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Stability versus Sustainability: Energy Policy in the Gulf Monarchies

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The hydrocarbon bounty held by the six Gulf Cooperation Council countries, Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, Oman and Bahrain, represents one of the world's vital supplies of energy for the coming decades. Global dependence on these resources stems not just from the size of the reserves or the level of production, but from the small populations in these Persian Gulf monarchies and their historically low levels of consumption. It is the GCC's large resource per capita that has allowed it to export most of its production and to become a dominant force in international markets.

This story is beginning to change. Rising populations and consumption in these producer states threatens assumptions about the sustainability of GCC energy exports. At current rates of consumption growth, Saudi Arabia could see oil exports reduced by the end of the decade, much sooner than expected. Kuwaiti consumption is already reducing exports. Oman and Bahrain, the GCC states with the smallest endowments, are in depletion-led decline.

This scenario presents a policy puzzle. Petroleum exports form the bedrock of the GCC political economies. Distribution of oil and gas revenues has cemented near-absolute monarchs in power long after the demise of this form of government elsewhere. Given the vital importance of these revenues, what factors have driven these monarchies to encourage domestic consumption of their chief exports? How have these policies shaped energy balances?

This paper combines descriptive statistics with fieldwork research data to present a deep empirical examination of the drivers of domestic hydrocarbon demand in these six countries. It discusses seemingly paradoxical government encouragement of local consumption of exportable hydrocarbons, through subsidies on electricity,

desalinated water, industrial feedstock and transportation fuel. Also examined is the electricity market, where unconstrained consumption is most effectively addressed by breaking a political taboo on raising prices; and the underdeveloped market for natural gas, the main feedstock for power generation, where low pricing is driving a shortage.

The paper finds that these monarchies – Qatar excepted – face an increasingly acute conflict between maintaining subsidies and sustaining exports. The GCC is in the midst of a shift to a higher-cost model of energy provision. The era when primary energy was considered nearly free is being eclipsed by one where new sources of demand are met by more expensive resources, either unconventional domestic energy or market-priced imports. For now, governments have absorbed the increased cost and insulated consumers from price signals that might otherwise moderate consumption. This counterproductive practice only intensifies the call on exportable resources.

The consumption dilemma, coming at a time when opportunity for reform has been constrained by pan-Arab uprisings, presents difficult questions for these tribal-autocratic regimes. Hydrocarbons help ruling families buy political support, through in-kind domestic distribution; and they provide regimes with economic viability, through export revenues, some of which are also distributed. For the system to continue functioning, resource revenues from the international side of the equation must not be displaced by resource demand from the domestic side.

The choice for regimes is one of short-term political stability versus longer term economic sustainability. As populations rise and energy production reaches a plateau, domestic consumption will gradually displace exports, as has happened in other oil exporting states. Politically difficult reforms that moderate consumption can therefore extend the longevity of exports, and perhaps, the regimes themselves.

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