

# UAE's move to axe fuel subsidies a long-term gain that will outweigh short-term pain

Robin Mills

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Motorists may wince, but the UAE's move to remove subsidies on [fuel prices](#) has long been expected. Paradoxically, falls in global oil prices made it inevitable. And the possible short-term pain is more than outweighed by the long-term benefits for national development and the environment.

UAE petrol and diesel prices are set by the government, and, despite an increase in 2010, have been well below global levels. This leads to large losses for the government-owned retailers Enoc, Adnoc and Emarat. [Adnoc](#) has the advantage of producing its own oil, but Enoc and Emarat have to buy theirs on the open market.

Fuel prices have not exactly been "deregulated", as reports had it – they will still be set monthly by a government committee, but now will follow global price levels.

I [have long advocated this move](#), but the timing is good. The fall in global oil prices puts stress on government budgets across the Arabian Gulf, encouraging governments to search for savings. It also means that fuel prices will not increase by much initially. Current pre-tax US prices for regular petrol are about Dh2.20 per litre, implying that UAE prices could rise about a quarter from the current Dh1.72 per litre level.

With petrol comprising about 3 to 4 per cent of an average UAE family budget, that suggests that the fuel price increase could lead to a one-off increase in inflation of just under one percentage point. The overall inflation rate was 4.2 per cent last month.

On the other hand, diesel prices could actually fall. The standard price outside Abu Dhabi is at Dh3.42 per litre, well above US pre-tax rates of about Dh2.26 per litre. Diesel, used in buses and lorries, is the main influence on commercial transport rates, and hence affects the prices of goods in shops.

Increases in fuel prices will make public transport more viable. They will encourage the use of more efficient vehicles and better driving habits. In turn, that will help move the UAE into the modern era of transportation, such as hybrid and [electric cars](#). Overall, lower car use will translate into less congestion and reduced pollution, and is a key part of meeting the country's environmental goals, ahead of the latest climate talks in Paris in December.

The increase in petrol prices needs to be supported by other measures, particularly better public transport: more buses, longer operating hours and more trains for the Metro, and the extension of Metro lines to new areas. This is particularly important for commuters from Sharjah and for middle-income residents reliant on their cars.

With fuel retailing now a profitable business, the state fuel companies should open more petrol stations, particularly in new urban areas. Even

other private sector retailers might consider entering the market, as exist in Saudi Arabia and Oman.

Now attention will turn to other Middle Eastern states. Iran carried out an ambitious subsidy reform in 2010, but it was undone by the impact of sanctions, inflation and the collapse of the currency. Kuwait tried to increase diesel prices in January, but withdrew the move in the face of political pressure. Qatar raised diesel prices last year but petrol prices have not moved since 2011.

Meanwhile, Jordan and Morocco, under great financial pressure because they are not oil producers, have all but eliminated fuel subsidies, while Egypt has made some initial steps. In the Arabian Gulf, Oman and Bahrain, with significant budget deficits, are surely likely to cut subsidies soon. But there is no sign of any move in Saudi Arabia, whose US\$86 billion of annual petroleum subsidies outweighs its \$58bn education budget.

And that is probably the most important side of this reform: instead of going up in smoke, fuel subsidies can be diverted to improving infrastructure, education and health. This move, a long time in the making, should be the template for the UAE's neighbours.

*Robin Mills is the head of consulting at Manaar Energy and the author of The Myth of the Oil Crisis.*

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**AnthonyAlAin**

"Kuwait tried to increase diesel prices in January, but withdrew the move in the face of political pressure. Qatar raised diesel prices last year but petrol prices have not moved since 2011." Looks like a move to Kuwait or Qatar is in order.

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