

High Oil Prices and the Mediterranean Countries

Robert Mabro

Fellow of St Antony's College
Former Director of the Oxford Institute
for Energy Studies

Introduction

The Mediterranean has always exercised a fascination not simply because of its beauty as a sea. The Romans looked on it as a sort of big internal lake central to their empire – *mare nostrum*. Europe saw it later as the cradle of civilisation. Greece, Rome, Judaism and Christianity, all these sources and components of European culture and civilisation emerged and flourished along its shores.

More recently, the Mediterranean has been used as a concept of analytical value or relevance in a number of contexts – history, geography, trade, climate, migration, etc. The Mediterranean, however, is no longer unified by a single empire as it was at some point in Roman times. The Ottomans occupied its Eastern and Southern shores, Greece and most of the Balkans; and the Arabs, before them, extended their reach to Andalusia, Malta and Sicily. However, neither the Arabs nor the Ottomans managed to create a pan-Mediterranean empire.

Today, and for a number of centuries, a large number of countries, recently increased by the break-up of Yugoslavia, populates its shores. When it comes to issues such as economic development, energy, and domestic policies in these fields the Mediterranean regional concept as a unifying theme loses much of its analytical significance. The reason simply is that every country has different economic structures, a different resource endowment, and often faces different circumstances.

Furthermore, the list of Mediterranean countries is very long indeed, as clearly appears in the footnote¹. For our concerns in this paper, which is about the energy situation and developments in 2006, these countries are different from one another in a number of relevant respects.

First, they are of different population sizes. France, Italy, Turkey, Spain and some others stand at one end of the size spectrum and much further away we would find Malta, for example. These countries are at different stages of developments. Some of them really belong to what economists tend to call the North, which means the industrialised, fairly wealthy region of the world. In our list these would include France, Italy, and Spain among others. By contrast, Egypt, Tunisia, Algeria, Syria, Jordan and Palestine belong to the third world. The differences between per capita incomes of the various countries in the region are wide. Some Mediterranean countries are members of the EU and/or the OECD; two others – Algeria and Libya – are members of OPEC; nine of the Arab League; and a few have none of these institutional attachments. More generally, one can say that the countries' international standing and political weight in the world differs from case to case.

For these reasons, our approach is bound to be selective. It will not cover all 25 Mediterranean countries; and the ones referred to in different sections may vary according to the issue discussed and the availability of data.

Energy

As regards energy the important distinction is between oil-exporting and oil-importing countries. The region only has three oil exporting countries –Algeria, Libya

¹ In circum-Mediterranean order the countries are: Portugal, Spain, France, Italy, Malta, Slovenia, Croatia, Bosnia-Herzegovina, Serbia, Montenegro, Macedonia, Albania, Greece, Cyprus, Turkey, Syria, Lebanon, Jordan, Israel, Palestine, Egypt, Libya, Tunisia, Algeria and Morocco. They are 25 in all.

and Syria. Egypt used to be part of this group although as a minor exporter. Preliminary data for 2006 suggests that it has become a marginal net oil importer; but it is beginning to export natural gas. The vast majority of the Mediterranean countries, 22 out of the 25 on the list, are oil importers albeit in widely different amounts. The oil import data for 2005 were as follows (in million barrels a day, mb/d):

TABLE 4 Oil Import Data for 2005 (million barrels a day, mb/d)

France	1.90
Greece	0.43
Italy	1.70
Portugal	0.32
Spain	1.60
Turkey	0.65

Source: BP Statistical Review of World Energy, June 2006.

Oil imports of the Arab Mediterranean countries in 2005, which we can assume to correspond to the import volumes in the case of non-oil exporting countries, were as follows (in mb/d):

TABLE 5 Oil Imports of Arab Mediterranean Countries in 2005 (mb/d)

Jordan	0.108
Lebanon	0.127
Morocco	0.163
Tunisia	0.095

Source: OAPC, Annual Statistical Report, 2006.

Import data are unlikely to prove much different in 2006 for the *European Mediterranean countries* detailed above. The reason is that demand data for both OECD and non-OECD Europe show almost absolute stagnation in demand between 2004 and 2006. The same characteristic will most likely be found for the European Mediterranean countries, a group in which the giants are OECD members. The oil demand data are as follows (in mb/d):

TABLE 6 Oil Deman Data of Mediterranean Countries (in mb/d)

OECD Europe	15.47	15.52	15.45
Non-OECD Europe	0.70	0.72	0.73
Total	16.17	16.24	16.18

Source: IEA.

The small growth of 0.4% in 2005 was completely eliminated in 2006. It is also worth noting that oil de-

mand in *non-OECD European countries*, many of which belong to the Mediterranean group, has been growing by 4% between 2004 and 2005 while it fell by 0.1% over the same two years in the OECD group. This is consistent with a general pattern in which oil demand grows faster in poorer countries than in the industrialised North, particularly Europe and Japan.² The *Arab Mediterranean countries* –whether oil importers or exporters– show high rates of oil consumption growth as shown in the data below. Demand growth rates in this group in 2005, which to my mind approximates what happened in 2006³, were as follows (in %);

TABLE 7 Oil Consumption Growth Rates of Arab Mediterranean Countries

Algeria	8.5
Egypt	7.0
Jordan	5.9
Lebanon	6.8
Libya	8.3
Morocco	6.5
Syria	2.0
Tunisia	5.5

Source: OAPC, Annual Statistical Report, 2006.

Here again we observe two familiar patterns: higher oil demand growth in oil exporting countries (with the notable exception of Syria however) than in the importing countries; and high rates ranging between 6 and 7%, significantly higher than in Europe, in Arab importing countries. These patterns are not altogether very surprising given that there is a strong income effect on demand in oil-exporting countries, and that both exporters and importers in the Arab group belong to the developing world.

Oil Prices

Oil prices in international trade were on average higher in 2006 than in 2005. The price developments in 2006 did not have the shape of a linear upward trend. In the first half of 2006 prices rose, reaching a peak of \$78 per barrel during the first days of the Israeli war on Lebanon. They then began to fall, coming down to about \$60 per barrel by the end of the year. Annual average oil prices in 2006, compared with relevant earlier years were as follows (in \$):

² The significant exception to this pattern is the USA where oil demand tends to grow faster than in Europe and Japan.

³ Except for Lebanon where the economy was damaged by the Israeli war against the country in the summer of 2006.

TABLE 8 Annual Average Oil Prices (2001-2006)

	WTI*	Brent
2001	26.0	24.9
2004	41.5	38.0
2005	56.7	55.3
2006	66.2	66.1

Source: Barclays Capital. (*) West Texas Intermediate

Brent is the relevant reference price for the Mediterranean region. Not that the importing countries of that region purchase much North Sea crude oil. They import mainly from the Gulf countries and Russia. The relevant price formulae used have Brent as the reference and a discount coefficient which reflects the lower quality of the imported crude relative to Brent. Broadly speaking the changes in Brent price trends over time are more or less similar to changes to the trends in the prices of the imported varieties of crude oil. But price levels are different of course. We can assume that the average price basket of imported crude oil in the Mediterranean is about 10% lower than the Brent price. This is not the case for the average export prices of Algerian and Libyan crude oil as these include high quality varieties -extra light and low sulphur oil. We assume conservatively that the relevant reference in this case is the full Brent price.

Balance-of-Payment Effects

In 2006, The average Brent price increased by 19.5%. This was a smaller increase than in 2005 when the Brent price was 45.5% higher than in 2004, adding a heavy burden on the balance of payments of importing countries. And if we were to take the year 2001 as our base, the increase in the Brent price in 2006 turns out to be a huge 165%.

Assuming that the net imports of the European Mediterranean countries were in 2006 almost identical to 2005 the increase in their import bill in 2006 would have been as follows (in \$ million):

TABLE 9 Expected Increase of the Import Bill in 2006

France	7,989.80
Greece	1,695.06
Italy	6,701.40
Portugal	1,261.44
Spain	6,307.20
Turkey	2,562.30

These increases ranging between \$1.26 billion and \$8 billion are significant but not necessarily crippling. The

increases will undoubtedly be smaller for the smaller European countries for which, unfortunately, we have no up-to-date statistics. This does not mean that the burdens suffered are lighter than for the bigger countries. In general, the smaller the size of the economy of a country that imports all its oil needs, the heavier, and the more significant, is the impact of an increase in prices.

For all countries, irrespective of size, the burden is better assessed if one looks at the increase in the import bill between 2001 and 2006. A five-year period is not too long for an assessment in this context as it takes at least this length of time to realise all the necessary economic adjustments.

The net oil import volumes in 2001 of the six European countries considered above were as follows (in mb/d):

TABLE 10 Net Oil Import Volumes in 2001

France	2.023
Greece	0.411
Italy	1.867
Portugal	0.327
Spain	1.508
Turkey	0.645

If the same quantities were imported in 2006 the import bill in that year would have been of the order of (in \$ billion):

TABLE 11 Northern Mediterranean Countries Estimated Oil Import Bill in 2006 (according to 2001 quantities)

France	43,916 (an increase of 27,368 over 2001)
Greece	8,921 (an increase of 5,559 over 2001)
Italy	39,888 (an increase of 24,617 over 2001)
Portugal	7,099 (an increase of 4,424 over 2001)
Spain	32,703 (an increase of 20,368 over 2001)
Turkey	13,927 (an increase of 8,651 over 2001)

In all cases the increase was by a multiple of 2.654 when compared with 2001.

Import volumes were not the same in 2001 and 2006. In three countries -France, Italy and Portugal- the 2006 volumes were smaller by 62 thousand barrels per day, 58 thousand and 7 thousand respectively. This reduced the import bill by \$1.346 billion for France, \$1.17 billion for Italy and \$0.1521 billion for Portugal had the 2001 volumes remained unchanged. In three countries -Greece, Spain and Turkey- the import volumes were higher in 2006, thus adding to the import bill \$0.369 billion, \$2.091 billion, and \$0.108 billion respectively. The increases in the import bills due to the price rise

(ignoring changes due to higher/lower import volumes) between 2001 and 2006 compared with the current balance deficits in 2006 are of interest. We see that in some cases – France, Italy – the increase of the import bill compares as a high percentage of the current balance deficit in 2006. But in Greece, Turkey and Spain the deficit appears to have many other elements than the increase in the costs of imported oil. The figures are as follows:

TABLE 12 Impact of the Increase of the Oil Import Bill on the Current Balance Deficit			
	(1) 2006 Current Balance Deficit	(2) Difference 2006 2001 in Oil Import Bill	% (2)/(1)
	\$ billion	\$ billion	%
France	31.2	27.37	87.7
Greece	29.6	5.56	18.8
Italy	42.1	24.61	58.4
Spain	110.7	20.37	18.4
Turkey	31.9	8.65	27.1

Source: *The Economist*, Data from above, own computations.

The oil importing Arab countries for which data are available naturally incurred rises in their import bills. A main difference with the European Mediterranean countries that are OECD members is that oil consumption, and therefore imports, have been increasing year after year as shown before. The import bill in 2006, compared with 2001, would have thus increased under the double impact of both prices and volumes. In most, if not all these countries, energy is subsidised domestically. Higher international prices are not fully passed on to consumers and this mitigates the negative impact that rising prices ultimately have on demand. Furthermore, economic expansion in developing countries is more energy intensive than in advanced nations, and is therefore an engine of growth of energy demand.

I assume that oil consumption in Jordan, Lebanon, Morocco and Tunisia, and thus import volumes, grew at the same rate in 2006 as they did in 2005 and that the average oil import price was 10% lower than the average Brent price owing to quality differences. On this basis the import bill in 2006 would be as follows (in \$ billion):

TABLE 13 Estimated Oil Import Bill in 2006 (Southern Mediterranean Countries)	
Jordan	2.65
Lebanon	3.07
Morocco	3.98
Tunisia	2.32

Had the volumes of 2006 been imported at 2001 prices

the import bills would have been as follows (in \$ billion):

TABLE 14 Estimated Import Bill in 2006 (according to 2001 prices)	
Jordan	1.72
Lebanon	1.97
Morocco	2.56
Tunisia	1.50

The oil price increase effect (that is excluding volume growth effects) on the balance of payments is thus of the order of \$0.93 billion for Jordan, \$1.10 billion for Lebanon, \$1.42 billion for Morocco and \$0.82 billion for Tunisia. The volume effect is computed on the basis of the following increases in imports between 2001 and 2006 (in b/d):

At 2006 prices these would have cost \$0.238 bil-

TABLE 15 Arab Mediterranean Countries Increase in Oil Imports in b/d (2001-2006)	
Jordan	11,000
Lebanon	12,000
Morocco	15,000
Tunisia	8,000

lion (Jordan), \$0.260 billion (Lebanon), \$0.326 billion (Morocco) and \$0.174 billion (Tunisia). Clearly, the impact of the volume increases on the trade balance was less significant than the burden imposed by price increases in international trade.

Three Mediterranean countries are net oil exporters. These are Algeria, Libya and Syria. The Brent price increase of 2006 was of the order of 19.5% compared with 2005, as mentioned above. Export volumes (crude plus products) were as follows in 2005: Algeria 1.435 million barrels per day, Libya 1.469 million barrels per day, and Syria 0.367 million barrels per day. Gross revenue estimates for that year are: Algeria, \$29.570 billion; Libya, \$29.651 billion; and Syria, \$6.667 billion. The same export volumes in 2006 would have generated 19.5% more gross revenues for each of these three countries. These increases would thus be: Algeria, \$5.766 billion; Libya, \$5.782 billion; and Syria, \$1.3 billion. A more dramatic picture would emerge if we compared the revenue increases between 2001 and 2006. The oil price rise (Brent) was a huge 165%. The same volumes exported at 2001 prices in 2006 would have generated gross revenues of only \$13.334 billion instead of \$35.336 billion (Algeria); \$13.371 billion instead of \$35.433 billion (Libya); and \$3.006 billion instead of \$7.967 billion (Syria). These numbers give a better feel for the size of the windfall.

Other Macro-Economic Effects

Did the oil price increases have a significant impact on the rate of growth of the macro-economy? Most observers were puzzled by the apparent robustness of the world economy which did not suffer a deep recession as had happened in the 1970s, and more dramatically in the early 1980s.

“Robustness” is perhaps the wrong diagnosis. What did actually happen was a continuation of a pattern that existed before the price rise. China continued to grow at a high rate, and paradoxically in the early 2000s at an accelerated rate; many developing countries, and the USA, sustained relatively high rates of economic growth while Europe performed as previously in a lacklustre manner.

This is as far as the world as a whole was concerned. In the Mediterranean region, in 2006, earlier patterns continued to prevail. The oil-exporting countries, particularly Algeria which also benefited from a big rise in the price of exported natural gas, were booming. In Europe, Spain continued to grow faster than France and Italy. In the Arab world, Egypt and Jordan showed good rates of growth but Lebanon, in the second half of the year, suffered from the effects of the Israeli war. One may thus ask: are changes in world oil prices largely irrelevant at the macro-economic level? The answer to this question cannot be a definite “yes”. We have already seen that there were non-negligible balance-of-payment effects for both oil-importing and oil-exporting countries in the five year period over which the oil price did increase. As mentioned earlier on, the oil price increase over that period was a huge 165%, that is, by a multiple of 2.65. In 2006 the annual increase was 19.5%, not an insignificant but relatively small rate. The quantitative impacts on the balance of payments as estimated in a previous section can be considered to have been small.

To eliminate these effects by a deflationary policy would not be necessary in most countries; and if macro-economic adjustments were nevertheless deemed necessary the efforts required would not be too demanding.

Looking at the issues in the longer period perspective (2001-2006) may lead to different conclusions. The impact on the rate of economic growth of oil-importing countries in 2006 is not entirely attributable to changes in oil prices between 2005 and 2006. They may well be the resultant of changes that have been occurring over a number of previous years. Macro-economic impacts are often delayed (after all, macro-economic

stories are ones of time lags). What did happen in 2006 has most likely been influenced by developments in 2003 or 2004. The trouble is that we cannot assess quantitatively by how much the rates of economic growth in importing countries were reduced (if at all) in 2006 compared with what they would have been in the absence of an oil price rise. This would require reliable data on 2006 rates of economic growth, not yet available for the majority of countries in the Mediterranean region and access to a model incorporating the relevant variables.

The next question is about the inflationary impact in the domestic economy of changes in the international oil price. There are a number of reasons why the impact may prove to be small. In some countries the transmission of world oil price increases to the prices paid by a domestic consumer is mitigated by high excise taxes imposed on petroleum products. This is clearly the case for Spain, Portugal, France or Italy in 2006. The 19.5% increase in the Brent price did not result in more than a 5% increase at the gasoline pump. Where prices increased by a higher percentage the cause will have to be sought in increases in excise taxes and/or in supply constraints in refinery. And the impact of a rise in petroleum product prices on the inflation index depends on the share of these petroleum products on total demand, also taking into account secondary effects. The consumption share is now typically small in advanced countries. In fact, a more significant inflationary impact in 2006 in Europe was due to more significant increases in gas and electricity prices.

In developing countries such as Egypt or Tunisia energy prices are controlled administratively. Some increases were allowed in 2006 but they did not reflect the full extent of the international price rise. In Egypt, in 2006, this policy resulted in a further increase in the fiscal burden imposed by energy subsidies. And this burden is becoming unsustainable.

Jordan followed a different approach, probably on the recommendation of the World Bank or the IMF. It allowed oil product prices to rise domestically but compensated poorer users of these products with lump sum grants.

Finally and to conclude, it will only be possible to fully and correctly assess the impact of oil price changes when data become available. This should be done for every country separately. As mentioned in the introduction, belonging to the Mediterranean does not imply homogeneity of economic conditions, be it structure, performance or policies.