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# Oil sector urged to devise models for refining, petrochemicals schemes

By NESSMA BAYOUMI

The petroleum sector has been so far adopting a single model for the implementation of research and exploration for gas and crude projects since the signing of the first petroleum agreement in Egypt – production sharing – as the Egyptian government finds this model the best in terms of distribution and utilization of resources and ensuring the right of the state to its wealth.

Although the sector has been accustomed to this form in all bids for exploration and the signing of all research and utilization agreements, a large number of foreign oil companies are demanding a change in that model and using "service contracts" in existing agreements, or the "tax and royalty" model applied in several countries. They called on the oil sector to abandon the principle of production sharing in the forthcoming agreements, an idea that the Egyptian government refuses.

On the other hand, the petroleum sector has carried out very limited experiments when it comes to joint ventures between the private and public sector; these models have proved to be a success that calls for their repetition in the coming period.

Although the majority of expert and analyst views emphasize the need for the government to introduce new projects in the fields of refining and petrochemicals, with the use of BOT, BOOT and PPP systems, but other lesser views fear the application of these systems as being of limited use to the sector.

Yousri Hassan, regional director of the American EOS Petro and international oil expert, asserts that modern systems of partnership do not suite projects and deals of natural gas and crude research and exploration, considering the special nature of such activities.

Hassan said that other systems are available and applicable in regard to the current research and exploration projects, most notably "service contracts," explaining that it is far more useful for the government, represented in the Ministry of Petroleum, to sign service contracts after the expiration of the current and actually productive oil agreements.

He stated that this contract will enable the investor to extract the remaining quantities of crude for a rate for the extraction obtained from the government, which will have the full production at the end, ranging for example between 2 to 3 dollars a barrel.

He noted that the application of that model in regard to the extension of current petroleum agreements will include an increase in revenue for the state and a



**Sherif Ismail**

greater distribution of resources and its guaranteed utilization without waste or interruption of the work flow.

On the level of new petroleum agreements to be signed or bid on in the coming period, Hassan said that the most useful model to apply in that case, bringing biggest revenue and attracting more investments, is the tax and royalty model, in return for giving up on production sharing.

Hassan said the production sharing model, in his opinion, is wasting resources, as it guarantees the foreign partner a recovery of their expenses, which may cause them to maximize spending without thought, and he denied any connection between the partnership style and the pricing of goods, as the pricing of crude is subject to a global formula that takes in account the changes in the Brent crude, as for the prices of oil derivatives and natural gas, they are locally determined by the government and the Supreme Council of Energy and the modification or development of partnership models will not affect them.

As for refining and distribution projects, Hassan called for the introduction of new and developed partnership models like BOT, BOOT and PPP, noting that the increase in the role of the private sector in that type of projects guarantees an increase in supply and production in a way that helps the government in carrying out its plan to abandon exporting and liberalization of product prices.

On another note, Hamdi Al-Banbi, former Minister of Petroleum, called for an expansion in the introduction of refining and petrochemical projects with the developed partnership systems applied in many countries worldwide, notably PPP, BOT and BOOT.

Al-Banbi said the petroleum sector has carried out limited experiments and projects using these systems or in partnership with the private sector like the underway Mostorod refinery project, adding

that these types of projects need huge financing, and there is no alternative but the increase in the role of the private sector and opening the door for it to implement them, as long as the ownership belongs in the end to the government.

Al-Banbi denies that any systems suites the implementation of research and exploration projects other than "production sharing," explaining that that the petroleum wealth is a right for the people and cannot be dealt with outside a constitutional and lawful system that guarantees for the state it's right and the utilization of its resources.

He expects an increase in turnout for refining and petrochemical projects in case they were introduced with modern partnership systems, adding that these systems represent the best ways to attract new investments for these types of projects in a way that guarantees increased revenues and utilization of available resources.

On the other side, Engineer Medhat Youssef, petroleum consultant and former president of Moeco and Midor, feared the introduction of new projects with systems that might not have widespread use in the oil sector, adding that this does not negate the usefulness of increasing the role of the private sector in implementing new projects.

Youssef called on the government to introduce a stimulus package to investors to increase the role of the private sector in implementing new, planned projects, notably tariff and tax exemptions and modifying investment laws to adapt to global competition.

He said that partnership systems the implementation of petroleum projects will reflect on expected revenues from these projects, but it has no direct link to pricing policies, as pricing is subject to many factors and other internal and global variables.