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Oil and gas regulation in Egypt: overview

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A Q&A guide to oil and gas regulation in Egypt.

The Q&A gives a high level overview of the domestic oil and gas sector, rights to oil and gas, health safety and the environment, sale and trade in oil and gas, tax and enforcement of regulation. It covers transfer of rights; transportation by pipeline; environmental impact assessments; decommissioning; waste regulations and proposals for reform.

To compare answers across multiple jurisdictions, visit the energy and natural resources *Oil and gas regulation Country Q&A tool*.

This Q&A is part of the multi-jurisdictional guide to energy and natural resources. For a full list of content visit *www.practicallaw.com/energy-mjg*.

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Domestic sector

1. Describe the domestic sector and policy for oil and gas, including liquefied natural gas (LNG).

Egypt is a non-member state in the Organisation of Oil Exporting Countries (OPEC). It is the fifth largest oil producer and third largest gas producer in Africa. Egypt plays an important role in the worldwide production of oil and gas because it has the:

- Suez Canal, the most important trade route.

- Suez-Mediterranean Pipeline (SUMED), the only alternative route nearby to transport crude oil from the Red Sea to the Mediterranean if ships cannot navigate through the Suez Canal.

In addition, Egypt is also an important jurisdiction in this field because of its many valuable oil and gas resources in the:

- Gulf of Suez.
- Western Desert.
- Eastern Desert.
- Sinai Peninsula.

Domestic industrial production

Oil production. Egyptian production of crude oil was approximately 600,000 barrels per day in 2012 (*US Energy Information Administration*) (EIA).

Gas production. Egyptian production of gas was approximately 61.26 billion cubic metres in 2011 (*CIA World Factbook*). Egypt's natural gas reserves are expected to increase by roughly 1.2 trillion cubic metres in 2013 (TCF) after the latest gas discovery made by British Petroleum (BP) in the country's East Nile Delta. In addition, the country's gas reserves are currently 77.2 TCF, an increase from 2010 estimates of 58.5 TCF, representing the third largest in Africa, after Nigeria and Algeria (*EIA*).

The import/export market

Oil imports. According to a recent publication by the Ministry of Planning there are no oil importation activities performed by the Ministry of Petroleum. This differs from the Egyptian General Petroleum Corporation (EGPC), which states that Egypt has been importing oil derivatives from Saudi Arabia and gulf states (for example, Benzene, Mazot and Solar) for the past two years to meet domestic needs. However, the volume of these imports is not currently reflected in any public report or records.

Gas imports. Egypt does not currently import any gas, although it is understood the relevant authorities intend to import certain quantities of gas in 2014. No official records reflecting this are currently available.

Oil exports. Egypt exported around 100,000 barrels per day of crude oil including lease condensate in 2012 to (*EIA*):

- India: 46%.
- US: 32%. This amounts to 31,000 barrels per day, an increase compared to previous years when imports from Egypt averaged less than 6,000 barrels per day in the previous five years.
- Italy: 17%.

Egypt's main oil grades are (*Energy Intelligence Group*):

- **Suez.** The Suez Blend comes from declining offshore fields in the Gulf of Suez, operated by the Gulf of Suez Petroleum Co. (Gupco), a joint venture between BP and EGPC.
- **Belayim.** The Belayim Blend is sourced from aging oil fields in the Gulf of Suez that are operated by the Belayim Petroleum Co. (Petrobel), a joint venture between Eni and EGPC.
- **Western Desert.** The Western Desert Blend is a light; relatively sweet grade crude with a high wax content that is sourced from oil fields in the Western Desert. In recent years output has increased because of small new finds and the application of EOR techniques to fields in the Western Desert region. The main producer in the area is Khalda Petroleum Co., a joint venture between Apache and EGPC. Agiba (a joint venture between Eni and EGPC) and Bapetco (a joint venture between Shell and EGPC) also hold assets that feed the Western Desert Blend.

Most of the Suez and Belayim Blend crudes are refined domestically, with only a small volume of these grades destined for exports. Both blends are usually sold at a discount to the Brent contract because of their relatively high sulphur content. Similarly, much of the Western Desert Blend is refined domestically, and the remainder is sold to international markets.

Gas exports. Reduced Egyptian exports of pipeline gas and LNG after 2009 have been caused by:

- Growing domestic demand.
- Stagnant domestic production.
- Attacks and technical problems on the Arab Gas Pipeline (AGP).

Domestic market structure

The petroleum sector in Egypt consists of a number of state-owned entities.

Egyptian General Petroleum Company (EGPC). EGPC was established in 1976 (*Law No. 20*) and is considered the first economic corporation established in the petroleum industry in Egypt. It operates under the guidance of the Ministry of Petroleum and is:

- Fully responsible for all sectors of the Egyptian petroleum industry.
- Actively involved in the upstream, downstream and petrochemical sectors.
- Sole holder of the right to import and export crude oil and other petroleum products.

As a controller of the industry, any foreign investments in Egypt must take the form of a joint venture with the EGPC and are supervised by the government. Major activities of the EGPC include:

- Petroleum agreements.
- Exploration.
- Production,

- Transportation.
- Refining.

Egyptian Natural Gas Holding Company (EGAS). In recognition of the increasing importance of natural gas, EGAS was established in 2001 (*Prime Ministerial Decree No. 1009 under the Public Enterprises Law No. 203, 1991*). The company has capital of EGP400 million divided into one million shares, all owned by EGPC. EGAS's role is to manage:

- Foreign investment in exploration
- Use of LNG tankers.
- Production and infrastructure.

EGAS has a mandate to implement an active plan that includes:

- The discovery of additional gas reserves. EGAS intends to develop intensive exploration programmes, based on the most advanced exploration technology.
- Maximising the recovery of natural gas liquids (NGL) and enhancing the petrochemical industry by:
    - developing a complete framework for integration;
    - upgrading natural gas recovery facilities and the transmission infrastructure.
- Expanding gas export activities by:
    - increasing gas export pipelines to link with the European Gas Pipeline system;
    - implementing additional LNG trains within the Ministry of Petroleum policy guidelines.
- Achieving sustainable development by the continued enhancement of gas utilisation in the domestic market.

EGAS is managed by a board of directors appointed by its General Assembly, on the advice of the Minister of Petroleum. The Chairman of the General Assembly is the Minister of Petroleum.

In practice, EGAS has two major responsibilities, to act as:

- Exclusive off-taker of gas for the local market.
- Party Beneficiary of the concession agreements for all new gas concessions. It receives the government's production share, which is usually 70% to 80% of revenue after the deduction of costs by the Contractor.

Since 2004, all new gas concessions are generally allocated to EGAS and old concessions continue to be maintained by EGPC.

Egyptian Petrochemicals Holding Company (ECHEM). ECHEM is a major holding company established in 2002. It has a 20-year plan to develop a competitive petrochemical industry based on Egypt's natural gas reserves and the use of advanced technology by:

- Promoting investment.
- Facilitating the development of new projects.
- Continuing to own and establish production plants.

Ganope El Wadi Petroleum Holding Company (GANOPE). GANOPE, previously known as the South Valley Development Company (SVDC), was established in 2002 (*Prime Ministerial Decree No. 1755*) to promote development activities specifically in Upper Egypt (Sohag, Aswan, Assyout, Qena, AL Wadi El-Gedied), which accounts for over half of Egypt's total area. GANOPE is the chief corporation assigned by the Egyptian government to handle all petroleum activities in the south of Egypt. The company's capital is EGP400 million divided into one million shares. All the shares are owned by EGPC.

In addition to EGPC, EGAS, ECHEM and GANOPE, there are foreign companies and Egyptian private sector companies operating in the Egyptian petroleum sector. These companies are granted concession areas for exploration purposes in accordance with the periodic bidding rounds administered by the relevant holding company. There are over 50 international companies that operate in the exploration, excavation and production of oil and gas in Egypt (for example, BP, Apatchy, PICO and DANA).

Government policy objectives

General policy objectives include:

- Excavating and discovering new wells and operating new projects.
- Encouraging foreign oil companies to increase exploration and production in Egypt in exchange for a more rapid repayment of the US$6 billion it owes them, according to Reuters.
- Increasing production to meet escalating domestic needs, especially during the winter.
- Amending the entire body of legal provisions regulating the oil and gas sector to preserve Egypt's mineral wealth and encourage direct foreign investment.

In addition to the above, the government intends to deal with urgent local demand by:

- Initiating discussions regarding payment of any due amounts to the foreign companies that have mining or extracting crude oil as objects to increase Egyptian petroleum reserves.
- Preserving the required quantity of crude oil.
- Developing Egyptian refineries that lack technology.
- Development of the basic petroleum products' trading.
- Restructuring the system of financial support for petroleum products bearing in mind energy prices.

- Allowing private sector companies to import natural gas to meet current local demand.
- Ensuring the delivery of natural gas to residential areas as well as industrial establishments.
- Increasing the number of distribution and supply stations.

Current market trends

Egypt has witnessed substantial progress in the oil and gas sectors.

Specific objectives for 2013/2014 include:

- **Development of the production of crude oil, condensates and butane.** The goal is to achieve production of 37 million tonnes of crude oil, condensates and butane, to realise an increase of 5% on the previous year.
- **A decrease in natural gas production.** The goal is to achieve production of approximately 43.5 million tonnes of natural gas, with a degradation percentage of 4.4% of the expected production in 2012/2013.
- **Oil products and petrochemicals.** The goal is to achieve production of approximately 38.9 million tonnes of petroleum derivatives and petrochemical products, representing an increase of 15% on 2012/2013.

In addition, the government has a further plan for the production of petroleum products by the public sector and investment companies for the years 2013/2014:

- **Extracted petroleum products.** The companies above are expected to extract butane, fuel and solar diesel.
- **Petrochemical products.** The companies above are expected to produce polyvinyl chloride, alkylbenzene, ethane and methanol.

The importation plan for the year 2013/2014 involves approximately 12 million tonnes of crude oil and petroleum extractions worth US$10.8 billion to meet local market demand for the year 2013/2014 as follows:

- Butane.
- Solar.
- Crude oil for the refineries.
- Other petroleum products.

The exportation plan for the year 2013/ 2014 is to export approximately 24.5 million tonnes of petrol and natural gas to the value of US$15.8 billion.

In addition to the above, the government has established a new plan for domestic consumption for the financial year 2013/2014.

Other continuing projects include:

- Crude oil.
- Natural gas.
- New projects supporting the national gas network.
- New projects for manufacturing, transporting, marketing and refinement.
- Petrochemical projects.
- Mineral wealth projects.

BP Egypt recently announced a significant gas discovery in the East Nile Delta. The deep-water exploration well, Salamat, is the deepest well ever drilled in the Nile Delta. According to the Minister of Petroleum, Sherif Ismail, the depth of the well has reached 7000 metres and its drilling costs are US$380 million.

2. What percentage of domestic energy needs is met by oil and gas?

According to the latest publications, Egypt is self-sufficient in respect of its domestic oil needs. However, due to the current phase of political transition, Egypt has been importing petroleum derivatives, for example, from Benzene and Mazot (*see Question 1, The import/export market*). Egypt is not currently importing any gas to satisfy its domestic needs.

Oil

The total domestic consumption of oil was 755,000 barrels per day in 2012 amounting to an annual average rise of 3% over the last decade (*US Energy Information Administration*) (EIA). However, since 2010, Egypt's oil consumption has outpaced production and the demand for both oil and gas has recently escalated due to a combination of political instability amid falling domestic production. Accordingly, Egypt spent US$11.9 billion to import petroleum products to cover the domestic needs, in 2012.

Natural gas

Natural gas consumption increased by an annual average of 11% from 2001 to 2011. For most of this period, this was matched by a rapid increase in production. However, after 2009, natural gas production began to fall because of a decline in output from offshore gas fields. Egypt's natural gas exports have also fallen.

For the first time, Egypt may need to import natural gas to satisfy rising domestic demand while continuing to export natural gas to maintain its position in the global market.

Much of domestic consumption involves fuelling electric power plants. The government encourages households, businesses, and the industrial sector to consider natural gas as a substitute for petroleum and coal. In January 2008, the World Bank approved loans for the Natural Gas Connections Project. This aims to switch consumption of liquefied petroleum gas (LPG) to natural gas by investing in new connections and further expanding natural gas use in densely populated, low income areas. The share of natural gas consumed in the transportation sector has also been rising since the development of compressed natural gas (CNG) infrastructure and vehicles.

LNG

Egypt has two LNG plants that include a total of three LNG trains, with combined capacity of around 610 billion cubic feet per year (or 12.7 million tonnes per year).

The main producers or exporters of LNG having liquefaction, storage and export facilities are the Spanish Egyptian Gas Company (SEGAS) Liquefied Natural Gas (LNG) Complex in Damietta, Northern Egypt.

Regulation

Regulatory bodies

3. Who regulates the extraction of oil and gas?

The extraction of oil and gas is regulated by the Egyptian Mining and Quarries Law 86 of 1956 and the terms and conditions set out under the relevant concession agreements.

The Ministry of Petroleum is the sole body with regulatory responsibility for the petroleum sector in Egypt through two principal public companies (*see Question 1, Domestic market structure*):

- Egyptian General Petroleum Company (EGPC).
- Egyptian Natural Gas Holding Company (EGAS).

Permission must be obtained first from the Ministry of Petroleum by the entity proposing to extract oil or gas. Permission usually takes the form of a concession agreement.

The regulatory regime

4. Describe the regulatory regime that applies to oil and gas exploration and production, including the key legislation and features of the regime.

Certain principal laws regulate the oil and gas sector. These include:

- Law No. 86 of 1958 organising Mines and Quarries and executive regulations.
- Law No. 20 of 1987 organising the Egyptian General Petroleum Company (EGPC).
- Law No. 217 of 1980 organising Natural Gas and executive regulations.
- Law No. 4 of 1988 regarding Oil Pipelines.

Regulation is mainly achieved by standard terms and provisions in the concession agreement signed by the Egyptian Minister of Petroleum and the Contractor. However, projects can differ from case to case.

Rights to oil and gas

Ownership

5. How are rights to oil and gas held, and who holds those rights?

All minerals, including petroleum, existing mines and quarries in Egypt, including the territorial waters, and in the seabed subject to its jurisdiction and extending beyond the territorial waters, belong to the state (*Mining and Quarries Law No. 66 of 1953*).

The Mining and Quarries Law No. 66 of 1953 stipulates the terms and conditions that regulate and organise all procedures and approvals required for the exploration and exploitation of oil and gas. For example, the Government requires contractors to acquire a specific amount of any oil or gas discovered in accordance with a production sharing scheme. The contractor can sell and export its share according to the price valuation set out under the concession agreement.

The Minister of Petroleum, can, if authorised by a specific law passed by Parliament, enter into a concession or agreement that deviates from standard terms and conditions (*Article 50, Mining and Quarries Law No. 66 of 1953*).

Accordingly, all current oil and gas concession agreements include specific provisions to encourage foreign investors to enter into a bidding process announced by the Minister of Petroleum.

Nature of oil and gas rights

6. What are the key features of the leases, licences or concessions which are issued under the regulatory regime? Can these rights be leased by the right-holder?

Lease/licence/concession term

The only mechanism and document that grants the contractor the right to carry out oil and gas exploration and exploitation activities is the concession agreement.

The term of the concession agreement is approved by Parliament and signed by the Egyptian Minister of Petroleum and the contractor. In general, the term for exploration ranges from seven to nine years, divided into three terms; the initial term and two extensions. However, if there is a commercial oil and gas discovery, the term may be 25 years to be extended to 35 years.

The contractor's rights can be assigned by a deed of assignment to a third party in accordance with the terms of the concession agreement after the approval of the Government.

The Egyptian General Petroleum Authority (EGPA) has the authority to apply the provisions and conditions pertaining to the exploration and exploitation of oil and gas set out under Law No. 66 of 1953 and Law No. 86 of 1956 (*Law No. 167 of 1958*). To obtain a legally binding concession agreement involves a two stage process:

- The Egyptian Parliament must pass a law, authorising the Minister of Petroleum to represent the Government in entering into a concession agreement with EGPC and the contractor.
- A contractor who wishes to obtain an oil and gas concession agreement must have the required financial and technical abilities set out in the concession agreement. A contractor granted a concession agreement must personally sign it; no other company, or a subsidiary of the Contractor, can sign the agreement on the contractor's behalf (*Mining and Quarries Law No. 66 of 1953 and Law No. 86 of 1956*).

Pursuant to the terms of the concession agreement, in cases where the contractor does not declare any commercial oil and gas discoveries during the initial exploration terms, the contractor must relinquish a percentage of the exploration area (usually 25%). This relinquishment also takes place if no discoveries are made during the other explorations terms until the whole area is relinquished at the end of the exploration term where no discoveries are made.

If withdrawal is intended after a commercial discovery, both EGPC and the contractor must mutually agree on the area to be relinquished.

If the contractor withdraws from the concession agreement, before the fulfilment of its obligations, the Government can consider such an act as a material breach (*Article XXIX, Concession Agreement*), cancel the agreement and claim all rights it may have against the Contractor.

The contractor is not obliged to obtain any further licences or approvals to carry out oil and gas exploration and exploitation activities if it has been granted the right to perform such activities by virtue of a specific law passed by Parliament.

The rights granted to a contractor under a concession agreement cannot be waived or assigned except in accordance with the conditions and procedures set out under the specific concession. Generally, the contractor has the right to assign all or part of its interests under a concession agreement if EGPA or the

Egyptian Natural Gas Holding Company (EGAS) endorses the assignment and the Minister of Petroleum approves its provisions.

Fees

Generally, the contractor's financial liabilities are determined by virtue of the provisions of the concession agreement.

These are no specific fees payable by a contractor to acquire the right to carry out exploration and exploitation activities. However, the contractor is responsible for all costs relating to minimum exploration expenditures as determined by the concession agreement. The contractor must issue a letter of guarantee in favour of EGPC to ensure compliance with this financial obligation and has no right to reimbursement of expenses except in the event of a commercial discovery.

Liability

The contractor is considered a party to the concession agreement, which involves several contractual liabilities the contractor must satisfy according to the terms and conditions of the concession agreement. Accordingly, all the contractor's liabilities towards the other parties to the agreement (such as the Government, EGPC or EGAS) are of a contractual nature.

The rights and obligations of EGPC and the contractor are governed by the concession agreement and can only be altered or amended by the written mutual agreement of the contracting parties (*Article 18, Concession Agreement*).

As for dispute settlements methods, the concession agreement stipulates that any dispute, controversy or claim arises out of or relating to the concession between the contractor and the Government, must be referred to the appropriate court in Egypt.

However, if the dispute is between the contractor and EGPC or EGAS it must be resolved through arbitration according to the rules of the Cairo Regional Centre for International Arbitration.

In general, most concession agreements provide for common obligations, such as:

- Compensation applicable in the case of failure to pay or satisfy obligations under the concession agreement.
- Government entitlement to a certain percentage of the aggregate oil production. This percentage can differ.
- The contractor must report the amounts of oil discovered to the government on a regular basis.
- The contractor is subject to Egyptian tax laws.
- The contractor must usually commence his works in a certain period prescribed by the concession agreement.

- The contractor cannot assign the agreement to a third party unless with the approval of the Government.
- The contractor must disclose true information about the exploration and report the same to the Government.
- The contractor is responsible for any damage and harm incurred as a result of the excavation work.

Restrictions

See above, *Liability*. Restrictions are regulated on a case by case basis.

7. How are such leases, licences or concessions awarded?

Oil and gas concession agreements are awarded to contractors by a bidding process. Generally, the Egyptian General Petroleum Company (EGPC) and the Egyptian Natural Gas Holding Company (EGAS) announce specific tenders to solicit the best and most appropriate contractor.

The tender documents are usually offered in accordance with the provisions of the Egyptian Tender and Bids Law No. 89 of 1998 and its executive regulations.

On the announcement of the successful bidder, Parliament promulgates a law authorising the Minister of Petroleum to enter and sign the terms and conditions of the concession agreement with the contractor (*see* Question 6).

By signing the concession agreement, the contractor becomes responsible for the exploration and exploitation of oil or gas in the concession area, as described under the concession agreement.

Transfer of rights

8. How are oil and gas rights transferred? Are there any restrictions on the disposal of interests?

All concession agreements stipulate the methods and procedures required for the assignment of the contractor's interests under the concession.

A contractor cannot assign, sell and transfer all or part of its interests (including any rights, privileges, duties or obligations) under a concession agreement to any person, firm or corporation except with the written consent of the Government. In all cases priority must be given to the Egyptian General Petroleum Company (EGPC) if it wishes to obtain the interest intended to be assigned, unless the assignee is an affiliated company or a member of the contractor group of companies.

All such assignments, sale or transfer are tax free including:

- Transfer, capital gains taxes or related taxes.
- Charges or fees.
- Income tax.
- Sales tax.
- Value added tax.
- Stamp duty or similar levies.

A restriction on assignment, sale or transfer arises only where the contractor has not already fully satisfied its obligations under the concession at the date of its request for Government consent.

Tax

9. What payments, such as taxes or royalties, are payable by oil and gas interest holders to the government?

Taxes

The amount of taxes payable by the contractor on profits realised from its exploration and exploitation activities under the concession agreement are subject to a 40.55% tax rate (*Egyptian Income Tax Law No. 91 of 2005*).

Concession agreements stipulate that contractors are subject to Egyptian income tax law and must comply with the requirements to file returns, assess tax, keep and show books and records.

A contractor must prepare tax returns for the tax authority within the required due dates.

The Egyptian General Petroleum Company (EGPC) pays income tax on behalf of the contractor out of EGPC's share of the petroleum saved under the terms of the concession agreement. EGPC must provide the contractor with official receipts evidencing payment of the contractor's income tax for each tax year within 90 days following receipt by EGPC or GANOPE of the contractor's tax declaration for the preceding tax year.

Royalties

The Egyptian Government receives royalties from the contractor (in cash or kind) equivalent to 10% of the total quantity of petroleum produced and saved from the area covered by the concession during the development period including any renewal. This type of royalty is paid by EGPC and not the contractor.

In addition, the contractor must pay specific bonuses to EGPC or GANOPE (as the case may be). These include:

- Signature bonuses.
- Bonuses payable on the approval of each development lease.
- Production bonuses.

The amount of the bonuses can vary from one concession to another and their payment is not included in the expenses recoverable by the contractor.

10. Does the government derive any other economic benefits from oil and gas exploration and production?

In addition to the royalties referred to in *Question 9*, the Government benefits indirectly from the exploration and exploitation of oil and gas.

In general, Article 7 of the concession agreement provides the contractor with the right to sell and export its entire share in the oil and gas produced, as determined by the terms of the share of production plan.

However, the Egyptian General Petroleum Company (EGPC), which is a public entity, and Egyptian Holding Natural Gas Company (EGAS), which is owned by the Government, have the right of first refusal to purchase the oil and gas to meet domestic need.

Usually EGPC notifies the contractor of the domestic quantity required 45 days before the beginning of the calendar semester as determined under the concession agreement.

With regard to joint ventures, the joint venture operating company usually approves the work programme and development plan prepared by the contractor. This details the total quantity of petroleum the operating company estimates can be produced. The oil is owned by both EGPC and the Contractor.

11. What taxes and duties apply on import and export of oil and gas?

Under the concession agreement, the contractor must prepare tax returns. Only the Tax Authority has the right to audit these returns.

The tax return must include:

- Non-recoverable costs.
- Amounts derived from the sale or other disposition of all petroleum or gas acquired by the Contractor under the provisions of the agreement that govern the sale of petroleum or gas.

The rate imposed on the profits realised by oil and gas exploration and exploitation companies is 40.55% (*Article 49, Egyptian Tax Law No. 91 of 2005* and *its Executive Regulation*).

The concession agreement also stipulates that the contractor and operating company must both maintain at their business offices in Egypt, books of account, in accordance with the accounting procedures attached under an annex to the agreement.

Transportation by pipeline

12. What regulatory requirements apply to the construction and operation of pipelines?

Oil and gas transportation via pipelines is governed by specific laws and regulations, which set out the terms and conditions that must be satisfied to construct, maintain and operate pipeline networks.

The Egyptian Holding Company for Natural Gas (EGAS) handles all operations regarding the transportation and supply of natural gas to all residential areas, industries and power stations as determined by Decrees of the Minister of Petroleum (*Law No. 217 of 1980 concerning natural gas*). Law No. 217 of 1980 sets out the areas where pipelines can be located, and areas that are not considered suitable.

Other private companies incorporated under applicable Egyptian Laws can construct and operate gas pipelines provided EGAS ensures that the companies have the required technical and financial capacity to perform the required activities in an appropriate and efficient manner (*Law No. 217 of 1980, Executive Regulations*).

The board of directors of EGAS determines the companies that can handle such activities in residential and industries areas, and power stations in different Governorates in accordance with its strategic plan.

EGAS is responsible for supervising all activities carried out by such companies relating to:

- Transportation of gas to end users.
- Pipeline network operational activities.

All other applicable general rules and conditions for usual construction activities must be implemented in parallel with any specific regulations that may be required for the construction of pipelines, for example, Law No. 4 of 1988 and its executive regulations, which provide:

- Terms and conditions for the construction of hydrocarbon (liquid or gas) underground pipelines.
- A definition of petroleum pipelines as pipelines transporting hydrocarbon (liquid or gas) from production areas or refinery to areas of distribution.

13. Is there a system of third party access to pipelines and other infrastructure?

Third parties (other than the Egyptian General Petroleum Company (EGPC) or the Egyptian Holding Company for Natural Gas (EGAS)) do not have access to pipeline networks constructed for the transportation of oil and gas.

These activities can be achieved through bilateral or multilateral agreements between the relevant parties. A third party can agree to have its oil and gas transported through existing pipelines networks according to agreed terms and conditions set out between the pipeline operator and the person requesting such access.

Health, safety and the environment

Health and safety

14. Describe the health and safety regime that applies to oil and gas exploration and extraction, and transportation by pipeline.

There are no specific regulations for the oil and gas industry.

In practice, contractors engaged in exploration and extraction must comply with:

- General rules and safety regulations concerning industrial facilities including:
  - Environment Law No. 4 of 1994 and related executive regulations;
  - supplementary decrees issued by the Minister of Petroleum on the disposal of hazardous materials;
  - Law No. 453 of 1954 concerning industrial facilities and other projects that may impose a danger to health;
  - Presidential Decree No. 991 of 1987 concerning safety requirements regarding the construction of industrial facilities.
- Specific requirements and conditions imposed by the relevant authority providing the licences.
- Health and safety requirements for gas stations and petroleum depots issued and regulated by specific ministerial decrees (that are published) and some required by specific governmental bodies for example, municipalities (not published).
- General requirements for the construction of depots, gas and pump stations. Decree No. 132 of 2010 amending Decree No. 1649 of 1956 issued by the Minister of Housing, Utilities and Urban Development, sets out the safety conditions that a company must satisfy, for example:

    - size of areas for construction;
    - capacity of each depot;
    - distances between the different tanks inside the depots.

- Ministerial Decree No. 79 of 1973 issued by the Minister of Housing and Construction which sets out all the conditions required for the transportation and storage of LPG construction of depots.

In respect of transportation, there are again no industry specific rules, although the following conditions must be met:

- The company must obtain a licence from the Egyptian General Petroleum Company (EGPC). The application must contain (*Decree No. 673 of 1999*):
    - all necessary information and data;
    - evidence of the qualified personnel responsible for the movement of the hazardous material;
    - details of the method for the safe movement of hazardous material;
    - evidence the movement will not harm the environment or public health.

The entity responsible for movement is liable in the event of damage resulting in the transportation of the material.

On entering Egyptian waters, oil tankers that carry more than 2000 tonnes must provide the Egyptian authorities with a certificate of financial guarantee notwithstanding the application of the International Convention on Civil Liability for Oil Pollution Damage (Liability Convention) (*Article (54), Environment Law*). The guarantee must cover all possible damages that the oil tanker may cause. The required compensation is set by the Ministry of Environment. With regard to an oil tanker from a country that is a party to the Liability Convention, the certificate of guarantee can be issued by the competent authority of that country.

Environmental impact assessments (EIAs)

15. Is an EIA required before extracting or processing oil and gas?

Oil operating companies must obtain a licence in respect of the storage and disposal of dangerous and hazardous material in addition to the licences that must be obtained as a result of an environmental assessment report.

Oil operating companies must keep an environmental register that records any complaints against or violations committed by the company, which the Egyptian General Petroleum Company (EGPC) inspects to ensure that the company is rectifying the violations.

Environmental compliance before granting the licence to operate

The competent administrative body must assess the environmental impact of the operation proposed according to the elements, designs and specifications issued by the Egyptian Environmental Affairs Agency (EEAA) before granting a licence to any company.

The company requesting the licence must include all the information required in the form prepared by the EEAA (as agreed with the competent administrative body).

The EEAA prepares a register that includes:

- Copies of the forms.
- Assessment results.
- Any requirements it deems necessary for the entity to follow.

The company is then notified by the competent administrative body of the assessment result. The company has the right to object to the assessment results within 30 days of receipt of the results. The objection is reviewed by a committee formed by the Minister of Environment. The committee must provide its reply within 60 days of receipt of the objection and all related documents.

If the assessment result is favourable, the company is granted the licence to operate.

Environmental compliance during operation

The company must maintain a register, while carrying out the licensed activities that shows any impact on the environment including (*Environmental Law*):

- Emissions or discharges.
- Procedures of follow-up and environmental safety applied.
- Periodical tests, measures and their results.
- The name of the person in charge of the follow-up.

The company must notify the EEAA of any deviation in the criteria and specifications of omitted or discharged pollutants and the procedures taken to rectify them.

The EEAA conducts an annual follow-up to ascertain compliance and must take all the necessary samples and conduct all relevant tests to ensure adherence.

The EEAA files a report after each follow-up. In the case of any violation, the EEAA notifies the competent administrative body, which in turn demands expeditious rectification by the company. If there is failure to rectify within 60 days, the EEAA can, in conjunction with the competent administrative body, take the following measures:

- Close down the company.
- Suspend the contravening activity.
- File legal action for compensation to remedy the damages caused by the violation.

16. What are the different stages of the EIA?

The EIA is made by the company or by another entity before the commencement of the project. The Egyptian General Petroleum Company (EGPC) must ensure that all information mentioned in the assessment is accurate before sending it to the Ministry of Environment for approval.

Environmental permits

17. Is there a permit regime for environmental damage or emissions produced during the extraction or processing of oil and gas?

The Environment Law provides a regime for disposing of residual waste resulting from the extraction of oil and gas:

- All companies carrying out oil and gas exploration and exploitation activities must prepare an environmental assessment report to be submitted to the Environmental Department at the Egyptian General Petroleum Company (EGPC).
- EGPC's Environmental Department issues an Environmental Registry that is usually kept at the headquarters of the operating company.
- The licences and approvals issued always relate to the environmental assessment report and generally include licences for the disposal and storage of hazardous materials.

Waste

18. What are the regulations on the disposal of waste products resulting from oil or gas extraction or processing?

There are a number of regulations dealing with the disposal of waste products resulting from oil and gas extraction or processing:

- Environmental Law No. 4 of 1994 on the disposal of residuals.
- Minister of Petroleum Decree No. 673 of 1999 determining hazardous materials in the oil and gas field.

All entities carrying out oil exploration and exploitation activities as well as oil production must abide by the conditions and procedures contained in the Environmental Law and its executive regulations (*Article 41, Environmental Law*). These include:

- The obligation to choose the most appropriate location for erecting facilities or factories to guarantee that air pollution rates are within acceptable ranges.
- Controlling leakage of air pollutant substances.
- A prohibition on throwing or burning paper near any residential or agricultural areas or the River Nile.
- Obligations and restrictions on all ships and vessels of any nationality to prevent the spilling and disposing of oil in territorial waters or within the commercial zone of the Arab Republic of Egypt (*Article 49*).
- Companies and entities, whether Egyptian or non-Egyptian that are licensed to perform oil exploration and exploitation in the sea are restricted from throwing or disposing of any pollutant substances in the territorial sea or the commercial zone of the Arab Republic of Egypt (*Article 52*).
- Penal sanctions including (*section 4*):
  - fines between EGP300,000 to EGP1 million for committing any of the following actions:
    - disposing of or spilling oil or other hazardous substance in the territorial sea or the commercial zone;
    - disposing of pollutant substances without applying the required treatment for preventing water pollution;
    - disposing of any other pollutant substances.
  - imprisonment in addition to the fines above in the case of repeated violations of the same offence. The captain of the vessel or the person in charge as well as the parties to the oil exploration and exploitation agreements, are jointly liable for damage caused to any third party (whether legal or natural persons) (*Article 96*).

Flares and vents

19. Are flare and vent regulations in place?

There are no specific laws or regulations in respect of flares and vents except the general safety and health regulations set out under the laws governing individual and commercial activities.

In addition, on the downstream level, gas stations, retail outlets for lubricants or flammable substances may be required to comply with specific safety conditions in the case of, for example, fire, flooding or any other emergency.

Decommissioning

20. What are the decommissioning obligations and liabilities that arise?

The contractor can decommission its equipment and property used in operations carried out under the concession agreement. However, if the contractor has already been refunded for all costs and expenses incurred due to its exploration and development activities, all equipment and machinery that has been transferred to the Egyptian General Petroleum Company (EGPC) must be abandoned by the contractor (Cost Recovery Petroleum). The Cost Recovery Petroleum represents the payment of all costs and expenses incurred by contractor for carrying out all exploration and exploitation activities under the concession agreement.

The decommissioning process must cover all the owned and leased equipment and machinery that has not been covered and leased by the Cost Recovery Petroleum.

Decommissioning and re-exportation is free of any custom duties, taxes or other levies.

Sale and trade

21. How is trade in oil and gas usually completed?

Trade in oil and gas is not legally allowed except through and by the permission of the Egyptian General Petroleum Corporation (EGPC).

Any oil and gas discovered underground is owned by the state (*Quarries and Mines Law, as amended*). In general, the extraction of such oil and gas is performed through exploration activities carried out by contractors after compliance with the relevant legislation.

Under the legislation, a concession agreement is entered into between the contractor and the EGPC or the Natural Gas Holding Company (EGAS), depending on whether the concession is related to oil or gas exploration. The Egyptian Government is also considered a party to these concession agreements.

Where oil or gas discoveries are announced, the contractor involved has a right to own a share of production and can dispose of it without any restrictions. However, the EGPC has the right to purchase a share of the contractor's production share to meet domestic demand. This is calculated in accordance with the evaluation parameters set out in the concession agreement.

Under a gas concession agreement, both EGAS and the contractor can also enter into gas sales agreements; the contractor agrees to supply EGAS with the amounts of gas determined in the gas agreement according to the prices set out under each concession agreement provision.

The sale of oil or gas must be performed by EGPC, EGAS or the contractor (in the case of a sale of its share of production) in accordance with the terms and provisions of the concession agreement.

22. Are oil and gas prices regulated?

Oil prices are not regulated. However, Egyptian law regulates gasoline (an oil derivative commonly used for fuelling cars) prices. Gasoline prices (*Prime Minister's Decree No. 1326 for the year 2006 and decree No.1326 for the year 2007*) are as follows:

- 90 piasters for gasoline 80.
- 100 piasters for gasoline 90.
- 140 piasters for lead free gasoline (gasoline 92).
- 175 piasters for gasoline 95.

In addition, a sales tax was added to the above gasoline prices as follows (*Law No. 114 for the year 2008*):

- 8 piasters for gasoline 80.
- 48 piasters for gasoline 90.
- 48 piasters for gasoline 92.
- 103 piasters for gasoline 95.

Gas prices are regulated be the Prime Minister's Decrees. Gas prices are as follows for companies that:

- Generate or produce electricity: 44 piaster per cubic metre (*Prime Minister's Decree No. 1257 of 2012*).
- Engage in cement and stones: US$6 per million metric British thermal units (mmBTU) (*Prime Minister's Decree No. 110 of 2013*).
- Intensively consume gas (that is glass, ceramic, fertilisers, iron, chemicals, cement, aluminium and copper manufacturers): US$3 per mmBTU (*Prime Minister's Decree No. 1795 of 2008*).
- Produce LPG are (*Prime Minister's Decree No. 315 of 2013*):
  - EGP8 per gas tank with a volume of 12.5kg;
  - EGP16 per gas tank with a volume of 25kg.

Gas prices for residential units are, for the following usage (*Prime Minister's Decree No. 29 of 1981*):

- Up to 22.5 cubic metres: 55 piasters per cubic metre.
- Between 22.5 to 37.5 cubic metres: 145 piasters per cubic metre.
- Between 37.5 to 52.5 cubic metres: 150 piasters per cubic metre.

Enforcement of regulation

23. What are the regulator's enforcement powers?

Orders

The concession agreement, which always takes the form of a law, is in effect, a binding contract between the government through its competent agent, the Egyptian General Petroleum Corporation (EGPC) and the contractor. Parliament authorises the Minister of Petroleum to sign the concession on behalf of the Government.

In the case of:

- Disputes between the Government and the parties to the concession agreement, these are settled before the Egyptian courts.
- Disputes that may arise between the contractor and EGPC, these must be settled by arbitration.

The Government can terminate the agreement, if the contractor fails to meet his obligations under the concession agreement, for example, if the contractor becomes bankrupted or assigns one of his rights in breach of the concession agreement.

Fines and penalties

The concession agreement usually includes the right to terminate as a penalty for breach of its provisions. A party can seek compensation at any time if another party is in default of its obligations.

24. Is there a right of appeal against the regulator's decisions?

Only judgments rendered by the state courts can be appealed. Judgments rendered by arbitral panels cannot be appealed before the state courts; however, they can be challenged on the grounds of nullity and set aside in court.

Appeals under the civil procedure laws take approximately 40 days starting from the day following the day on which judgment was given.

Reform

25. Are there plans for changes to the legal and regulatory framework?

There are no imminent plans for changes to the oil and gas legal and regulatory framework, despite major pressure on successive Egyptian Governments for such reform. Extensive reforms are likely in the next two years particularly after the election of a new Parliament.

The regulatory authorities

Egyptian General Petroleum Corporation (EGPC)

Address. New Maadi, Palestine Street, Part 4, Cairo, Egypt
T +202 2706 5358
F +202 2706 5887
E bidround@EGPC.com.eg
W www.egpc.com.eg

Main responsibilities. The EGPC is mainly responsible for all oil exploration and exploitation activities carried out by contractors granting oil concession agreements in Egypt. It also carries a concession agreement on its website.

Ganope El Wadi Petroleum Holding Company (GANOPE)

Address. Elnoor St., From Ahmed Tayser St, Nasr City
T +202 2691 0141
F +202 2691 0140
W www.ganope.com/main.htm

Main responsibilities. GANOPE is mainly responsible for all oil exploration and exploitation activities carried out by contractors in the southern region of Egypt. GANOPE manages and supervises all petroleum activities under latitude line 28.

Natural Gas Holding Company (EGAS)

Address. 85 Nasr Road, 1st District, Nasr City, Cairo, Egypt
T +202 2405 5845/6/7/8
F +202 2405 5876
E egas@egas.com.eg

W www.egas.com.eg/home.aspx

Main responsibilities. EGAS as an entity mandated to focus on natural gas activities, adapting an effective action plan to organise and diligently handle the activities of the natural gas resources of Egypt to add value to the Egyptian economy. EGAS is engaged in a wide range of activities, including:

- Upstream: exploration; drilling and production of natural gas.
- Downstream: processing; transmission; distribution of natural gas in the domestic market; liquefaction; LNG Marketing.

Ministry of Petroleum

Address. 1A, Ahmed El Zomor St., 8th District, Nasr City, Cairo, Egypt
T +202 2670 6401/2/3/4
E contact@petroleum.gov.eg
W www.petroleum.gov.eg/en/Pages/default.aspx

Main responsibilities. The Ministry of Petroleum is the Egyptian authority that supervises exploration, production, marketing and distribution of oil, gas and other natural resources. The current minister is Sherif Ismail.

Online resources

Egyptian General Petroleum Corporation (EGPC)

W www.egpc.com.eg

Description. A concession agreement is available on its website.

Ministry of Petroleum

W www.petroleum.gov.eg/en/Pages/default.aspx

Description. The Ministry of Petroleum website provides extensive materials in Arabic and English regarding laws, services, products and investment activities relating to the petroleum industry.

Ministry of Planning

W www.mop.gov.eg

Description. The Ministry of Planning website provides extensive materials in Arabic and English regarding development plans, reports, economic indicators and publications.

Natural Gas Holding Company (EGAS)

W www.egas.com.eg/home.aspx

Description. It provides information about EGAS, its activities and affiliate companies, links to other sites, background information on Egyptian natural gas and business opportunities.

Ganope El Wadi Petroleum Holding Company (GANOPE)

W www.ganope.com/main.htm

Description. It provides information on GANOPE's activities and general information in Arabic and English. It invites and processes bid rounds and features a Model Agreement on its website.

Central Intelligence Agency Fact Book (CIA World Factbook)

W www.cia.gov/library/publications/the-world-factbook/geos/eg.html

Description. It provides statistics for oil and gas production worldwide.

Contributor profile

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Professional qualifications. LLB, Cairo University, 1988; LLM, University of London, 1995. Public Prosecutor, 1990 to 1997. Legal adviser to the Egyptian Minister for International Co-operation 1997 to 1999. Joined Shalakany Law Office's Corporate Department in 1999 and became a Partner in 2006.

Areas of practice. Oil and gas; commercial law; projects/project finance; aviation; maritime; insurance and reinsurance; corporate tax; real estate tax; labour law; environmental; anti-dumping; competition law; investment banking.

Languages. Arabic, English

Professional associations/memberships. Member of the Egyptian Bar Association.

Recent transactions

- Handles matters concerned with aircraft sale/leasing, corporate/general commercial and regulatory work for airlines, aircraft lessors, airline consolidators, tour operators, travel agents and aviation service companies.
- Extensive experience in drafting and reviewing agreements for commercial agencies, distribution and joint ventures.
- Advises on documents for the establishment of companies, branches and subsidiaries or other international corporate structures.
- Expertise in the field of oil and gas including oil and gas sales, "farm in-farm out" agreements, and production sharing agreements.
- Involved in the drafting of major petroleum contracts such as concession agreements for petroleum exploration and exploitation, gas sales agreements, gas processing agreements and licences for gas transmission pipeline systems.
- Contributed in the negotiations and the drafting of amicable settlement agreements related to gas pipeline trenching and rectification contracts.

Publications

- *The World Bank, Doing Business in Egypt, Taxes 2014.*
- *The World Bank, Doing Business in Egypt, Taxes 2013.*
- *The World Bank, Doing Business in Egypt, Taxes 2012.*
- *The Littler Mendelson Guide to International Employment and Labour Law, Egypt 2011.*
- *The Oil and Gas Year Magazine, Egypt 2010.*
- *The Oil and Gas Year Magazine, Egypt 2009.*

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