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Saudis looking at raising energy prices

RIYADH (News agencies) – Saudi Arabia is looking at raising domestic energy prices, Oil Minister Ali al-Naimi said yesterday, confirming that the kingdom could cut a lavish system of subsidies blamed for waste and surging fuel consumption.

Asked on the sidelines of a mining conference, whether he expected domestic energy prices to increase in the near term, Naimi told reporters: "What you are asking is: is it under study? And the answer is yes."

Naimi gave no details of the possible changes. In the past, officials have spoken privately of the reforms, but Naimi's remarks were the first public confirmation by such a senior official that they were under study.

Domestic prices of gasoline, other fuels and the gas feedstock used by Saudi petrochemical producers are heavily subsidised by the government and among the lowest in the world; gasoline costs about 15 US cents a litre.

Letting prices rise would be one of the

biggest economic changes in Saudi Arabia for many years and, because of the large number of low-income Saudis who rely on cheap fuel, politically sensitive.

But pressure to consider such measures has increased this year as low oil prices have slashed the revenues of the world's top crude-exporting country, saddling it with a state budget deficit that is expected to be well over \$100 billion this year.

The International Monetary Fund (IMF) warned last week that if the kingdom did not take steps to reduce state spending and increase revenues, its huge financial reserves would run out in under five years.

Cutting energy subsidies could make a big dent in the budget deficit; the IMF estimates Saudi Arabia spends \$107 billion annually on the subsidies, including \$86 billion on petroleum and \$10 billion on natural gas.

The reform could also hold back burgeoning consumption, which threatens eventually to erode the amount of Saudi oil available for export. Domestic oil product demand rose 5.1 per cent year-on-year to a

record 2.98 million barrels per day in June, according to the Joint Oil Data Initiative.

However, any action would require approval at the highest levels of government, including the king, and industry sources in the kingdom told **Reuters** that if changes happened, they would be gradual and cautious.

Saudi officials have approached the UAE government, which raised domestic gasoline prices in August, asking for advice on how to conduct such reform, said a Gulf industry source, declining to be named because of the sensitivity of the matter.

"I hear it from the highest level, they will do it soon and I think they will have to do it before the budget announcement," the chief executive of a major Saudi company told Reuters, speaking of gasoline price rises.

The state budget for next year, which may include other steps to reduce the budget gap such as major cuts in spending on infrastructure projects, is expected to be released by late December.