Egyptian General Petroleum Corporation History

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State-Owned Company
Incorporated: 1956 as General Petroleum Authority
Sales: E£2.66 billion ($1.04 billion) (1986)
NAIC:211111 Crude Petroleum and Natural Gas Extraction; 213112 Support Activities for Oil and Gas Field Exploration; 324110 Petroleum Refineries; 486990 All Other Pipeline Transportation

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Company Perspectives:

EGPC is concerned with implementing all the plans and policies related to the petroleum activities of Egypt, with the objective of securing and developing the petroleum wealth and its best exploitation.

Key Dates:

1910: Anglo-Egyptian Oilfields begins to produce oil from the Gemsa field.
1956: The General Petroleum Authority (GPA) is created by the Egyptian government; General Petroleum Company is formed.
1962: GPA's name is changed to Egyptian General Petroleum Corporation (EGPC).
1964: Anglo-Egyptian is nationalized.
1973: EGPC takes a 50 percent interest in The Arab Petroleum Pipeline Company; EGPC switches from joint explorations to issuing exploration licenses to foreign contractors.
1976: Egypt becomes a net exporter of crude oil for the first time.
1977: The Sumed Pipeline opens.
1986: A drop in oil prices leads to policy changes in EGPC.
1991: Egypt begins to offer incentives for foreign investment and exploration as part of its fiscal reform.
1996: Oil production reaches its peak at 922,000 barrels per day.
2000: The Egyptian government allows for the export of natural gas.

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Company History:

The Egyptian General Petroleum Corporation (EGPC) operates as a state-owned concern overseeing the petroleum industry in Egypt. Egypt's government, through EGPC, owns or partially owns a large group of companies, including the Gulf of Suez Petroleum Co. (Gupco), Petrobel, General Petroleum Co. (GPC), Badr el-Din Petroleum Company, Suez Oil Company, and El Zaafarana Oil Company. All of Egypt's refineries are run by EGPC subsidiaries. Starting in the early 1990s, Egypt began reforming its fiscal policy and launched incentives to promote foreign investment and exploration. The country is privatizing many of its industry sectors but keeping tight reins over EGPC. Although Egypt is not among the most important players on the international oil scene, oil is a vital element of the Egyptian economy. Oil exports are a major source of scarce foreign currency, accounting for 40 percent of export earnings and ten percent of gross domestic product (GDP) in the late 1990s. The country currently operates as an oil exporter, but increases in demand and declining oil production have raised concern that by 2010 Egypt will become a net importer of oil. This increase in demand coupled with high international oil prices forced the country to report its first oil trade deficit in nearly 25 years in 1999. As such, EGPC and its subsidiaries are focused on exploration activities and growth in the natural gas sector.

History of Egyptian Oil Production

Egypt's oil was not always as firmly under the control of its government. As early as the 1860s, the government began drilling for oil. In 1869, the Gemsa field came to light, but it was left to overseas interests to develop the find after a delay of over 40 years. Anglo-Egyptian Oilfields, a joint venture between Shell and British Petroleum, began to produce oil from the Gemsa field in 1910. Three years later, another field at Hurghada was brought onstream by Anglo-Egyptian, which mapped the west coast of the Gulf of Suez in the course of its explorations.

Five more oil fields were found between the world wars. By the time exploration resumed after World War II, other foreign companies were becoming involved. However, Anglo-Egyptian was still the dominant player until 1964, when it was nationalized.

In 1956, the General Petroleum Authority (GPA) had been created by the Egyptian government to safeguard the country's interests in the development of its valuable mineral resources. In the same year the General Petroleum Company (GPC), Egypt's first oil company, was formed and was granted licenses to prospect in the Gulf of Suez and in Egypt's Eastern Desert. GPC was later to acquire licenses in Sinai also, and to become the most important operating company owned by EGPC.

EGPC Begins Joint Venture Exploration: 1960s

Egyptian General Petroleum Corporation was the new name given in 1962 to the GPA. The following year, it entered into the first of a series of joint ventures with international companies for oil exploration and production. Among EGPC's earliest partners was Amoco, then known as Standard Oil Company (Indiana), with whom EGPC formed the Gulf of Suez Petroleum Company (Gupco), soon to become Egypt's largest oil producer. The largest company after Gupco, Petrobel, dates from 1963 and was the progeny of EGPC's union with the International Egyptian Oil Company (IEOC), the latter itself a joint venture between the Italian company ENI and an Egyptian firm. Phillips Petroleum was another important EGPC partner.

EGPC soon gained a solid reputation; the *Financial Times,* June 5, 1985, credited it with "an independence and efficiency not normally associated with public sector entities." EGPC's joint venture arrangements stimulated an upsurge in drilling, and in 1965 Gupco made a major find, the Morgan field in the Gulf of Suez, followed by the July and Ramadan fields in the same region. Petrobel found the first of Egypt's gas fields, Abu Madi, in 1967, though its major activity was the operation of the Belayim field in Sinai and Belayim Marine in the Gulf of Suez, oil fields which had been discovered in 1955 and 1961 respectively. Phillips Petroleum's explorations in the Western Desert led to the discovery of the El-Alamein oil field in 1966 and the Abu Gharadiq field, with both oil and gas, two years later.

Key Developments: 1970s to Mid-1980s

In 1973, the Arab Petroleum Pipeline Company was created, in which EGPC took a 50 percent share. The co-owners included Saudi Arabia, Abu Dhabi, and other Gulf states. Four years later, the Suez-Mediterranean (Sumed) pipeline opened, serving as an alternative to the Suez Canal as a means of transporting oil. In the first ten years of its life, the pipeline brought Egypt $632 million in royalties and investment dividends, even though it was not being used to full capacity.

Also in 1973, EGPC switched from joint explorations to its present policy of issuing exploration licenses to foreign contractors with subsequent sharing of any finds. Instead of EGPC and the contractor sharing the cost and the risk of explorations that might prove abortive, the contractor now footed the bill, recouping costs out of any resultant products. No more of the old-style joint ventures were set up after 1973, and existing joint ventures were either converted to the new system--as were Gupco and Petrobel--or phased out. Besides its agreements with overseas companies, EGPC continued to prospect in its own right through its subsidiary, the GPC.

In 1976, Egypt became a net exporter of crude oil for the first time. From then on, oil played a progressively greater part in the Egyptian economy, rising from less than five percent of GDP--differing from gross national product in that GDP excludes income from investment abroad--in 1974 to nearly 20 percent ten years later. The Gulf of Suez continued to yield important new

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discoveries through the late 1970s, including a string of successes for Suez Oil Company (Suco), another of EGPC's cooperative ventures, this time between EGPC, Royal Dutch/Shell, BP, and the operator, Deminex of West Germany. Ras Budran, discovered in 1978, came onstream in 1983, as did Ras Fanar. Zeit Bay, which came onstream two years later, was the last major Suco discovery.

A series of moderately productive Gulf of Suez explorations took place throughout the 1980s; at the end of the decade this was still Egypt's largest oil-producing area with 90 percent of total output. Sinai, handed back to Egypt in 1979 after a period under Israeli occupation, was the next most fruitful area of exploration, progressively growing in importance through the 1980s. The most dramatic change of the 1980s was the increase in exploration and production activity in the Western Desert, where Khalda Petroleum Company, a joint venture between Conoco, Texas International, and EGPC, was a major player. Improvements to the pipeline networks there, in addition to optimism about its resources, contributed to the attractions which the Western Desert held out to oil companies.

The Oil Slump Leads to Policy Changes: Mid-1980s

EGPC had always enjoyed a close relationship with the Egyptian Ministry of Oil. When Abul Hadi Qandil, EGPC's chairman, became oil minister in July 1984, he continued to hold both positions for three years, a demanding double commitment which was blamed for some of the operational difficulties that EGPC encountered in the mid-1980s.

EGPC had set Egypt an output target of one million barrels of oil, gas, and condensate per day, to be reached by 1985-86, but the oil slump of the mid-1980s put paid to this plan. In 1984, EGPC restricted output to 900,000 barrels, in line with OPEC (Organization of Petroleum Exporting Companies) price stabilization policies, even though Egypt was not a member of OPEC. Crude output was pegged at less than 900,000 barrels per day for the five years from 1987.

The effects of the oil upsets of the mid-1980s on the Egyptian economy were severe. By then, only agriculture constituted a larger element in the domestic economy, and oil was the largest foreign-currency earner. Between 1986 and 1987, the drop in oil prices reduced the oil sector's share of export earnings from 81 percent to 47 percent. This crisis brought about several important policy changes.

The slump had a particularly severe effect on Egypt because its wholesale prices were often set too high relative to other exporters. This experience prompted EGPC to introduce a system of reviewing prices every two weeks instead of monthly as before, reducing the lag in adjustments. The biweekly reviews have continued to be held ever since.

In 1987, in the aftermath of the 1986 oil slump, Egypt and the International Monetary Fund (IMF) agreed on a rescheduling of the country's burdensome foreign debts together with an IMF facility for $175 million in loans at a favorable rate. However, the agreement collapsed when Egypt was unable to implement the economic reforms on which the IMF's loan was dependent. In the light of Egypt's wider economic problems, its management of its oil industry came under scrutiny.

Egypt needed to make as much of its oil as possible available for export, but until 1985 the annual growth in production had been more or less matched by the growth in domestic demand. Since subsidized prices for domestic consumers were doing little to improve matters, in 1985 the Egyptian government had begun to reduce these subsidies, resulting in massive price increases.

Focus on Natural Gas and Diversification: Late 1980s

The World Bank was urging Egypt to capitalize on its natural gas, concluding that "the more natural gas is used for domestic needs the more Egypt's petroleum--in the form of crude or refined products--can be used to earn or save foreign exchange," as reported in the *Financial Times,* June 29, 1987. Aware of this opportunity, EGPC encouraged the substitution of gas for oil, particularly in power stations.

Egypt had a considerable amount of undiscovered natural gas, but EGPC realized that it had been doing little to encourage foreign companies to bring these valuable resources to light. Egypt had originally taken the view that gas should be exploited only by Egyptian organizations, and early exploration licenses had laid down that gas discovered in the course of drilling and not exported would become government property. This arrangement acted as a disincentive for foreign companies to look for gas or to exploit any gas resources discovered in the course of oil prospecting.

A "gas clause" to remunerate foreign companies for gas discoveries was introduced into concessions in 1980, but it was not until 1986 that a model agreement that actively encouraged investment in gas was devised. The Shell Winning agreement for the Western Desert Bed-3 was used as a basis for subsequent agreements, and the "gas clause" under which profit on gas was divided, typically on a basis of approximately 80 percent-20 percent in favor of EGPC, was inserted retrospectively into some licenses.

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Meanwhile, EGPC's interests were diversifying. In the late 1970s, EGPC had become interested in the petrochemicals industry. After an abortive joint venture with the Italian petro-chemical specialist Montedison, EGPC undertook the construction of a plant at Ameriyah for the production of polyvinyl chloride (PVC), vinyl choride monomer (VCM), chlorine, and caustic soda. The plant went into production during 1986 and 1987. Further units for ethylene and polyethylene were added, and other petrochemical activities were planned, some of them joint ventures between EGPC's Egyptian Petrochemicals Company and the Italian EniChem. The

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ultimate aim was vertical integration, but pending completion of the whole Ameriyah petrochemical complex some of the raw materials had to be imported. For this purpose, an innovative offshore terminal with facilities for the unloading and storage of ethylene was constructed off Alexandria.

Since 1979, the Abu Qir Fertilizer and Chemical Industries Company, one-fifth owned by EGPC, had run the largest fertilizer manufacturing operation in Egypt, obtaining some of its raw material from the Abu Qir gas field. A project that would more than double the company's output of ammonia and urea and permit the production of ammonia nitrate was begun in the late 1980s with completion due in 1991.

In 1987, Abul Hadi Qandil was succeeded as EGPC chairman by Muhammed Maabed, who had already served EGPC as deputy chairman for production. The following year Hamdi al-Banbi, Gupco's president, took over the chairmanship of EGPC.

Encouraging Exploration: Late 1980s and Early 1990s

Entering the 1990s, EGPC could point to some encouraging strikes on the part of its companies and licensees. The Gulf of Suez looked set to remain the most important area for oil. Shell Winning and Gupco both announced important new finds in the Gulf during 1990, Gupco calling one of it's the best discovery since 1983. Suco too was reportedly planning to increase expansion of its three Suez Gulf fields by the sinking of new wells. In the Western Desert, Phillips had made a promising discovery in its South Umbarka block. Preliminary studies indicated the existence of oil in Upper Egypt, a previously unexplored region, and prospecting was expected to begin there shortly.

The oil ministry and EGPC were encouraging licensees to exploit fields more rapidly and improve their delivery by investing in the construction of new pipelines. The licensees were also being urged to step up production by such measures as water injection to recover previously inaccessible reserves, a process undertaken, for instance, by Agiba Petroleum in the Western Desert.

During the period of Egypt's Five-Year Plan (1987-92), natural gas output was expected to double. Much of the gas found to date was in the Western Desert, which was believed to contain more gas than oil, but by 1990 the Nile delta was the richest gas-producing area. It was also thought that gas resources were to be found off Egypt's Mediterranean coast and perhaps in the Red Sea.

EGPC continued to be energetic in promoting exploration for all types of hydrocarbons, and according to the *Financial Times,* April 4, 1990, Egypt was among the countries with the highest concentrations of foreign exploration activities. Over 1,200 wells came onstream during the 1980s alone.

In the late 1980s, aside from exploration and production, EGPC assigned a high priority to downstream activities. According to the Five-Year Plan, the refinery capacity was to increase by almost 40 percent by 1992. To illustrate the importance given to this work, 42 percent of the Egyptian public sector investment in the oil and gas sector was concerned with refinery and refined products in 1987-88. Refinery construction work was commissioned mainly from EGPC subsidiaries Engineering for the Petroleum and Process Industries and Petroleum Projects Company, since the government wanted to use local resources. In 1990, Egypt had seven refineries, all of them controlled by EGPC subsidiaries; the oldest, built by Anglo-Egyptian, dated back to 1913. Further refinery expansion was planned, even amidst doubt as to how it would be financed. Some observers expected that private investment would be necessary. Although this procedure had been the norm for upstream activities, it would be a new departure for EGPC in the refinery area. The construction of pipelines to deliver oil, gas, and refined products to industrial and domestic users in Cairo and Alexandria was also among EGPC's planned projects for the 1990s.

By this time, there had been important advances in Egypt in the substitution of gas for oil. In 1990, around 60 percent of Egypt's gas was being used for electricity generation. Many of Egypt's power stations were being converted to use gas instead of fuel oil and new stations were being designed to use gas from the start. The remainder of the gas was used in industry for the manufacture of fertilizers, iron, steel, and cement, with a mere one percent being bottled for domestic use.

Despite these advances in resource management, and despite Egypt's ongoing oil and gas explorations and reasonable flow of new finds, there was no scope for EGPC to rest on its laurels. Some observers feared that without major new discoveries, Egypt would eventually revert to being a net importer of oil. Total output was restricted for conservation reasons, but new discoveries were still equaled or outweighed by reductions in reserves from the fields currently operating, so that in 1990 recoverable oil reserves seemed to be stuck at around four billion barrels. An additional problem was that because the finds tended to be smaller than in Egypt's more fortunate neighbors around the Persian Gulf, unit production costs were higher than average.

EGPC continued to grapple with the problem of mounting domestic demand detracting from exports. Despite the reduction of subsidies, the *Petroleum Economist* reported in March 1990 that domestic demand was still rising by ten to 15 percent per annum. As such, gas presented the brightest prospect for the future, with the assurance of rapidly increasing reserves. According to one estimate, the one to two trillion cubic feet reserves established up to 1990 was scheduled to triple in two years' time.

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Egyptian Reform: 1990s and Beyond

Shocks to the oil market arising from the 1991 conflict in Iraq also presented EGPC with both challenges and opportunities. During that time period, Egypt--by the prompting of the IMF--began to reform is fiscal policies and set plans in motion to privatize many of

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its major industries. It began to offer incentives for foreign investment and exploration, including offering larger exploration regions and longer exploration contracts. Under the leadership of President Hosni Mubarak, Egypt underwent a large-scale economic reform, and while privatization began in the mid-1990s in the Egyptian telecommunications and utilities industries, EGPC was deemed off limits for such action.

The country's fears about reverting to a net importer continued into the late 1990s and beyond. Oil production reached a peak of 922,000 barrels per day in 1996 and then fell to 834,000 in 1998 and 640,000 barrels per day in 2001. Increases in demand and high international oil prices forced Egypt to report an oil trade deficit--the first in nearly 25 years--in 1999. That year, imports of petroleum products reached $1.945 billion, while exports were $1.821 billion. EGPC claimed the $124 million deficit was brought on by a 14 percent increase in demand for refined products over the previous year. That demand continued to increase, reaching 585,000 barrels per day in 2001.

Proven oil reserves were estimated at just three billion barrels, while probable crude oil reserves hovered around 8.2 billion barrels. Natural gas resources, however, included 55 trillion cubic feet of proven reserves and considerable probable reserves. As such, EGPC eyed natural gas as key to future export growth--production was expected to double between 1999 and 2002. In 1998, EGPC signed a 25-year franchise agreement with a consortium led by British Gas International to extend the Cairo natural gas grid pipeline in four phases. In 2000, Egypt allowed natural gas to be exported for the first time, signaling the country's commitment to this growing sector of the industry.

EGPC also continued to focus heavily on exploration activity, hoping to increase oil recovery and perhaps even find new sources. In the early years of the new century, Egypt's oil production stemmed from operations in four main areas, including the Gulf of Suez, the Western Desert, the Eastern Desert, and the Sinai Peninsula. Companies that produced oil from these regions including Gupco and Petrobel, began restructuring operations and making key investments in both oil development and exploration.

The company also began offshore exploration efforts, awarding deepwater contracts in the Mediterranean to Shell, BP Amoco, and Elf Aquitaine. While initial discoveries were mostly natural gas, EGPC was confident that with further exploration, large oil reserves would be discovered. To encourage increased exploration, EGPC announced that it would make 38 regions available for exploration to foreign investors. Eight of those included were offshore sites in the Mediterranean.

EGPC's future, and the future of Egypt's export status, hinged on its ability to develop and exploit natural gas while maintaining crude oil operations. By 2002, EGPC was exploring liquefied natural gas projects and had also sketched out plans to construct a gas pipeline through the Mediterranean coast to Lebanon and Turkey. The latter was put on hold, however, due to the unrest in the Middle East.

Principal Subsidiaries: General Petroleum Co.; Suez Oil Processing Co.; Cairo Petroleum Refining Co.; El Nasr Petroleum Co.; Alexandria Petroleum Co.; The Egyptian Petrochemical Co.; Amerya Petroleum Refining Co.; Assuit Petroleum Refining Co.; Petroleum Cooperative Societies; Misr Petroleum Co.; Petroleum Gases Co.; Gulf of Suez Petroleum Co.; Petrozeit Co.; Offshore Shukeir Oil Co.; Western Desert Petroleum Co.; Belayim Petroleum Co.; Suez Oil Co.; Geisum Oil Co.; Agiba Petroleum Co.; Badr El Deen Petroleum Co.; El Amal Petroleum Co.; Sea Gull; The Arab Petroleum Pipelines Co.; The Egyptian Drilling Co. Petroleum Projects and Technical Consultations Co.; Egyptian Natural Gases Co.

Further Reading:

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