End of the 'big oil giveaway' is underway in the Persian Gulf

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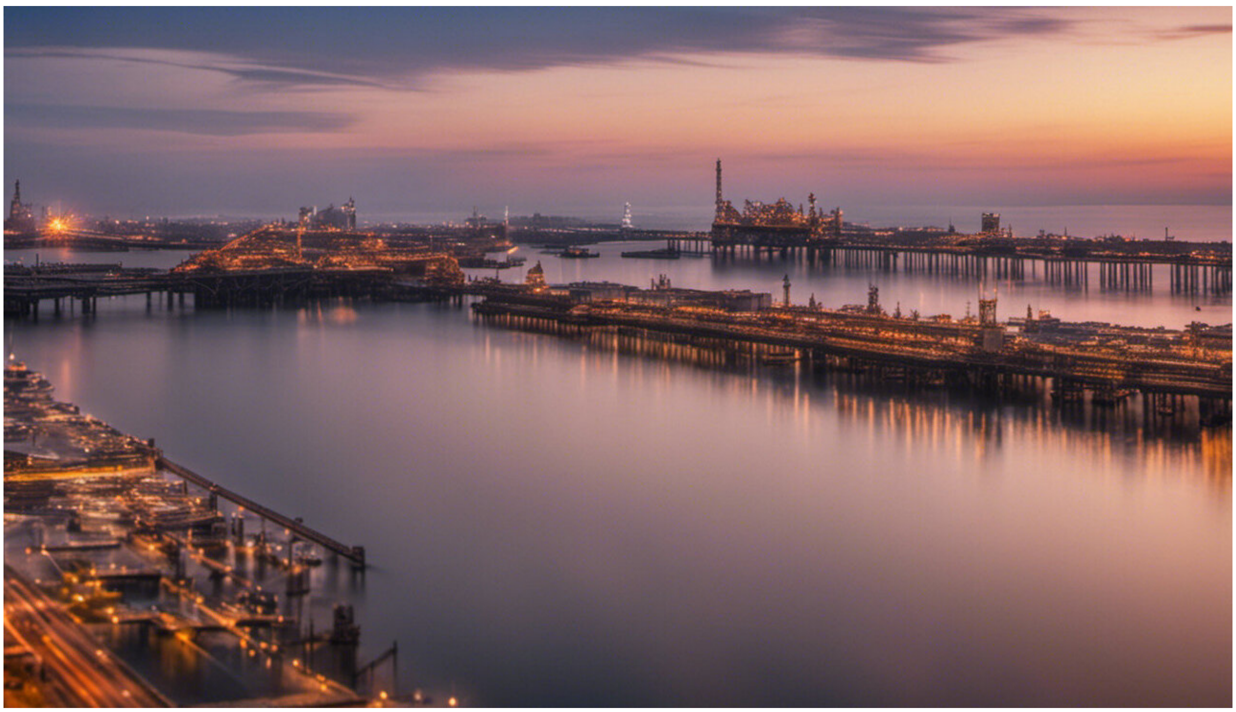

Credit: AI-generated image (disclaimer)

The old hypotheses that said Persian Gulf energy subsidies were sacrosanct have been overturned, according to a new issue brief from Rice University's Baker Institute for Public Policy.

In recent years, all six Gulf monarchies—Saudi Arabia, the United Arab

Emirates, Kuwait, Oman, Qatar and Bahrain—have begun to challenge the notion that citizens are entitled to cheap energy. They have raised prices on transportation fuel; three have increased prices on electricity and water in citizens' homes; and electricity and water subsidies for businesses have been reduced in five of the six monarchies, the brief noted. Across the Gulf, Iran has taken similar steps.

"Energy Subsidy Reform in the Persian Gulf: The End of the Big Oil Giveaway" was co-authored by Jim Krane, the Wallace S. Wilson Fellow for Energy Studies at the Baker Institute, and Shih Yu "Elsie" Hung, a research associate in the institute's Center for Energy Studies. The paper presents a snapshot of the progress of subsidy reform in the Gulf, documenting policy changes in all six monarchies and briefly examining the role of energy and the state.

"Many thought it could never happen," the authors wrote. "The energy subsidy reforms that have gathered pace this year in the Persian Gulf monarchies were long considered to be impossible or illegitimate, violations of a state-society 'social contract' in which welfare benefits are provided by the regime to buy public support. But since Dubai's pathbreaking reform of 2011, the old hypotheses that said Gulf energy subsidies were sacrosanct have been overturned by the evidence."

The authors said energy subsidies have long outlived their usefulness. Energy products such as electricity and gasoline have been distributed domestically at low prices that, in some cases, have been fixed since the era of oil nationalization in the 1970s. "Over time, government provision of cheap energy had the unintended consequence of encouraging high per-capita demand," the authors wrote.

Policymakers hope higher energy prices can produce a number of helpful effects, the authors said. These effects include relieving pressure on government budgets at a time when oil and gas revenues are low;

reducing domestic demand for oil and gas that can otherwise be exported; increasing the relative attractions of noncarbon sources of energy; and encouraging conservation and efficiency, which helps reduce carbon emissions and the energy intensity of the gross domestic product while increasing overall productivity.

Despite the reform pace, the still-cautious nature of these reforms demonstrates that the monarchies remain deferential to the wishes of their citizens, who have been shielded from the brunt of the reform, the authors said. "The state remains wary of antagonizing people who possess new communication tools aiding mobilization," they wrote. They point to Saudi Crown Prince Muhammad bin Salman, who has said that social contract allocations cannot be changed without the consent of notable citizens. "The king cannot just wake up and decide to do something," bin Salman said in 2015.

More information: Energy Subsidy Reform in the Persian Gulf: The End of the Big Oil Giveaway. bakerinstitute.org/media/files … -CES_GulfSubsidy.pdf

Provided by Rice University

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