Oil price crisis in the Pacific

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World oil prices have surged, but where to now?

Future world prices cannot be forecast with any degree of accuracy.

-US$ a barrel.
Growth in US$ prices has been extreme, growth in Pacific currency prices has been lower, but still extreme.
The rise in oil prices is having a huge impact in the Pacific

Fuel imports as a per cent of GDP, 2002 and 2008

Kiribati, Palau, Tonga, FSM, Solomon Islands, Tuvalu, Samoa, Fiji, Cook Islands, Vanuatu
But why are fuel imports so high in the Pacific?

**Reason 1 – the economies are fossil fuel intensive!**

Litres of oil based fuel consumption for each US dollar of GDP, 2006

- Australia
- Vanuatu
- Cook Islands
- Fiji
- Tuvalu
- Palau
- Solomon Islands
- FSM
- Samoa
- Tonga
- Kiribati
Reason 2 – The transport and handling margins for bringing fuel to Pacific island countries are exorbitant

Ratio of pre-tax wholesale fuel prices to the ex-Singapore price, 2005-6
Transport and handling margins as a per cent of GDP are huge

Margins as a percentage of GDP, 2008

Per cent of GDP

Palau, Kiribati, Tonga, FSM, Tuvalu, Cook Islands, Solomon Islands, Vanuatu, Fiji, Samoa
Fuel price rises are eating into national incomes

Direct impact on national income of each US$10 a barrel rise in the price of oil (per cent of GDP)
Where do we see the impact on national income?

**Reduced national savings**
- Lower household savings
- Bigger budget deficit & SOE losses
- Lower foreign reserves
- Increased foreign debt

**Reduced consumption**
- Lower household non-oil consumption
- Lower government non-oil expenditure
- Lower foreign reserves
- Increased foreign debt

**Reduced investment**
- Lower private investment
- Lower public investment
- Lower foreign reserves
- Increased foreign debt
Foreign reserves are yet to feel the pressure

Foreign reserves as a percentage of GDP, 2002-8

Solomon Islands
Vanuatu
Tonga
Samoa
Fiji

Australian Government
AusAID
Urgent action is needed!

- Reform institutions and infrastructure for fuel procurement
  – follow the Samoa example!

- Increase efficiency in energy use

- Conversion to renewable generation technologies
  - Much more stable energy costs, and;
  - Much cheaper!
Cost comparison of electricity generation in Kiribati

- Municipal waste to power
- Biogas
- Wind
- Solar-wind hybrid
- Solar
- Diesel

Costs:
- US$75/barrel
- US$100/barrel
- US$125/barrel

Aus$/KWH
## Costs comparison

### renewables vs diesel generation

<table>
<thead>
<tr>
<th>Cost Type</th>
<th>Renewables</th>
<th>Diesel generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary energy</td>
<td>Free</td>
<td>High, unstable, unpredictable</td>
</tr>
<tr>
<td>Capital costs</td>
<td>High, stable, predictable</td>
<td>Low</td>
</tr>
<tr>
<td>Other costs</td>
<td>Low</td>
<td>Low</td>
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</tbody>
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Thank you!