

U1L2A4 | Subsidy Comparison

overview

In this activity you will learn about government subsidies by investigating two cases. You will discern that although Venezuela and Norway are both top oil producing countries, they have taken considerably different approaches regarding domestic demand for oil.

learning goal

- To understand how two of the world's biggest oil producing countries use subsidies to influence domestic demand for oil.

success criteria

- Complete below questions, share with your partner, share with the class.

Inquiry Question

- How do governments influence consumer behaviour through subsidies?

Working in pairs, each student selects one article to read ('Venezuela nears end of the road for gasoline subsidy,' OR 'Norway has fallen in love with electric cars—but the affair is coming to an end'). Read your chosen article and answer the below questions.

1. Which industry is being subsidized? Why?

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2. What are the successes/failures of the subsidy?

Successes	Failures

3. What recommendations would you make to this country's government to improve the situation?

theguardian

Norway has fallen in love with electric cars – but the affair is coming to an end

John Vidal (January 29, 2014)

Norway's traffic jams are becoming the cleanest and quietest in the world due to a flood of drivers buying electric cars which now power around the country's cities on hydro-electricity, competing for free charging points.

For three months at the end of 2013, the luxury electric sports car the Tesla Model S and Nissan Leaf family electric car were the best-selling models among all cars sold in the country, beating popular and conventionally-fuelled cars including the VW Golf.

The latest figures suggest that over 21,000 all-electric vehicles (EVs) are now registered in the country of 5 million people with sales running at over 1,200 a month, or over 10% of all sales. That compares with a total of around 70,000 EVs registered in the US with a population of 313 m, and just 5,000 in the UK with a population of 63m. Dealers expect there to be more in Oslo than in Los Angeles and San Francisco combined within a year.

The Nordic rush for zero-emission vehicles, which have a range of just over 100 miles in the case of the Leaf, is less inspired by concern for the environment than for the chance of free commuting in the bus lane and generous incentives, says the industry.

Battery-powered cars in the world's fourth richest country are not just exempt from high rates of purchase tax, and VAT, but pay no road and ferry tolls or parking fees, cost less to insure and can be charged up for free electricity from thousands of points. Local government will also subsidise the installation of charging points in homes. Research suggests the subsidies could be worth nearly £5,000 a year per car.

"You can buy a Nissan leaf for 280,000 NOK (£26,500) which compares with 300,000 (£29,400) for a VW Golf. Over 10,000 km, it costs about 1,800 Nok (£176) to run, but the same for a petrol car would be 8,000 Nok (£784). On top of that I save 35Nok (£3.20) a day on tolls but some people are saving far more," says Snorre Sletvold, president of the Norwegian electric vehicle association.

"We needed a new family car. We got a Nissan Leaf because it was really cheap and we did not want to pollute the air", says Maren Esmark, ceo of Friends of the Earth Norway. "We felt we were supporting the technology but the reason why most Norwegians are buying them is because they have a lot of money and can afford two cars, and because they can use them in the bus lanes.

"At the start we got comments like 'do you really think you can save the environment with that car?' but now they are so common that they are not noticed."

By far the two most popular are the Sunderland-built Nissan Leaf which was Norway's third best-selling passenger car last year, selling over 3,500, and the more expensive Tesla Model S which was the country's best-selling car in September and December. Volkswagen and BMW are now rushing to introduce their versions of electric cars.

"A boatload of Nissan Leafs arrives in Norway each week and is sold almost immediately. It is astonishing. We did not expect this. Electric cars started as an Oslo phenomenon but they are now selling all over Norway. By the end of February we expect to be the first country in the world where 1 in 100 cars on the road are electric," said Sletvold.

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But, says the government, the Norwegian love affair with electric cars may end sooner than expected. Incentives will be withdrawn, or reconsidered, when 50,000 zero emission cars have been registered or come 2018, whichever is the earliest. At the current rate of sales, the 50,000 figure could be reached within 18 months.

Besides, the allure of quick commuting and free fuel is wearing thin as they become more popular and defeat the purpose for which people bought them. The vehicles are now so popular that they dominate the bus lanes into Oslo, making up to 75% of the vehicles allowed in them. In addition, it's getting harder and harder to find unoccupied public charging facilities.

the guardian

Venezuela nears end of the road for gasoline subsidy

Nick Miroff (January 27, 2014)

Gasoline is so dirt-cheap in Venezuela that the comparison undervalues dirt. Or, for that matter, almost any thing else Venezuelan drivers can think of. "It's cheaper than water," said one motorist, pointing out that bottled water costs far more than the 95-octane gasoline gushing into his Ford Explorer.

"Cheaper than air," said the driver of a Chevy Tahoe, after paying more to fill a tyre than the tank.

"The cheapest in the world," a third sport utility vehicle (SUV) owner boasted. "We could wash our hands with it."

And why not? Venezuela sits atop the world's largest oil reserves, and its government sets the price of premium gasoline at about 5 cents a gallon. Its real price – adjusted to the soaring street value of the US dollar – is half a penny per gallon.

Unlimited access to virtually free gasoline has become something of a Venezuelan birthright, and raising prices is considered the third rail of Venezuelan politics. Deadly riots broke out in 1989 at the possibility of a price hike. Not even Hugo Chávez, who died last March after 14 years in power, dared to mess with the pumps.

But with annual inflation topping 50% and the government burning through hard-currency reserves, Chávez's successor, Nicolas Maduro, appears to have no choice. The government is spending more than \$12bn a year to subsidise domestic gasoline sales, Venezuelan energy officials say. The projected price hike is likely to push gas closer to 17 cents a gallon, at unofficial exchange rates.

Global energy surveys rank Venezuela's proven oil reserves at nearly 300bn barrels – even bigger than Saudi Arabia's. Venezuela is the world's 13th-largest producer, and 40% of its shipments go to the US, despite more than a decade of strained relations.

Maduro said that he favours a gradual price increase and that Venezuelan drivers deserve continued access to cheap gas because of the country's hydrocarbon bounty. "But it has to be an advantage, not a disadvantage," he said. "What converts it into a disadvantage is when the tip you give is more than what it costs to fill the tank."

The near-freebie prices amount to an especially generous giveaway to Venezuelans fond of large SUVs and gas-guzzling jalopies from the 1970s and 80s. Cars are in short supply and extremely expensive because of Venezuela's currency controls, keeping once-grand American pleasure boats on the road long after they have disappeared elsewhere.

"I love this car," said Luis Fretas, owner of a baby-blue 1981 Chevy Malibu, insisting that it "gets great mileage".

Among the middle-class and well-to-do Venezuelans who widely despise the socialist government, there appears to be broad consensus that pump prices are an aberration. At a state-owned gas station in Caracas's upscale Las Mercedes neighbourhood, where the Texaco signs have long since been replaced by patriotic murals depicting oil derricks, tankers and national hero Simon Bolívar, no one would defend gas prices so low.

"Sure they should raise them," businessman Gilman Flores said after topping off his Toyota FJ Cruiser for less than the cost of a candy bar.

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"What Venezuela really needs to do is stop giving oil away to other countries like Cuba," Flores said, echoing criticism from members of Venezuela's opposition who argue that the country should cut off subsidised oil to Havana, and other leftist political allies, before jacking up pump prices at home.

An increase represents a risk for Maduro, who was narrowly elected last April and hasn't been able to lower spiralling inflation and end shortages of staples such as milk, flour and sugar. Because there are no federal or local elections scheduled this year, analysts say, the timing is right for Maduro to make politically unpopular moves.

"He's up against the wall," said Pedro Mario Burelli, a former board member of Venezuela's national oil company, PDVSA, noting that the country is paying more and more to import components needed to make gasoline, making the subsidies "increasingly painful" for the government.

Burelli, a private consultant based in the US, helped implement the last price increase in Venezuela, in 1996. That time, there was little controversy. "No one even remembers it," he said. "All we did was plan transitional prices on public transportation."

Many drivers say gas prices are so low that even a large hike wouldn't register in their wallets. They know that their cheap gas fosters pollution, traffic, contraband fuel smuggling across the Colombian border, and a wider culture of waste and inefficiency. Far more worrisome is the eroding public safety and sky-high murder rate in this country of about 30 million.

Maria Osorio, the owner of a fuel-efficient hatchback, said that the extra mileage is nice but that she has another reason for preferring a modest car. "I have an SUV at home, but I'm too afraid to take it out because I might get carjacked," she said, explaining that she has been robbed at gunpoint five times in the past two years.

Still, steeper prices could fall more heavily on Venezuela's poor if increased transportation costs for food are passed along to consumers. The government says it won't raise public transportation prices, but many Venezuelans get to work on private buses that would probably raise fares.

It was bus fare increases that sparked the rioting of 1989 known as the "Caracazo". Hundreds were killed, and the bloody episode helped launch the political career of Chávez, then a young paratrooper, who would cite the episode as an inspiration for his attempted coup three years later. The attempt failed, but Chávez won the presidency in 1998 and kept gas prices frozen. Gas stations don't even bother displaying them.

"A Priu?" said one gas station employee, asked whether he'd ever seen a hybrid Toyota Prius. "Never heard of it."

Almost-free gasoline is just one element of the "magical" state engendered by Venezuela's oil-warped economy, said historian José Bifano of Venezuela's Central University. "Chávez was very clear about the political costs of raising gas prices," he said. "Now Maduro is willing to take the risk, and the big question is how people will react."

That will depend, said cabbie Jhonny Lozano, on how fast and how much the price goes up. "I think people know gas is too cheap," he said, while cautioning that a price increase to 17 cents a gallon would be "too much".

The taxi sign on his battered brown 1983 Chevy Celebrity was held to the roof by a bungee cord. Lozano said he had no interest in trading the car for something more fuel-efficient. "I have four kids," he said, pointing to the Chevy's roomy back seat, "and they all fit in there."