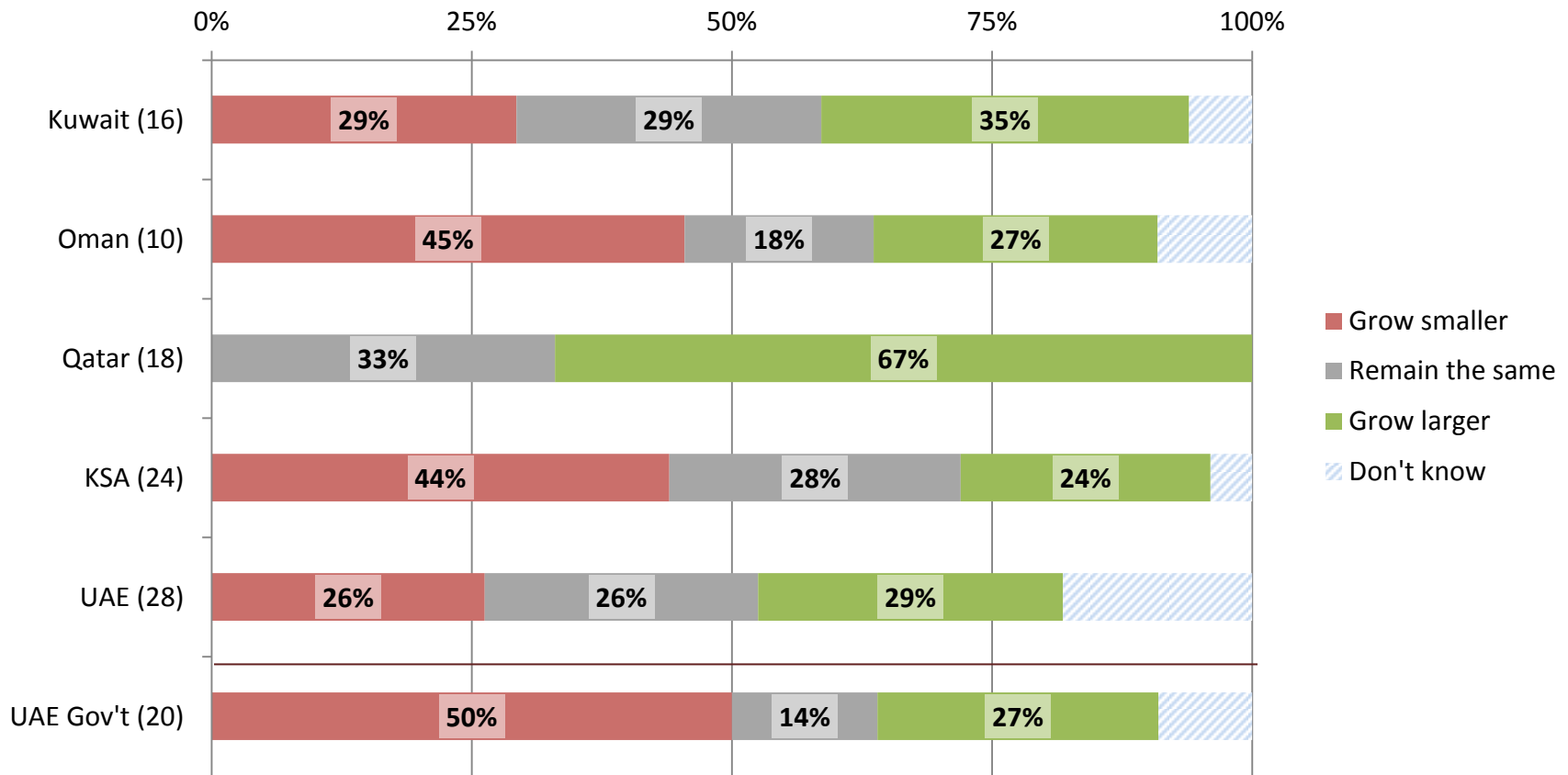
Expert Elicitation Results 3

What is the likelihood that residential electricity subsidies will be reduced by 2020?



Expert Elicitation Results 4

How will the distribution of state benefits evolve over the next two decades?



Conclusion

- **Some countries can reform:** UAE, Saudi Arabia
- One doesn't need to: Qatar
- Some can't or won't: Kuwait, Oman, Bahrain
 - Hastened post-oil transition (Oman, Bahrain)
 - Increase in unrest
 - Response choice: Repression or participation
 - If this happens, pressure on remaining monarchs
 - Proximity to democracy is strong predictor of transition
- Country to watch: Oman

Thank You

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Saudi Depletion Profile

