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PETROLEUM & MINERAL RESOURCES

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The hydrocarbons sector plays a key role in Egypt; the country is the largest non- OPEC oil producer in Africa and the continent's second largest producer of natural gas. The industry is a critical engine of growth for the national economy, as both a significant contributor to GDP and one of the main sources of foreign currency.

Over the years, Egypt has also enjoyed a stable and longstanding relation with international partners, with most international energy companies having operations in Egypt. It has significant oil and gas infrastructure and a large domestic market.

However, in recent years the oil and gas sector has come under significant pressure. Burgeoning energy demand, coupled with a slowdown in oil and gas production, resulted in Egypt becoming a net oil importer in the mid-2000s. Steady population growth, a strong expansion in energy-intensive industries and higher overall economic growth, led to higher energy consumption.

On the other hand, suffering from fiscal imbalances at the time, the government fell behind on payments to international oil companies negatively affecting their exploration and development activities. In addition, the main oil wells in the areas surrounding the Gulf of Suez had started to age, reducing their level of oil production. Exploration in deep sea areas was significantly more expensive, and the slowdown in the injection of new investments for exploration activities in other areas like the Western Desert led to lower production as well. Ageing petroleum refineries and transportation infrastructure became an additional bottleneck.

The January 2011 revolution worsened the situation; no exploration and development agreements were signed between 2010 and 2013 as Egypt passed through political transition. The political situation started to stabilize in 2014, and the government resumed the implementation of the economic reforms it had started in the late 2000s.

The Egyptian government resumed the implementation of a short to medium term strategy designed to revive the sector and bridge the gap between supply and demand over five years. Key measures will address: **(1) Security**, by boosting and diversifying and improving energy efficiency; **(2) Sustainability**, by addressing debt build-up and phasing out of subsidies in a socially responsible manner and **(3) Governance,** by improving and modernizing the oil and gas sector's governance and encouraging private sector investment.

Specific measures underway include:

Security:

- Acceleration of existing gas field development (e.g. North Alex)
- Encouraging new exploration (56 concessions and agreements being concluded in 2H 2014 and Q1 2015 for investments of US$12.2 billion)
- Awarding concessions for unconventional oil and gas
- Awarding contracts for refineries and petrochemical projects. Work on a US$3.7 billion cracking plant was resumed, following resolution of impediments facing the project, and it is expected to start operations in 2017. Expansion operations also resumed at the MOBCO plant in Damietta which is expected to produce 1.4 million tons/year of urea and ammonia
- Securing LNG import contracts until 2020 through negotiations that are expected to commence soon. Five LNG shipments have been agreed upon with Algeria and are expected to cover consumption until September 2015. A 5-year regasification unit contract was also signed and the unit is expected to be operational in 2015

- Passing energy efficiency measures with the new electricity law

Sustainability:

- Paying down arrears to international oil and gas companies (US$5 billion was paid to International Oil Companies in Q4 2104 reducing arrears to US$3.1 from US$11 billion, with a target of paying off all arrears by H1 2015.)
- Restructuring of energy subsidies resumed in July 2014 (the first repricing took place in mid-2008)
- Rolling out smart cards for gasoline and gas oil and establishment of a database on the consumption rates of different energy products
- Mitigating the impact of subsidy removals through a range of measures, including the acceleration of residential connections to natural gas and allocating savings to boost social spending

Governance:

- Development of a national energy strategy
- Further opening of the sector to private investment

Enhancing the governance of the gas sector: The government has a plan in place to eventually limit its role to simply regulating the sector; eliminating the dual role currently played by some government bodies as both producer and regulator.