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

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

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
Does energy consumption growth threaten the economy?

Kuwait (19 responses): 58% strongly disagree, 46% disagree, 14% somewhat disagree, 8% somewhat agree, 5% agree, 3% strongly agree.

Oman (13 responses): 53% strongly disagree, 40% disagree, 7% somewhat disagree, 0% somewhat agree, 0% agree, 0% strongly agree.

Qatar (21 responses): 67% strongly disagree, 29% disagree, 4% somewhat disagree, 0% somewhat agree, 0% agree, 0% strongly agree.

KSA (29 responses): 83% strongly disagree, 16% disagree, 1% somewhat disagree, 0% somewhat agree, 0% agree, 0% strongly agree.

UAE (37 responses): 78% strongly disagree, 22% disagree, 0% somewhat disagree, 0% somewhat agree, 0% agree, 0% strongly agree.

UAE gov't (27 responses): 78% strongly disagree, 22% disagree, 0% somewhat disagree, 0% somewhat agree, 0% agree, 0% strongly agree.
Will rising consumption trigger residential electricity tariff hike?

- Kuwait (18 responses): 50% (Exceptionally unlikely)
- Oman (11 responses): 54% (Exceptionally unlikely)
- Qatar (21 responses): 61% (Very unlikely)
- KSA (27 responses): 15% (Unlikely)
- UAE (35 responses): 16% (About as likely as not)
- UAE gov't (26 responses): 12% (Likely)

Categories:
- Exceptionally unlikely (5% or lower)
- Very unlikely (6% to 19%)
- Unlikely (20% to 32%)
- About as likely as not (33% to 66%)
- Likely (66% to 79%)
- Very likely (80% to 94%)
- Virtually certain (95% probability or higher)
What is the likelihood that residential electricity subsidies will be reduced by 2020?

- Exceptionally unlikely (5% or lower)
- Very unlikely (6% to 19%)
- Unlikely (20% to 32%)
- About as likely as not (33% to 66%)
- Likely (66% to 79%)
- Very likely (80% to 94%)
- Virtually certain (95% probability or higher)
How will the distribution of state benefits evolve over the next two decades?

- **Kuwait (16)**: 29% Grow smaller, 29% Remain the same, 35% Grow larger
- **Oman (10)**: 45% Grow smaller, 18% Remain the same, 27% Grow larger
- **Qatar (18)**: 33% Grow smaller, 67% Grow larger
- **KSA (24)**: 44% Grow smaller, 28% Remain the same, 24% Grow larger
- **UAE (28)**: 26% Grow smaller, 26% Remain the same, 29% Grow larger
- **UAE Gov't (20)**: 50% Grow smaller, 14% Remain the same, 27% Grow larger
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

Crude oil and NGL production rises to 13.1mb/d by 2017 and remains flat until beginning a decline in 2042.

Oil consumption grows at 90% of non-hydrocarbon GDP which is projected at 6.3% to 2014 and 5% thereafter.

Around 2037, oil exports end.