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# How Will Rising Fuel Costs Affect the Caribbean?

Inter-American Dialogue's Latin American Energy Advisor

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*Q and A: How Will Rising Fuel Costs Affect the Caribbean?*

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The administration of Jamaican prime minister Bruce Golding on April 11 caved in to pressure "at the eleventh hour" and rolled back the rate of the ad valorem tax on fuel, the *Jamaica Gleaner* reported, in an apparent bid to ward off opposition-led national street protests over fuel prices that party officials worried could turn violent. The opposition PNP party wants a permanent cap on the gas tax, as well as the removal of the general consumption tax on electricity, while the administration has pointed out that the increases in the price of fuel were being driven by the price of oil on the world market rather than taxation, and that the fiscal consequences of removing the tax could be severe. Is the threat of social unrest in the next few months over high fuel prices serious? Where is Jamaica's debate over fuel subsidies and energy taxes headed? How are other countries in the Caribbean coping with the problem?

**A: Anthony T. Bryan, senior associate in the Center for Strategic and International Studies Americas Program and a senior fellow at the University of the West Indies in Trinidad and Tobago:**

"The threat of social unrest over high fuel prices is always serious, but Jamaica has been at that stage before. Both JLP and PNP administrations have used similar threats in the past. Small enterprises, gasoline retailers and the Jamaica Civil Service Association, among others, have called for a cap on what is seen as a direct tax on the people. The Golding administration has indicated that the cap on the tax at this time is a short-term measure. Some progress toward a more permanent solution could be made during the current budget debate. Realistically, Jamaica may not have much choice in the matter of fuel prices. The fuel product prices are market based and market driven, and all that the government can do is to reduce the tax element of the price. Until such time as the country is able to improve its mass transportation systems and find alternative fuel sources, the dilemma will continue. There is also public concern over the proportion of the gas tax that is used on road maintenance. The advocacy and debate will continue. In the Commonwealth Caribbean, all other countries have to confront the issue of market-driven fuel prices at the pump and the implementation of a consumption tax that is a source of government revenue. Only oil-rich Trinidad and Tobago can afford the luxury of subsidized fuel at the pump, and it has been able to reduce the subsidy recently without causing even a public whimper."

**A: Sally Yearwood, executive director of Caribbean-Central American Action:**

"The problems in Jamaica are symptomatic of the risk that the region faces as a whole: as long as world energy prices continue to fluctuate, the Caribbean will be susceptible to negative economic, political and social consequences. The result of the debate in Jamaica will be driven by global fuel prices over the next few weeks and months but the reality is that in a region heavily dependent upon imports, the cost of fuel will impact prices for basic goods and services across the board. Importantly, if the trend toward ever-higher prices continues, the all-important tourism industry, which has started to rebound from the economic crisis, could again be facing a sharp decrease in revenues. The social repercussions of rising prices are difficult to forecast, but Caribbean governments have learned some important lessons based on recent history and are exploring options. Some are looking for domestic oil reserves; many are working to address the regulatory framework with a view toward a more structured energy policy; all are pursuing renewables. As it is, the Caribbean has been very proactive on the issue of energy security and has been working within a number of initiatives, including the Energy and Climate Partnership of the Americas. The fact remains, however, that the gap between today's oil prices and a more diversified supply chain in the future is a potential political minefield for the governments that are dealing with the difficult options—as well as for anyone who tries to exploit the situation."

**A: Norris Miller, deputy financial secretary in the Tax Policy Division of Jamaica's Ministry of Finance and the Public Service:**

"The Ministry's Tax Policy Division continually conducts research relating to fuel prices (with the provision of practical options to partly address the problem of high fuel prices). This issue has become a topical issue in recent times partly due to instabilities in the Middle East. Some Caribbean countries, including Guyana for example, recently reduced the excise tax on gasoline to 20 percent, down from 30 percent. The Jamaican government should be commended for taking steps (despite serious fiscal constraints) to move in a similar direction by reducing the 15 percent ad valorem tax on fuel to 10 percent. This has given several taxpayers and consumers some respite. The British chancellor recently had taken similar steps to curtail oil fuel prices in the United Kingdom. Going forward, the Jamaican government has mentioned that it is committed to reviewing the situation periodically as it relates to fuel prices (including its energy policy) locally as global crude oil prices continue to move erratically."

*The Energy Advisor welcomes responses to the Q&A above. Readers can write editor Gene Kuleta at [kuleta@thedialogue.org](mailto:kuleta@thedialogue.org) with comments.*