

Gasoline Price Reform in Saudi Arabia

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Introduction

Saudi Arabia has been adjusting gasoline prices on a quarterly basis since the start of 2019, with the most recent adjustment occurring on July 14, 2019. These adjustments depend on changes in international oil prices, and are smaller than the major changes in gasoline prices that occurred because of the energy price reforms of 2016 and 2018.

The negative effects of subsidized gasoline prices

Many governments around the world regulate domestic energy prices, allowing consumers to purchase energy at low and stable prices. Cheap energy is particularly important for lower-income households. However, subsidized energy prices lead to several negative effects. First, they are regressive: higher-income households benefit more from subsidized energy prices than lower-income households. According to Saudi Vision 2030's Fiscal Balance Program, lower-income households in Saudi Arabia accounted for only around 30% of energy subsidies. Providing subsidized energy is therefore an inefficient way of supporting lower-income households. Second, low energy prices lead to above average consumption levels; in other words, wasteful consumption. The overconsumption of gasoline is also associated with higher traffic congestion, more traffic accidents, increased air pollution, and higher carbon dioxide (CO₂) emissions. Third, subsidized energy prices provide little incentive for households to invest in energy efficiency measures. In Saudi Arabia, subsidized gasoline prices encouraged households to purchase larger cars with lower fuel economies. Finally, subsidized energy prices can also strain government budgets.

Energy price reform and the Fiscal Balance Program

Saudi Arabia's economy is highly dependent on oil exports, which account for the majority of its government revenues. However, revenues from oil exports can be volatile. After the fall in international oil prices in late 2014, the Saudi government recorded a budget deficit of over 380 billion Saudi riyals (SAR) in 2015, according to the Saudi Arabian Monetary Authority.

The Fiscal Balance Program, one of the 'key executive programs' of Saudi Vision 2030, was launched in 2016 to increase the sustainability of government revenues while optimizing government expenditure. It aims to achieve a balanced budget by 2023 and encompasses several important initiatives, including the introduction of a value added tax, expat levies, and energy price reform. Energy price reform is one of the Fiscal Balance Program's most important initiatives. It aims to remove the subsidies on energy, thereby increasing domestic energy prices. The energy price reform is expected to continue gradually over the coming years until domestic energy prices reach international benchmarks.

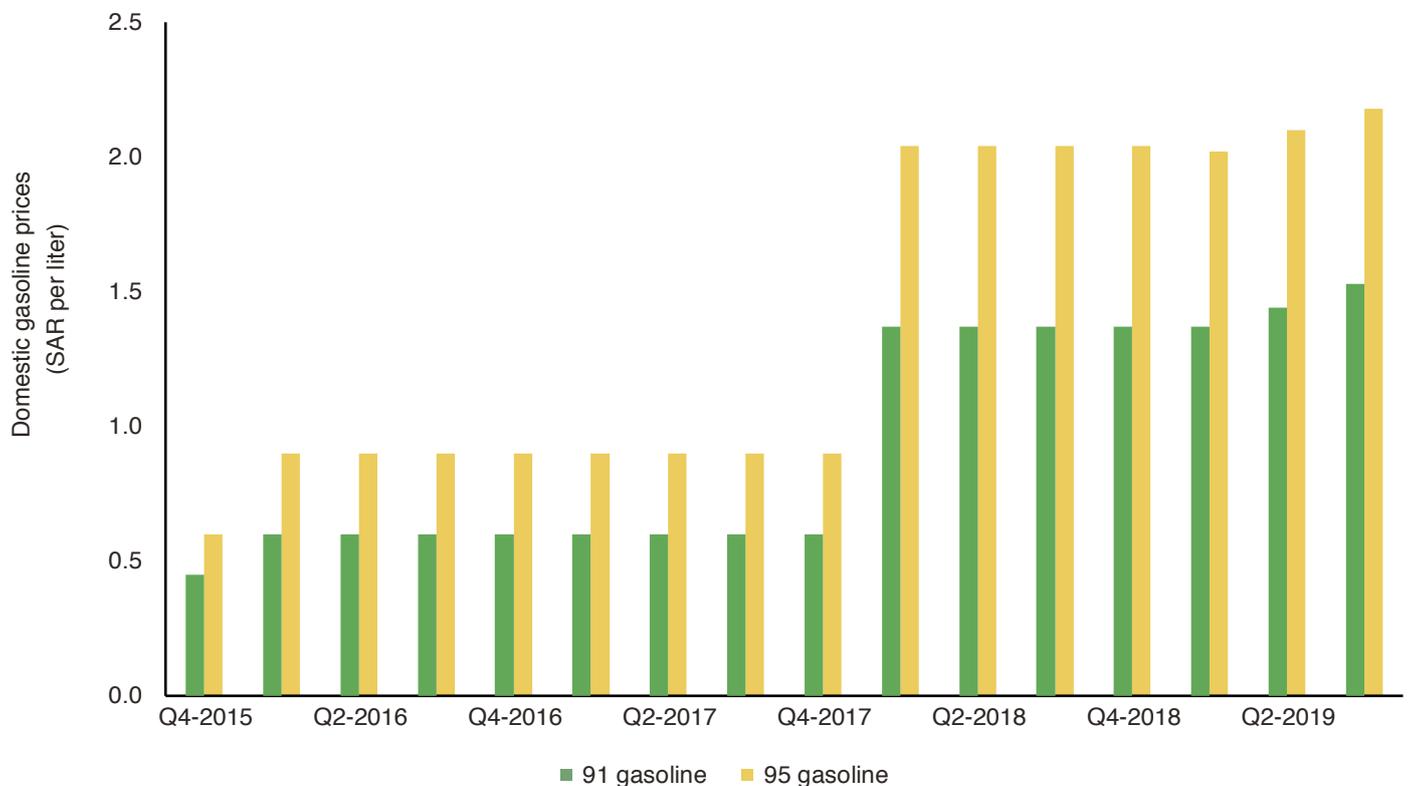
To minimize the negative impact of the Kingdom's energy price reform on lower-income households, in 2018 the government launched the Citizen's Account. This program provides cash transfers to eligible lower-income Saudi households to compensate them for higher gasoline prices, higher electricity prices, and the indirect negative effects of both policies. There are currently 12.4 million beneficiaries (including household

dependents) registered in the program. Energy price reform and the Citizen’s Account together provide support to lower-income Saudi households while raising government revenues and delivering numerous benefits for the Saudi Economy.

Historical gasoline prices and energy price reform

Between 2007 and 2015, gasoline prices in Saudi Arabia were fixed. Premium 95-octane gasoline was sold at 0.60 Saudi riyals (SAR) per liter, while 91-octane gasoline was sold at 0.45 SAR per liter (Figure 1). On December 29, 2015, Saudi Arabia increased gasoline prices (by reducing gasoline subsidies) for the first time in almost a decade. The prices for 95-octane and 91-octane gasoline went up to 0.90 SAR and 0.75 SAR per liter, respectively. This change was part of what is typically referred to as the first wave of energy price reform. On January 1, 2018, gasoline prices underwent even larger increases, rising to 2.04 SAR per liter for 95-octane gasoline and 1.37 SAR per liter for 91-octane gasoline. This change was part of the second wave of the Kingdom’s energy price reform. These price reforms brought the domestic gasoline price in Saudi Arabia close to international market prices. There have been subsequent adjustments (both up and down) to domestic gasoline prices, aligned with fluctuations in international oil prices. The adjustments have recently been implemented on a quarterly basis and are expected to continue to mirror international oil prices.

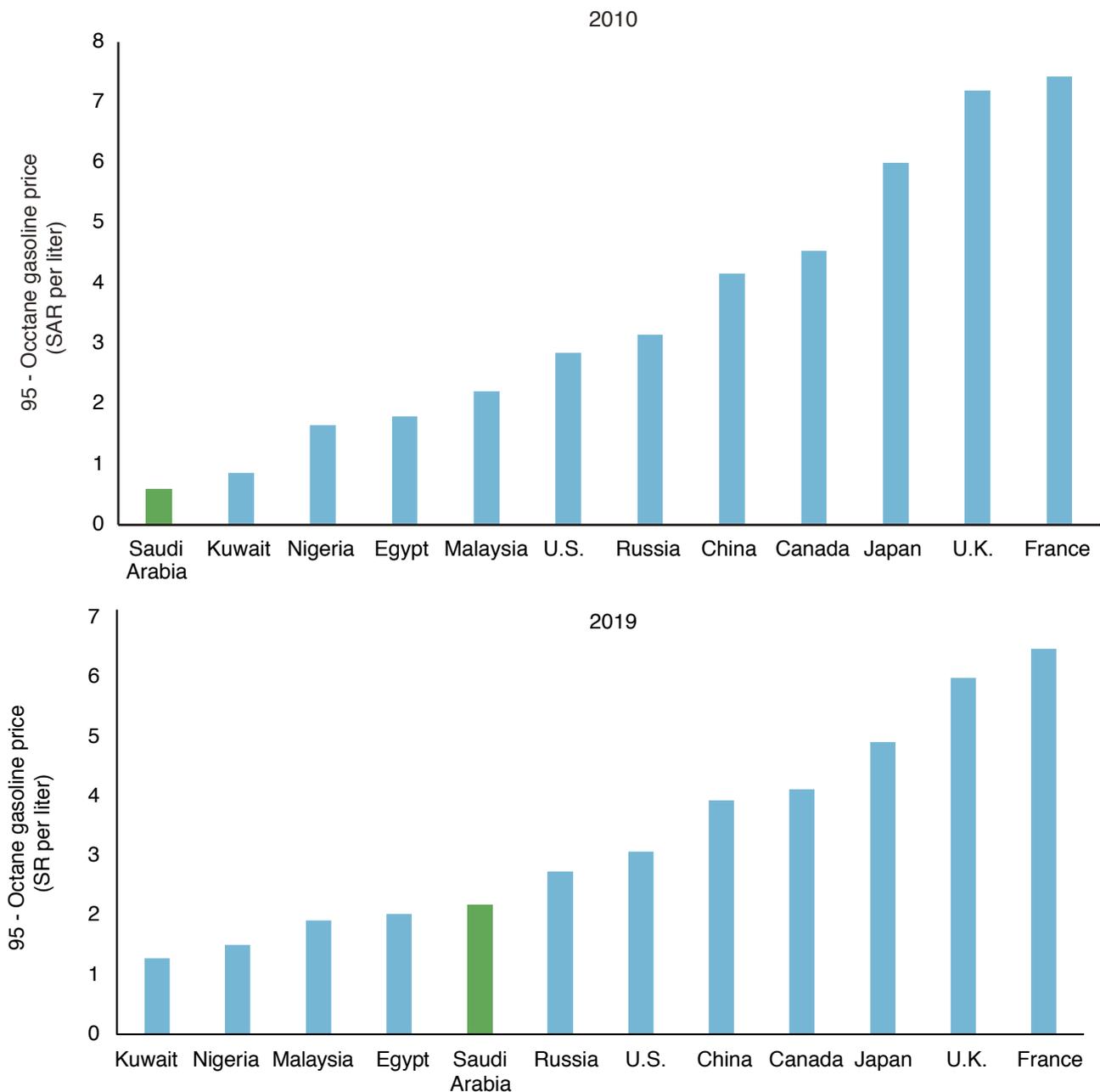
Figure 1. Gasoline prices for 91- and 95-octane gasoline (Q4 2015-Q3 2019).



Source: KAPSARC.

In 2010, Saudi Arabia had some of the lowest domestic gasoline prices globally (Figure 2). The price of premium 95-octane gasoline was 0.60 SAR (0.16 US\$) per liter, almost one tenth the price in France, for example. This large price differential was due to the Kingdom’s fuel subsidies and the high gasoline taxes in France, as in many other European countries, where more than half of the price of gasoline can be tax. Following Saudi Arabia’s two waves of energy price reform and several subsequent price adjustments, the Saudi 95-octane gasoline price is now 2.18 SAR (0.58 US\$) per liter, almost at the level of the international market price. Nevertheless, gasoline in Saudi Arabia is still cheaper than in many other countries due to its lack of gasoline taxes.

Figure 2. Comparison of premium (95-octane) gasoline prices in mid-November 2010 and mid-July 2019.



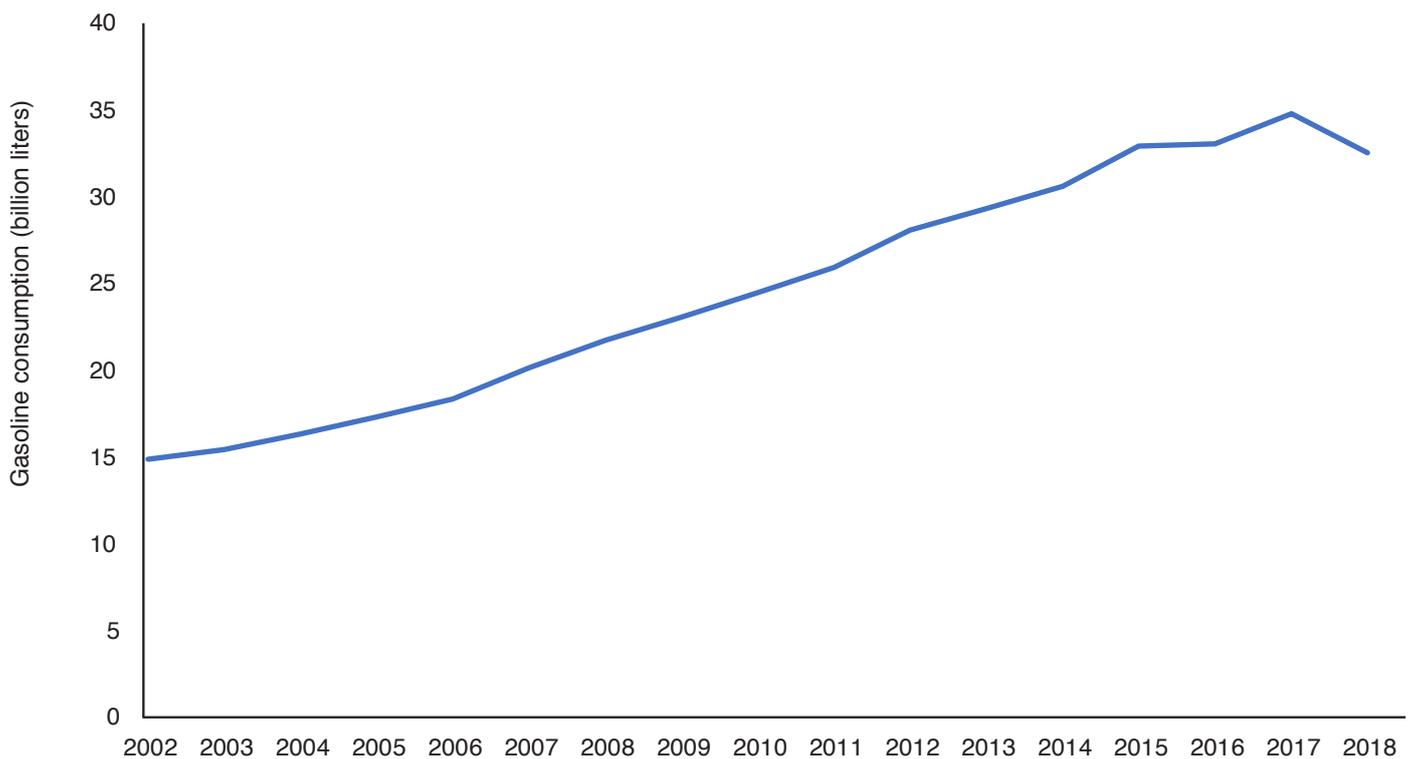
Sources: GIZ, KAPSARC and GlobalPetrolPrices.com.

The impact of fuel price reform on gasoline consumption in Saudi Arabia

Access to energy is central to human well-being and economic growth, facilitating important services such as heating, cooling, and transportation. Gasoline is a key transportation fuel in many countries. In 2018, Saudi consumers used over 30 billion liters of gasoline. Most of this fuel was used in cars, motorcycles, and light trucks, while a small percentage was used in light aircraft.

Gasoline consumption in Saudi Arabia has grown rapidly over the past several decades. Between 2002 and 2015, gasoline consumption grew from 14.9 to 32.9 billion liters (Figure 3), growing by an average of 6.3% annually. Following the implementation of energy price reform in Saudi Arabia at the end of 2015, gasoline consumption appears to have flattened out. Gasoline consumption in Saudi Arabia decreased by 6.4% between 2017 and 2018, following a large increase in the price of gasoline.

Figure 3. Annual gasoline consumption (2002-2018).

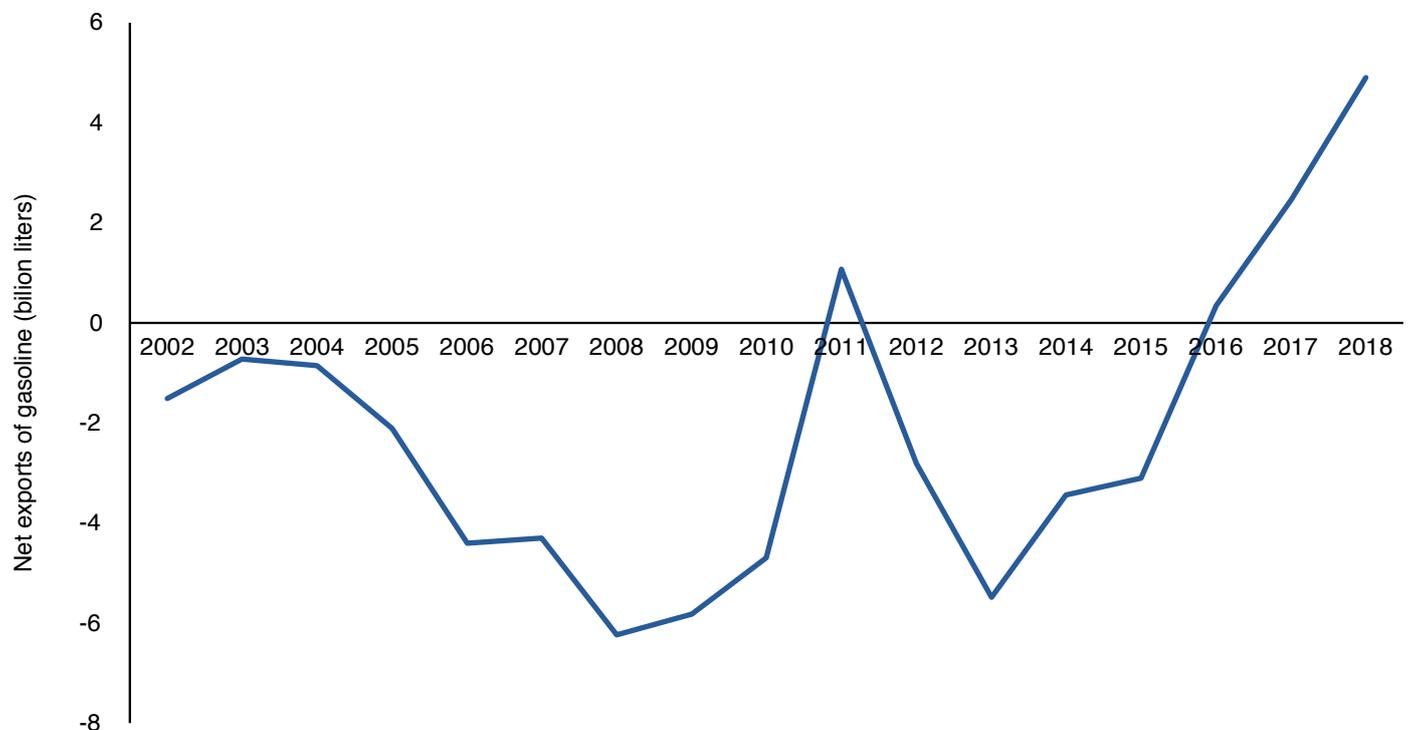


Source: JodiOil

The impact of fuel price reform on Saudi Arabia's gasoline imports and exports

Saudi Arabia's fuel price reform has also had an impact on its gasoline trade. Between 2002 and 2015, Saudi Arabia was a net importer of gasoline, despite expansions in its domestic refining capacity. During this period, economic development, population growth, and low gasoline prices contributed to a rapid growth in the country's gasoline consumption. Over the past several years, Saudi Arabia has accelerated the expansion of its refining capacity, which, combined with fuel price reform, has helped reduce the growth in its domestic gasoline consumption. This, in turn, helped Saudi Arabia become a net exporter of gasoline from 2016 (Figure 4).

Figure 4. Net exports of gasoline from Saudi Arabia.



Source: JodiOil

The economic and environmental impact of fuel price reform

Fuel price reform leads to several positive economic and environmental effects. A KAPSARC study, “Gasoline Demand, Pricing Policy, and Social Welfare in Saudi Arabia” (Atalla, Gasim and Hunt 2017), modelled gasoline demand in Saudi Arabia. It showed that higher gasoline prices in 2016 resulted in an increase in government revenues of 8 billion SAR and an overall annual economic gain in excess of 2 billion SAR for the economy. Since higher gasoline prices reduce gasoline consumption, they also help reduce congestion and car accidents, and mitigate CO₂ emissions and other forms of air pollution from cars. Reducing these external costs raises the total welfare gain for the Saudi economy to over 6 billion SAR annually. An update to that study, currently in print, reveals that higher gasoline prices at the start of 2018 generated an additional revenue uplift of around 25 billion SAR for the government and a total annual welfare gain of almost 10 billion SAR. Some of the revenue uplift was used in the Citizen’s Account, to help lower-income households pay for their energy consumption.

Energy price reform has significantly contributed to Saudi Arabia’s climate change mitigation efforts. Typically, burning one liter of gasoline produces around 2.3 kilograms of CO₂ emissions. Gasoline consumption in Saudi Arabia resulted in around 74.9 million tonnes of carbon dioxide emissions in 2018. KAPSARC’s decomposition analysis in the forthcoming paper shows that the first wave of gasoline price reform in 2016 resulted in almost 3 million tonnes of avoided CO₂ emissions. It also shows that the second wave of gasoline price reform in 2018 resulted in more than 4 million tonnes of avoided emissions. These avoided emissions (measured on an annual basis) will likely accumulate over the coming years, delivering larger cumulative reductions in CO₂ emissions compared to a business-as-usual scenario in which gasoline prices did not change.

Saudi Arabia’s energy price reform has provided many benefits associated with helping mitigate the rapid growth in Saudi Arabia’s domestic gasoline consumption. These include helping the Kingdom to improve its position as a net exporter of gasoline, increasing government revenues, generating economic/welfare gains for the Kingdom, and reducing the country’s CO₂ emissions, supporting its climate change mitigation efforts. Furthermore, the reforms will likely encourage consumers in Saudi Arabia to invest in more fuel efficient cars, leading to further economic and environmental benefits in the long run.

References

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