The Subsidy Trap: Why Tunisia’s Leaders Are Unwilling, Unable, or Afraid to Abandon Fuel Subsidies

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Introduction

Expansive subsidy regimes are deeply entrenched in the economies of the Middle East and North Africa. Governments across the region have maintained substantial energy and food price subsidies to avoid public unrest, satisfy key constituents, provide social protections to economically vulnerable groups, and generate opportunities for personal profit. Subsidies have significant costs, however. Energy subsidies are expensive, create economic distortions, inhibit investment in human capital, and lead to overconsumption. They are also a regressive and inefficient form of social welfare.

Despite the strong fiscal, economic, and social rationales for the removal of subsidies, governments in the Middle East and North Africa have struggled to abandon their subsidy programs. The prevailing theory is that subsidy reform is impossible because of popular opposition. The public, especially the poor, derives significant income support from subsidies, and therefore will revolt against any attempts at price liberalization. Indeed, reform efforts in the 20th century triggered massive, often violent, street demonstrations.

However, recent literature emerging from international financial institutions has theorized that overcoming this opposition is possible. Clear communication of policy changes, compensation for the most vulnerable social groups, and a timetable for the gradual phase-out of subsidies should, in theory, minimize public dissent.

Nevertheless, fuel subsidies remain across the MENA region. There are a number of potential explanations for why reform has not occurred. Resistance from “the street” could truly be insurmountable. Alternately, governments in the region may be ignoring or improperly implementing the policy recommendations of the international financial institutions. Another largely ignored explanation is that other possible foci of opposition are preventing reform. These include individual business elites and trade associations, energy-intensive industry, labor unions, the oil and gas sector,
and various elements within government. This research contends that, although public opposition is an important factor, governments themselves are the major barriers to reform. Governments are unwilling, unable, and afraid of implementing reforms.

We begin with an explanation of why creating a more efficient, effective fuel subsidy regime is important, particularly in states that are net-importers of fuel like Tunisia, Egypt, and Jordan. A discussion of past reform attempts and austerity riots highlights the nature of public opposition to price hikes. This research also explores the theoretical methods of mitigating public opposition to subsidy removal initiatives. We then proceed to examine other possible sources of opposition, using Tunisia as a case study. Tunisia is a net-importer of fuel, is battling a large budget deficit, and is navigating a political transition in the wake of the Arab Spring. From a practical standpoint, the small size of Tunisia also facilitated fieldwork. Furthermore, scholars have primarily focused on subsidy programs in other MENA states like Jordan and Egypt, while largely ignoring Tunisia. Therefore, Tunisia represents an ideal case for examining how different actors influence energy policymaking and the fuel subsidy debate. Ultimately, we argue that the Tunisian government is the major impediment to reform because it is unwilling, unable, and afraid to undertake a significant subsidy removal plan.

Methodology

This research seeks to uncover the perspectives of various social, political, and economic groups on the subject of fuel subsidy reform in Tunisia. Although conducting a large-scale, standardized survey would be an effective means of gauging opinions, such a research design is beyond the scope of this project. Surveying such varied groups is complex and would require significant resources. Therefore, our methodology relies heavily on interviews with key informants who have expertise in the subject area.

This qualitative research has entailed both informal and semi-structured interviews. We conducted informal interviews with average Tunisians whom we encountered throughout our
fieldwork. We held informal conversations with people ranging from taxi drivers to university students in order to gain some insight into popular opinions about fuel prices. A majority of the interviews, however, were semi-structured. These interviews had a clear direction and were based on a number of predetermined questions that we had designed, although the conversation was allowed to progress logically based on the responses of the interviewees. This methodology was particularly useful because we conducted interviews with high-level representatives from the government, the private sector, unions, and universities. Because these informants were often quite busy, semi-structured interviews allowed for great efficiency.¹

Through our conversations with various well-informed Tunisians, we have been able to draw impressionistic conclusions about the sources of opposition to fuel subsidy reform. We utilized the snowball sampling technique, using several connections to expand our sample size until it included representatives from unions, the private sector, and the government. Ultimately, we conducted 14 semi-structured interviews, in addition to a number of informal interviews with non-experts.

This research draws on secondary literature from two additional cases in order to draw comparisons.² Although Tunisia is the primary focus of this paper, some attention is also paid to Egypt and Jordan, as all three countries are net-importers of petroleum products. These three countries have long struggled with expensive subsidy regimes, and all have experienced unrest during the Arab Spring, although Jordan has not witnessed regime change. Therefore, Egypt and Jordan constitute “most-similar case comparisons” to Tunisia on the topic of fuel subsidy reform.³ By incorporating three similar cases, this research will show the plausible causal link between domestic political variables and progress on subsidy reform.

We also utilize some quantitative data in our analysis. We use fuel price statistics acquired from

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³ Ibid, pp. 175.
the Institut National de la Statistique (INS) in Tunis. We incorporate this data to elucidate the complex relationship between international prices of energy products, Tunisian price-setting mechanisms, and subsidy policy.

*The Case For Reform*

Fuel subsidies occupy a central place in the political economy of the Middle East and North Africa region for several reasons. Because energy is an essential input into all economic activities, some economists argue that governments should seek to regulate the functioning of domestic energy markets. Controlling the prices of energy products provides insulation from the volatility of international energy markets, notably for oil. Providing cheap energy can encourage domestic industry and enhance its competitiveness internationally. Low-cost energy also alleviates poverty by providing income support to the poorest, particularly in urban areas.

Despite these rationales for controlling energy prices, there are numerous sound economic and social arguments justifying the removal of fuel subsidies. These include their enormous fiscal costs, their distorting economic effects, and the social losses of using fuel subsidies as the principal social safety net. The current system of fuel subsidies could be replaced with an improved social safety net, providing superior coverage at a fraction of the current cost. Meanwhile, the economic and fiscal benefits of investing resources productively, rather than spending them in expensive, volatile international fuel markets, would likewise be substantial.

Fuel subsidies cost governments of the Middle East and North Africa dearly. On average, governments in the region spend 6 percent of GDP of subsidies, of which more than three quarters goes for fuel subsidies – representing 4.6 percent of GDP. These numbers are based on official government figures and significantly underestimate the actual cost of the subsidies. If the full economic costs were

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considered, some estimates put the cost of fuel subsidies much higher. This cost places enormous pressure on government budgets and contributes heavily to fiscal deficits and public debt. Energy subsidies in Egypt accounted for a staggering 21 percent of the state budget in 2010. In 2012, Tunisia’s budget deficit was 6.6 percent of GDP, while roughly a quarter of government expenditures went to subsidies.

Fuel subsidies also have distorting economic effects. Low fuel prices steer investment toward energy-intensive industries that become reliant on subsidies to remain profitable. This creates an unsustainable economic model that encourages inefficiency and leaves the competitiveness of portions of the economy reliant on expensive government subsidies. These inefficient firms deprive more productive economic sectors of capital and financing. Despite having an excellent solar resource, the entire MENA region had installed a mere 80 Megawatts (MW) of solar capacity by 2010, nearly all of which is in Israel. Meanwhile the Czech Republic, a small, cloudy Central European country, had 196 MW of installed solar capacity in the same year.

Other undesirable effects of fuel subsidies include increased energy consumption. Middle Eastern and North African economies are among the most energy intensive in the world, per unit of GDP. Moreover, over the past thirty years, energy consumption per $1,000 GDP has increased in the Arab world by a compound annual rate of 2 percent, while in North America energy consumption per $1,000 GDP has declined by 2 percent annually. Low energy prices have prevented economies in the Middle East and North Africa from reaping the benefits of increased energy efficiency and reduced waste that naturally occur in response to price signals.

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7 Ibid.
12 Ibid.
Overconsumption of energy can be damaging to both oil exporting and oil importing countries alike. For oil importers, high consumption caused by artificially low prices drives up an already expensive import bill. For oil exporters, on the other hand, high domestic consumption consumes fuel that would otherwise be available for export, representing an equally high opportunity cost in lost government revenues. This effect was so severe in Iran that the government embarked on a massive reform program in the late 2000s, replacing fuel subsidies with cash handouts to every Iranian citizen. Until the government implemented reforms, consumption was on a pace to turn Iran into an oil-importing nation by 2015.

Despite these negative fiscal and economic effects, perhaps the most pernicious aspect of fuel subsidies are their high social costs. Countries that spend upwards of one fifth of their budgets on fuel subsidies alone tend to be unable to find money for public investment. In addition, fuel subsidies are highly regressive, benefiting the wealthy far more than the poor.

Human capital is necessary for sustained economic growth. Human capital influences the quality and productivity of investment, attracts investment from abroad, encourages technological innovation and absorption and raises labor productivity. There is evidence that periods of relatively high investment in human capital and progress in human capital accumulation in the MENA region correspond to periods of relatively high economic growth; conversely, periods of disappointing growth roughly parallel a lack of serious investment in human capital formation.

The MENA region suffers from a chronic underinvestment in its human capital due partly to an overdependence on rents as opposed to domestic taxation. Because governments derive significant income from sources other than taxation and the domestic economy, there is less incentive to ensure

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future revenues by bolstering human capital formation. The result is high youth unemployment, growing income inequality, and stagnant growth outside of the petroleum sector. All three of these conditions were significant factors influencing the Arab Spring unrest, and none will necessarily be resolved by regime change alone. A change in government commitment to invest in the human capital of its citizens is a necessary step to laying a solid foundation for economic growth. As one economist explained, such investment is impossible when the government’s budget is entirely “composed of wages and subsidies. You need to have a margin of maneuver if you want to invest.”17 Because they consume large quantities of scarce state resources, subsidies are preventing the kinds of investment in education, health, and other forms of human capital that are essential to resolving the region’s economic and social challenges.

A lack of funds for public investment can be particularly devastating in times of economic crisis. When political situations are uncertain, investor confidence drops and private sector investment halts. In Tunisia, foreign direct investment fell precipitously in the wake of the revolution.18 The government can compensate for falling private investment by investing in the domestic economy to stimulate growth in the short-term, while laying a foundation for long-term growth by building infrastructure. The cost of fuel subsidies in Tunisia is preventing such public investment and exacerbating the country’s economic and fiscal crisis.

In addition to being expensive and crowding out other investments, fuel subsidies are an extremely regressive form of social welfare.19 Although subsidies can represent as much as 7 percent or more of a poor household’s budget, in reality upper and middle-income households capture the vast

17 Interview, Ben Romdhane.
majority of the value of the subsidy. Some products, such as gasoline and diesel, are particularly inequitable. Car ownership has steadily climbed in Tunisia, but the wealthy still own most vehicles and therefore benefit the most from low prices. Typically, less than 10 percent of the total cost of universal fuel subsidies is captured by the poorest 20 percent of the population. As a result, a social safety net that relies on fuel subsidies will cost far more than a targeted system that prevents such enormous leakages to the non-poor. In fact, distributing the value of the subsidy to each citizen in equal amounts in the form of cash would be a far more progressive form of social welfare than the current fuel subsidy system. Despite this inequity, protection for the poor is often cited as a primary reason for keeping fuel subsidies intact.

More effective means of providing social protection exist. In 1986, Tunisia introduced a program to give direct cash transfers to the poor as an alternative to food subsidies. Instituted by the Ministry of Social Affairs, the “Programme des Familles Necessiteuses” transferred cash to needy families, the elderly, and the disabled. To improve the efficiency of the program, the Tunisian government began to target the poorest communities. Compensation was given to those who most needed it, effectively excluding the wealthy from reaping the benefits of the social welfare program.

Such targeted cash transfer schemes are far more efficient and effective than general subsidies and could be used in place of the current fuel subsidy system. Such welfare programs are less expensive for the state. The CEO of the state oil company explained that if the difference between the real price and subsidized price of a bottle of liquefied petroleum gas (LPG) is 17 dinars, then the state should just directly pay the poor 17 dinars in cash. Unlike widely available subsidized fuel products, these cash transfers are inaccessible to higher income groups and, as a result, are significantly cheaper.

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Interview, Riadh Saadaoui.


Interview, Mohamed Akrout.
Governments in the Middle East and North Africa could save billions of dollars per year by replacing the current system of social welfare through fuel subsidies with a targeted cash-transfer.

*Possible Sources of Opposition to Reform*

If there is such a compelling case for reforming fuel subsidies, why has such reform not occurred? After all, if MENA governments stand to make economic, fiscal, and social gains by reforming fuel subsidies, one would imagine they would already have implemented such policies. The most plausible answer is that there must be strong political, economic, or social forces opposed to subsidy reform. These forces might include the general public, businessmen, business organizations, labor unions, and the oil and gas sector. Additionally, it is possible that the greatest obstacle to fuel subsidy reform is the government itself, either by an unwillingness to implement reforms, or the inability to do so. Policymakers may disagree that removing subsidies will produce the promised benefits, or certain members of the government may benefit directly from fuel subsidies through clientelism or corruption. At the same time, the government may lack the administrative capacity to successfully implement a complex set of reforms, or may be handicapped by external factors, such as an economic crisis or political transition. Each of these possibilities will be explored at length.

**Popular Opposition**

There is a long history of popular opposition to subsidy cuts in the Middle East and North Africa. Beginning with Morocco in the 1960s and extending throughout the next thirty years, nations in the MENA region endured a series of debt crises. These crises were the result of a combination of factors, including a failed experiment in import substitution industrialization, international recessions, volatile international oil market, state misuse of funds, and embezzlement by well-connected elites.\(^{25}\) Whatever the factors, most governments in the region were forced to negotiate rescue loans on terms

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largely dictated by international financial institutions, particularly the International Monetary Fund (IMF). In part to help prevent a return to insolvency, the IMF placed emphasis on fiscal health and macroeconomic stability. This meant reducing budget deficits, and because a large portion of government expenditures was devoted to fuel and food subsidies, these became obvious targets. Among other measures, the IMF strongly recommended the removal of subsidies.

Under IMF pressure, and facing the possibility of being excluded from international lending markets, governments in the region made steep cuts to food and fuel subsidies. The resulting price hikes for these basic goods sparked massive street demonstrations, leading to violent confrontations with security forces that left hundreds dead. Why did ordinary people across the region take to the streets in such impassioned displays of anger? What can explain this remarkable mobilization?

Explanations For IMF Riots

In order to answer these questions – which are crucial to understanding popular opposition to fuel subsidy reform and the prospects for such reform in the post-Arab Spring Middle East – it is essential to have a theoretical framework for understanding why people take to the streets in response to subsidy cuts. There are three possible explanations for this kind of popular mobilization:

1. Direct income loss: people protest to annul price increases because of their negative impact on household income.

2. Symbolic loss: ordinary people protest the symbolic retreat of the state from its role as a provider of basic goods at cheap prices.

3. Political opportunism: opposition groups use the subsidy cuts as an opportunity to mobilize discontented citizens against the regime for their own ends.

Anti-austerity riots are multicausal, and each of these explanations is complementary with the others, rather than mutually exclusive. Multicausality allows assignment of causal priority to more than one factor, and each could be active simultaneously with the others.26 According to the first

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explanation, ordinary citizens demonstrate to protest the real income loss suffered by the price hikes. The demonstrations are spontaneous and are often led by the urban poor, who are least able to absorb the loss. Their principal aim, in addition to displaying anger and frustration, is to annul the price increases. 27 By the logic of this explanation, the size of the price increase – as well as the way in which it is targeted – is key to predicting the likelihood and magnitude of the response.

The second explanation argues that subsidy riots are in response to the symbolic value of subsidies, not their real value. Because subsidies are typically applied to basic goods that are necessary for daily life, such as food and energy, they become a potent symbol of the state's responsibility to ensure the basic welfare of its citizens. Bread in particular has significant symbolic value in the Middle East – the Egyptian word for bread is aish (life) – but fuel products for cooking and home heating have symbolic value as well. Since providing basic goods at low prices is seen as part of the state's duty, people may view subsidy cuts as an injustice, a betrayal of the social contract between the government and the governed. 28 Additionally, ordinary citizens may fear that subsidy reform is a slippery slope, and that price increases on fuel products today may lead to cuts in government spending on food, health care, and education tomorrow.

Finally, protests in response to fuel price hikes may not have much to do with fuel subsidies at all. Instead, opposition groups or ordinary citizens may use the announcement of price rises as an opportunity to voice general discontent, even if the sources of that discontent have little to do with the price of fuel, or even fuel subsidies generally. Rather, political opposition actors who lack institutionalized channels through which to express grievances and influence public policy may see subsidy reform as a chance to mobilize popular discontent against the government. If dissatisfaction with the regime is widespread, then protests may erupt even if subsidy reforms are carefully planned, clearly communicated, and effectively executed. This may even occur if the poor are compensated at

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28 Ibid, pp. 31-32.
the time of the subsidy cuts, ensuring that they suffer no net income loss. If citizens or organized groups are primarily using fuel subsidy reform as an opportunity to air other grievances, it may be impossible to depoliticize the issue, regardless of the reform tactics or strategies employed by the government.

Subsidy Cuts and the IMF Riots

This theoretical framework is an effective tool for understanding the history of subsidy reform in the Middle East and North Africa. As mentioned earlier, the last three decades of the 20th century saw numerous government efforts to cut subsidies, followed by frequent incidences of violence and social unrest. In 1965, hundreds were killed in Morocco in violent clashes with police. Similar mass mobilizations occurred in 1978, 1981, and 1984, often with violent outcomes. The Sudan suffered mass protests and sit-ins in 1979, 1982, and 1985 – the latter resulting in a military coup that toppled President Numeiry. Unrest rocked Algeria following subsidy cuts in 1987, 1988, and 1990. The Algerian government responded to the unrest by implementing a political liberalization process that led to the success of Islamist politicians in nationwide elections in 1991 and, following a military coup to prevent the Islamists from taking power, a bloody decade-long civil war.

In 1977, President Sadat of Egypt announced price hikes of over 30 percent on food and fuel products as part of an IMF-backed reform program. Three days of rioting ensued, prompting Sadat to revoke the price increases. In 1984, subsidy cuts caused massive confrontations between police and protesters in Tunisia. These protests turned violent, leaving hundreds dead in the small country. Stunned, the government backtracked, at least temporarily, on components of its austerity program. Turkey, Iran, and Lebanon endured similar turmoil as a result of their efforts to reduce fuel and food subsidies.29 The violence often left governments surprised and reeling. The Jordanian King was shocked that subsidy-related protests in 1989 had originated in towns where support for the monarchy

had traditionally been strongest.\(^{30}\) Governments felt they were caught between a rock and a hard place: either they could implement reforms and suffer the wrath of their aggrieved citizens, or they could keep continue subsidizing products and be excluded from international lending markets.\(^{31}\)

How does the theoretical framework account for this unprecedented outburst of popular discontent? First, price increases were large and sudden. Average citizens, and particularly the urban poor, immediately felt the ensuing income loss.\(^{32}\) Second, the subsidy cuts were both unannounced and unprecedented. Never before had MENA governments retreated so dramatically from their role as providers of basic welfare. The perceived injustice of this retreat was made worse by the accurate perception among protesters that the governments made the decision to cut subsidies under international pressure. Third, the region's regimes tended to suppress the political opposition, allowing no institutionalized space for the airing of social, economic, and political grievances. As a result, the street was one of the only venues where discontent could be voiced. Opposition political parties, labor unions, and other actors sometimes initiated demonstrations following subsidy cuts. At the very least, they usually joined protests once they had begun.\(^{33}\)

Because the subsidy cuts that provoked the IMF riots satisfied the criteria for each of these three explanations – income loss, symbolic injustice, and opportunistic protest – it is understandable why the public reacted so strongly to price hikes. Does this mean, however, that popular opposition is an insurmountable obstacle to fuel subsidy reform? The history of the IMF riots certainly indicates that the general public is a force to be reckoned with. The protests sometimes led to the complete or partial annulment of the price hikes, like in Egypt in 1977. Even when governments keep price increases in place, they did not undertake programs to completely remove subsidies. Furthermore, the IMF riots left a legacy that continues to influence policymakers today. Our interviews revealed that policymakers in

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\(^{32}\) Ibid, pp. 201-202.

\(^{33}\) Ibid.
Tunisia still have lingering fears about subsidy reform, believing that subsidies are the price the government has to pay for social tranquility.\textsuperscript{34} In particular, there is evidence from our interviews that memories of the unrest in 1984, and the subsequent economic hardship inflicted by the subsidy cuts, continue to temper government enthusiasm for subsidy reform.\textsuperscript{35}

\textit{How to Mitigate Popular Opposition: Theoretical Policy Prescriptions}

Is it possible, however, that the importance of mass protest in opposition to subsidy cuts has been overstated? Austerity protests have certainly received significant attention from academics and policymakers alike. Massive social unrest, particularly in regions of the world known for oppressive regimes that keep a tight lid on domestic dissent, is a headline-grabbing subject. Is it therefore possible that studies of subsidy reform suffer from a bias toward granting causality to popular opposition, and that the importance of the IMF riots has been exaggerated? After all, massive demonstrations are necessarily difficult to sustain, and their long-term effects are hard to determine with precision. The revolutionary wave of 1848 in Europe, for instance, raised high hopes yet achieved a low rate of success, measured in terms of advances toward political liberalism and democracy.\textsuperscript{36} One study price hikes and popular protest showed that, through the decades of austerity measures and attempted subsidy reform, only one incident of protest directly linked to IMF-backed changes in subsidy policy led to regime change.\textsuperscript{37} Furthermore, there is a risk that an excessive focus on popular resistance to fuel subsidy cuts leaves other possible sources of opposition unexplored.

Rather than postulate alternative sources of opposition, more recent research produced by the World Bank, IMF, and other international financial institutions retains the general populace as the key obstacle to the elimination of fuel subsidies, but argues instead that such opposition can be overcome if

\textsuperscript{34} Interview, Mohamed Akrout.
\textsuperscript{35} Interview, Abdel Rahman al-Lagha.
reform is implemented using certain strategies. Drawing on surveys, public polling, and case study data, this body of research theorizes that three key strategies are necessary to secure public support for, or at least acquiescence to, fuel subsidy reform:

1. Develop a long-term strategic plan
2. Effectively communicate this plan to the public
3. Accurately target compensation for the most vulnerable groups

This body of more recent research, by the World Bank and others, concludes that a sudden, one-off elimination of consumer subsidies is poor strategy. Instead, a more gradual elimination of subsidies through regular, small price increases is more feasible. Based on studies of reform in Egypt and Jordan, among others, the ideal duration of the pathway to full price liberalization seems to be somewhere between five and ten years.

Because reform must be phased in over a period of time spanning as much as a decade or more, it is essential that governments implementing fuel subsidy reforms develop a coherent, well thought-out plan of action. Such a plan must differentiate among different fuel products and their end-users. Research has shown that consumption is strongly contingent on income level for some fuel products. For instance, the poor use kerosene, while upper income groups consume gasoline almost exclusively. Governments can make easy progress at first by eliminating subsidies on products that are used by small segments of the public, before moving on to more sensitive, widely used products. This assumes, of course, that these smaller segments of the public are not influential enough to oppose reform, or to prevent it from occurring in the first place – a weakness this paper will attempt to address.

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In addition to careful planning and the gradual phasing in of subsidy cuts, it is essential that governments effectively communicate the details of the plan, as well as the rationale behind it, to the public. The history of subsidy reform in the MENA region reveals this to be a particular weakness. Several of our interviewees indicated, for example, that the Tunisian government intentionally avoids communicating a subsidy policy to the public for fear that an opposition would immediately organize against it.\footnote{Interview, Mustapha Haddad; Interview, Haleb.}

Key elements of an effective communications campaign include explaining:

1. The high cost of subsidies to the budget, and the consequent lack of public funds for investment in projects that benefit everyone, including health, education, and infrastructure. Particularly during periods of economic or political crisis, when private investment is minimal, policymakers can explain the importance of finding funds for public investment.

2. The inequitable nature of subsidies. Explaining to the public that the majority of the cost of fuel subsidies goes to benefitting those who consume the most (the rich) can mobilize public support for reforming a system that is often touted as a bulwark of social welfare for the poor.

3. That fuel subsidies encourage wasteful behavior, with resulting negative impacts on the environment, public health, and the national budget.

4. How the money saved from gradually eliminating fuel subsidies will be spent. The opacity of the fuel subsidy system, coupled with distrust of politicians who control vast sums of money and are often seen as corrupt and self-serving, may lead ordinary citizens to doubt that reform will lead to a more efficient, equitable use of state resources.

This final point is crucial to a reform strategy's success. Two recent surveys conducted by Gallup, in conjunction with the World Bank, found significant space for improved communication effectiveness in the MENA region. Support for a reform strategy went up as respondents became more aware about how resources would be spent in lieu of fuel subsidies.\footnote{Silva, Joana, Victoria Levin, Matteo Morgandi, World Bank, “Inclusion and Resilience: The Way Forward for Social Safety Nets in MENA.” MENA Knowledge and Learning Quick Notes Series, September, 2012, Number 71.} The two Gallup/World Bank surveys – “MENA SPEAKS”\footnote{Social Protection Evaluation of Attitudes, Knowledge, and Support.} and “Jordan Gives” – reveal that awareness of the existence of social welfare programs, including fuel subsidies, is below 50 percent, and that the rich were not only more likely than the poor to be aware of the programs, but also to know a beneficiary. Additionally, those
surveyed preferred a system of cash-transfer to the poor over universal subsidies that do not differentiate between rich and poor. It is therefore imperative that successful fuel subsidy reform initiatives simultaneously implement or strengthen social assistance programs effectively targeted at the poor.\textsuperscript{45}

\textit{Subsidy Reform in the 2000s}

There is some evidence from recent reform attempts that such strategies work in practice. Starting in 2004, Egypt embarked on a comprehensive reform program. The goal of this plan was to achieve price parity with global market prices in most fuel products by 2014. Fuel prices were increased gradually, and by amounts that varied based on the product. Electricity prices were to increase 5 percent per annum, while other fuel products received regular price bumps. Prices for sensitive fuels such as kerosene and LPG that are used more heavily by the poor for cooking and heating were raised more slowly, while products that are mostly used in industry and by the wealthy – such as gasoline, fuel oil, and diesel – were liberalized more abruptly and rapidly.\textsuperscript{46}

The plan was on track until the international financial crisis threatened the Egyptian economy in 2009. Fearful of making a fragile economic situation worse, Egypt's leaders shelved the plan temporarily. But then the Arab Spring unrest erupted and the plan remained on the shelf during the ensuing political and economic uncertainty. Despite its ultimate failure, the early years of its implementation did not see a single serious incident of public protest solely related to fuel subsidy reform. Unlike earlier attempts, key elements of a successful reform strategy are clearly present in the 2000s, including the development of a long-term reform plan, incremental price increases, and differentiation by fuel product.

Experience from Jordan also provides some evidence supporting the contention that popular opposition to fuel subsidy cuts is surmountable. After fuel subsidy reform attempts in 1989 and 1996

\textsuperscript{45} Silva et al, 2012, pp. 2.

\textsuperscript{46} Castel, 2012.
provoked protests in towns across the small kingdom, the Jordanian government was likely wary of increasing fuel prices further. The loss of Iraqi oil at discounted rates due to the American invasion in 2003, however, coupled with the rapid rise in international oil prices, forced action. The government launched a comprehensive plan in 2005 to achieve full international price parity on all fuel products in just three years. Price increases occurred regularly and were kept typically in the range of 5-30 percent. Attempts were made both to communicate this plan to the public and to compensate ordinary Jordanians for the income loss. This was mostly done through wage increases to public employees, indicating a shrewd move to forestall dissent among “East Bank” Jordanians, who make up the majority of the public sector and who had been crucial in initiating the street demonstrations against the subsidy cuts in 1989 and 1996. By February 2008, full price parity had been achieved for all fuel products except LPG, which remained subsidized. No major protests occurred directly related to the price increases during the period of reform.

Our own research in Tunisia corroborates the example of the Jordanian and Egyptian cases. In Tunisia, popular opposition to fuel subsidy reform is not an insurmountable obstacle. Our interviews with economists, private consultants, and former and current civil servants suggest that, unlike Egypt and Jordan, Tunisia never had a comprehensive reform plan. Nevertheless, prices for gasoline, diesel, kerosene, and LPG all rose substantially between 2005 and 2008. Fuel price data we obtained from the Institut National de la Statistique (INS), Tunisia's statistics agency, reveals that the government regularly raised prices, even in the absence of a defined plan to completely remove subsidies. The price increases were typically less than 5 percent and occurred several times per year during the four-year span. The price of LPG rose by 36.4 percent, kerosene by 162.1 percent, gasoline by 59.0 percent, and diesel by 102.1 percent between January 2005 and September 2008.

48 Interview Mustapha Haddad; Interview Abdelmoumen Fershishi; Interview Mahmoud Ben Romdhane.
49 See Appendix B.
Tunisia failed to achieve parity with international prices for any of these products, but the government at least managed to keep up with the rapid rise of international oil prices that occurred during this same period. No major protests occurred directly following the price increases – hardly surprising considering their small size.

Subsidy Reform After the Arab Spring: A New Paradigm?

The events of the Arab Spring challenge the notion that the subsidy reform programs in Egypt, Jordan, and Tunisia were successful at mitigating popular opposition to fuel subsidy cuts. While no major protests directly linked to rising fuel costs occurred in Egypt between 2004 and 2009, when fuel prices increased gradually but steadily, there is evidence that protest in Egypt increased steadily during this time period. Strikes, sit-ins, work stoppages, and other forms of protest were common. A common
grievance of the protesters was that wages failed to keep pace with rising domestic prices. Because energy is an input into all economic activity, the price of fuel has an indirect effect on the prices of nearly all other goods and services. It is therefore difficult, if not impossible, to separate the wage-related strikes and protests of the 2000s from the fuel subsidy cuts that occurred concurrently. It is fair to say that Egypt's comprehensive plan to gradually reduce fuel subsidies did not provoke the kind of widespread, sustained unrest that previous one-off subsidy cuts had engendered, but the effect may simply have been to redirect anger into other channels.

In Tunisia, it is likewise difficult to pinpoint the exact effect of the price increases that occurred in the years prior to the Arab Spring. Even if no protests directly linked to fuel price hikes occurred, this does not mean that anger over the steadily rising cost of consumer goods did not manifest itself in other ways or contribute to the general discontent that erupted in December 2010. Developing a subsidy removal plan and increasing fuel prices by small, regular amounts may prevent massive street demonstrations in direct response to the fuel subsidy cuts. But in the absence of an adequate compensation program that targets all the country's poor, these measures may simply redirect public anger into different channels.

Does the Arab Spring then require a new paradigm for analyzing popular mobilization against fuel price hikes? Is evidence drawn from the decade before the uprisings still relevant? The Arab Spring events have certainly had an impact on the potency of popular resistance to fuel subsidy cuts, but these can still be assessed in terms of the explanatory framework outlined earlier in this paper. If anything, the Arab Spring has exacerbated each of the potential mobilization channels: income loss, symbolic injustice, and political opportunism.

In general, the countries that experienced unrest during the Arab Spring have seen economic conditions worsen since 2011. As a result, the threat of protest due to income loss is higher in countries

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like Egypt and Tunisia than it was before the uprisings began. The dynamic is the same, but poor economic conditions make avoiding income-related protest more difficult in the short-term.

Likewise, the risk of symbolic protest is higher than before. Among the grievances of protesters during the Arab Spring events were the rising cost of living, high unemployment, and the sense that regimes were more responsive to the interests of foreign powers than to the needs of their own people. As a result, any post-Arab Spring government must demonstrate progress on these issues or risk the renewed ire of its constituents. Reforming fuel subsidies in the current economic and political climate might therefore provoke symbolic protest. If the new government is not seen as more protective of its citizenry than the former autocrat, the people may rise up to demand new leadership. Additionally, if governments are perceived as caving in to international pressure to cut fuel subsidies, the specter of “IMF riots” may rise again.

Finally, and most importantly, the risk of opportunistic protest is significantly higher in the post-Arab Spring Middle East. The emergence of a protest culture, and the formation of protest networks, aided by social media the demonstration effect between protesters in different MENA countries, has been much discussed. Protest networks and culture, as well as the breaking down of the barrier of fear surrounding the region’s infamous security services, have lowered the threshold for protest, making even small fuel price increases a potentially volatile move.

This was clearly seen in September and November of 2012 in Jordan. King Abdullah had promised additional subsidies in a bid to forestall unrest after the fall of Mubarak in Egypt and Ben Ali in Tunisia. When the government tried to restore fuel prices to international levels, protests erupted. To stop the unrest from spreading, the king quickly annulled the price hikes. He tried again in November 2012, but this time resolutely kept the price hikes in place despite yet another outburst of popular mobilization. What is particularly interesting in this case is that the price hike was small (only 10

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percent) and applied only to gasoline and diesel, which have a smaller income impact on the poor. Despite the use of these previously successful techniques, protests erupted. In addition, the 2012 the Jordanian Muslim Brotherhood led and planned these protests, whereas previous bouts of subsidy-related unrest had been spontaneous and unplanned. Clearly, the lowered barrier to protest was empowering political opposition groups, making them feel emboldened enough to use fuel subsidy cuts to mobilize opposition against the regime.

This effect may be more pronounced in countries where political liberalization has yet to progress significantly, such as Jordan. In Tunisia, despite an ongoing and incomplete democratic transition, price hikes in March failed to prompt major protests as they did in Jordan. Perhaps this is in part because protests now occur regularly in Tunisia and opposition parties are allowed to freely operate. Political liberalization might reduce the chance of opportunistic protest by separating fuel subsidy reform from other sensitive issues such as elections, political reform, or corruption. Under authoritarian regimes, mobilizing against such issues is risky. As a result, fuel subsidy cuts are a convenient opportunity to protest against other, more sensitive topics.

In summary, while the Arab Spring has not necessitated a new paradigm for understanding popular opposition to fuel subsidy reform, it has enhanced the potency and risk of popular mobilization. Economic crisis, political instability, and the emergence of a protest culture and protest networks have all made fuel subsidy reform even more difficult for the time being.

Current Public Attitudes Toward Subsidy Elimination in Tunisia

The risk of protest due to income loss is real, especially in Tunisia's difficult economic climate. Multiple interviewees stressed that the purchasing power of the average Tunisian household has been deteriorating for some time, making fuel price increases even more painful. Interview, Mongi Smaili.

52 Several interviewees also mentioned that the opposition to reform varies significantly by product, as the poor are more adversely
impacted by price increases. Tunisian leaders are employing some of the necessary strategies to mitigate the chance of opposition to income losses. Price increases have been moderate, never exceeding 10 percent. Costs are slowly rising, but price hikes have not been so dramatic as to prompt widespread unrest. The government is also adjusting prices according to product type. The prices of fuels like LPG have been relatively constant in order to avoid hurting the poor. What the government has not implemented are pro-poor plans and targeted compensation programs. A Tunisian economist acknowledged the necessity of providing compensation for the poor, but said such programs are difficult to implement because “Tunisia is not a rich country.” Because Tunisia is contending with a severe budget crisis, the government cannot introduce new social welfare programs. Nevertheless, the attempts to discretely raise prices and the efforts to raise prices in consideration of the income level of the end users have limited the likelihood of public protest due to income losses.

There is some risk of symbolic protest against the perceived injustice of cutting fuel subsidies. Nedji Jelloul, a Tunisian academic and politician with the opposition Hizb al-Jamhuri (Republican Party), said that many Tunisians still expect government to provide for the basic needs of its people. Affordable energy is a component of this social contract. According to Mr. Jelloul’s assessment, this mentality of anticipating services from the state is an obstacle to reform. He made direct reference to the symbolic importance of price subsidies, telling the authors that when subsidies are cut, ordinary people feel that the government has abandoned them.

Counterbalancing this sentiment is the growing awareness among ordinary Tunisians that the fuel subsidies disproportionately benefit a small minority. Aware of the government's responsibility in the eyes of most Tunisians to provide social welfare, the Ennahda-led government has been trying to explain the need for subsidy reform. The party has framed the issue in terms of finding resources for

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53 Interview, Mahmoud Ben Romdhane; Interview, Ikhas Haddar; Interview, Mongi Smaili; Interview, Mohamed Akrout; Interview, Nadji Jelloul.
54 Interview, Mongi Boughzala.
55 Interview, Nedji Jelloul.
investment to create jobs and provide better social services.\textsuperscript{56} The government has also avoided raising prices on bread, a more symbolic and sensitive product than fuel.\textsuperscript{57} Admittedly, the government could better clarify the purposes and objectives of reform. Nevertheless, the growing understanding among the general populace that fuel prices should be liberalized minimizes the risk of symbolic protest against price hikes.

On the issue of fuel subsidy reform, the most significant threat to the current government is that opposition forces will use the unpopularity of price increases for their own political ends. This is particularly problematic because many Tunisians have poor opinions of the political and economic aptitude of the current administration. Recent data indicates that there is widespread discontent with the current political leadership. One study, undertaken by Benstead and Lust, found that 51.2 percent of Tunisians are very dissatisfied with the way the current government is handling the country’s affairs. An additional 26.5 percent claimed to be “somewhat dissatisfied” with the current leadership.\textsuperscript{58}

The political, populist dimension of fuel subsidy reform is the greatest impediment to reform. Opposition groups may politicize the fuel subsidy reform debate and use it as an excuse to mobilize the public against the current government. A technocrat in the Ministry of Industry stated that the political opposition uses prices hikes as a tool to attack the government.\textsuperscript{59} He specifically mentioned holdouts from the Ben Ali regime who capitalize on the fuel price increases to criticize the Ennahda party. For a ruling party that is already struggling with internal legitimacy and low approval ratings, such criticism can be destabilizing. The attitude of the government itself toward reform will be examined in greater length later, but it is important to note that communication, compensation, and targeting strategies cannot overcome this polarization of the fuel subsidy debate. Thus, political opportunism and public opposition is a real impediment to fuel price liberalization in Tunisia.

\textsuperscript{56} Interview, Abdel Rahman al-Lahga.
\textsuperscript{57} Interview, Tijani Smidi.
\textsuperscript{58} Benstead, Lindsay, Lust, Ellen, and Dhafer Malouche. “Tunisian Post-Election Survey: Presentation of Initial Results,” December 11, 2012.
\textsuperscript{59} Interview, Abdelmoumen Ferchichi.
However, an examination of popular opposition alone does not fully explain why governments in the Middle East and North Africa, and Tunisia in particular, have not abandoned fuel subsidies. Restricting the analysis of obstacles to subsidy reform to popular opposition risks leaving unexplored other potentially important sources of opposition. Little research has been done on sources of opposition other than the general populace. We postulate that there are other significant foci of opposition, such as businessmen, business organizations, trade unions, the oil and gas sector, and the government itself.

**Lobbying: the Private Sector and Business Organizations**

The private sector is a hypothetically strong and influential source of opposition to fuel subsidy reform. Because energy costs constitute a significant portion of a business’s overhead, it is logical that business owners would prefer low energy prices. As prices increase, energy becomes an increasingly expensive input of production. With production costs increasing, some firms will invariably lose their comparative advantage.

Small businesses, many of which are inefficient, are the most likely to suffer under fuel subsidy reform.\(^{60}\) This is particularly problematic because small, family-owned businesses predominate in Tunisia. Approximately 97 percent of private firms employ fewer than five people.\(^{61}\) These enterprises also have management weaknesses. Entrepreneurs with no industrial backgrounds run a majority of these small-scale firms. In order to ensure that their goods are competitive in domestic and international markets, the businessmen and small business owners may therefore seek to lobby the government to keep fuel prices low.

Likewise, owners of large, energy-intensive firms may also oppose the elimination of energy subsidies. In their 2002 study of fuel subsidy reform in Iran, Jensen and Tarr found that the output of

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60 Interview, Abdel Rahman al-Lagha.
the energy-intensive steel, aluminum, and chemicals sectors fell by 25 to 65 percent due to price increases. Similarly, a study of energy-intensive sectors in Indonesia showed a decrease in some industrial outputs in the aftermath of fuel subsidy reform. Exporters of energy-intensive goods derive an even greater benefit from fuel subsidies. Subsidized diesel and electricity prices allow manufacturers to produce goods at a low cost, before selling these goods at international prices. The businesses keep these profits, in essence pocketing the entire subsidy. Such a dynamic is creating high levels of inefficiency and corruption in Egypt’s energy-intensive industries, for example.

The business community may also oppose reform due to the sheer complexity of the subsidy regime. The government determines the prices of numerous goods in Tunisia. For industries selling goods at fixed prices in domestic markets, energy price liberalization could be devastating. As energy costs increase, profit margins decrease unless a business can sell its goods at a higher price. For example, the Caisse Generale de Compensation sets the price of basic foodstuffs like bread. If electricity prices increase, the cost of producing bread also increases. Unless the government also raises the fixed cost of bread, a manufacturer will be unable to turn a profit. Nedji Jelloul, an opposition politician, pointed to this complex system of price fixing as a major hurdle, stating that the business community will oppose fuel subsidy reform without liberalization across all sectors of the economy.

There is an equally compelling argument for why economic elites would support the elimination of subsidies. Many Tunisian businessmen are proponents of neo-liberal economic reforms and free-market capitalism. From the end of the tenure of Habib Bourguiba, a nationalist hero and the first president of Tunisia, throughout Ben Ali’s reign, the state embarked on a course of neo-liberal
economic reforms. Some elements of the private sector welcomed such policies, as “the benefits of economic reform have accrued primarily to an elite” caste of businessmen. Therefore, the business community may be amenable to subsidy reform. The elimination of subsidies would decrease the budget deficit and free up capital for investment. A stronger, more stable Tunisian economy would also help attract foreign direct investment. For industries that use relatively less energy, the potential benefits of reform are even greater. Just as energy-intensive sectors may oppose reform, so too may low-energy industries support reform.

Opposition to fuel subsidy reform therefore varies by sector. Price increases disproportionately hurt energy intensive sectors. A Tunisian economist, Mahmoud ben Romdhane, asserted that transportation companies and individual taxi drivers for example immediately feel the effects of higher petroleum prices. In response to a fuel price increase in early March 2013, taxi drivers went on strike. Although many taxi drivers did not participate—some even seemed unaware it was planned—the strike indicated that some sectors of the economy vehemently oppose subsidy reform. Businessmen working in other sectors are often more ambivalent. Private sector companies that sell goods in markets with price flexibility merely pass the increased cost of fuel onto consumers. The head of an electronics association had few objections to fuel subsidy reform because prices are not fixed in his sector. Sectors with low energy use are similarly less likely to oppose reform.

Thus, the private sector lacks a coherent stance on the issue of fuel subsidy reform. At most, resistance to reform will be localized within specific industries that will be most affected by price hikes. Energy-intensive industries or small, inefficient firms will more readily oppose higher energy

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66 Interview, Mahmoud Ben Romdhane.
68 Interview, Ziad (Taxi Driver).
69 Interview, Haleb.
70 Interview, Mongi Boughzala.
71 Interview, Ikhlas Haddar.
prices. Conversely, industries with lower energy consumption or companies that can remain
competitive in spite of price increases, should feel less inclined to block reform attempts. Because
attitudes are so disparate, the private sector does not constitute a significant source of opposition.

Even if businessmen presented a more unified challenge to energy price liberalization, it is
doubtful that the business community could influence policymaking. Under the Ben Ali government,
the fear of state repression deterred businessmen from exerting too much political pressure. The regime
employed tools such as selective law enforcement, tax auditing, and variable customs duties to penalize
businessmen and effectively limit dissent from the business community. Moreover, the “lack of a
competitive political system and guaranteed civil liberties” lessened opportunities for private sector
influence. Repressive tactics and an undemocratic political system helped to ensure the quiescence of
prominent businessmen. Such authoritarian tactics also increased the likelihood that business elites
would use informal channels to gain political influence.

Cronyism and nepotism were hallmarks of the Ben Ali regime. According to Dr. Laryssa
Chomiak, the Executive Director of the Centre d'études Maghrébines à Tunis (CEMAT), a small caste
of approximately five families dominated Tunisia’s economy. The Ben Ali family and the Trabelsi
clan, relatives of Ben Ali’s wife Leila, were particularly corrupt. A US State Department cable, which
was leaked by the notorious Wikileaks, alleged that these families engaged in corruption ranging from
bribery to illegal land appropriations. Only a very select few businessmen established deep special
relationships that allowed them to directly shape policymaking. Since the fall of Ben Ali, most
members of these elite families fled the country or were thrown in prison.

This has profoundly altered state-business relations in Tunisia. While many Tunisian

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72 Cammett, Melani Claire. *Globalization and Business Politics in Arab North Africa.* (Cambridge: Cambridge University
Press), 2010, 117-120.
74 Interview, Dr. Laryssa Chomiak.
75 Cable 08TUNIS679, “Corruption in Tunisia: What’s Yours is Mine,”
http://wikileaks.ch/cable/2008/06/08TUNIS679.html
businessmen maintain connections in the government in order to navigate the complex bureaucracy, a majority of industrialists have no special relationship with the government. Unlike during Ben Ali’s tenure, business elites no longer dominate the state. Consequently, the business community now must seek out other ways to advocate for pro-business policies. But the remaining economic elites are politically inexperienced and are therefore unable to significantly shape policymaking.

In liberal political systems, collective lobbying is one of the most effective ways that the private sector can formally influence politicians. The business community in Tunisia has historically failed to engage in collective action or organized lobbying. For example, the government signed the European Union Association Agreement (EUAA) in 1996, a trade liberalization agreement that threatened between a third and a half of all Tunisian textile firms. Yet the textile industry did not organize politically to oppose the agreement. Much of this lobbying failure is attributable to the inefficacy of Tunisian business organizations.

**Business Organizations: UTICA and TACC**

The Tunisian Union for Industry and Commerce (UTICA) is the most prominent business organization in Tunisia. Formed in the 1940s, UTICA played a key role in the fight against the French, providing organizational cover for Bourguiba’s neo-Destour party, staging anti-colonial strikes, and supplying rebels with weapons. Despite its close links to the independence movement, UTICA’s influence has waxed and waned. During the 1960s, Habib Bourguiba embraced a socialist model, introducing statist policies, encouraging collectivization, and discouraging private enterprise. Interventionism was particularly ambitious in the industrial sector, as massive state investments sought to create import-substitution industries. This statist development strategy and the dismissal of the once-prominent head of UTICA, Ferjani Bel Haj Ammar, from the neo-Destour’s Central Committee

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77 Cammett, 107.
78 Bellin 21.
resulted in a decade of decreased influence of the organization. Tunisia’s shift away from state-led development and a liberalization period in the 1970s and 1980s, called the infitah (openness), allowed UTICA to regain some clout. This did not, however, let UTICA strengthen its lobbying capabilities.

UTICA had a clearly defined role under the Ben Ali regime. As the primary employers’ organization in Tunisia, UTICA’s principal responsibilities were to communicate state policies to businessmen and to mobilize support for the regime. Apolitical activities like promoting business activity and providing training sessions were also permitted. UTICA was careful to stay in the good graces of the state, but this pragmatism came at a cost. UTICA has been accused of being co-opted by the government and has been criticized for only serving the interests of its high-ranking members. State interference in UTICA’s internal affairs and finances made the employers’ federation nothing more than an ineffectual parastatal. Because UTICA was corrupted by the state, the business union could not communicate the interests of its members to the state. In this sense, UTICA was wholly ineffective at achieving its primary objective: encouraging the government to implement policies that benefitted the business community.

The ouster of Ben Ali has created a political opening for UTICA. No longer co-opted, the organization may be improving its lobbying capabilities. A member of the Ministry of Trade gave a positive assessment of the organization, saying that UTICA is doing a good job of communicating the needs of the business community to the government. Regardless of any improvements that UTICA has made since the revolution, the business association is unlikely to affect the fuel subsidy discussion. According to Mongi Smaili, an economist associated with a labor union, the government does not consult with UTICA during its closed-door negotiations to determine fuel prices and subsidy levels. The representative of the electronics industry to UTICA confirmed that the business organization has

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79 Ibid, 61.  
80 Cammett, 122.  
81 Bellin, 63.  
82 Interview, Ikhlas Haddar.  
83 Interview, Mongi Smaili.
no role in price setting, explaining that the government only notifies UTICA of price changes the day before policies are enacted. UTICA’s past inability to shape policies, coupled with its current exclusion from the discussions about subsidies, means that the business organization is a nonentity in the fuel subsidy reform debate.

Another business organization, the Tunisian American Chamber of Commerce (TACC), has similarly been an ineffective interlocutor for the private sector. The Ben Ali government was the primary financier of the TACC, compromising the chamber’s autonomy. To avoid antagonizing the Ben Ali regime, the TACC focused its activities on educational programs and the facilitation of foreign trade. The TACC remains isolated from policymaking. Like UTICA, the TACC has no role in determining fuel prices. The Executive Director of TACC said that his organization is not consulted about fuel subsidies; rather, a select number of ministers establish energy policies. TACC’s past weaknesses, coupled with its current exclusion from political decision-making, make it unlikely to substantially influence fuel subsidy policies.

Due to the inefficacy of business organizations, leading businessmen in Tunisia have turned to individualistic lobbying tactics. Lobbying is often thought of as a distinctly Western, democratic dynamic. In the United States, formal interest groups are recognized by law and are thus constrained by a legal framework. Although such formal lobbying frameworks are largely absent in authoritarian regimes or in developing democracies, informal lobby and interest groups are prevalent. Such are the type of groups that are dominant in Tunisia. Informal lobbying groups tend to utilize interpersonal networks and employ individualistic lobbying tactics. UTICA, by comparison, is a formal, institutionalized, organized group that attempts to use collective lobbying. Despite having a more defined organizational structure, UTICA has not matched the lobbying successes of individuals and

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84 Interview, Haleb.
85 Bellin, 67.
86 Interview, Tijani Smidi.
informal interest groups.

Individualistic lobbying has long been the most effective means of exerting influence. One reason is the “field size” of Tunisia. The elite of Tunisia is numerically small, meaning that business elites often have personal relationships with political elites. 88 Under previous governments, leading businessmen consulted directly with public officials on matters of economic policy. This preference for interpersonal business-government relationships still exists. An economist noted that the current National Constituent Assembly communicates with the private sector via person-to-person connections, rather than rely on impersonal state institutions. 89 A senior civil servant in the Ministry of Industry claimed that individual “industrialists” bring their complaints directly to the government when the prices of electricity and natural gas go up. 90

It is unclear what, if any, impact such interventions have on policymaking now. It is difficult to make deterministic claims about the effect that individualistic lobbying is having on current policymaking in Tunisia, but it is unlikely that private consultations can match the effectiveness of organized, coherent lobbying. Prior to the fall of Ben Ali, individualistic lobbying was immensely influential. Such high-level relationships no longer exist. If businessmen are to shape policymaking in the current political environment, they will need to establish formal channels of communicating their desires to the state. The best means of conveying their interests is through collective lobbying. As of now, the continued preference toward interpersonal relationships is limiting the ability of the business community to shape fuel subsidy reform.

The variety of perspectives about fuel subsidies, the weaknesses of business organizations, and the predominance of individualistic lobbying all indicate that the business community is not a significant impediment to fuel subsidy reform.

88 Bellin, 65.
89 Interview, Mahmoud Ben Romthane.
90 Interview, Abdelmoumen Ferchichi.
The Role of Labor Unions

The Tunisian General Labor Union (UGTT), Tunisia’s major labor union, has long been a player in Tunisian politics. Capitalizing on his nationalist credentials and widespread popularity, Bourguiba created a one-party state and passed laws reifying the institutional dominance of his neo-Destour party. The backing of the UGTT was an integral factor in this ascendency of Bourguiba and the neo-Destour party. Bourguiba quickly ensured, however, that the UGTT was not an autonomous body capable of influencing state behavior. Ultimately, the experience of the UGTT became an archetype of union-government relations in Tunisia.

Unlike the rank and file of the UGTT, Bourguiba was not a committed socialist. Understanding that he needed to maintain a broad coalition, Bourguiba distanced himself from the UGTT and prevented the union from transforming the neo-Destour into a labor party. Bourguiba was also suspicious of the UGTT’s young, ambitious secretary general, Ahmed Ben Salah. Bourguiba manipulated internal divides, convincing Habib Achour, Ben Salah’s main rival in the UGTT, to break off and form his own union. The two factions eventually reunited, but only after Ben Salah had been removed from a leadership position. Bourguiba also rewarded Habib Achour with the highest rank in the neo-Destour’s Political Bureau. Bourguiba then offered Ben Salah the position of Minister of Plan and National Economy in his government, and the president’s former adversary would later become the architect of Tunisia’s planned economy in the 1960s.

The impact of Bourguiba’s maneuvering was profound. The top two members of the UGTT were co-opted into the regime, and the remaining UGTT leadership was effectively sidelined. Union leaders learned not to challenge the government. The development of civil society and democratic institutions was handicapped. This precedent of acquiescence to the government has persisted. During the late 1980s, the UGTT consented to Ben Ali’s neo-liberal economic reforms. At the behest of the

91 Cammett, 59.
Ben Ali regime, union leaders cooperated closely with Tunisia’s economic elites, who were seeking to reorient their businesses to compete in global markets. The UGTT leadership accepted wage moderation and made numerous other concessions to the “demands of a more market-oriented economy.” This policy stance was in direct conflict with the interests of the union members.

Economic globalization and trade unions are largely incompatible. During globalization, firms shift production to underdeveloped countries that lack effective trade unions, where they can pay low wages to unskilled or semiskilled workers. The UGTT’s willingness to accept the government’s anti-labor, market-driven economic plans underscores how placatory the UGTT’s leadership was toward the state.

Officially, the UGTT maintained that it was politically neutral. The supposed intent of this neutrality was to retain autonomy and prevent schisms from within the union rank and file. In reality, the UGTT was neither neutral nor autonomous. In 1994, the UGTT actively campaigned on behalf of Ben Ali during his re-election bid. The UGTT even distanced itself from the union’s newspaper, *al-Sha‘b*, in order to avoid any possible contestation with the state.

The role of the UGTT is less clear since the fall of Ben Ali. The Jasmine Revolution created a dilemma for UGTT’s leadership. On the one hand, the previous regime had co-opted UGTT’s leadership. On the other hand, many of UGTT’s members were participating in demonstrations and demanding the fall of the regime. Opinions about the significance of UGTT’s role in revolution vary greatly. Kheireddine Bouslah, a labor activist and longtime UGTT member, claimed, “the UGTT was the strategic ally of the social forces that rose up against Ben Ali.” Yet critics have claimed that the UGTT leadership was slow to embrace the revolutionary ethos and failed to effectively mobilize its significant base. Since the fall of the regime, however, the UGTT has become more confrontational.

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93 King, 34.
95 Bellin, 148.
The UGTT has been a vocal critic of the National Constituent Assembly and the Ennahda party. The union organized nationwide strikes after the assassination of Chokri Belaid, a prominent opposition leader, in February 2013.  

The UGTT officially opposes cuts to energy subsidies. This is partly ideological. Fuel subsidy reform is largely incongruous with the fundamental economic tenets of the plurality of organized labor groups. Unions tend to object to neo-liberalism, structural adjustment programs, loan conditionality, the shrinking of the state, and cuts to social spending. Mongi Smaili, an economist with the UGTT, echoed such misgiving about neo-liberal reforms. He pointed to Tunisia’s structural adjustment plan of 1986, arguing that austerity policies did not precipitate an economic boom. In response to a question about the fuel price increases of March 2013, Smaili stated that the move was ill-conceived and poorly thought out. If unions do not accept the fundamental economic rationale for subsidy reform, then it is doubtful that the UGTT will support price liberalization.

The UGTT also opposes subsidy reform because fuel subsidies are an important social protection for the poor. Even if subsidies benefit the rich disproportionally, the poor are less able to absorb the impact of higher prices. Because fuel is an input in the production of a majority of consumer products, prices of a multitude of goods increase. The UGTT contends that fuel subsidy cuts will undermine the purchasing power of the middle class and the poor. As Smaili argues, “social upheaval is inevitable and the risk of plunging the country into chaos grows” if the general public is unable to afford basic goods.

Tunisian unions are not necessarily intransigent on the issue of fuel subsidy reform, however. The UGTT membership and leaders may be more willing to consider subsidy reform if the government

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99 La Presse de Tunisie, “‘L’ajustement Structurel Risque de Plonger le Pays Dans le Chaos,” March 6, 2013. Translated from French.
100 Interview, Mongi Smaili.
101 La Presse de Tunisie, “‘L’ajustement Structurel Risque de Plonger le Pays Dans le Chaos,” March 6, 2013. Translated from French.
is more transparent. Transparency is a major problem, considering that even the process of determining fuel prices is opaque. Furthermore, the UGTT wants to be included in the debate. According to Mr. Smaili, the UGTT might support reform if the government first consults with unions and other interested parties. To address the UGTT’s concerns about the ramifications for the poor and middle class, the government could accompany reforms with a program that helps the poor. Mr. Smaili conceded that the UGTT could conceivably support reforms that are accompanied by new welfare programs. Under such conditions, it is possible that Tunisian trade unions could support subsidy reform.

The transitional government, in consultation with the World Bank and other parties, may be undertaking a plan to rapidly replace fuel subsidies with an expansive social welfare program. One informant indicated that the UGTT is in full support of this plan to radically alter the subsidies regime, despite the fact that this is antithetical to the UGTT’s official position of opposing fuel subsidy cuts. The World Bank is currently designing a program that seems to indicate that major reforms are coming. The program, entitled the “Social Protection Reforms Support Project,” seeks to provide technical assistance to the Tunisian government for upcoming “high-profile” reforms to subsidies, as well as the pension and health insurance systems. No other details of this program, or the government’s alleged subsidy reform plan, have been made publically available. As such, the most plausible analysis of the position of unions is that they remain firmly opposed to fuel subsidy reform.

Although the UGTT opposes fuel subsidy reform, it is unlikely that the union is able to actually impede reform. Despite its recent political activism, the UGTT remains unable to influence policymaking. Mongi Boughzala, an economist from the University of Tunis al-Manar, acknowledged that the UGTT is “more powerful than it used to be before the revolution.” Despite this increased relevance since the revolution, Boughzala maintains that the union has little political clout and is still

102 Interview, Mongi Smaili.
103 Interview, Mustapha Haddad.
“not very powerful.” Mr. Smaili acknowledges his organization’s lack of influence, complaining that the government rarely consults with the union about policy matters. The UGTT’s history of cooptation by previous regimes, coupled with its exclusion from policymaking under the current government, makes it a weak player in the reform discussion. Unions are simply not a significant impediment to fuel subsidy reform in Tunisia.

**The Oil and Gas Sector**

Although Tunisia is a net-importer of petroleum products, the country does have oil and natural gas reserves. International oil companies (IOCs) and the state oil company, Entreprise Tunisienne D’Activités Petrolieres (ETAP), work in conjunction to extract oil and natural gas. ETAP issues permits for the IOCs to conduct exploration. When petroleum is discovered, IOCs and ETAP enter into one of two types of agreements. Under production sharing agreements, IOCs and ETAP share the petroleum. Another contractual arrangement is that the IOCs sell the entirety of the available product, paying a royalty to ETAP.

Most of the oil is sold in international markets, whereas a majority of natural gas is sold domestically. Domestically, natural gas is sold to the Societe Tunisienne de l’Electricite et du Gaz (STEG), while the Societe Tunisienne des Industries de Raffinage (STIR) purchases oil. A major problem with Tunisia’s oil and gas sector is the lack of domestic refining capabilities. Tunisia is forced to export raw hydrocarbons and import more expensive refined petroleum products. OICs and ETAP need to export all propane, for example, due to the lack of refining facilities. This process is highly inefficient and forces the government to absorb higher costs.

Fuel subsidies do not impose costs on IOCs. Although IOCs are contractually obligated to sell products to STEG and STIR, prices are not capped. Consequently, petroleum products are sold to the

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105 Interview, Mongi Boughzala.
106 Interview, Mongi Smaili.
107 Interview, Lawyer.
distribution companies at close to international prices. Subsidies occur downstream of the producers, and therefore have little impact on the profit margins of IOCs. Because subsidies encourage overconsumption, domestic demand for oil and gas may decrease in Tunisia.\textsuperscript{108} Lower demand could conceivably cut into the earnings of the IOCs. There is still, however, a market for these petroleum products outside of Tunisia. If the elimination of subsidies causes domestic demand to decrease, then IOCs will merely sell their products internationally. Most raw petroleum products already need to be exported for refinement due to Tunisia’s limited refining capabilities, so IOCs would not even incur substantial new transportation costs.

The only way that subsidies could hurt IOCs is if the government runs out of money. If the Tunisian government has a severe fiscal crisis, it may be forced to suspend payments to IOCs. A similar situation is unfolding in Egypt, where concerns are mounting that the government will simply be unable to pay for fuel.\textsuperscript{109} Nevertheless, such a scenario is unlikely. A lawyer in the energy sector said that oil companies closely monitor Tunisia’s budget deficit. But even in dire financial straits, the government will pay for fuel because energy “is a strategic industry. You can’t stop selling. You can’t shut down. The country would be in mayhem.”\textsuperscript{110} A temporary lack of payment would prompt arbitration, and ultimately the government would be forced pay IOCs to prevent irreparable damage to its international business reputation. In essence, IOCs in Tunisia are insulated from domestic pricing or subsidies issues. Therefore, IOCs have no incentive to try and influence fuel subsidy policymaking.

Tunisia’s state petroleum company has a greater motivation to support reform. ETAP sells oil to STIR at approximately one-third of international prices. STEG purchases gas from ETAP at between one-fifth and one-sixth of the global rate.\textsuperscript{111} Because ETAP is forced to internalize some of the subsidy


\textsuperscript{110} Interview, Lawyer.

\textsuperscript{111} Interview, Mohamed Akrout.
costs, it stands to profit from price liberalization. Eliminating subsidies would also free up capital for investment, exploration, and development of Tunisia’s oil production, distribution networks, and refining capacity.

Yet ETAP leadership does not seem concerned about subsidy reform. The CEO of ETAP compared subsidies to European social welfare programs as a means of buying social peace. Top executives seem to be more in favor of targeting fuel subsidies than eliminating them.\textsuperscript{112} ETAP also lacks the ability to dictate policy or set energy prices. According to ETAP’s highest-ranking officials, the Minster of Finance and the Minister of Industry determine fuel prices. ETAP does not take part in the decision-making, nor is it even consulted.\textsuperscript{113} The state oil company also lacks the autonomy to criticize the government’s energy policies. ETAP is technically a “private” company, but the government appoints the Board of Directors, essentially making the company an arm of the state. Such intervention in the affairs of privatized state owned enterprises (SOEs) is common in Tunisia, “where privatization does not necessarily imply a loss of state control over their management.”\textsuperscript{114} While the government does not control day-to-day operations of ETAP, it does dictate the company’s policies, long-term planning, or strategic investments.

The oil and gas sector is not a source of resistance to reform. International oil and gas companies have no incentive to push for reform, while the state oil company lacks the will and the autonomy to influence policymaking. Therefore, resistance to reform must come from outside of the oil and gas sector.

\textbf{The Government: Unwilling, Unable, or Afraid?}

An examination of the general public, the business community, unions, and the oil and gas

\textsuperscript{112} Interview, Mohamed Akrout.
\textsuperscript{113} Ibid.
sector does not uncover a concentrated, insurmountable source of opposition to fuel subsidy reform. Yet Tunisia lacks a coherent, long-term plan to address its costly subsidy regime. This begs the question: why is reform not occurring? The only remaining answer is that the government itself is the primary impediment to reform. The most plausible explanation is that current government is unwilling, unable, and afraid to cut energy subsidies.

**Political Will: Ideology, Corruption, or External Actors?**

Because subsidy systems are complex and instituting changes can send shockwaves through an economy, a government must possess the will to reform. Strategies that can be used to minimize popular opposition, such as communication or creating social safety nets, require significant political capital. The current political elites may lack the political will necessary to push for subsidy policy changes. Describing the current government’s failure to explain the reason for the most recent fuel price hikes, economist Mahmoud Ben Romdhane said that the decision was “not due to [the government’s] own conviction…it’s an obligation. They feel the decision is imposed on them.”

Such a lack of political will may be due to ideological factors. The current government may simply disagree with the assessment that subsidy elimination is a sound policy decision. Previous regimes used subsidy adjustments as a means of dispensing largesse. The current government may adopt a similar tactic to establish political patronage. The government may view subsidies as a necessary social protection, and thus be unwilling to adopt reform. More generally, the current government may reject the entire logic of subsidy reform. A political establishment that opposes neoliberal economic policies on ideological grounds is unlikely to enact reform.

This explicit ideological opposition to reform is not prevalent in the current government, however. The economic policies of the various political parties can be difficult to decipher. A majority

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115 Interview, Mahmoud Ben Romdhane.
116 Interview, Ikhlas Haddar.
of Tunisians are unable to place the economic positions of various parties. Economic policies remain fluid as political parties seek to define their stances. Currently, the dominant party, Ennahda, lacks economic coherence. One opposition politician attributed this to the fact that Ennahda is more comfortable writing religious treatises than drafting economic policies. In reality, this policy dissonance is largely due to the fact that the party does not define the state’s role in the economy, nor is it explicit on how to raise money. Still, Ennahda supports market-led growth, seeks to bolster regional and international trade, and is courting foreign investment. Thus, the party clearly orients itself with some degree of neo-liberalism. Therefore, subsidy reform is not being blocked solely on the basis of ideological opposition from within the government.

Corruption may similarly affect the will of politicians to push for fuel subsidy reform. Though presumably less endemic now than it was under Ben Ali, corruption is still a significant problem. In fact, Tunisia’s corruption worsened between 2010, Ben Ali’s final full year in office, and 2012. According to Transparency International’s Corruption Perceptions Index, Tunisia was the 75th most corrupt nation globally, as opposed to 59th in 2010. The revolution may have merely exposed pre-existing corruption, accounting for this increase. As Hannes Baumann argues, many prominent scholars underestimated the extent of corruption in the former bureaucracy. It would be unwise to make the same mistake twice and fully discount the possibility of corruption in the new government.

The existence of subsidy programs often correlates with fraud and corruption. In South Korea, a rice subsidy scheme paid out more than $100 million in compensation to fraudulent applicants, many of whom were public servants. In Nigeria, the Minister of Petroleum awarded licenses in exchange for

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117 Benstead, Lust, and Malouche, 3.
118 Interview, Nedji Jelloul
bribes. Furthermore, politicians may own energy-intensive, export-oriented companies that benefit from fuel subsidies. Personal financial benefits may therefore impede subsidy reform. The complexity and opacity of the fuel subsidy system in Tunisia further increases the possibility of corruption. One prominent businessman complained about the lack of transparency about fuel subsidies, stating that reform is difficult because corruption may exist. Even though Ben Ali and his cronies are no longer in power, it is entirely plausible that politicians are unwilling to eliminate subsidies due to personal financial gain.

A lack of government will does not necessarily imply overt opposition to reform; rather, the government may simply be ambivalent. Tunisia has previously embarked on subsidy reform programs, albeit unsuccessfully. Such efforts in the 2000s were making incremental gains before it was derailed by the international financial crisis. External pressure, rather than internal political will, may account for these reform attempts. Subsidy reform may only occur under pressure from international financial institutions. The Tunisian government is in the midst of renegotiating a $1.7 billion loan with the IMF. The IMF ardently opposes subsidies and is insisting on cuts to fuel subsidies as part of the loan package. The World Bank is similarly advocating for subsidy reform. Ikhlas Haddar, a Head of Division in the Ministry of Trade, said that the World Bank is communicating directly with the Ministry of Finance to provide advice about the necessity of cutting subsidies.

Budget shortfalls are also an external factor that forces action. The decision to modify energy

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124 Interview, Abdelmoumen Ferchichi.
126 Interview, Abdel Rahman al-Lagha.
127 Interview, Ikhlas Haddar.
128 Interview, Mahmoud Ben Romdhane.
price levels was in direct response to Tunisia’s fiscal crisis. Subsidy cuts were not the consequence of a long-term economic plan; rather, they were a quick response to a pressing economic problem. If not for the budget deficit, which currently sits a 6.6 percent of GDP, then the government would not have introduced the price increases of March 2013. In this sense, the government is unwilling to make an earnest effort to address the subsidy regime. When the immediate budget constraint is lifted, the government will most likely “forget” to eliminate subsidies, just as Mr. Ferchichi of the Ministry of Industry said it did under Ben Ali.

A lack of sincere willingness to institute systemic changes contributes to the lack of progress on fuel subsidies. Tunisian politicians, by and large, do not oppose reform on ideological grounds. Yet their unwillingness to eliminate the subsidy regime still exists. Politicians who personally profit from fuel subsidies may be blocking reform attempts. Moreover, the subject of reform is broached only when international institutions or a severe budget crisis put pressure on the government. A lack of willingness from within the government is therefore one of the most significant impediments to reform.

Governmental Incapacity and Political Transition

Unwillingness alone does not account for the lack of serious reform. The current government is simply incapable of implementing the type of comprehensive plan necessary to address the fuel subsidies. Undertaking significant reforms requires substantial political capital. During the authoritarian years of Bourguiba and Ben Ali, policymaking was simple. A small caste of political elites ensured all decisions were implemented and abided by.

Now, the realities of Tunisia’s political landscape are far more complex. Tunisia is hyper-politicized and demonstrations are frequent. When the authors were conducting fieldwork in Tunis, a young man self-immolated in protest of high unemployment rates and the lack of economic

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130 Interview, Mongi Smaili.
131 Interview, Abdelmoumen Ferchichi.
opportunities for the youth. Political and social instability does not lend itself to careful, deliberate planning. Until stability returns to Tunisia, it is unlikely that the government will be capable of creating a comprehensive reform strategy.\footnote{132 Interview, Abdelmoumen Farchichi.}

Frankly, the government has more pressing priorities than fuel subsidies. Much like the average Tunisian, the government is more concerned with security than subsidy reform. Although the smuggling of heavily subsidized fuel products from neighboring Algeria and Libya contributes to insecurity, security issues draw attention away from the nuanced economic problem of fuel subsidies.\footnote{133 Interview, Riadh Saadaoui.} As this research indicates, fuel subsidies are a great economic significance. Nevertheless, the government is more concerned with providing jobs for the large numbers of unemployed youths.

The National Constituent Assembly has other political imperatives. After decades of authoritarianism, institutions must be strengthened. A constitution needs to be drafted. A roadmap for elections must be established. To this end, the National Constituent Assembly has been relatively successful. The creation of a system that checks the power of the president with a strong parliament increases the likelihood of a democratic outcome for Tunisia.\footnote{134 Fish, M. Steven and Katherine E. Michel. “What Tunisia Did Right,” \textit{Foreign Policy}, November 2, 2012.} The intent is not to trivialize the challenges that lay ahead, but rather to show that the government must address more fundamental political concerns before it tries to radically overhaul the subsidy system.

The current government, which truly is a bare-bones transitional administration, is not even supposed to set long-term policies.\footnote{135 Interview, Dr. Laryssa Chomiak.} Because fuel subsidy reform inherently requires long-term thinking, the government may be unable to implement reforms until elections are held. To some, even the recent decision to raise fuel prices meant that the government was overstepping its mandate.\footnote{136 Interview, Mongi Smaili.}

High turnover, especially at the ministerial level, is a characteristic of the current government. Even Prime Minister Hamadi Jebali resigned due to his inability to form a technocratic administration
following the assassination of Chokri Belaid. Such uncertainty inhibits the ability of the government to conduct the most routine of business. A lawyer in the energy sector complained that his contracts are regularly frozen because the minister who signed the document the week before has stepped down. As the lawyer put it, “how could they have a [subsidy reform] strategy if they don’t have the same people for more than a couple of months?”

The sheer complexity of the subsidy regime also blocks progress. Prices are fixed on a number of basic consumer goods like food. Unless these fixed prices increase, or price liberalization is achieved across sectors, it is impossible to raise the price of fuel. The current government simply lacks the capacity to tackle such a complex problem. Informational deficiencies are an issue. The government may not have the necessary statistics to understand the scope of the subsidy problem. A representative from UTICA gave the authors an anecdote, talking about statistics that the Ennahda party published related to poverty rates. The World Bank and Institut Nationale de la Statistique later checked these statistics and found the poverty rates to be inaccurate. In the eyes of this businessman, the government cannot possibly have the institutional capacity to implement a complex reform program if it cannot even accurately keep statistics.

Institutional incapacity is therefore a major impediment to reform. The government is unable to enact significant policies in an unstable, unpredictable political climate. The government must expend its limited political capital on more immediate security, economic, and political concerns. High bureaucratic turnover and the transitional nature of the National Constituent Assembly undercut the ability of the government to form long-term strategies. This is particularly detrimental to progress on a complex issue like fuel subsidy reform. Such incapacity is understandable. Tunisia is attempting to forge a democracy out of autocracy. As power becomes consolidated, the government will gain

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137 Interview, Lawyer.
138 Interview, Haleb.
139 Interview, Abdel Rahman al-Lagha.
140 Interview, Haleb.
institutional capacity. But until it becomes more capable, the government will remain a hindrance to reform.

_Fear: The Specter of IMF Riots and Partisan Politics_

The government continues to resist fuel subsidy reform simply out of fear. As explained earlier, this belief that subsidy reform will lead to high levels of protest is largely unfounded. Price increases, particularly when enacted in a well-reasoned manner, are unlikely to cause the type of intense unrest that leads to regime change. But this does not mean that the government will act rationally. Political leaders do not always make decisions based on logical reasoning. Past events, and particularly traumatic experiences, influence the way that decision makers process new information. New information that conforms to events of the past is emphasized, while dissonant information is disregarded.\(^1\)

The current government is exhibiting this type of irrational decision-making. Just because the government should not fear the street does not mean that it will not. The specter of the riots of the 1970s and 1980s looms large in the minds of the political leadership. The CEO of ETAP alluded to this lingering fear, saying that government is afraid of the social impact of subsidy reform and does want to alienate the general public.\(^2\) It is likely that politicians have a distorted view of the possible ramifications of reform attempts, but any chance of sparking riots is an unacceptable risk. An outburst of even short-lived unrest could also derail the delicate process of drafting a constitution and forming a new government. This fear of prompting a mass public backlash, even if unfounded, is shaping the behavior of the government.

As Tunisia adopts a more liberal political system, stability is likely to return. The general public will presumably be able to express discontent via the ballot box, not the street. Yet despite the progress

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\(^2\) Interview, Mohamed Akrout.
toward political liberalization, uncertainty is high. Tunisian politicians are not yet able to gauge the boundaries of their power, and it remains unknown just how divisive subsidy cuts may be.

Tunisian politics is highly populist and partisan. One opposition politician said that some parties on the left are calling for the government to lower the prices of consumer goods in order to gain popular support.\textsuperscript{143} Thus, the subsidy reform debate must now be understood in the context of a highly contested political environment. Politicians worry about self-preservation. Therefore, it is unlikely that political elites will offer to champion an unpopular reform strategy. Politicians will need to be assuaged that subsidy reform will not lead to their downfall. Until politicians gain a better understanding of public perceptions about reform, political elites will continue to be afraid of implementing fuel subsidy reforms.

The current Tunisian government is both actively and passively resisting reform for a variety of reasons. Unless international financial institutions exert pressure on the government, or there is an immediate fiscal crisis that needs to be resolved, political elites seem unwilling to champion reform. Even if the government were willing to introduce reforms, a combination of incapacity and fear would impede progress. The transitional government cannot take up reform due to institutional deficiencies and more pressing priorities. An illogical fear of riots and more legitimate concerns about partisan politics mean that politicians are unlikely advocate for subsidy cuts in the near future. In summation, the government itself is the biggest obstacle blocking fuel subsidy reform in Tunisia.

**Recommendations**

Although there is a strong economic rationale for fuel subsidy reform in Tunisia, the current period is inauspicious for such reform. Due to the economic crisis and a shaky political transition, fuel subsidy cuts could impair short-term economic recovery and the stability of the democratic transition – including the writing of a constitution, the chances of fair elections, and the formation of a new

\textsuperscript{143} Interview, Nedji Jelloul.
government. Most of all, however, the Tunisian government likely lacks the capacity to develop and implement a meaningful reform program. Such a program would require the ability to accurately target the poor, while the complex system of fixed prices would need to be carefully adjusted as fuel prices increase. The current government is understaffed, beset by instability and high turnover, is facing a list of more pressing priorities, and lacks a true mandate for reform and long-term economic policy. As such, the government does not possess the technical or administrative capacity to undertake a carefully planned, long-term fuel subsidy reform program.

One conceivable solution is to eliminate subsidies in one fell swoop. This partially addresses the problems of institutional incapacity, as the government would not need to create new social welfare programs or methodically increase prices over a long time span. And if the government is going to incur political costs for reform, it may be best for the government to simply cut all subsidies and hope to survive the ensuing fallout. But such a policy would likely prove disastrous, as the costs would be felt immediately. It would further exacerbate an already difficult economic situation, and the benefits may not materialize for years. Without a compensation scheme, the poor may never receive, let alone perceive, the benefits of reform. All of our Tunisian interviewees adamantly insisted that a one-off reform policy would lead to dramatic social upheaval. None favored such an approach, which would be both unwise and unnecessary.

Instead of beginning comprehensive reform, the Tunisian government should focus on avoiding new debt by introducing an automatic price-adjustment mechanism to keep domestic prices pegged to international price movements. This would prevent the subsidy bill from increasing in the short-term, leaving the government free to concentrate on pressing matters of political stability. Such a policy is relatively simple to implement, and does not require considerable political will or administrative capacity. Temporarily keeping fuel subsidies, but linking prices to international markets, helps forestall the problems of political incapacity and social unrest without forcing Tunisia to absorb more debt.

In the meantime, Tunisia’s political leaders must continue to take steps to lay the groundwork
for future reforms by improving its administrative capacity. Also, by continuing to pursue political liberalization, Tunisia’s leaders can ensure that all Tunisians will have legitimate, institutionalized channels through which they can air their grievances. This reduces the likelihood of opportunistic protest. Once a constitution is drafted and further elections are held, the government will have a mandate to begin instituting more comprehensive policies.

Crucially, Tunisians and the international community must fight corruption. Individuals within the government will be unable to personally profit from low energy prices if corrupt business-state relations are prevented from being reestablished in the post-Ben Ali era. By fighting corruption, the Tunisian government can reduce the probability that dishonest politicians will try block future reform attempts. Thus, political liberalization and anti-corruption initiatives can help address the root of why the government is unwilling, unable, and afraid to reform fuel subsidies.

International financial institutions can assist in these efforts. Funds should be provided to help with capacity building and anti-corruption measures. Rather than focus on economic structural adjustment in the near-term, IFIs can instead help guarantee that political reforms are successful. Steep subsidy cuts should not be a prerequisite to loan assistance to Tunisia, and the World Bank and IMF should continue to provide short-term financial assistance in order to battle the ongoing economic crisis and to foster political stability. Once these fundamental objectives are achieved, the chances for successful fuel subsidy reform will increase.

Ultimately, comprehensive fuel subsidy reform can succeed in Tunisia, and elsewhere in the MENA region. With careful planning, clear communication of the benefits of reform, and a compensation program effectively targeted at the poor, MENA governments can largely overcome popular opposition. Thanks to political liberalization, a Tunisian government with a strong mandate for reform can dissipate the risk of political opportunism and even garner a degree of popular support for reform. Other countries that fail to liberalize their political systems may continue to struggle to depoliticize the fuel subsidy debate.
We conclude that there are currently no other strong sources of opposition to fuel subsidy cuts in Tunisia. This conclusion is thus country-specific and temporal. Although we argue that the Tunisian government is the primary impediment to reform, we believe that this can easily change as the country continues to liberalize politically. Also, we contend that examining the perspectives of multiple actors is necessary in order to pinpoint opposition to fuel price increases. These opinions are bound to vary in different countries. Just because Tunisia’s business elites do not influence the fuel subsidy debate, for example, does not mean that the business sector cannot influence policymaking in other countries. Therefore, policy recommendations must be made in consideration of the unique domestic political, economic, and social dynamics of each country struggling to abandon fuel subsidies.

We do believe, however, that our recommendations are valid for any country suffering from institutional capacity deficiencies. For countries with weak governments or undergoing dramatic political transitions, fuel subsidy reform is unlikely. At best, political capacity building must preempt subsidy reform. Egypt, for example, is likewise struggling with a significant budget deficit, a high subsidy bill, and low institutional capacity. Like Tunisia, Egypt must therefore achieve political stability before it can tackle fuel subsidy reform. While these recommendations are thereby not universal, the Tunisia case does provide a valuable metric for analyzing other countries dealing with similar political, economic, and social challenges.

**Conclusion**

This analysis of fuel subsidy reform attempts in Tunisia, as well across the Middle East and North Africa, challenges the existing literature. The riot-centric body of literature places a myopic focus on the ability of the general public to disrupt subsidy elimination programs. This perspective ignores other possible sources of opposition, as well as other factors that shape the policies of governments. Similarly, literature published by international financial institutions singularly tries to make policy recommendations for how to mitigate public unrest. This too ignores other foci of
resistance and internal politics of policy-making processes.

We contend that popular opposition to fuel subsidy reform remains a significant factor. Decades of riots in response to neo-liberal economic reforms show the divisiveness of price hikes. Furthermore, the countries of the Middle East and North Africa have a culture of protest in the wake of the Arab Spring. The fear barrier that previously prevented average citizens from demanding regime change no longer exists. This is particularly true in Tunisia, where demonstrations and rallies occur on a daily basis. Many Tunisians have negative opinions about the political and economic competence of the new government. Introducing a potentially unpopular reform program in this economically sensitive, politically charged atmosphere could very well result in mass protest. It is important not to discount the indirect effects of popular opposition. Governments may possess an irrational fear of unrest, in turn making them unwilling to upset the status quo. Even if this fear is unfounded, governments will remember the riots of the past and expect a similar outcome.

Although we are critical of the narrow scope of the policy prescriptions of international financial institutions, we do not believe that these recommendations are irrelevant. It is our assessment that communication strategies can lessen the risk of symbolic opposition to subsidy elimination. Similarly, compensation programs and targeting can lessen the direct income losses sustained by the poor. There is some evidence from the past decade that vindicates these theoretical approaches. But it is necessary to acknowledge that recent subsidy reform attempts have had shortcomings. Price hikes in Jordan and Egypt, for example, led to demonstrations, albeit with less intensity than the IMF austerity riots of the second half of the 20th century.

More importantly, the theoretical policy prescriptions of the IFIs do not address the political component of fuel subsidy reform. These strategies do not prevent unrest due to general anger toward the government. Citizens may use price hikes as an excuse to riot. People may take to the streets not because of income losses or because the government is reneging on its responsibility to provide social services; rather, the general public may merely be expressing greater deep-seated political and
economic grievances. Opposition parties can also use price hikes as a rallying point to mobilize opposition against the government. Communication plans, compensation programs, and improved targeting do nothing to counter these reasons for protest.

Previous studies of fuel subsidy reform have ignored other potential sources of opposition to price liberalization. This is a major flaw and is the reason why most analysts have had a singular focus on popular opposition. The case study of Tunisia does not uncover any other significant, concentrated pockets of resistance to subsidy removal. Within the business community, perspectives vary greatly, particularly by sector. Additionally, businessmen continue to rely on interpersonal relationships and individualistic lobbying, even though this tactic is less effective now that state-business relations have changed. Moreover, business organizations cannot be relied upon to shape policymaking. Even though trade unions are ideologically opposed to price hikes, the UGTT has little ability to shape policies and is excluded from the fuel subsidy discussion. The oil and gas sector similarly does not impede reform. Subsidy policies do not affect the profit margins of IOC's, making them unlikely to oppose reform. The leadership of the state oil and gas company, ETAP, exhibits little interest in removing subsidies. Because ETAP lacks autonomy and is largely an extension of the state, the “private” company is not expected to influence subsidy policies.

Our finding that these actors are not shaping policymaking in Tunisia is still significant. If popular unrest can be managed, at least to a certain extent, and other key actors are not blocking reform, why have Tunisia’s leaders failed to abandon fuel subsidies? The answer lies in the government itself. The government remains the major impediment to reform because it is unwilling, unable, and afraid to eliminate subsidies. It is plausible that corrupt politicians are blocking reform because they personally profit from low energy prices. Subsidy elimination also requires significant political capital, and Tunisian politicians seem unwilling to enact reforms unless there is direct, immediate pressure due to budget deficits or loan conditions.

The inefficacy of the Tunisian government must also be understood within the context of the
Arab Spring and the ensuing efforts at political liberalization. The current political establishment is not firmly established and there is high turnover at the highest levels of government. The transitional government has significant institutional capacity shortcomings. These institutional weaknesses mean that the government is unable to deal with the highly complex subsidy regime. The complexity of price setting necessitates multisectoral reforms. Such a substantial reform effort is beyond the capabilities of the current government. Finally, there are simply more pressing priorities. From drafting a new constitution to dealing with regional security threats, the transitional government is being forced to exert its political capital on issues unrelated to price subsidies.

Interviewees also indicated that the government remains afraid of “the street.” Even though a comprehensive reform plan could theoretically undercut public unrest, the memory of past revolts remains strong. Moreover, Tunisia’s current political establishment will be afraid to reform as the country becomes more politically liberal. Opposition groups, operating through institutionalized channels, may use price hikes to mobilize public opposition against the current government. Outrage over subsidy removal could conceivably cause politicians to lose elections. Regardless of whether political elites are afraid of rioting in the streets or defeat at the ballot box, it is important to acknowledge that fear and uncertainty are shaping policymaking in Tunisia.

Fuel subsidies will remain a significant issue as Tunisia continues to grapple with severe economic problems. As subsidy policies are debated and interested actors push for price liberalization, the political component of subsidy reform must be a focus. Policy recommendations must reflect an understanding of the political challenges of implementing price hikes. Reform cannot proceed unless Tunisia deals with issues of internal legitimacy, institutional capacity, and corruption. Fear and political uncertainty must also be addressed. Only when the government feels stable can it be comfortable enough to implement reform measures. Finally, the will for reform must come from within the government itself. External pressure alone cannot force Tunisian politicians to undertake difficult, multisectoral reforms. Like Tunisia, countries throughout the MENA region, as well as globally, are
trying to abandon expensive, inequitable fuel subsidy programs. There are no universal steps that a country can take to reach price liberalization. Rather, energy policies must be developed in consideration of the specific political dynamics of each country. The perspectives of other actors such as businessmen, business organizations, trade unions, the oil and gas sector, and the general public must also be accounted for. Until academics and policymakers embrace a more rigorous approach to fuel subsidies, reform attempts will continue to fail.
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Appendices

Appendix A- Interviewees

Mohamed Akrout- Chief Executive Officer of the Entreprise Tunisienne d'Activités Pétrolières (ETAP)

Mongi Boughzala- Professor of Economics- University of Tunis, El-Manar

Dr. Laryssa Chomiak- Executive Director of the Centre d'études Maghrébines à Tunis (CEMAT)

Abdelmoumen Ferchichi- Director of Electricity and Gas, Direction Generale de d'Energie, The Ministry of Industry

Mustapha El Haddad- Energy Consultant

Ikhlas Haddar- Head of Division, Economic and Commercial Cooperation, Ministry of Trade

Haleb- Representative of the Electronics Association to the Tunisian Union for Commerce and Industry (UTICA)

Nedji Jelloul- Professor of Archaeology, University of Tunis and member of the Jamhuri Party

Abdel Rahman al-Lagha- Professor of Economics, University of Tunis; World Bank Consultant

Lawyer- Energy Sector

Mahmoud Ben Romdhane- Economist, University of Tunis and member of the Ettajdid Party

Riadh Saadaoui- Associate Director of the Centre d'études Maghrébines à Tunis (CEMAT)

Mongi Smaili- Economist, The Tunisian General Trade Union (UGTT)

Tijani Smidi- Executive Director of the American Chamber of Commerce in Tunisia (TACC)

Ziad- Taxi Driver
# Appendix B - Fuel Price Data

**Republique Tunisienne**  
**Ministere du Developpement Regional et de la Planification**  
**Institut National de la Statistique**  
IPC 2005/205103

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</table>

Percent Increase
- Gaz en bouteille: 34.50%
- Petrole Bleu (Kerosene): 179.30%
- Essence (Gasoline): 77.10%
- Gazoil (Diesel): 129.50%

Gaz en bouteille

<table>
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<tr>
<th>Month</th>
<th>Price per liter (millimes)</th>
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**Month**  
0 - Mai  
1000 - Sept