



Subsidised Oil Prices: Are They Sustainable?

Presentation to Department of Energy Workshop

Manila, Philippines, January 31st 2008.



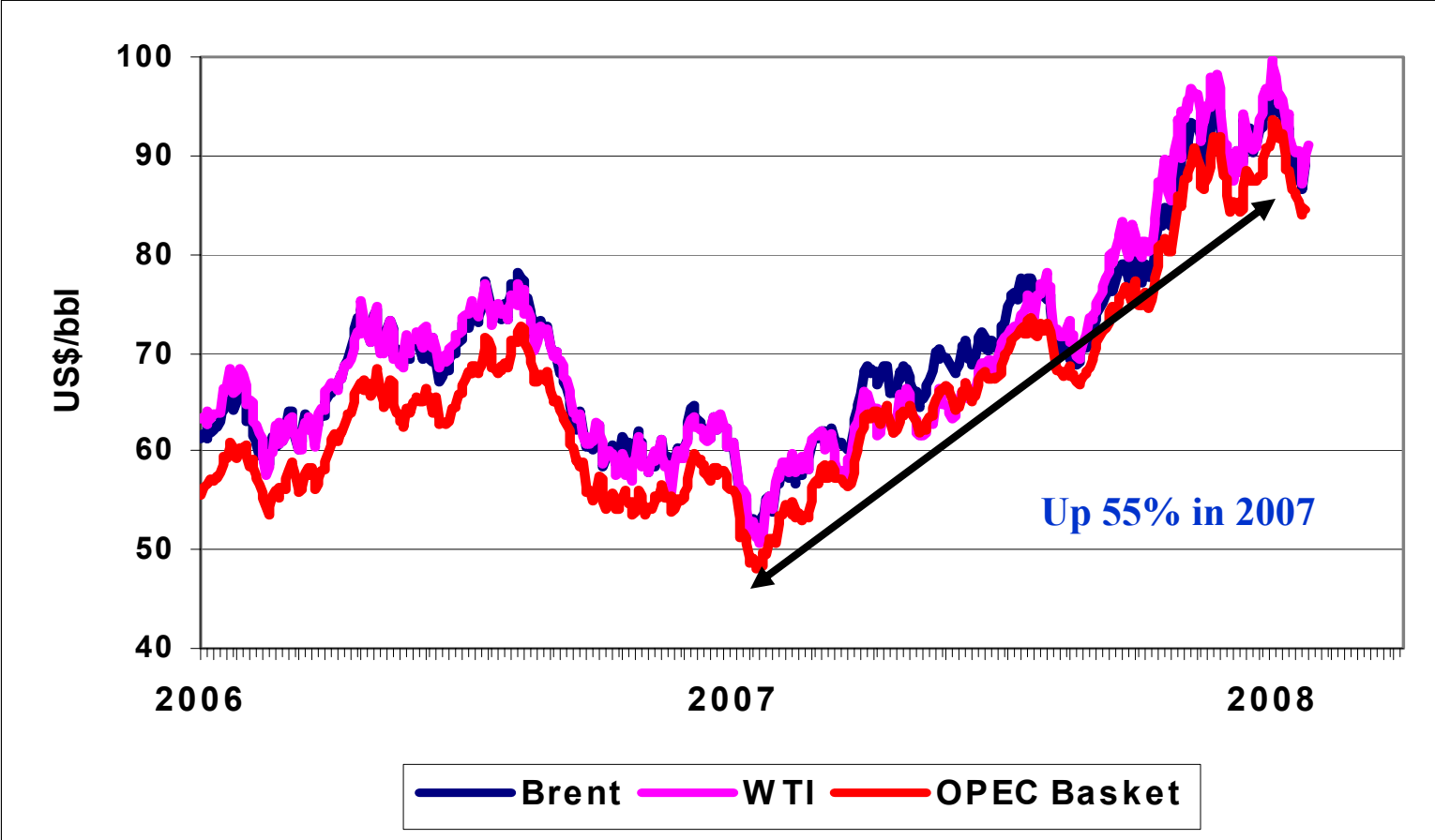


Some Key Issues

- Sharp rise in oil prices has placed subsidies at centre of agenda, particularly in the developing world.
- Cost of subsidies is now very significant.
- Oil demand expected to grow strongly to 2030.
- Are they sustainable, and what is achieved by reform or abolition?



Oil Prices 2006-2008





Asian Countries and Oil Subsidies: Bangladesh

Retail Gasoline Price: \$0.97/litre

Retail Diesel Price: \$0.58/litre

Last increases: 21% on Apr. 2, 2007

Rise since Jan. 2004: >100% for both

Subsidy borne by: government

**COST OF SUBSIDY: ABOUT \$730
MILLION/YR – 8% OF BUDGET
EXPENDITURE**



Asian Countries and Oil Subsidies: China

Retail Gasoline Price: \$0.72/litre (93 octane)

Retail Diesel Price: \$0.70/litre

Last increases: 10% on Nov. 1, 2007

Rise since Jan. 2003: gasoline up by 67%, diesel by 71%

Subsidy borne by: main refiner Sinopec and to a lesser extent by Petro-China

COST OF SUBSIDY: \$1.37 BILLION PAYMENT TO SINOPEC IN 2005 AND \$685 MILLION PAYMENT TO SINOPEC IN 2006

SUBSIDY COSTS 2.9% OF BUDGET EXPENDITURE IN 2005 AND 0.1% IN 2006

Negative refinery margins prompt crude run cuts leading to fuel shortages leading to higher – and expensive – imports.



Asian Countries and Oil Subsidies: India

Retail Gasoline Price: \$1.10/litre

Retail Diesel Price: \$0.7/litre

Last increases: gasoline up by 9.2% and diesel by 6.7% in June 2006

Rise since Jan. 2004: gasoline up by 29%, diesel by 40%

Subsidy borne by: government, state-run upstream companies and state-run retailers

COST OF SUBSIDY BASED ON \$90/BBL CRUDE: GOVERNMENT VIA BUDGET \$660 MILLION, GOVERNMENT-ISSUED BONDS TO STATE OIL FIRMS \$7.6 BILLION, UPSTREAM COMPANIES \$5.9 BILLION, STATE FUEL RETAILERS \$4.3 BILLION

SUBSIDY COSTS 0.4% OF BUDGET EXPENDITURE IN 2005 AND 0.1% IN 2006



Asian Countries and Oil Subsidies: Indonesia

Retail Gasoline Price: \$0.48/litre (88-octane)

Retail Diesel Price: \$0.46/litre

Last increases: 125% in October 2005

Rise since Jan. 2003: gasoline up by 148%, diesel by 127%

Subsidy borne by: government

COST OF SUBSIDY: \$9.31 BILLION IN 2007 – 12% OF BUDGET EXPENDITURE

In November 2007 60% fuel subsidy increase announced. Combined subsidies for fuel and electricity will be 9% more than Indonesia's education budget!



Asian Countries and Oil Subsidies: Malaysia

Retail Gasoline Price: \$0.58/litre

Retail Diesel Price: \$0.48/litre

Last increases: gasoline up by 18.5%, diesel by 23.4% on Feb. 28, 2006

Rise since Jan. 2004: gasoline up by 40%, diesel by 102%

Subsidy borne by: government

COST OF SUBSIDY: \$2.42 BILLION IN DIRECT SUBSIDY & \$2.12 IN FOREGONE TAXES – 11% OF BUDGET EXPENDITURE

Government tacitly admits that subsidies are “unviable”.



Asian Countries and Oil Subsidies: Vietnam

Retail Gasoline Price: \$0.81/litre

Retail Diesel Price: \$0.63/litre

Last increases: 15% on Nov. 22, 2007

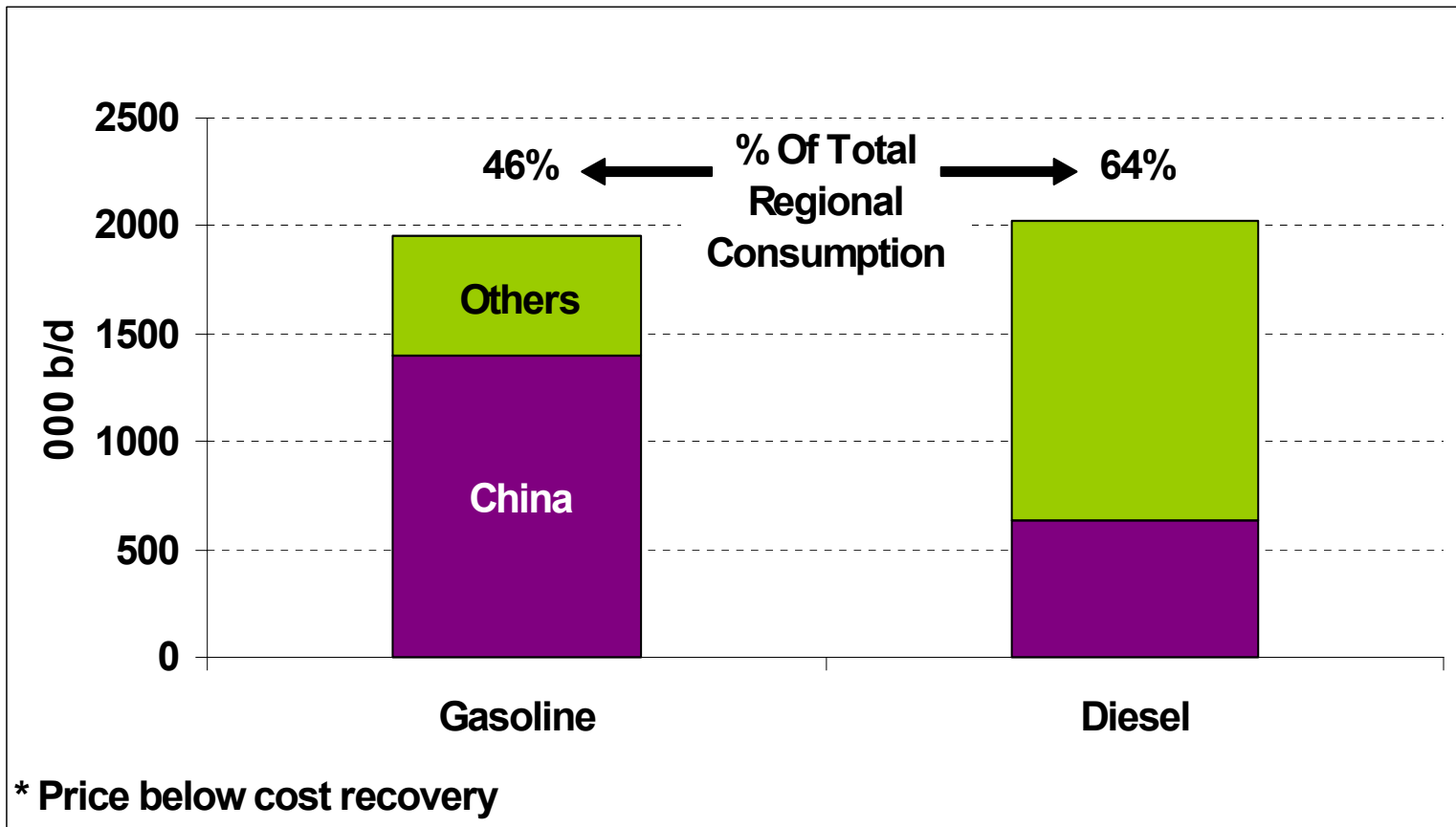
Rise since Jan. 2004: gasoline up by 167%, diesel by 193%

Subsidy borne by: government

COST OF SUBSIDY: \$620 MILLION - 3% OF BUDGET EXPENDITURE

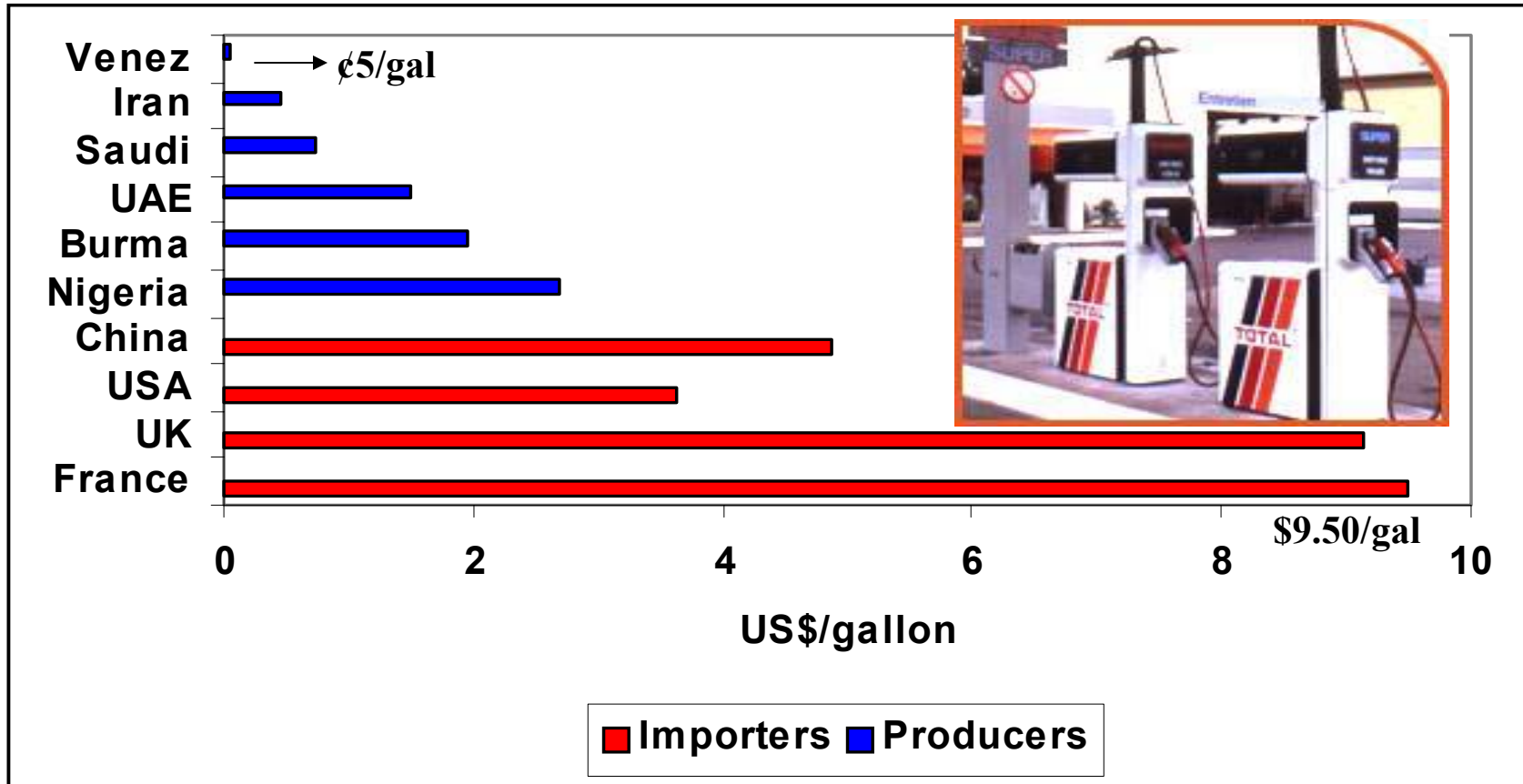


Asian Fuel Volumes Subject to Subsidy*





Stark Difference Between Pump Prices





Iran is One of the Extreme Examples

	<u>Unit</u>	<u>Domestic Price</u>	<u>FOB Price</u>	<u>Subsidy Rate %</u>	<u>Subsidies (bn rials)</u>
LPG	Rials/litre	29	1,336	98	4,669
Gasoline	Rials/litre	650	1,764	63	20,481
Kerosene	Rials/litre	160	1,621	90	14,185
Diesel	Rials/litre	160	1,580	90	35,598
Fuel Oil	Rials/litre	80	1,213	93	16,247
Natural Gas	Rials/cm	80	418	81	24,511
<u>Electricity</u>	Rials/kWh	126	334	62	<u>22,443</u>
TOTAL					138,134

Note: \$1 = 9,238 rials in Jan. 2007.

Source: International Energy Agency.



Examples of Changes to Subsidies in the Middle East/North Africa

Country	¢/litre	Comment
Egypt	16	Raised 30% Jul 2006
Iran	9	Rationing Mar 2007?
Iraq	10	Raised 200% Jan 2005.
Jordan	61	Raised 11% Mar 2006. Removal of subsidy Mar. 2007.
Lebanon	69	Raised 0.5% May 2006. Liberalisation under debate.
Morocco	128	Raised 5.3% in Feb & Sep 2006
Saudi Arabia	16	Reduced 33% in May 2006.
Sudan	51	Raised 29% in Aug 2006
Syria	57	Raised 50% in Jan 2006.
Tunisia	81	Raised 5% in Jul 2006.
UAE	45	Raised 31% Sep 2005. 91 RON fuel launched Oct 2006.
Yemen	26	Raised 85% in mid-Jul 2005: reduced 20% after rioting.

Source: PEL research & Middle East Economic Survey

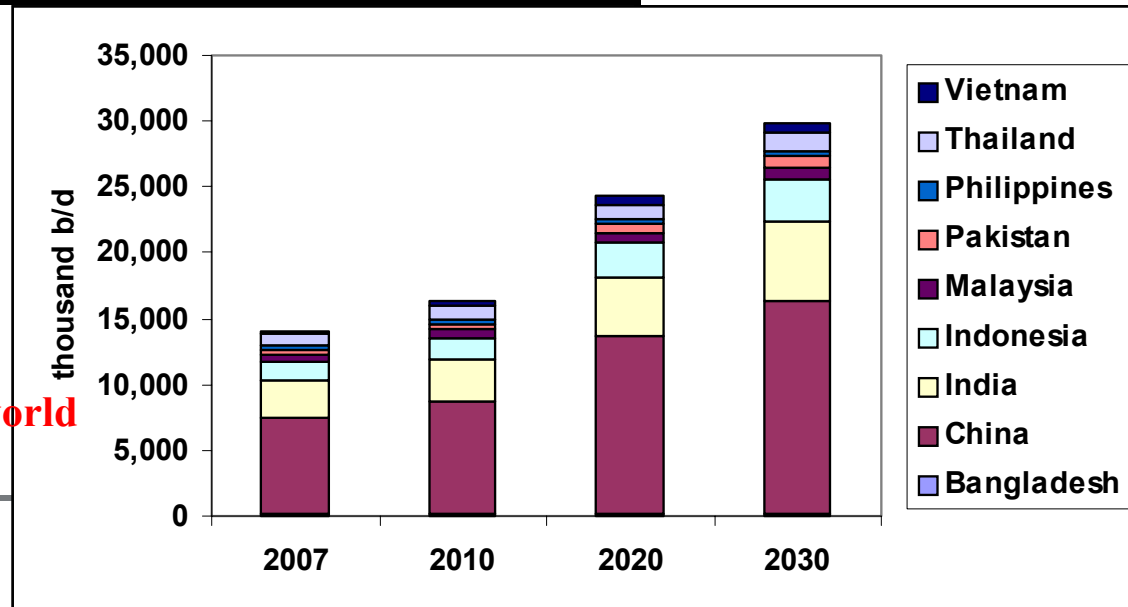


Selected Asian Countries: Oil Demand to 2030

<u>000 b/d</u>	<u>2007</u>	<u>2010</u>	<u>2020</u>	<u>2030</u>	<u>Vol</u> <u>ch.</u>	<u>Av. %</u> <u>ch.</u>
Bangladesh	92	100	140	190	98	4.6%
China	7,332	8,676	13,458	16,088	8,756	5.2%
India	2,840	3,100	4,445	6,086	3,246	5.0%
Indonesia	1,450	1,697	2,669	3,268	1,818	5.5%
Malaysia	558	645	824	893	335	2.6%
Pakistan	364	417	622	768	404	4.8%
Philippines	294	350	394	478	184	2.7%
Thailand	883	946	1,154	1,335	452	2.2%
Vietnam	306	370	558	825	519	7.4%
TOTAL	14,119	16,301	24,264	29,931	15,812	4.9%

These countries take 60% of total world oil demand growth to 2030.

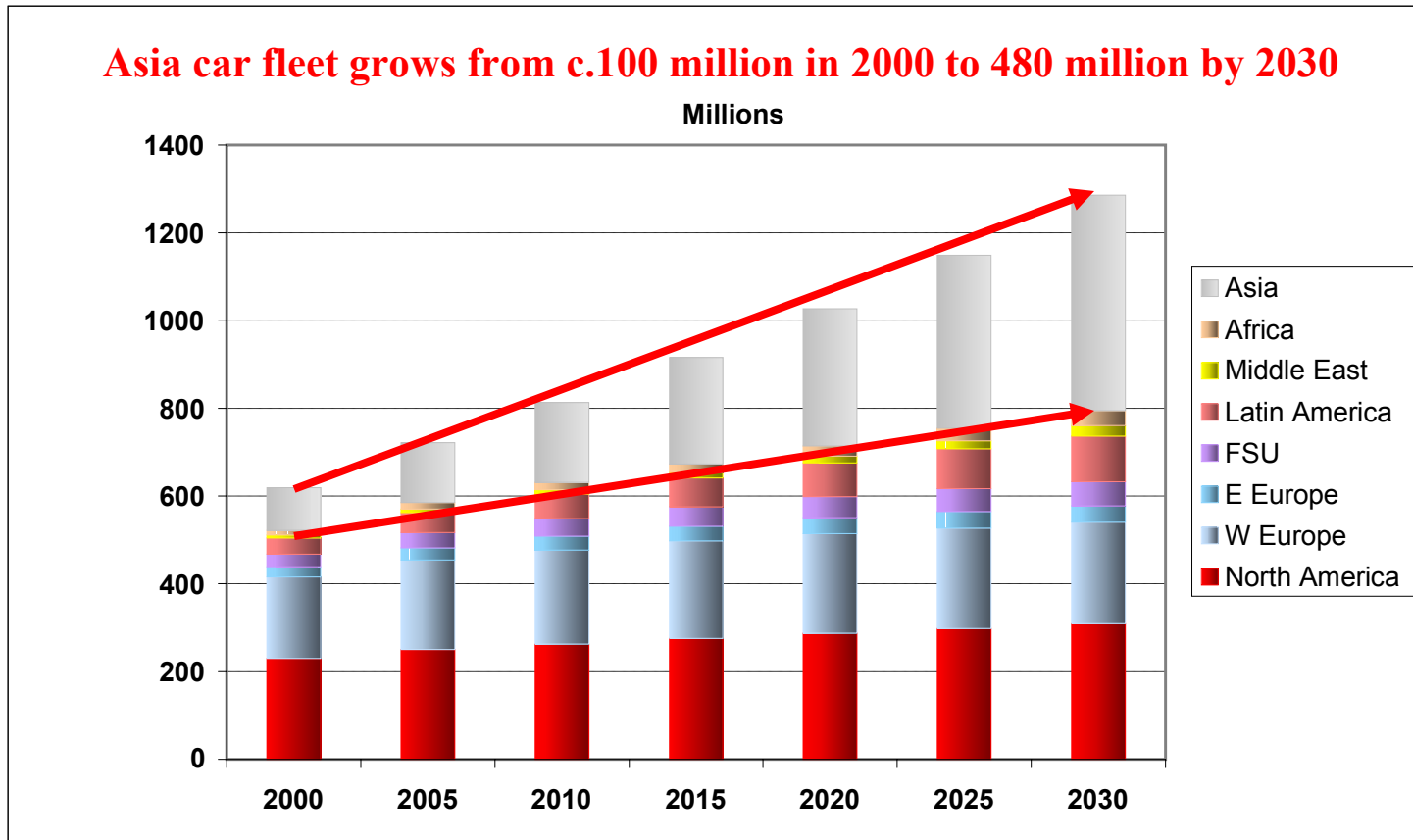
These countries represent 27% of total world oil demand in 2030 versus 16% in 2007.





World Car Population Estimates to 2030

Asia car fleet grows from c.100 million in 2000 to 480 million by 2030





Social Policy Objectives Can be Met More Efficiently Without Subsidies – But Some Mistakenly See No Subsidy as Abandonment of Objectives

- A social security system targeted at poorer sections of society is more cost effective than subsidies. Why should middle and upper level earners enjoy cheap fuel?
- Poor people often don't have access to personal transport so benefit less.
- Environmental protection – subsidies promote indiscriminate growth and pollution & CO² emissions.
- Global energy security improved through lower import needs
- Subsidy regimes contribute to poor financial performance of some state-owned companies in developing countries.
- Economic growth boosted by better efficiency and reduced budget costs.