Comments on UAE’s fuel subsidy removal, FT, 22 July 2015

Click here to access the original article, published 22 July 2015; comments highlighted below.

UAE drops fuel subsidies to boost finances and cut emissions

The United Arab Emirates is to end billions of dollars worth of petrol subsidies in a bid to strengthen the Gulf state’s finances and limit spiralling car usage in the country, which has one of the highest per capita greenhouse gas emission rates in the world.

Oil-dependent economies in the Gulf have come under pressure from the International Monetary Fund to reduce fuel subsidies. The IMF says petroleum subsidies in the UAE amount to $7bn a year and are part of a package of energy subsidies that total $29bn, or 6.6 per cent of gross domestic product, and also include support for natural gas and electricity.

The collapse of oil prices from more than $100 a barrel a year ago to the current level of about $55 has put pressure on the budgets of oil-producing countries. The UAE needs an oil price of around $75 a barrel to balance its budget, but has substantial reserves. Other Gulf states, such as Bahrain and Oman, are dependent on prices of more than $100 a barrel to break even and have smaller reserves than the UAE.

The UAE said on Wednesday a government-appointed committee chaired by Matar al-Neyadi, energy ministry undersecretary, would set petrol prices in accordance with global oil price benchmarks, from the beginning of next month.

Suhail al-Mazroui, the minister of energy, said the move would build a stronger economy not dependent on government subsidies.
He said an end to fuel subsidies would decrease consumption and encourage the use of public transport and fuel-efficient vehicles, including hybrid and electric cars. Transport accounts for 22 per cent of the UAE's total greenhouse emissions, which totalled 199.65m tonnes in 2013, according to the latest figures from the Ministry of Energy, released on Wednesday.
The UAE's move is the latest in a series of steps governments have taken to cut fossil fuel subsidies that totalled $548bn in 2013 in emerging and developing economies alone.
India, Indonesia, Mexico and Egypt are among those to have started reforming energy subsidies.
These economies largely subsidise the consumption of fossil fuels while wealthier nations support the production and exploration of oil and gas as well, with measures estimated to amount to $55bn-$90bn a year in OECD countries.
"It's an excellent move," said Nasser Saidi, an economist who has been calling for subsidy reform for years. "It will point out the direction for other countries in the Gulf."

Oman has ended subsidies on industrial gas use and the UAE has also reduced some electricity subsidies in the larger emirates of Abu Dhabi and Dubai.
Saudi Arabia, which has burnt through $65bn of fiscal reserves this year, spends $86bn a year on petroleum subsidies, part of an overall budget of $107bn, or 13.2 per cent of gross domestic product, for energy subsidies. In contrast, the kingdom's education budget was set at $58bn for this year.

But an end to the support for fuel raises the risk of a backlash from angry consumers. When Kuwait tried to end diesel subsidies earlier this year, public anger at the move pushed the government into a U-turn.

Even in the wealthy UAE, discussion of ending fuel subsidies has been met with disapproval by nationals who receive generous cradle-to-grave welfare.

However, Mr Saidi said the current low price of oil on international markets makes the differential between the going rate and the subsidised local price “smaller than ever”, making the one-off price rise manageable.

As petrol costs 3-4 per cent of average income in the UAE, Mr Mazroui said deregulated prices “would not have a notable impact on the cost of living”.

Cheap grade petrol costs about 47 cents a litre. The energy ministry statement did not give an estimate of by how much prices will increase in August.