

# Egypt's Poor Suffer at the Hands of Butane Crisis

For short and long-term memories alike, lack of butane supply occupies the minds of many Egyptians this season, but more likely they are suffering from it. News breaks annually when the shortage worsens, and headlines echo a familiar call for alarm. But the real crisis runs far deeper than winter discontentment.

By Lily Leach

Butane is a form of liquefied petroleum gas used for cooking and heating water in homes that are not connected to the natural gas grid, distributed in canisters containing 12.5 kg of fuel. Only 5.5 million households in Egypt are connected to the natural gas lines while 12 million rely on butane, and a typical household consumes at least three cylinders a month. These blue canisters are a common sight throughout the country, and anxieties over scarcity lead people to hoard supplies.

Egypt is experiencing an ongoing fuel crisis, and specifically, the shortage of cooking gas intensifies annually in November and subsides early spring. November 18th this year, *Al-Monitor's* headline read, "Egypt's Rulers Face First Test With Gas Shortage," despite an announcement from the government earlier that month claiming that the crisis "had been resolved following the arrival of new butane gas shipments last week," according to *Daily News Egypt*. While it's true distribution woes are exacerbated during winter months due to inclement weather—which delays shipments and increases the demand in homes—supply lines remain in a state of crisis beyond this timeframe, despite contradicting announcements from the Ministry of Supply and Trade. *Al-Ahram Online*, informing that the shortage showed no indication of letting up, reported "Egypt's Butane Crisis Still Cooking" in mid-March last year. Even further back, in February 2010, *The Scotsman* published: "Butane Gas 'Shortage' Piles Pressure on Mubarak's Regime." The roots of the butane crisis, the scope of its effects, and the institutional deadlock impeding viable solutions, intersect at the political, economic, and social situation in post-revolutionary Egypt.

## Insufficient Domestic Supply, Importing Debt, Tenuous Foreign Aid

How Egypt became a major energy importer despite its oil and gas reserves "goes back to the years of neglect of real long term planning in the energy industry," says Paul Sullivan, Professor of Economics at the US National Defense University. "The *botogaz* (butane) shortage is a symptom of an overall sickness in the planning and implementation of energy and fuels in Egypt that goes back decades."

Reform of the natural gas sector is crucial to attract investment from international oil companies (IOCs), says University of Oxford Energy expert Justin Dargin. Until this happens, there is little hope for an increase in domestic production of butane. However, political stagnation and heavy energy subsidization dulls the incentive for further investment in butane, and makes reformation unlikely.

The reality of this flawed economy is that Egypt's domestic production of butane accounts for only 2 million of the 4.5-5 million tons actually consumed by Egyptians, according to Dr. Omnei Helmy,

Director of Research of The Egyptian Center Economic Studies (ECES). Most of the rest comes from Saudi Arabia in imports, and other countries such as Algeria, the UAE, and Kuwait supply additional butane in the form of aid.

Despite unyielding dependence on foreign aid, several factors prevent Egyptians from actually seeing this aid in the form of butane. Donors are soon likely to feel "donor's fatigue" from Egypt's chronic aid situation, and even the UAE, despite its friendly relationship with the new administration, has expressed unwillingness to continue disbursements, informs Dargin. But when it comes to receiving butane specifically, he admits that "butane is not a priority for aid disbursements as it is typically consumed by the more impoverished Egyptians that lack political power" as opposed to aid in the form of natural gas which, "directly benefits major industrial consumers, and therefore, the national economy and large corporations that have significant political influence."

## Subsidies: A Pain Killer, Not a Medication

Subsidies provide only a temporary solution for Egypt's butane needs, and like aid "act like a pain-killer, rather than a medicine," says Heba Khalil, a researcher from The Egyptian Center of Economic and Social Rights. Despite the debilitating debt amassing from supporting the subsidy bill and the institutional inability to implement effective systems for subsidy allocation, it is perceived as politically impossible to cut the funding.

Butane is and isn't a priority for subsidies. In terms of the USD 2.9 billion dollar debt coming from butane's share of the subsidy bill in 2012/13—making the canisters available at such a low cost—the priority is significant. But compared to other sources of fuel, butane receives comparatively little funding. Because energy subsidies tend to be regressive in scope, "they favor forms of fuel that benefit industry and higher-income households because they consume more," explains Dargin.

This distortion affects poor people the most, especially considering the favoring of fuel-based subsidies in general and "the trajectory of subsidies in Egypt, [whereby] subsidies have increasingly shifted away from food and non-energy products," points out Khalil. Households that rely on butane, by definition, tend to be low-income in remote areas of Egypt. Butane accounts for just 16% of the total subsidy bill—as opposed to 64% allocated to benzene and diesel oil, Dr. Helmy informs. In spite of this relatively small share, each butane cylinder is priced at merely EGP 8 lbs, but private-sector smugglers are the ones reaping the benefit of this low cost. For decades, massive profits are made on the butane black market, where canisters see a mark-up as high as EGP 75 lbs. While winter weather is regularly blamed for dwindling of butane supply, the black market is directly responsible for creating and exacerbating shortages and manipulating prices.

### Black Market Manipulation

Everyday, civilians are denied the necessary butane required to sustain their livelihood. The nightmare of the distribution warehouses from which they usually come away empty handed is well reported. However, the underlying factor is the system of corruption in place making supplies available to tank retailers of a monopolized black market instead of the needy.

The black market creates an initial perceived shortage, which causes alarm, influences hoarding, and further depletes distribution centers. This vicious cycle heightens demand and increases the prices on the black market, leaving less privileged citizens in a constant state of panic. Desperate competition for supplies has even lead to death in extreme situations.

The heart of the problem isn't so much with the lack of domestic production, imports, or aid disbursements, but with distribution. "Depots have received the same amount of canisters as they did before the crisis. During the Mubarak administration, it was an informal, but an agreed upon, system. But, since the revolution, that system is disintegrating and there is a definite increase in violence used by the syndicates to secure supplies and protect their distribution," says Dargin. This is not to say that during the old regime Egyptians were getting sufficient supply of butane. Rather, "There was more predictability and less overt violence during Mubarak's era." Now, all that is changing, and general unrest has a direct influence on what is happening in butane warehouses. "Whenever there is violence in system," Dargin says, "it means the rules are breaking down and not being followed to a certain extent."

Sullivan also notes the possibility of old networks hanging onto power within the black market, and "hoarding by certain groups for economic as well as political leverage." This hoarded butane is ultimately supplied to their supporters. Even though Egypt experienced a revolution Dargin states, "[it] did not totally eliminate these power centers that were at the base of the Egyptian economy for decades."

### Proposed Solutions: Past, Present, and Future

In an effort to regulate the butane market, a plan was proposed to issue ration cards to consumers, but never implemented. Similar assurances were made at the end of November this year by Mohamed Abu Shady, the Minister of Domestic Trade and Supply, when he announced that the crisis was simply resolved. A large butane shipment followed by a system of coupons and ration cards would make cylinders available free of price, and eliminate the black market, reported *Egypt Independent*.

The Supply Ministry also said several hotlines would be activated by which cylinders could be ordered for home delivery. This plan was to be implemented within a few days of the announcement early September this year, but was not. The blunt frequency of these announcements for short-term pacification is indeed strange, since despite claims of stability, shortages are maintained and clashes at distribution centers continue. "The state's ability to manage a similar system [to the ration cards system for food goods] is very questionable," admits Khalil. "Several studies have shown that the most vulnerable households either have no access to the ration cards, or are allowed insufficient amounts of subsidized goods on their ration cards."

Another solution offered for subsidy reform is to replace them with targeted cash transfers. Similar to welfare programs in Europe and the US, they would be conditional to income and ostensibly benefit low-income households who actually need it, while avoiding the system of subsidized butane on the black market. However, implementation of such a plan would potentially open new avenues for corruption and would be an administrative nightmare to accurately locate those in need, who are typically off the grid and not well-informed. Of the short-term options proposed by the government such as price controls, cash transfers, and rationing, Sullivan says, "they are great for smugglers, but do not solve the overall problems of Egypt's energy supply gaps."

In the long term, the Ministry of Petroleum and Mineral Resources plans to expand the gas grid to 8 million homes after accepting a loan of USD 500 million from the World Bank to ease Egypt's dependence on the butane subsidies. Connecting more Egyptians to the grid would limit the black market's influence because natural gas is virtually impossible to smuggle. The main benefit of expanding the natural gas network is the "Centralization of energy, in effect promoting universal access to energy across the income spectrum, and reducing dependence on cylinders themselves will reduce costs of their maintenance," says Dargin, but there are pitfalls as well. Natural gas allocation is a crisis in Egypt unto itself and the government can hardly manage the burden of its existing connections. "Connecting as many homes as possible to natural gas pipeline systems is probably the best of these solutions," says Sullivan, "but this does not resolve the problems with the overall energy system of Egypt, which is more interconnected than most people would like to believe."

### Conclusion

Experts almost universally agree that reduction of subsidies is vital to solving the crisis—in concurrence with shorter-term transitional solutions such as ration cards or cash transfers—but they stress the need for a competent administrative system to come first. However, while foresight is crucial to curing Egypt's energy situation, it's just as important to look back to past attempts at subsidy removal—the bread riots of Sadat's Egypt serve as a sobering reminder of the consequences of brash structural reformation. When considering the common Egyptian, for whom the need for butane supply poses a dire and existential crisis on a daily basis, taking away subsidies would void them of a resource that makes their livelihood just barely sustainable—but without it, conceivably impossible.

## Gas News

### EGAS and Shell Fail to Strike Summer Gas Deal

EGAS and Shell have failed to reach an agreement concerning Egypt's summer gas supply. Sources told *Daily News Egypt* that EGAS "has only one choice to supply the electricity stations' needed gas for next summer, through dividing the imported quantities required over several petroleum companies, which would be easier to access and negotiate with states," but EGAS has decided against new private sector auctions in the past, and chose to depend on its limited agreement with Shell. However, Egypt is considering proposals from Golar, Accelerate, Citadel, and another Norwegian company to establish a station for transforming imported liquefied gas to gaseous form, to meet domestic needs.

### Ministry of Petroleum Announces Subsidy Reform Plan

Sherif Ismail, Minister of Petroleum, announced a five-year plan to restructure the petroleum products subsidies system, according to *Daily News Egypt*. The minister told *Al Borsa* that "This timeframe was decided in a way for price changes to not cause any market shocks." Last year's budget for these products reached EGP 120 billion, EGP 57 billion of which were assigned to diesel, while this year the budget for diesel reached EGP 99 billion. Ismail added, "There

would be no more than one price for fuel and diesel in the Egyptian market." He stated that the smart card system is applied to control the circulation process of the petroleum products in the market as well as limiting smuggling activities. Budget calculations show that the smart card plan will cut EGP 24 billion from diesel subsidies, EGP 7.9 billion from fuel and EGP 2.6 billion, with a total EGP 99 billion remaining from petroleum products subsidies.

### Egypt Distributing Gas Smart Cards

The Egyptian Ministry of Petroleum announced this month they would start the second phase of smartcards distribution. The aim is to buy subsidized gasoline and diesel from the government, *Al-Shorfa* reported. Radwan Fathallah, an advisor at the ministry, stated that this phase should

end by January after all gas stations are equipped with the proper devices. He added that, "Using smart cards will allow for better control over the distribution of subsidized gas, and prevent leakages to the black market or to cross-border smugglers." According to Amr Mokhtar,

the ministry's planning director, he mentioned that citizens could order their smart cards online through the Ministry of Supply and Internal Trade's website. Smart Cards can also be picked up free of charge at the post office, the bank for Development and Agriculture Credit, or they

can be mailed to a home address for free. Fathallah mentioned that the ministry will print a total of nine million cards to replace any lost or damaged cards. Seven million total smart cards are to be distributed.