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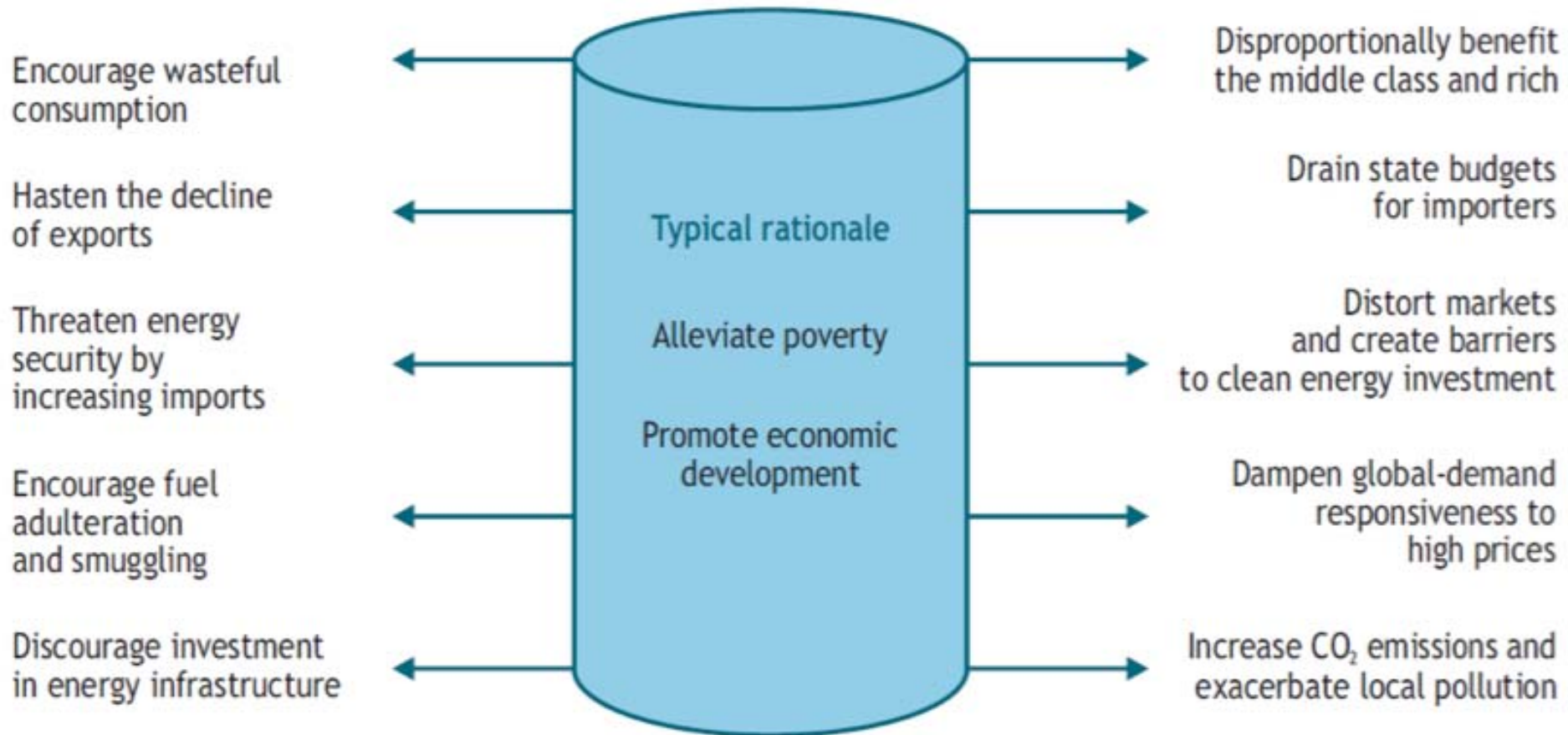
Reforming fossil fuel subsidy regimes in MENA countries

Georgeta Vidican

Workshop “Managing economic rents for the green transformation”, Bonn

6 November 2012

Energy subsidies



IEA (2012)

How to withdraw rents?

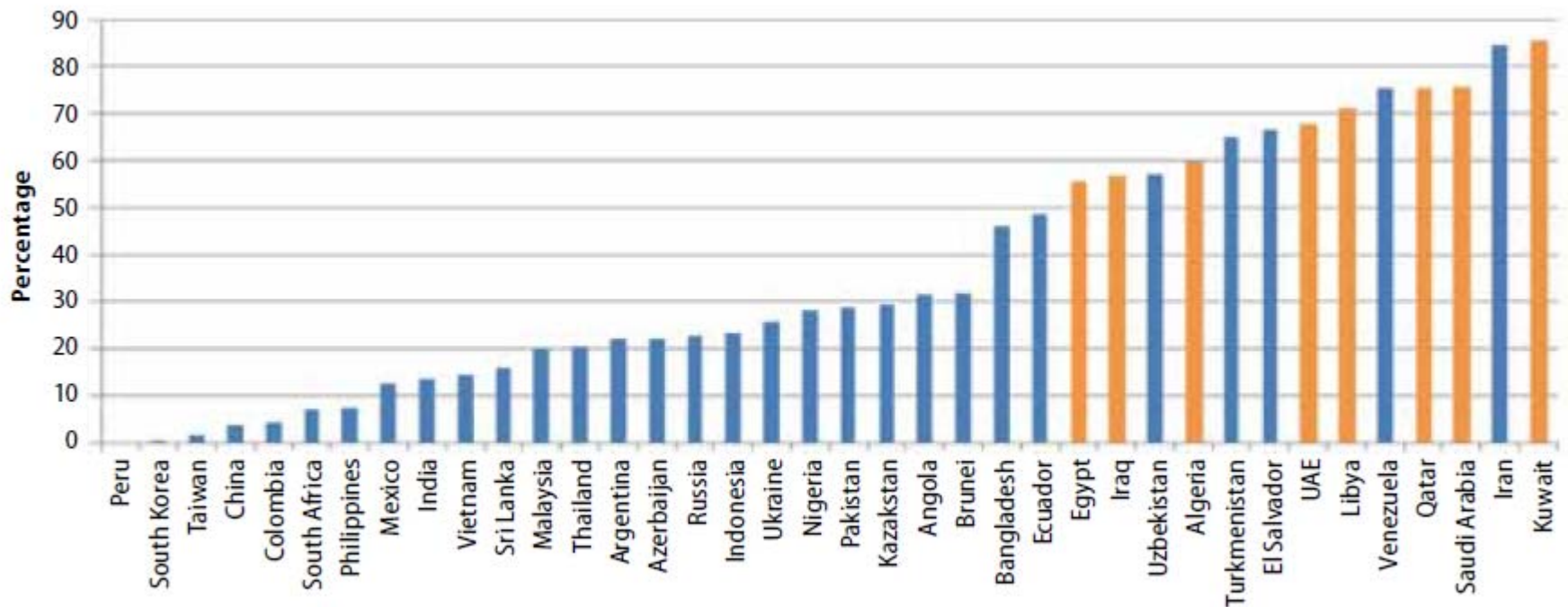


- Energy subsidies in the MENA region
- Challenges to reform
- Reform as management of different interests
- Perspectives on efforts to reform across the region
- Concluding remarks

Energy subsidies in the MENA region



- Average subsidization rates for domestic fuels in selected countries (in %), 2010



Source: IEA

Source: UNDP (2012)

Energy subsidies in the MENA region



- IEA estimates of energy subsidies in selected Arab countries, 2010

	Average Rate of Subsidization (%)	Subsidy (\$ per person)	Total Subsidy (% of GDP)	Subsidy by Fuel			Total Subsidy (US\$ bn)
				Oil	Gas	Electricity	
Algeria	59.80	298.40	6.60	8.46	0.00	2.13	10.59
Libya	71.00	665.00	5.70	3.17	0.26	0.78	4.21
Egypt	55.60	250.10	9.30	14.07	2.40	3.81	20.28
Saudi Arabia	75.80	1,586.60	9.80	30.57	0.00	12.95	43.52
Iraq	56.70	357.30	13.80	8.87	0.28	2.16	11.31
Kuwait	85.50	2,798.60	5.80	2.81	0.90	3.91	7.62
Qatar	75.30	2,446.00	3.20	1.15	1.41	1.59	4.15
UAE	67.80	2,489.60	6.00	2.65	9.99	5.51	18.15

Source: IEA

In UNDP (2012)

Energy subsidies in the MENA region



Fuel and food subsidies in individual SEMCs as a percentage of current government expenditures



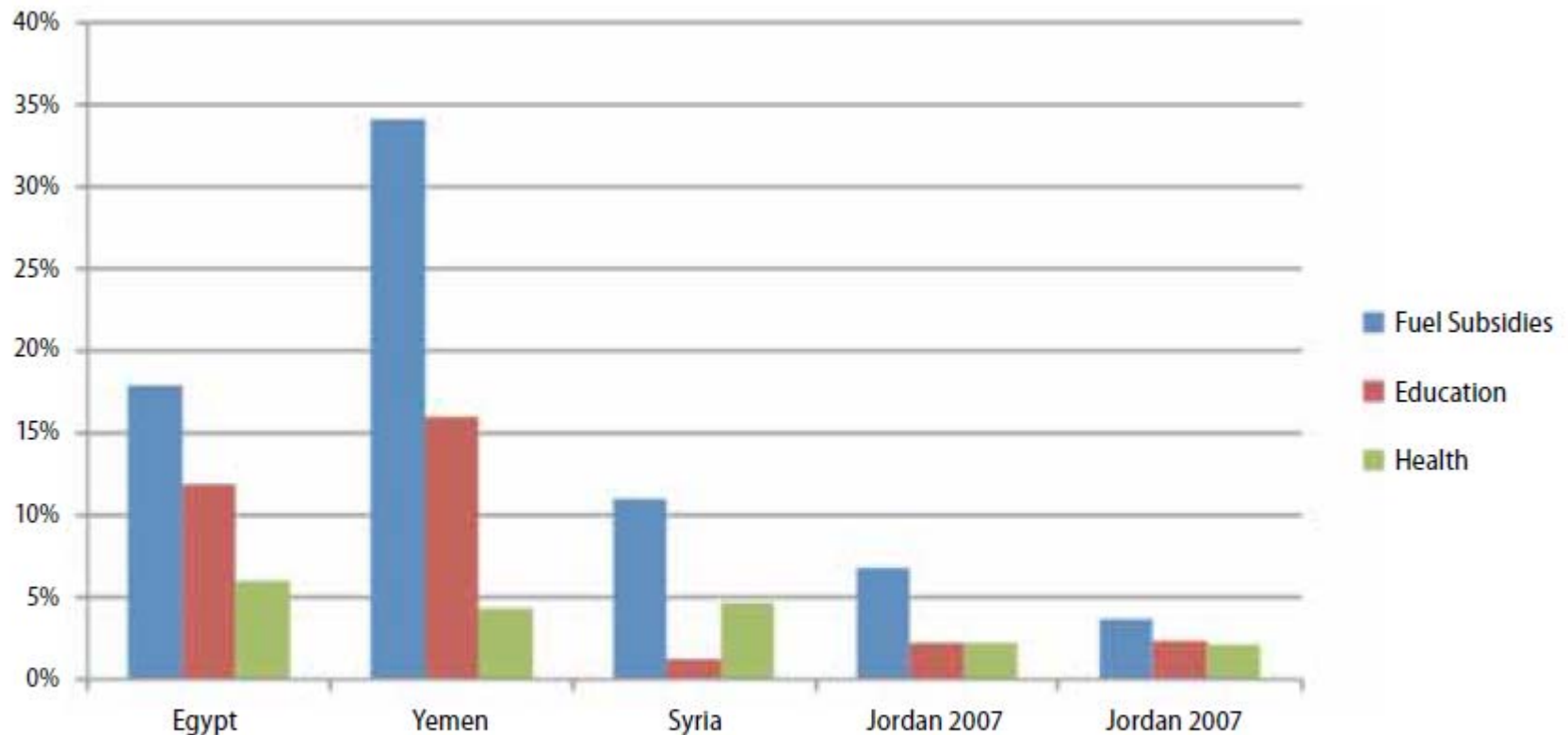
Source: Albers and Peters (2011), box 4 [calculation based on data reported by ministries of finance of the respective countries and the International Monetary Fund [IMF] Article IV].

Source: MED Green report (2012)

Energy subsidies in the MENA region



- Share of governmental expenditure on fuel subsidies, education, and health in selected Arab countries, 2008



Source: Egypt: World Bank (2011); Yemen: Breisinger et al (2011), Authors' own calculations; Syria: IMF (2010a), MEES, World Bank (2011); Jordan: IMF (2010b), World Bank (2011).

In UNDP (2012)



- Budgetary pressures increase the urgency of reform

Compensation: La Caisse à sec dès octobre

- Une ardoise de 15 milliards de DH pour les seuls pétroliers
- Fin septembre, le compteur tournera pour les céréales

Voir page 12

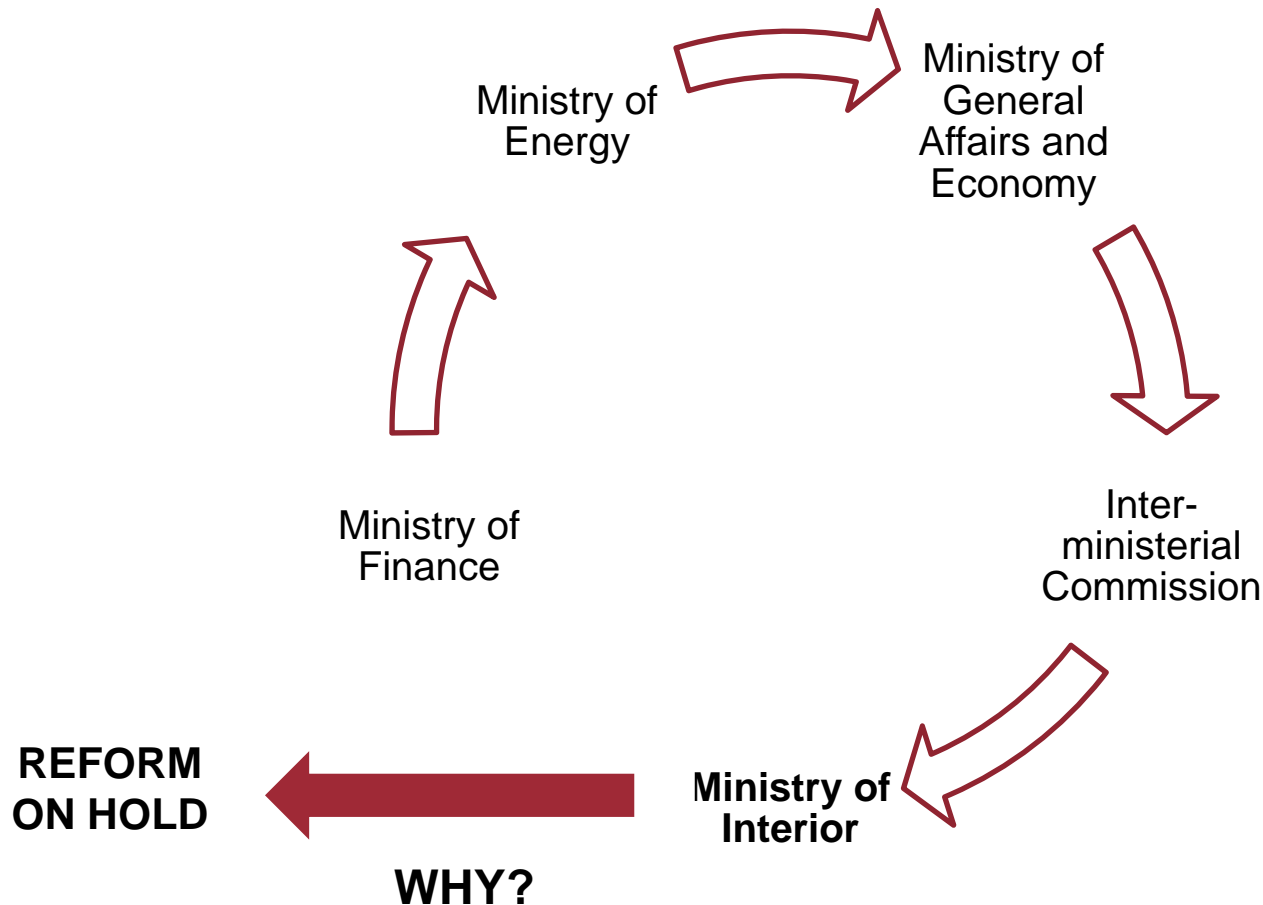
Morocco's financial pressures due to energy imports and subsidies

L'Economiste, September 2012

Reform as management of different interests



- Decision making process for increasing energy prices





- So why do governments hesitate to reform subsidies?
- General belief that reform is unpopular and politically detrimental
- But among whom, why, and what are the alternatives?

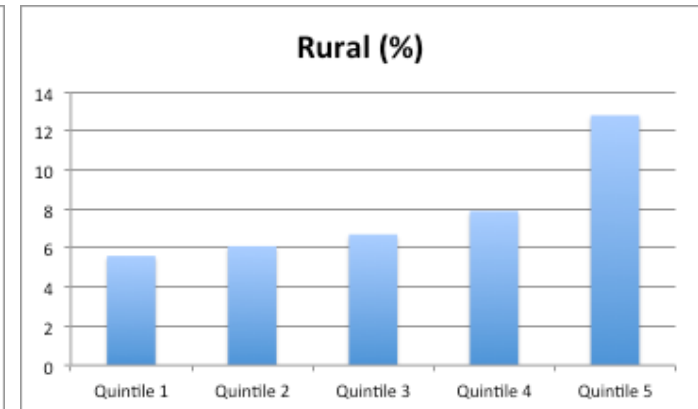
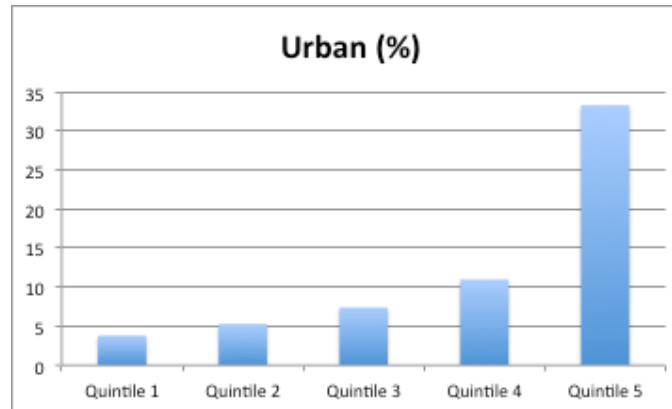


- To understand the reasons why reform of energy subsidies is often times blocked, we need to understand:
 - who are the stakeholders
 - whose interests are at stake



- Subsidies act as welfare support for low-income consumers
- But middle and upper income consumers benefit highly → vested interests

Distribution of petroleum subsidies by expenditure quintiles in urban and rural Egypt



Source: ECES (2010)

- Better targeting is needed

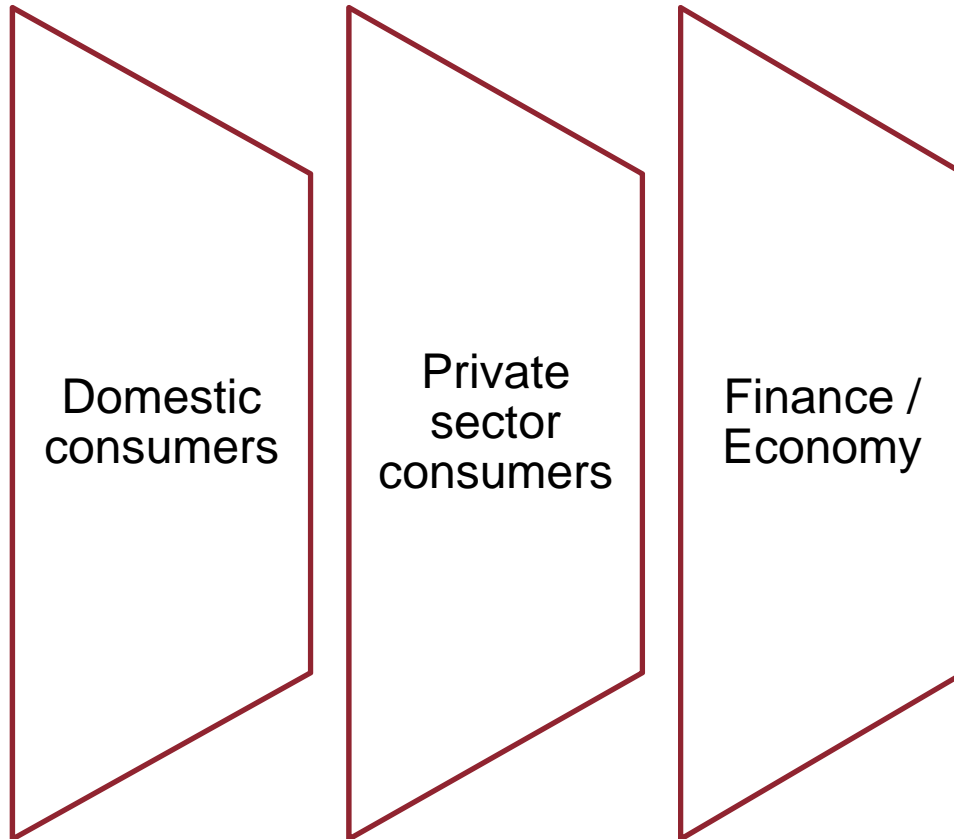
Domestic consumers



- Energy intensive industries benefit:
 - Directly: from subsidized energy products and electricity
 - Indirectly: from subsidies to the transportation sector
- ⇒ Vested interests
- But, impact on competitiveness is not so high (Khattab 2008) → space for increasing prices



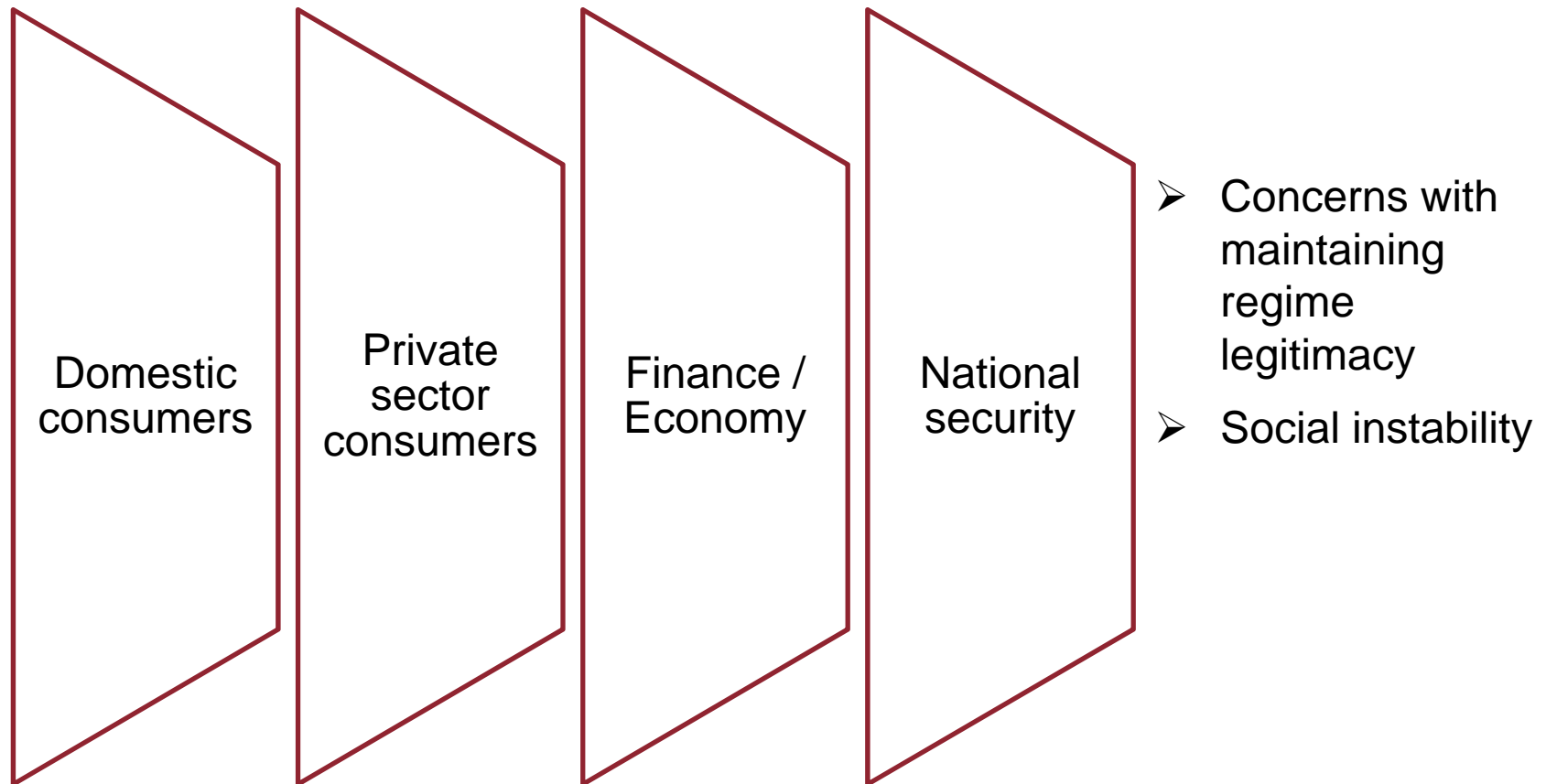
➤ Different stakeholders with different interests



- Concerns with fiscal sustainability and balancing different sets of expenses



➤ Different stakeholders with different interests



Efforts to reform across the MENA region



- **Iran's energy subsidy reform** – “the greatest economic project of the last 50 years”
- Expectation of between \$10-20 Billion savings in the 1st year
- Raise energy prices and compensate through cash transfers and social spending
- Compensation costs ½ of savings from energy subsidies
- Political consensus reached and wide communication in preparation for reform

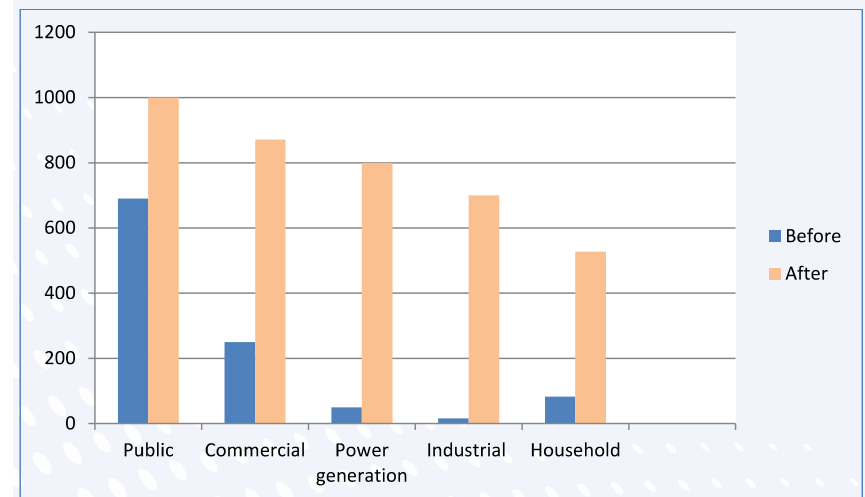


FIGURE 1: NATURAL GAS PRICE INCREASE—IRR/M³

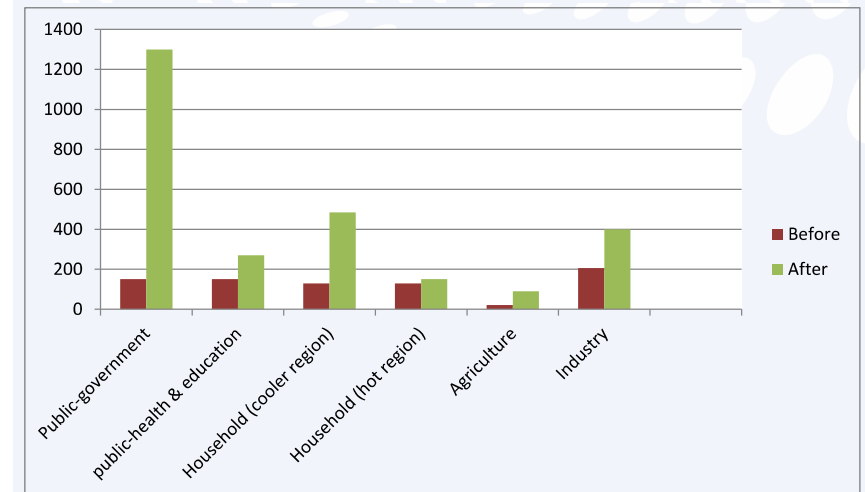


FIGURE 2: ELECTRICITY PRICE INCREASE—IRR/KWH

Source: Ministry of Energy (2011)

Source: Hassansadeh (2012)

Efforts to reform across the MENA region



- **Jordan** imports >96% of its energy needs
- Subsidy reform started in 2005
- Monthly automated price changes were put in place
- Social safety-net programs were put in place: increases in wages, pensions and social assistance payments, increase in food subsidies
- Cost of compensation measures was 1/3-1/2 of the annual cost of energy subsidies

- But, after 2009 reform was stopped in the wake of Arab spring
- Renewed concerns on budgetary issues reopens the discussion on subsidy reform



Efforts to reform across the MENA region



- **Egypt** - \$17.2 billion in energy subsidies
- Subsidies for energy intensive industries have been gradually reduced but not sufficiently
- Renewed commitment to reduce subsidies under financial pressures
- Aim to reduce subsidies by \$6.5 billion by June 2013
- But, no strategy in place and already resistance builds up





- The challenge: How to manage rents?
 - How to withdraw rents?
 - How to reallocate rents more effectively? (i.e. social safety nets, clean energy)

- Need for strong political will to reform subsidies & embedded autonomy

- National consensus on societal and energy sector transformation

- Political settlements driven by public-private-civil coalitions

Concluding remarks (2)



- Well organized reform preparations to attract public support - extensive public communication campaigns
- Carefully designed social compensation schemes: cash transfers, social assistance spending
- Embedding reform into institutionalized learning structures
- Assess the possibility of redistributing subsidy savings towards supporting renewables



Thank you!

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