Egypt’s Oil & Gas Sector Overview

The 9th EU-Egypt Dialogue on Economic & Financial Affairs

Egyptian Ministry of Petroleum and Mineral Resources

Brussels, July, 2018
Ministry of Petroleum and Mineral Resources

OUTLINE

01 2017 ... A Year of Achievements

02 Modernization of Egypt’s Oil and Gas Sector

03 Subsidy reforms

04 Egypt ... An Energy Hub
Major Challenges
2011 - 2013

1. No New Upstream Agreements
2. Accumulation of IOCs arrears reaching $6.3 billion.
4. Natural Decline of Oil and Gas Production.
5. Gap between gas supply and demand.
6. Shortage of gas supply to Domestic Market
2017
A Year of Achievements
2017 ... A Year of Achievements

1. Reduction of IOCs arrears to one-fifth

2. 4 Major Gas Production Projects On-Stream in one year for the first time

3. Launching 2 Major Multi-Client Seismic Projects in the Red Sea and Upper Egypt

4. Issuing the New Gas Law ... A first Step to reform the gas market

5. Completion of 2 Projects Increasing LPG Storage and Transmission Capacity in Upper Egypt

6. Completion of a Major Terminal and Depot for Storage and Transportation of Petroleum Products in Badr City

7. Completion of the LNG Receiving Terminal at SUMED as a first phase

8. Reaching Amicable Solutions for Several Arbitration Cases
Reduction of IOCs arrears to one-fifth

International Oil Companies’ Arrears

Lowest arrears amount since 2009/2010
2017 ... A Year of Achievements

1. Reduction of IOCs arrears to one-fifth
2. 4 Major Gas Production Projects On-Stream in one year for the first time
3. Launching 2 Major Multi-Client Seismic Projects in the Red Sea and Upper Egypt
4. Issuing the New Gas Law ... A first Step to reform the gas market
5. Completion of 2 Projects Increasing LPG Storage and Transmission Capacity in Upper Egypt
6. Completion of a Major Terminal and Depot for Storage and Transportation of Petroleum Products in Badr City
7. Completion of the LNG Receiving Terminal at SUMED as a first phase
8. Reaching Amicable Solutions for Several Arbitration Cases
Modernization Of Egypt’s Oil and Gas Sector
OIL AND GAS MODERNIZATION PROJECT

- **Full transformative program** of Egypt’s oil and gas sector.
- **Covering the whole value chain.**
  1. Investment attraction
  2. Sector Restructure
  3. People Agenda
  4. Downstream Performance & Energy Efficiency
  5. Upstream Optimization
  6. Hub Strategy
  7. Data flow & Decision Support System
- **Agile organization structure**, changing our deeply rooted ways of working
- **Unlock** the full potential of the Oil & Gas sector.
- **Enhance** sector contribution to the Egyptian economy.

**CLEAR VISION FOR THE SECTOR WAS DEVELOPED**

To continuously unlock the sector’s full value chain potential as a growth and a sustainable development engine for Egypt
- Achieve financial sustainability.
- Become a leading regional Oil and Gas hub.
- Role model for the future of modernized Egypt.

Take into consideration sector core values:

- SAFETY
- INNOVATION
- ETHICS
- TRANSPARENCY
- EFFICIENCY
New Sector Structure
Design Principles & Constraints

1. Separation of regulatory, policy making and operational roles
2. Improved governance and role clarity
3. Focus on value creation through:
   - Increased efficiency of holding companies
   - Agile decision making and organizations
   - Efficient resource allocation and utilization
4. Eliminating duplication and overlaps and maximizing synergies
5. Balancing social and commercial objectives
6. Establishing clear work flows
7. Facilitating financial autonomy and accountability
8. Setting KPIs (Performance Contracts) for sector companies

Context & Constraints

- Current legal framework, particularly Law 20 (law governing EGPC)
- Existing Concession Agreements and relations with IOCs
- Financial ownership structure between State Owned Entities and affiliates.
- Requirement to incorporate single consolidated plan & financial statement for the sector into state budget
Ministry of Petroleum and Mineral Resources

3

Subsidy Reform
Developed a Comprehensive Energy Subsidy Reform Program

Gradually over 5 -6 years:

- Broaden Social Safety Net.
- Increase Expenditure on Public Services.
- Develop Related Sectors (Public Transportation, Railroad…)
- Adjust Fuel Prices
Fuel Subsidy Reform — Impact

**Start of Reform**
- July 2014

**Slow Down**
- 27 Months

**Aggressive Reform Plans**
- November 2016
  - 6 Months
- June 2017
  - 12 Months
- June 2018

**Subsidy to GDP ratio**
- 13/14: 5.9%
- 16/17: 3.3%
- 17/18: 2.7%
- 18/19: 1.7%

**Expenditure on Social Safety Nets**
- 13/14: 71 Billion LE
- 16/17: 106 Billion LE
- 17/18: 160 Billion LE
- 18/19: 182 Billion LE
FUEL SUBSIDY REFORM – Cost Vs. Price as of Today

Calculations are done at Brent price 75 USD/bbl

Cost Recovery %

- Gasoline 95: 92%
- Gasoline 92: 88%
- Gasoline 80: 83%
EGYPT.. AN ENERGY HUB
• **Strategic Location:**
  - In the middle of resource-rich countries & major energy consumers
  - Suez Canal as an international maritime trade route

• **Crude Oil & Petroleum Products Infrastructure:**
  - SUMED and **9500 km** oil & petroleum products pipelines
  - **8** refineries (current **38 million** TPA design capacity under expansion)
  - **19** petroleum terminals

• **Gas Infrastructure:**
  - **29** gas treatments facilities + ongoing projects
  - **2** world class LNG Facilities
  - **2** FSRUs

EGYPT'S ASSETS TO BECOME A REGIONAL ENERGY HUB
3 MAIN TRACKS TO SUPPORT EGYPT AS A REGIONAL ENERGY HUB

1- Domestically

- Gas market reform through the **New Gas Law** (August 2017) and its **Executive Regulations** (February 2018)
- Establishing an **Independent Gas Regulator** and holding first board meeting in February 2018
- Formation of **Intergovernmental Committee** for facilitating permits, debottlenecking challenges and ensuring alignment
- Modernization Program team working with an international consultant to develop a **hub strategy** and implementation plan

2- Politically

- Signing a **Strategic Partnership MOU** in energy with the EU in April 2018
- Cooperation with **Cyprus** with initial agreement signed & ongoing discussions on **Intergovernmental Agreement** for offshore gas pipeline from Aphrodite field to Egypt
- Cooperation with **Greece** in various fields of the oil and gas industry is being discussed with continued **ministerial level** coordination
- Continuing collaboration with **Jordan** to leverage existing gas receiving facilities at Egypt & Jordan for joint gas exchange to ensure supply and sustainability
- Cooperation with **Jordan & Iraq** through signing an **MOU** for utilizing Iraq Oil & gas reserves through Jordan

3- Technically & Commercially

- Infrastructure projects:
  - **SUMED Terminal** for petroleum products trading & storage at Ain Sokhna (phases 1&2 completed)
  - **Sonker Platform** to receive, store & trade petroleum products at Ain Sokhna
  - Expansion of **Hamra Port** at the Mediterranean and upgrade SBM and Farm tanks to receive larger tanks (1.0 MMBLL)
  - Upgrade of **Sidi Kerir Port** to receive and handle Gas Oil
- Ongoing negotiations with Partners in **East Mediterranean Gas Fields** for transporting the produced gas to liquefaction facilities in Egypt
- Transport of gas from **Israeli fields** to **LNG facilities** in Egypt by the private sector as a regional hub key step.
DELIVERING SIGNIFICANT BENEFITS TO THE ECONOMY

1. Reinforce Egypt’s leading role both regionally and globally
2. Secure sustainability of country’s energy supply and Attract More Investments
3. Optimal use of existing and new infrastructure
4. Bolster Regional Cooperation (Egypt, Israel, Cyprus, Jordan, Palestine, Lebanon ...) and act as Peace Maker