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REPORTER:	Mohamed Samir
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Aspirations, prospects, challenges for Egypt as oil, gas hub

In the wake of the ongoing renaissance of Egypt's oil and gas industry, which enjoyed a very successful year in 2017 after successfully adding around 1.6bn standard cubic feet per day of natural gas to Egypt's annual production, Egypt Petroleum Show 2018 (EGYPS 2018), North Africa's largest oil and gas industry platform, which will start on Monday, comes at a crucial time, and aims to bring together the region's key stakeholders shaping the energy industry's future as significant developments are witnessed in the energy sector in Egypt.

Minister of Petroleum Tarek El-Molla announced the ministry aims to highlight Egypt's success stories at the EGYPS 2018, which came as a result of hard work from both international oil companies and Egyptian companies.

To review Egypt's prospects of becoming a global anchor in the oil and gas industry and a regional energy hub, Daily News Egypt began special coverage to review the outlook of Egypt's energy sector.



Zohr reshapes future of gas exploration in Egypt

MAJOR COMPANIES WILL COMPETE TO EXPLORE FOR EGYPTIAN GAS IN MEDITERRANEAN

The Egyptian Natural Gas Holding Company (EGAS) plans to launch an international bid for gas exploration in land and sea areas before the end of the first half of this year.

According to Medhat Yousef, former vice president of the Egyptian General Petroleum Corporation (EGPC), the bids for exploration for oil and natural gas, which will be offered by EGPC during the coming period will see a turnout of international oil companies for participation, "after the discovery of Zohr, which encouraged companies to explore for Egyptian oil and gas," he said.

"There has been a change in the search and exploration for Egyptian gas," said Yousef, noting that in the past, international oil companies were applying for land exploration areas due to low exploration costs compared to marine areas.

The EGAS has already prepared a plan that includes offering bids for natural gas and shale gas exploration annually, especially in the Mediterranean Sea, which the company regards as a promising area in the field of extracting natural gas for Egypt.

According to the United States Geological Survey (USGS), the reserves of the Mediterranean Basin are estimated at 122tn cubic feet of natural gas and



Medhat Yousef

about 107tn barrels of crude oil.

Italian energy company Eni announced in 2015 a discovery in the Shorouk Mediterranean Concession Area in the Mediterranean, covering about 100 sqkm of the concession area.

Zohr gas field has up to 30tn cubic feet of gas reserves, with about 22tn cubic feet of recoverable natural gas. The project's investments reached about \$12bn and could increase to \$16bn over the entire lifetime of the project.

The EGAS is committed to offering more than 10 land and sea areas before

WITH THE ACHIEVEMENT OF GAS SELF-SUFFICIENCY AND THE EXISTENCE OF EXCESS GAS, WE WILL START TO EXPORT ABROAD

the end of the first half of this year for exploration. The company has obtained security approvals for the tenders and will include eight maritime zones and three land areas.

The global bidding for gas and crude oil comes within the framework of the Ministry of Petroleum's strategy to encourage and attract new investments from international companies to work in Egypt in this field with the final aim of adding new reserves and increasing hydrocarbon production and reserves to meet the needs of the local gas market.

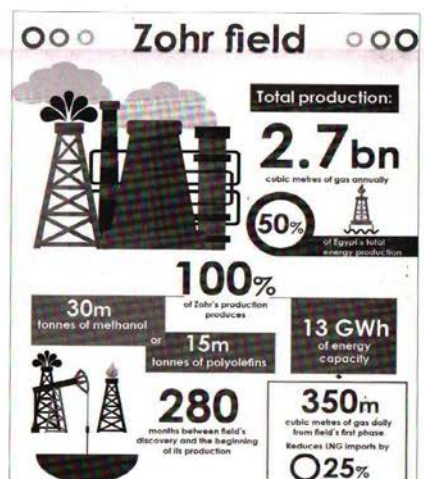
In March 2015, the EGAS launched a tender for natural gas exploration in 12 maritime zones. Four offers were accepted in four areas in the Mediterranean with a minimum total investment of \$306m. Offers were also accepted from BP and Eni in block 4 of North Ras El-Esh marine area, and the offer by the consortium of Eni, BP and Total for block 7 in North El-Hammad offshore area.

An offer was also accepted from Italian company Edison in block 12 north-east of Haby, as well as an offer from BP for block 14 in North Tabia marine area.

Minister of Petroleum and Mineral Resources Tarek El Molla said that his ministry succeeded last year in adding about 1.6bn cubic feet of natural gas to domestic production to reach 5.5bn cubic feet per day, with the increase coming from the fields of Norus, Atoll, and North Alexandria, as well as Eni's Zohr.

According to the minister, the domestic production of natural gas is directed entirely to consumption in the domestic market sectors of electricity and industry, "with the achievement of gas self-sufficiency and the existence of excess gas, we will start to export abroad."

Egypt's natural gas production in 2018 is expected to reach 6.3bn cubic feet per day, compared to only 6bn cubic feet per day in the second half of 2017.



Petroleum Ministry to pay more dues to foreign partners before end of FY 2017/2018

Egypt's Ministry of Petroleum and Mineral Resources' dues to international oil companies were reduced to \$2.3bn by the end of last fiscal year (FY) 2016/2017, following the implementation of the state's economic reform programme.

The ministry repaid about \$2.2bn to foreign oil companies last June, including exploration costs, reducing the total dues to \$2.3bn, the lowest level since 2013.

The Egyptian General Petroleum Corporation (EGPC) intends to pay a new part of its dues to foreign partners before the end of the current FY 2017/2018, benefiting from the next tranches of the World Bank and African Development Bank (AfDB)'s loans.

According to a senior source from the Ministry of Petroleum, the ministry has submitted a request to the government to pay a part of its dues to foreign partners before the end of the first half of this year.

"We await the government's approval to use a part of the next tranches of the AfDB and the World Bank's loans to Egypt, to finance the payment

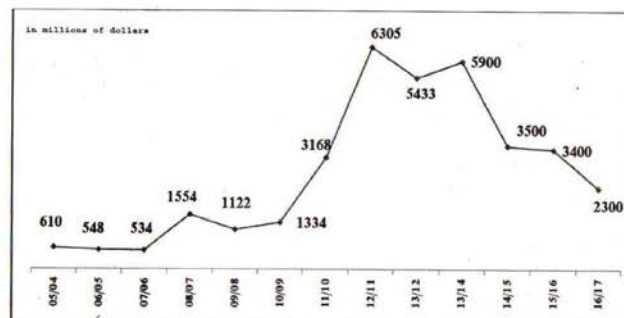
MINISTRY REPAID ABOUT \$2.2BN TO FOREIGN OIL COMPANIES LAST JUNE, INCLUDING EXPLORATION COSTS

of a part of the ministry's dues to foreign partners," the source said.

The AfDB has signed a loan of \$500m in December 2016 to finance the Egypt Economic Governance and Energy Support Programme Phase II. The loan is the second tranche of a three-year \$1.5bn programmatic series, covering FYs 2015/16 to 2017/18.

The World Bank also announced its approval to grant Egypt the final \$1bn tranche of a previously agreed \$3bn loan.

Egypt's dues to foreign oil compa-



Egypt reduced arrears owed to IOCs by 50% compared to 2011/2012

nies dropped by the end of last December to about \$3.5bn, compared to about \$3.4bn at the end of last September. According to the minister of petroleum, the EGPC paid in August 2015 the equivalent of about \$600m

of the ministry's dues to foreign partners in Egyptian pounds, bringing the total dues to about \$2.9bn compared to \$3.4bn at the end of last FY.

Egypt's crisis of dues to foreign partners started in FY 2004/2005,

reaching about \$610m after the purchase of one of the foreign partners' shares. However, it decreased in the following two fiscal years, recording \$534m in FY 2006/2007.

During FY 2007/2008, the dues in-

creased to about \$1.5bn, but declined again in the following year to \$1.1bn.

The dues owed to foreign partners recorded \$3.1bn in FY 2010/2011, before they increased in the following FY to \$4.3bn.

According to the source, the Ministry of Petroleum seeks to pay all dues to foreign companies to encourage them to inject more investments and increase their oil and gas production rates.

According to the International Monetary Fund (IMF)'s recent report, after completing its second review of the country's reform programme, the government is expected to pay \$1.2bn of its dues to foreign partners in the current fiscal year, while the IMF will reduce the next payment of these dues to \$800m instead of \$1.1bn. Hence, the Egyptian government will complete payment of all dues to foreign partners before the end of June 2019.

The Egyptian government is also expected to pay about \$400m to its foreign partners before the end of December, according to the fund's report, which exceeds the IMF's earlier expectations.

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Foreign partner investments to reach \$10bn in FY 2017/2018: El-Molla

THE MINISTRY PAYS ITS DUES TO FOREIGN PARTNERS REGULARLY

By Mohamed Samir

The Egyptian petroleum sector has witnessed the launch of a number of new large natural gas projects that will contribute to achieving self-sufficiency in natural gas supply, bringing Egypt once again among gas exporting countries after a several-year hiatus.

Daily News Egypt interviewed Minister of Petroleum and Mineral Resources Tarek El-Molla to learn about the ministry's next steps in the coming period, as well as the message that the ministry aims to send during the second round of the Egypt Petroleum Show 2018 (EGYPS 2018).

What is the message that the ministry aims to send during the second round of the EGYPS 2018?

"Holding the Egypt Petroleum Show 2018 (EGYPS 2018) for the second consecutive year represents an important occasion to bring together major oil and gas companies regionally and globally in a special forum to discuss the future of the petroleum industry in Egypt. EGYPS 2018 will offer its participants the chance to know about promising investment opportunities in the petroleum sector. We also consider this conference as part of Egypt's campaign to announce its development plans in the oil and gas sectors. Egypt seeks to make the most of its available natural resources to support its national economy."

What is the volume of investments of Egyptian government's foreign partners in the fiscal year (FY) 2017/2018?

Foreign investments in the oil and gas sector will reach about \$10bn during the current FY 2017/2018, an increase of \$2bn against last fiscal year, as many foreign companies seek to increase production from Mediterranean gas fields. Moreover, Egypt's investment climate has become more attractive for foreign companies as the government became fully committed to paying its dues to foreign companies regularly as well as reducing the accumulated payables from previous years.

Does the ministry intend to pay part of its dues to foreign partners before the end of the first half of this year?

"The ministry pays its payables for foreign partners regularly and we plan to continue reducing the accumulated dues to foreign companies as soon as possible. The ministry repaid about \$2.2bn to foreign oil companies last June, including exploration costs, reducing the total amounts due to \$2.3bn, the lowest level since 2013."

Will new bids be offered for oil or gas exploration by the Egyptian General Petroleum Corporation (EGPC), the Egyptian Natural Gas Holding Company (EGAS), or the Ganoub El Wadi Petroleum Holding Company this year?

The ministry intends to pose new international bids this year to search for oil and gas in Egypt's land and sea areas, especially the Mediterranean. A new international bid will be announced in the second half of FY 2017/2018 to search for natural gas and oil in the Eastern Mediterranean and the Nile Delta regions. We also aim to conduct a seismic survey in the western region of the Mediterranean in preparation for launching a global marketing campaign for this region.

The ministry is currently implementing geophysical data collection in the Red Sea Egyptian economic waters and southern Egypt in preparation to offer the first international bid for oil and gas exploration in this area.

The global bids for gas and oil exploration come within the framework of the Ministry of Petroleum's strategy to attract new investments in this field to increase foreign exchange reserves and petroleum production with the aim of meeting local market needs.

What is the current volume of Egypt's natural gas and crude oil production?

And what is the ministry's target production by the end of this year?

New natural gas discoveries in 2017 will increase the country's production to more than 6bn cubic feet of gas per day by the end of FY 2017/2018, while the current production level is about 5.5bn cubic feet per day. The average oil production currently reached about 650,000 barrels of crude oil and condensates per day, with plans to increase them to about 700,000 barrels per day.

When will Egypt become a regional energy hub?

Egypt has a clear potential to become a trading and exporting hub for natural gas and oil over the next few years through a clear strategy that benefits from Egypt's infrastructure and facilities for refining, storage, and trade. These facilities include the liquefaction factories



Minister of Petroleum Tarek El-Molla



WE INTEND TO LAUNCH NEW GLOBAL TENDERS FOR OIL AND GAS EXPLORATION THIS YEAR

in Idku and Damietta, as well as the storage and regasification unit in Ain Sokhna.

On the other hand, the issuing of the new law regulating the gas market, prepared by the Ministry of Petroleum, played a major role in attracting foreign investments to the gas sector. A committee was also formed by the cabinet, headed by me and involving a number of concerned ministries to follow this national project and provide the required support.

There are two liquefaction plants in Egypt: the first is located in Idku, and it is owned by the Egyptian Liquefied Natural Gas Company (Egyptian LNG). It has two liquefaction units. The other plant, owned by Union Fenosa, is in Damietta and has one liquefaction unit.

Egyptian LNG is the largest operator in the gas industry in the Mediterranean region and used to be among the 13th largest LNG exporters in the world before the sharp drop in gas supply to the units.

Will we stop importing LNG this year? And when will Egypt start exporting gas again?

Egypt is likely to achieve self-sufficiency by the end of this year after the gradual increase of production from the new fields, bridging the gap between production and domestic consumption. Hence, we will not be obliged to import LNG.

How would the ministry deal with the current floating storage and regasification units (FSRUs)?

We will maintain only one vessel to receive and regasify LNG. The system of providing energy supplies to the local market requires a strategy with ready alternatives to meet market needs continuously. We are aware of the importance of maintaining the required infrastructure to supply and receive natural gas in accordance with the gas market regulations issued by the state to allow the private sector to trade in natural gas using the infrastructure of the sector.

The EGAS has leased two liquefaction vessels in 2015. The first one, affiliated with Hoegh Gallant, arrived in Egypt in April 2015, while the second, BVI Singapore, arrived in Egypt in November. This FSRU is owned and operated by Norwegian BVI Gas.

When will Egypt start importing gas from Cyprus?

As you know, Egypt is in the process of becoming a regional hub for oil and gas trade. Our agreement with Cyprus on the transfer of gas to Egyptian liquefaction plants is one of the axes of this national project. We are still studying the transport of Cypriot natural gas to Egypt via pipelines, in the framework of the memorandum of understanding signed on the sidelines of the economic conference held between Egypt and Cyprus in this regard.

We produce 36,000 barrels of oil equivalent in Egypt: DEA AG

Deutsche Erdöl AG (DEA AG), a German oil exploration company operating in Egypt, plans to inject about \$500m over the next three years into the Egyptian market, said Maria Moraeus Hansen, chief executive officer of the company.

According to Hansen, the company owns about 17.5% of the West Delta fields run by the British oil company BP. "We have no intention now to increase the proportion of partnership in the West Delta fields, we and BP are happy in partnership for now," said Hansen.

According to the CEO of DEA, the company produces about 36,000 barrels of oil and gas per day in the Egyptian market. "We acquire about 5% of Egypt's total oil and gas," said Hansen, noting that natural gas captures about 75% of the company's production in Egypt.

"The company has received assurances from the Egyptian Ministry of Petroleum and Mineral Resources to end the dues of the oil companies accumulated by the end of 2019, especially with the recovery of the Egyptian economy," said Hansen.

She added that the Ministry of Petroleum succeeded during the past 12 months to pay large overdue payments owed to international oil companies.

According to Hansen, the company has information about Egypt's tenders for gas and oil exploration in the coming period but said, "we cannot resolve our participation in these auctions so far, but we are interested in prospecting for gas and

oil in northern Egypt in general," said Hansen.

"In the next two years, Egypt will begin exporting gas, reaching self-sufficiency in gas, especially since Egypt has the facilities that enable it to liquefy gas and export to many countries of the world, so

WE INTEND TO INVEST \$500M OVER THE NEXT THREE YEARS, SAYS DEA AG



Maria Moraeus Hansen, DEA AG CEO

we will wait to see what happens in the Egyptian market to determine whether we will start exporting gas produced from Egyptian fields," Hansen said.

According to Hansen, DEA AG is studying its participation in exporting Egyptian gas, as the Egyptian gas industry liberalises, but the company has not yet decided on its involvement.

The company is currently producing about 120,000 barrel equivalents per day of oil and natural gas around the world. With the merger with German company Wintershall, the company's production will rise to about 600,000 barrels per day, according to Hansen. She noted that the initial agreement for the merger between the two companies is expected to be signed in March, while the full merger will be completed by the end of this year.

According to Hansen, the company expects to increase production from the oil fields in the Gulf of Suez, as well as the development of the natural gas project in the Desouk region.

DEA AG has been operating in Egypt since 1974, producing about 650m barrels of crude oil from the Gulf of Suez through Suez Oil Company.

The company also works in the field of natural gas extraction in the Desouk region, which includes seven fields of natural gas which started production in 2013.

Suez Oil Company was established 30 years ago in partnership between the Egyptian General Petroleum Corporation and DEA AG. Suez Oil has oil and gas exploration fields in the Gulf of Suez and Desouk area in Kafr El Sheikh.

DEA AG and BP are involved in the production of natural gas in the West Delta project, where production began last May.

The deep-water concession of the Western Mediterranean is located in the West Delta marine area, which is about 40 kilometres from the coast of Egypt.

DEA AG has given BP a stake in the West Delta project in Egypt in order to better balance its asset portfolio. The deal includes the sale of part of DEA AG's share in the first phase of the project.

According to Hansen, the company has an interest in acquiring quotas in new oil and gas exploration concessions in Egypt. "In addition to getting quotas in concessions already in production, we are considering all options in the case of further real opportunities," said Hansen.