The Gulf Exporter’s Paradox: Should cheaper oil abroad mean more expensive energy at home?

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Falling prices = exporting country budget crises

Brent and WTI Crude Oil Spot Prices, in dollars per barrel,
June 2014 - April 2015

- **Iraq** passes austerity budget, halts some IOC investment plans, introduces taxes on some goods
- **Statoil** and service companies cut 1000s of jobs in **Norway**
- **Venezuela** protests; President Maduro seeks finance from China and Qatar
- **Opposition in Nigeria** complain as **govt** draws down foreign reserves to meet spending
- **Angola** introduces austerity budget, President says fuel subsidy and infrastructure spending must be cut
- **Russia** rouble loses half its value against the dollar in 6 months, Central Bank raises interest rates by 17%
- **Iran** introduces austerity budget
- **Nigeria** introduce austerity budget, President says fuel subsidy and infrastructure spending must be cut
- **Venezuela** protests; President Maduro seeks finance from China and Qatar
- **Russia** rouble loses half its value against the dollar in 6 months, Central Bank raises interest rates by 17%
“The decline has been stronger and gone faster than we had expected...[what] we’re seeing is a reminder that we’re in a cyclical industry, and that we need to have a cost level in this industry that can sustain these types of cycle and let us be competitive over time” CEO Statoil Norway
What role oil and gas play in the economy over time matters
Have exporters used windfall revenues to diversify their economies?
Using below-ground assets for above-ground growth
Cost of water versus price in Bahrain

Ave. financial cost of water:
2012/13 $1.89/m³

- Average price paid per cubic metre of water sold
- Average cost of supplying one cubic metre of water

Govt. absorbs 80% of cost

Cost of gas to 2015: $2.25 mmBtu

Water lost in distribution = 30%

Mounting costs over time

- US$9.2 billion cost
- Municipal water consumption, (million m³)
- Cumulative financial and treatment and reuse costs
- 15.9 billion m³ natural gas
- 78 million tonnes Co₂
- +++ Damage to sea ecology

Based on Zubari 2014
Why is the UAE having to import more and more gas?

Exhibit 16: UAE Gas Production

UAE Gas Production (2013)
9.4 Billion Cubic Feet per Day (Bcfd)

Gas Export Commitments

Injection and Cycling

DOMESTIC MARKET

Shrinkage

Losses: Fuel and Flare

UAE gas Production that meets Domestic Demand

Gas Import (Pipeline a/LNG)

UAE Gas Demand
4.7 Billion Cubic Feet per Day (Bcfd)

Source: UAE Ministry of Energy in CPC/MoFA White Paper on Natural Gas
Prices of natural gas in the Gulf and global comparisons

Price of gas in US$/mmBtu

- Price rise for industry
- Planned price rise for industry (to 2021)
- Price falls since Sept 2014

Range of cost estimates for new gas in the GCC (tight & high sulphur) or additional pipeline imports from Qatar

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Price reform plans begin to be implemented in the GCC

- **May**: Qatar raises diesel price by 50%
- **Dubai** increases solar target from 5 to 15% by 2030

**Bahrain** announces it will phase out power and water subsidies; help farmers to harness solar

**FeWA (UAE)** raises electricity and water tariff for expats, commercial, industrial and govt. sectors

**Abu-Dhabi** increases electricity and water tariffs.

**Oman** increases industrial use gas prices by 100%, Kuwait increases diesel 300% and kerosene prices (then reverses price increase on Feb 1).

**UAE Federal National Council** approves Green Growth Strategy for roll out

**Sharjah** increases electricity and water tariffs for commerce and industry

**FEWA (UAE)** raises electricity and water tariff for expats, commercial, industrial and govt. sectors

**Bahrain** increases industrial use gas prices.
Consumer incentives for cutting wasteful use

Qatar: $0
Kuwait: $20
Saudi Arabia: $60
Dubai expat: $180
Jordan: $660
The potential for new business models: water ...
Cost-benefit case for investing in efficiency

Old savings

New savings

Abu Dhabi national
Abu Dhabi expatriate
What would be competitive today with different prices or shadow prices?

Conversion of gas turbines into combined cycle

Saudi Arabia: Capacity built in the power sector under price-deregulation scenario
Does energy have to get more expensive? There are options

• Per unit, the full costs and externalities should be made transparent

• Once this is clear, government can decide what it is worth investing today in order to save tomorrow

• Or pass on some or all of those costs to the consumers, using the savings to help offset bills or provide other benefits

• Shadow pricing is another option to help increase efficiency and create a more level playing field for RE

• The lower oil price signals an opportunity to rework economies away from depletion-led diversification
Thank you

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