

## Executive Summary

### **GCC States and Energy Pricing Reform:**

#### Building and Using International Frameworks of Cooperation

Tom S. H. Moerenhout, September 2017

- **Energy pricing reform is a reality in most Gulf Cooperation Council (GCC) countries. The key question is how to ensure a stable transition.** Most GCC countries now actively seek to implement domestic energy pricing reforms. There are notable differences in fiscal hardship caused by low international oil prices, and therefore in the pace and style of plausible reforms. In-kind benefits and public employment remain the most important method of distributing welfare. Aware of these particular socio-political contexts, governments look for ways to ensure a stable transition.
- **There are three main forms of international cooperation on energy pricing reform, with different levels of relevance to GCC countries:** (1) conditionality; (2) international policy formation around energy pricing reforms, including debates in various international fora and institutions; and (3) technical assistance provided by international institutions to support domestic energy pricing reforms in practical ways.
- **The GCC countries should work with international institutions to ensure that pricing reform conditionalities in the MENA region are feasible in the political context.** Donor conditionality is not relevant for domestic reforms in the GCC countries, but is of importance in a regional political context as it is often a condition for MENA importers to access loans. Given the primary foreign policy objective of many GCC countries of ensuring regional political stability, more coordination between the GCC countries and international institutions could make sure these conditions achieve better results.
- **The GCC countries should be more proactive in norm formation debates in the various international fora discussing energy pricing policies.**
  - **The GCC countries recognise the drawbacks of low energy prices, but want a debate that recognises their socio-political importance.** In many fora, GCC countries recognise that low energy prices can have some negative impacts but seek to balance this debate with an understanding of the role that energy pricing can play in welfare allocation. Therefore, it is helpful to understand energy pricing reform in the context of a wider process of economic reform that addresses the need for targeted distribution of welfare. This type of reform is a medium-term operation.
  - **Rapid norm-creation efforts can be perceived as external intervention, without due consideration to the intricacy of domestic political contexts.** Many efforts in international institutions such as the Group of Twenty (G-20), Friends of Fossil Fuel Subsidy Reform and the World Trade Organization seek to label fossil fuel subsidies as bad policies that need to be reformed immediately. This narrative does not

sufficiently recognise the domestic political importance of low energy prices in the GCC and other countries.

- **The GCC countries could be more proactive in requesting a more balanced debate that focuses on practical reform efforts and capacity building.** The GCC countries do not oppose energy pricing reforms, but call for international policy debates to focus on how to move forward on reform practically. So far these calls have been sporadic and often in reaction to norm setting efforts.
- **The GCC countries should more actively seek technical assistance from international institutions.** International institutions have strong and diverse experiences with energy pricing reforms in the MENA region and in fuel exporting countries. So far, there is no deep engagement between the GCC countries and international institutions to facilitate domestic pricing reforms.
  - **International institutions have expertise and a network of experts on the various facets of pricing reform that consultants may not have.** If a country's reform ambition is high, pricing reforms become more complicated and individual consultants may not have the tools or experience to tackle complex configurations of inter-dependent problems. International institutions have implemented wide technical assistance portfolios in the area of pricing reform, and have a vast network of experts and consultants they can engage to support capacity building on issues such as reform strategies, scenario modelling, mitigation measures, social data collection, and communication campaigns.
  - **The World Bank, Energy Sector Management Assistance Program, International Monetary Fund and other specialised organizations have demonstrated sensitivity to domestic political contexts.** When providing technical assistance, these institutions often directly cooperate with local consultants that have a better understanding of domestic contexts. When no loans are involved, governments can stay in full control of the technical assistance portfolio. **The GCC countries can stay in full control of the technical assistance process.** They could directly contract international institutions via Reimbursable Advisory Services, which are designed to provide technical assistance to middle to high -income countries. The GCC countries could also designate one domestic institution to lead 'lesson learning' from international institutions. This institution can then have a central advisory role in pricing reform planning.
- **The GCC countries should consider setting up a regional learning platform around energy pricing reforms.** A huge potential for regional cooperation on pricing reforms remains untapped. Various MENA and GCC countries have built up expertise on different facets of pricing reform from cash transfer mechanisms over communication campaigns to energy sector modelling. There is no regional forum or actor that records and shares the practical lessons from these experiences. The Islamic Development Bank could be a candidate to take up this role but is currently not yet engaged in pricing reform policies. The GCC countries could play an active role in the set up of such a regional learning platform.