

Tanzania: The Real Problem Is Kerosene (and LPG) Not Petrol

While the recent riots in Tanzania over rising petrol prices are headline news (<http://www.thecitizen.co.tz/component/content/article/37-tanzania-top-news-story/13626-fuel-riots-hit-dar-as-sellers-finally-give-in.html>) and certainly of importance, we are more concerned about the next shoe to drop – the impact that increasing kerosene and LPG prices will have.

The problem is being crowded out by media coverage of the auto fuel crisis but it is potentially more serious.

While Tanzania's **Energy and Water Utilities Regulatory Authority (EWURA)** overplayed its hand in decreeing price ceilings on petrol (lowering retail pump prices of petrol by 9%) which inspired oil marketers and gas stations to refuse to sell product; its bigger blunder was to raise excise taxes on kerosene (in an attempt to curb fuel adulteration) which fall disproportionately on the rural poor, students, and impact the quality of life of entire families. The negative impact on Tanzania is likely to play out on an economic, social and environmental level.

The level of EWURA regulatory minutiae on prices is stunning as evidenced by its **July 'Public Notice On Indicative And Cap Prices For Petroleum Products In The Country Effective 01 July 2011'** (<http://www.ewura.go.tz/pdf/fuelprices/Prices%20WEF%201%20july%202011%20English%20-%20New%20Excise%20Duties.pdf>). In the same period that retail diesel prices have decreased by 4.86%, kerosene prices have *risen by 21.88%*.

This increase threatens to slow the pace of environmentally-friendly fuel consumption for heating and cooking (as Tanzania's rural poor move away from biomass fuels like charcoal but also animal dung, fuel wood and crop residues) and growth of the country's promising natural gas sector [with Tanzania having enormous potential with 4 discoveries of natural gas fields: **Songo Songo Island** (about 250 km South of Dar es Salaam in 1974), **Mnazi Bay** (about 450 km South of Dar es Salaam in 1982), **Mkuranga** (about 60 km South of Dar es Salaam in December 2007) and **Kiliwani North** (about 2.5 km South East of Songo Songo Island in April 2008 <http://www.ewura.go.tz/naturalgas.html>].

The Irish oil and gas explorer **Aminex PLC** started pumping natural gas from its Tanzanian offshore **Nyuni block** on June 17th (http://www.aminex-plc.com/files/110617_New_Well_starts_drilling_in_Tanzania_-_Release_7am_REV3.pdf). It also has its own gas field reservoir in Kiliwani North.

As kerosene prices rise so do those of natural gas. **Oryx Gas Company** which controls 60% of the Tanzanian market – citing higher global market costs and increased transportation and piracy costs due to piracy – raised prices by 11% earlier this year. Last month Oryx hiked them again - a 15kg tank which was 45,000 shilling is now going for 65,000 shilling. Its problems are compounded by the lack of storage capacity in Tanzania which only allows it to store 1 month of the nation's expanding needs (3,000 metric tons). Earlier this year, Tanzania's explosive demand for gas shot from from 1,000mt per month in late 2010 to over 2,500mt *by January 2011*.

The rise in kerosene and natural gas use – and away from charcoal by the relatively poorer population in Tanzania - is now in jeopardy, due to the confluence of EWURA regulation, Oryx Gas Company increases and a weak Tanzanian shilling which continues to lose value and trade at 17-year lows producing an inflation rate of 10.9 % in June, the fastest rise in 14 months (<http://www.bloomberg.com/news/2011-08-11/tanzania-shilling-gains-central-bank-sells-dollars-trader-says.html>)

So why aren't we hearing about kerosene and LPG price increase riots like we have been petrol supply riots?

Because kerosene and natural gas purchases are less regular than those of petrol and diesel.

One 15 kg tank of gas can last a single urban professional living in **Dar es Salaam** 6 months. In a family of 6 using gas sparingly and cooking 3 meals a day (modest consumption) 1 tank can last 3 months.

So with a 3 to 6 month purchase cycle, and word of mouth via social media as the people's broadcast system, along with over 80% of the country utilizing kerosene, we expect the issue to reach paramount importance within 30 to 45 days.

Then, there is the environmental factor – with charcoal pollution described by some as the worst form that exists in Tanzania (*“There is increased awareness on the use of gas particularly for cooking, thus cutting down use of charcoal the major factor for environmental destruction,”* **Oryx Managing Director Hamisi Ramadhani** recently said).

So, what can stay the hand of what we think is inevitable social unrest?

A few options exist.

One is a solution entertained by **Deputy Minister for Finance and Economic Affairs Pereira Ame Sirima**, proposed by controversial **Kigoma North MP Zitto Zuberi Kabwe**, also an economist (<http://zittokabwe.wordpress.com/about/>), which would have the Tanzanian

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government direct money raised by the kerosene excise duties to the **Rural Energy Agency (REA)** (<http://www.rea.go.tz/RESOURCES/RuralEnergyDirectory/tabid/98/Default.aspx>) who would then use it to assist the rural population in obtaining electricity (<http://www.ippmedia.com/frontend/index.php?l=30776>).

Another option is to waive the excise tax completely, as spelled out eloquently in a prominent editorial on Sunday (<http://www.ippmedia.com/frontend/index.php?l=32022>).

Interestingly the editorial makes a passing reference to abolishing EWURA altogether (*“EWURA is paid by the taxpayers of this country to act as watchdog in the energy sector, and, it was established by an Act of Parliament about six years ago in order to regulate the sector. If it can’t perform its duty effectively, then it should be dismantled.”*)

Rather than see a repeat of this week’s riots, we expect the Tanzanian government to at least temporarily waive the kerosene excise duties.

It is hard to imagine that they can’t see the writing of an economic, environmental and political disaster on the wall.

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