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)

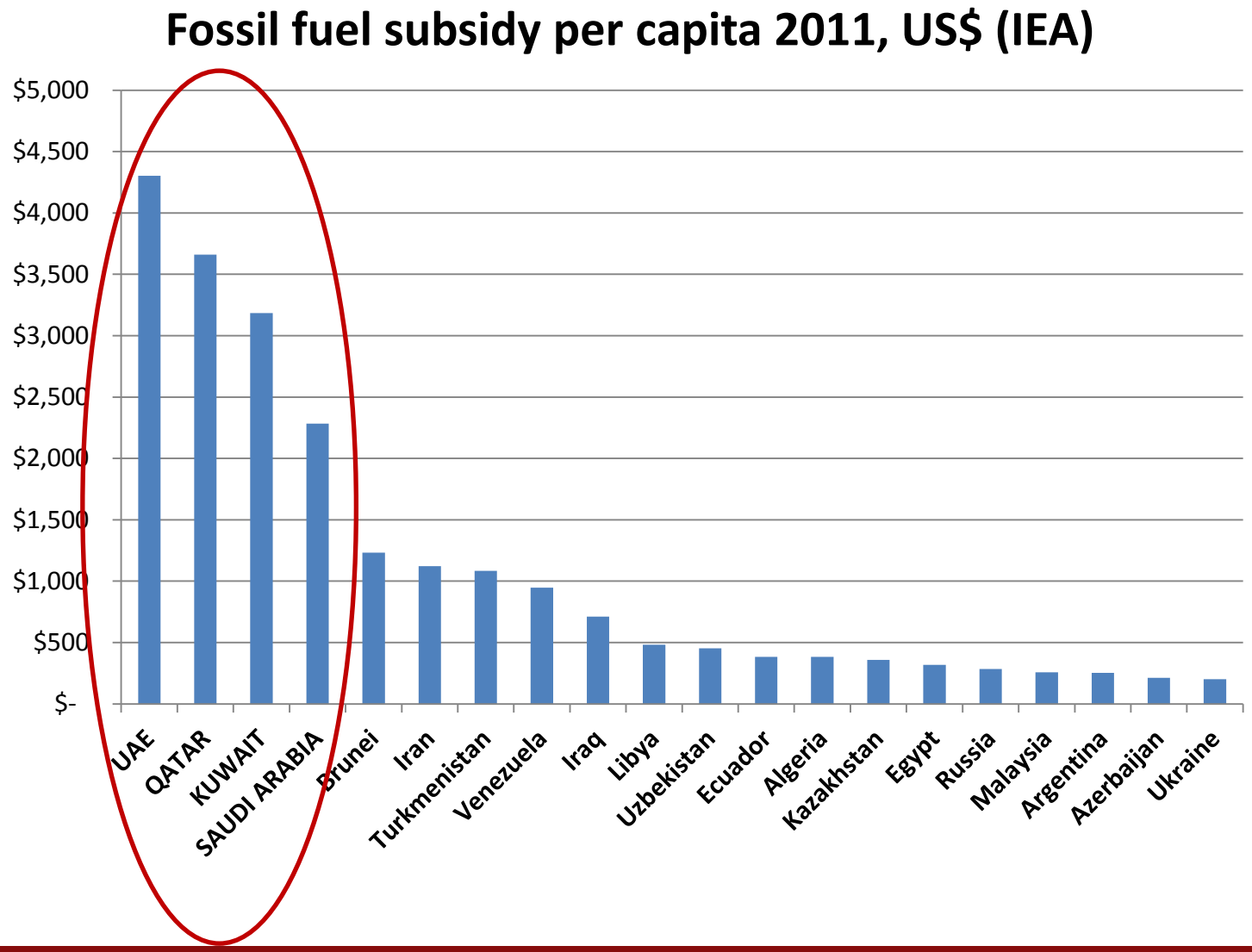
Source: IEA, BP; author's calculation

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



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?

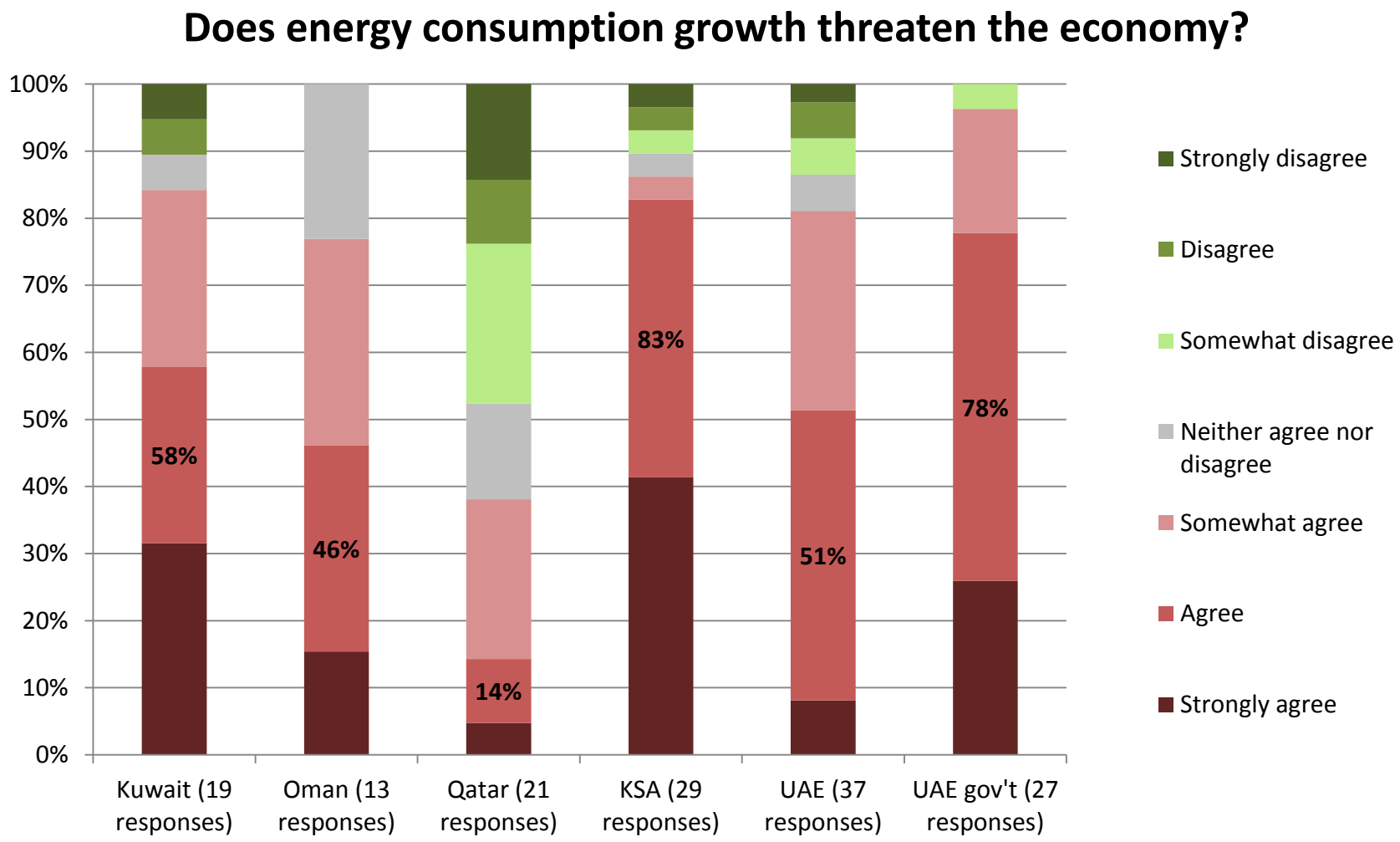
Dubai Shows it is Possible

- 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

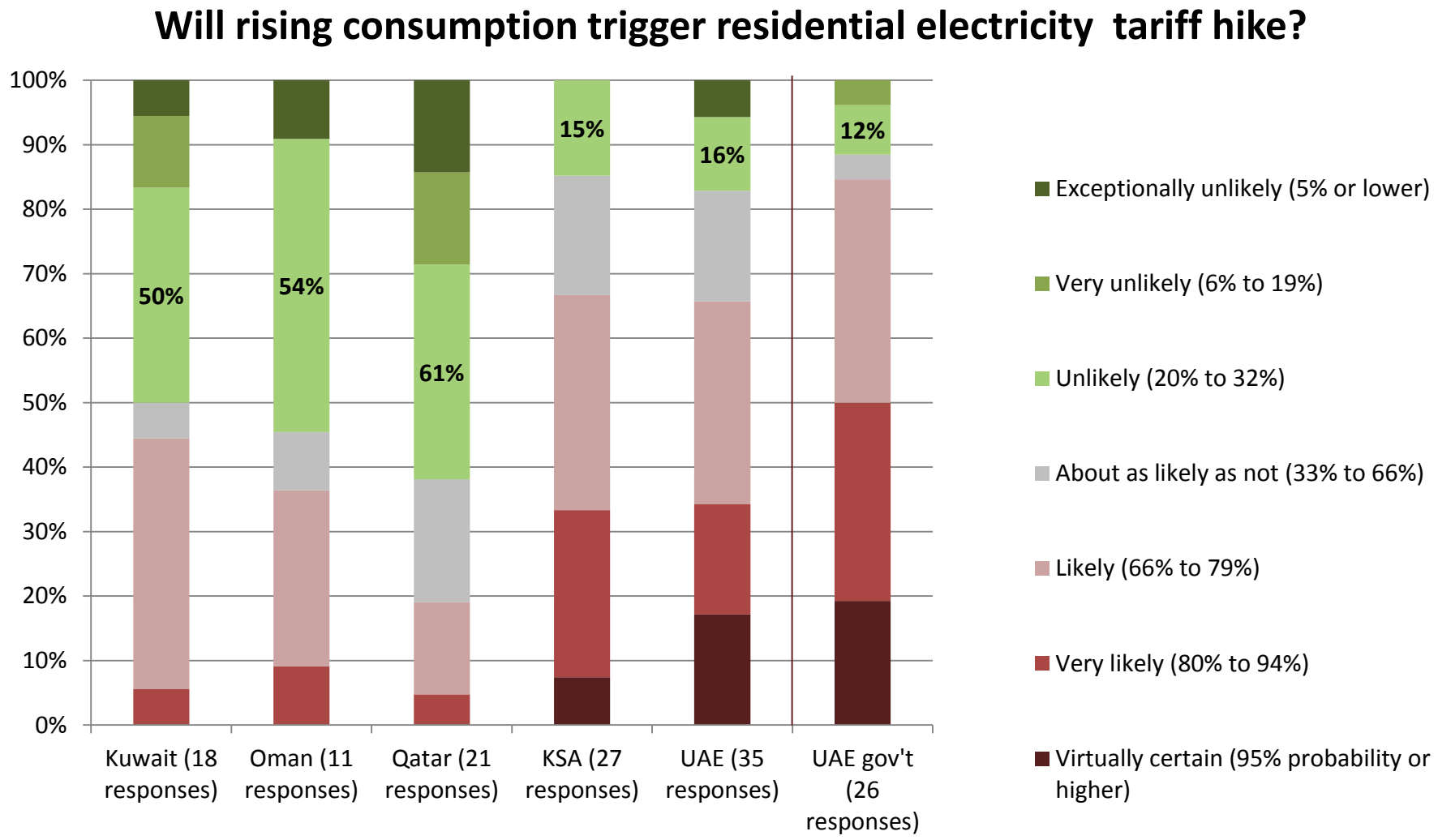
Expert Elicitation Particulars

- **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

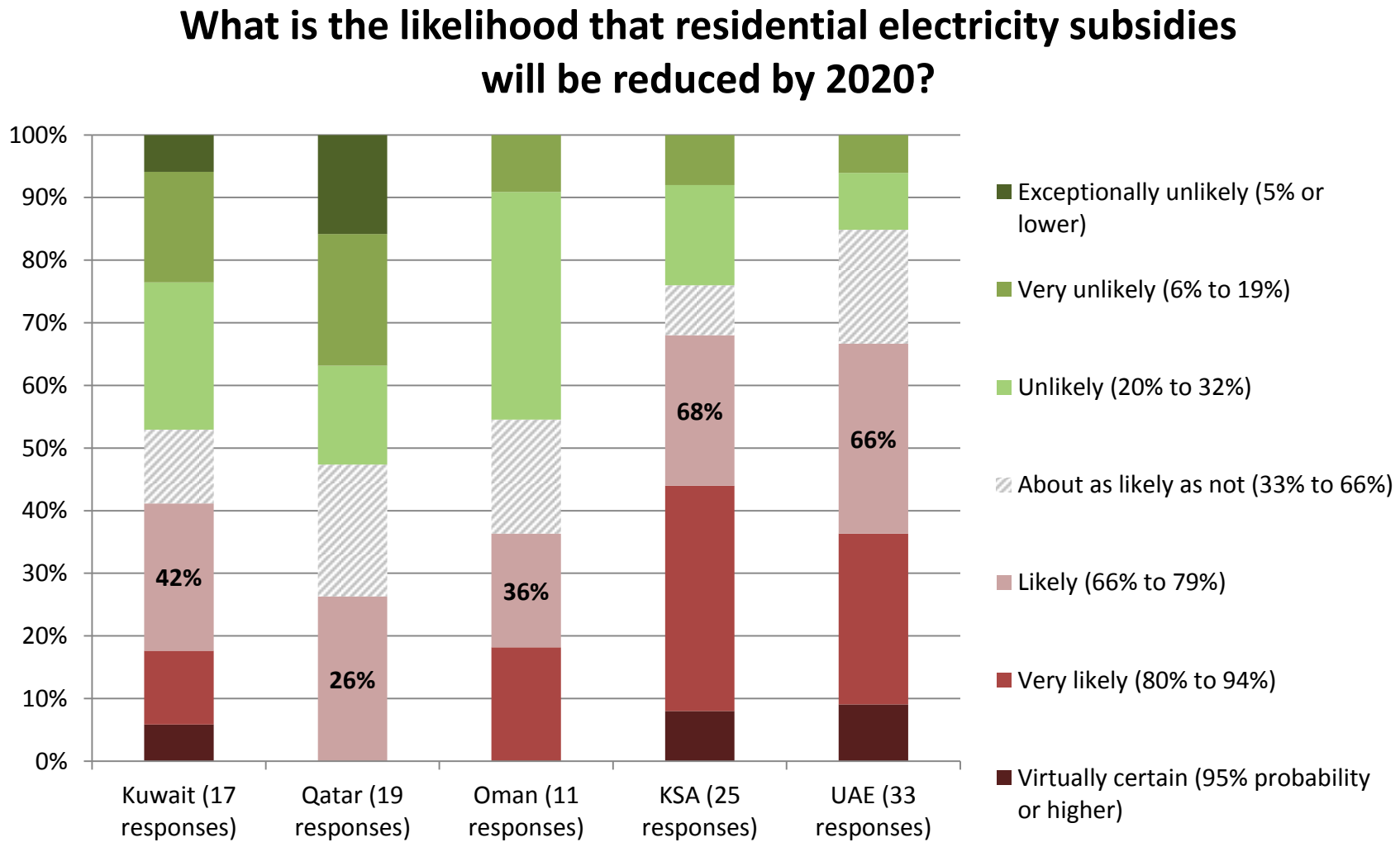
Expert Elicitation Results 1



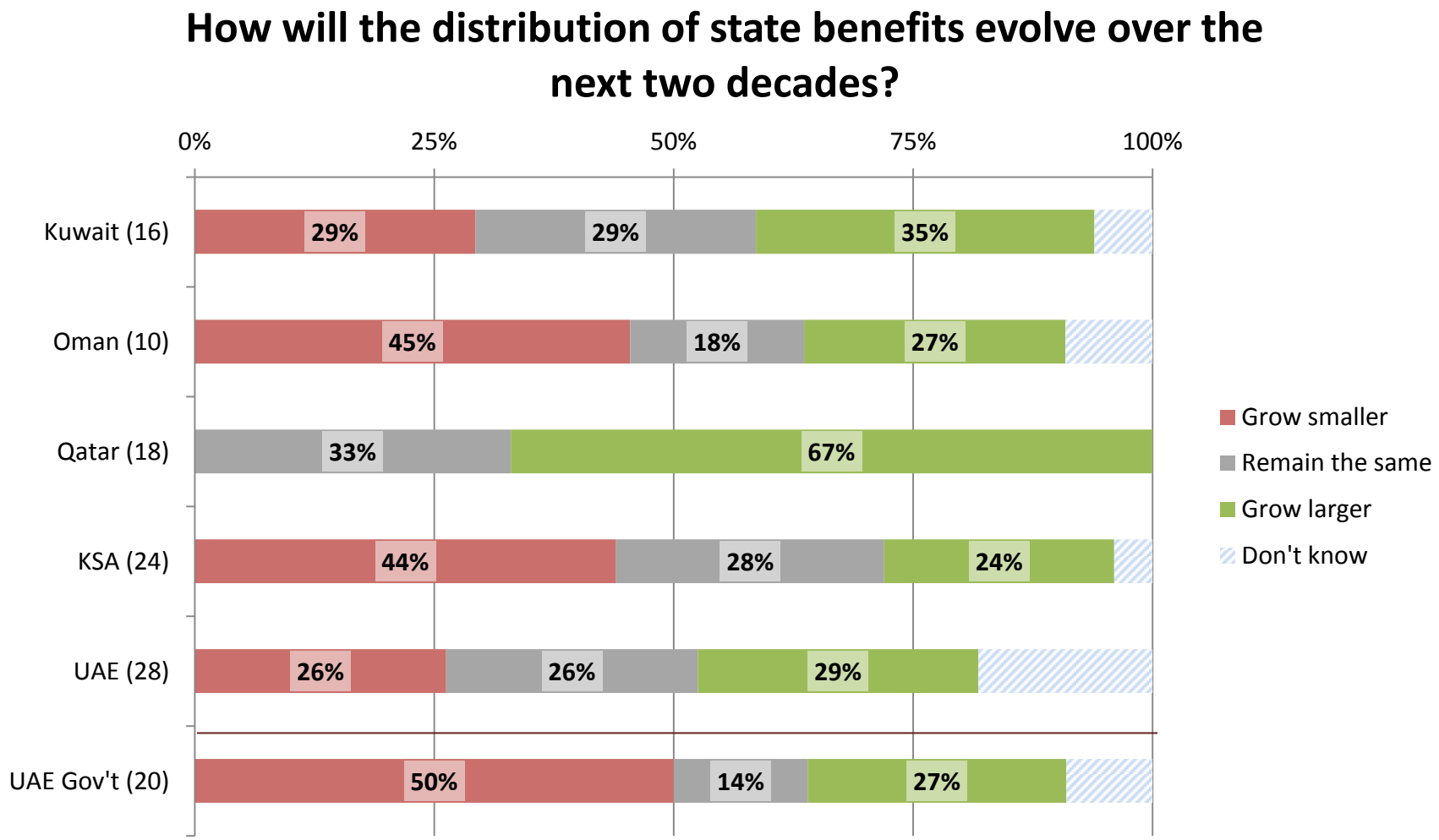
Expert Elicitation Results 2



Expert Elicitation Results 3



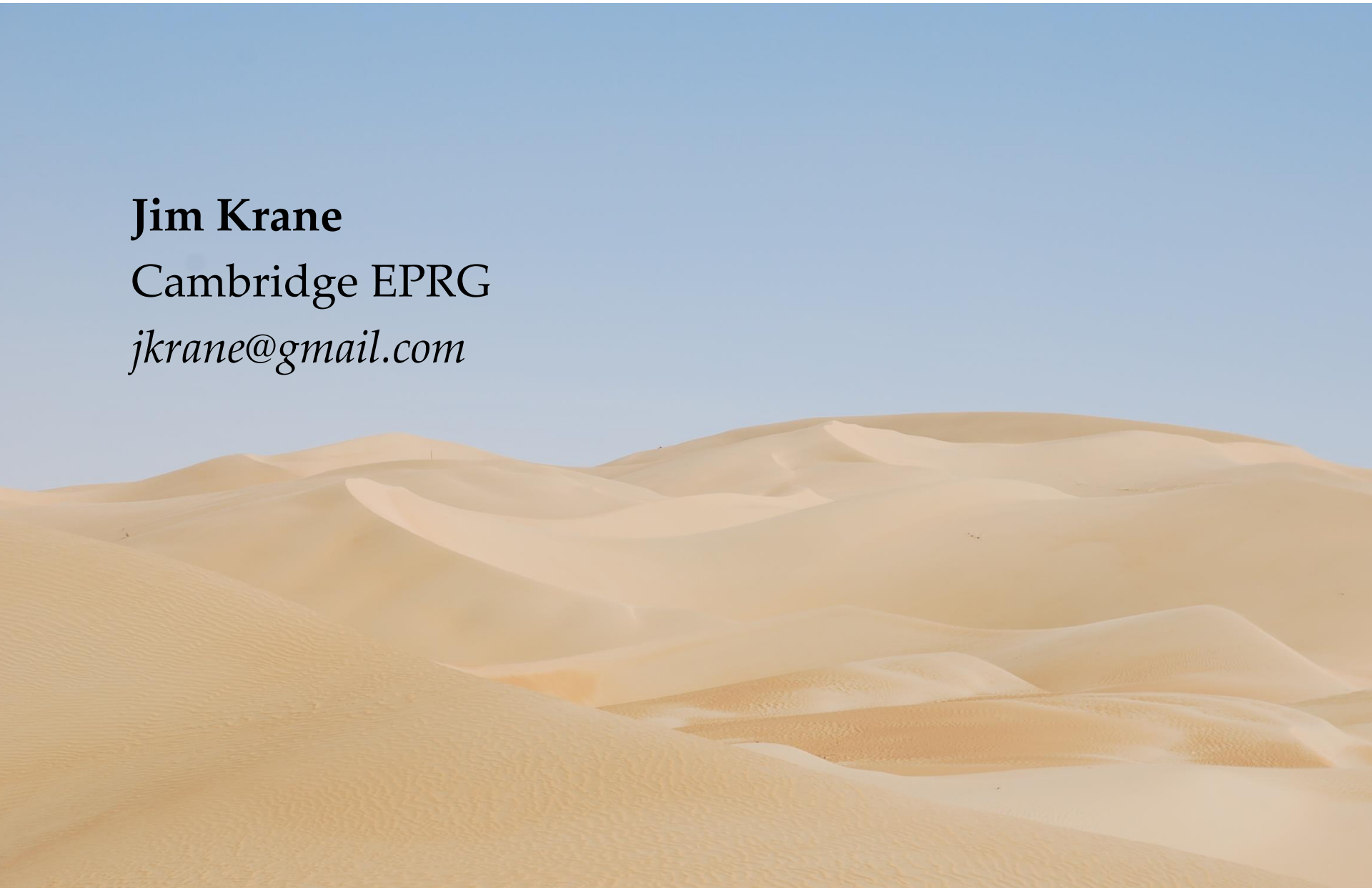
Expert Elicitation Results 4



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