

# Comments on UAE's fuel subsidy removal, Bloomberg, 22 July 2015

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The United Arab Emirates, the third-biggest OPEC producer, will link gasoline and diesel prices to global oil markets starting next month, becoming the first country in the oil-rich Persian Gulf to remove transport fuel subsidies.

Fuel prices will be deregulated as of Aug. 1, the Ministry of Energy said in a statement on Wednesday. Diesel prices will also be linked to global markets, and are initially expected to decline, it said. Prices for both fuels will be announced on the 28th day of each month, the ministry said.

Gasoline is now subsidized in the U.A.E., the second-biggest Arab economy and home to about 6 percent of the world's oil reserves. Unleaded gasoline 98 octane in the U.A.E. sells for 1.83 dirhams (50 cents) a liter, according to prices on the ministry's website. The U.S. price of premium unleaded gasoline is \$3.18 a gallon, or 84 cents a liter, according to AAA, the biggest U.S. auto group. That compares with 16 cents in Saudi Arabia, the largest OPEC producer.

***"There was no reason to subsidize in a country that is as rich as the U.A.E.," said Nasser Saidi, former chief economist at Dubai International Financial Centre and head of Nasser Saidi and Associates. "All manufacturing and industry which is highly energy intensive will need to adjust. People will now have to think twice before buying gas guzzling cars."***

## Subsidies Cost

Persian Gulf members of the Organization of Petroleum Exporting Countries provide some the largest per capita energy

subsidies in the world, according to the International Monetary Fund. Subsidies have cost U.A.E. state-owned energy companies about \$1 billion a year over the last decade, Suhail Al Mazrouei, the U.A.E. energy minister, said in February.

The U.A.E., which doesn't impose income tax or measures such as value-added taxes, comprises seven sheikhdoms including Abu Dhabi and Dubai, the Persian Gulf business hub. Expatriates comprise about 80 percent of the country's residents.

The change is part of the government's plan "in diversifying sources of income, strengthening the economy and increasing its competitiveness in addition to building a strong economy that is not dependent on government subsidies," Al Mazrouei said in the statement. A committee will review fuel prices every month, according to the statement.

Global oil prices have dropped almost 50 percent in the past year to \$56.57 a barrel today as increased production from the Middle East to the U.S. swelled supplies, leaving a global surplus. The 2015 break-even crude price for the U.A.E. is about \$65.50 a barrel, according to Deutsche Bank AG estimates.

***"Moving to international prices is a very rational and a correct policy to undertake at this moment because the international oil prices are very low," Saidi said.***

## **Budget Deficit**

Energy subsidies will reach \$5.3 trillion this year, with the U.A.E. at \$29 billion and Saudi Arabia at \$106.6 billion, according to an International Monetary Fund report in May. Qatar has the world's biggest subsidies per capita at \$5,995, compared with the U.S. at \$2,177 and China at \$1,652.

"Low international energy prices have opened a window of opportunity for countries to move toward more efficient pricing of energy," the IMF said. "A gradual approach may be desirable, given the size of the required price increases."

Saudi Arabia uses fuel and power subsidies to transfer oil wealth to citizens, and the kingdom is expected to post a

budget deficit equal to 20 percent of economic output this year, the IMF said last month. Cutting them is politically sensitive after domestic discontent led to the overturning of governments in Tunisia, Libya and Egypt since 2011.

The oil and gas sector in the U.A.E. contributed 34.3 percent of its gross domestic product at current prices in 2014, according to the National Bureau of Statistics. With lower oil prices, the U.A.E. will have a fiscal budget deficit for the first time since 2009, according to the IMF.

“They have to finance the fiscal deficit and this is one small way to do that,” said Sanyalak Manibhandu, head of research at NBAD Securities LLC in Abu Dhabi.