



# EGYPTIAN REVIVAL

## Gas Discoveries To Transform Economy

BY KERRY DIMMER

**T**he discovery two years ago by Italian international oil company Eni of the 30 trillion-cubic-foot, super-giant natural gas field Zohr – the largest in the Mediterranean – along with BP’s West Nile Delta project, is expected to significantly change Egypt’s economy.

Together, the finds are likely to boost output by some 50 percent over the next decade, a welcome relief for a country that swung from an energy exporter to an importer during the late 2000s, a situation created largely by sociopolitical unrest that introduced two presidents in the same number of years.

Now stable, Egypt has introduced government reforms, and with increasing exports and decreasing imports by virtue of a new exchange rate, investor confidence is rising, which bodes well for the starved industrial and oil and gas players that have struggled to find their feet over the past five years. The revival also bodes well for project cargo-handling companies.

In some respects, it is as though the prodigal child has returned. Putting this into perspective are Wood Mackenzie’s Adam Pollard, senior upstream analyst, and Lucas Schmitt, senior gas and liquefied natural gas analyst, who discount media reports that Egypt has suddenly become popular as an oil and gas destination. “Egypt has a very well



The jackup offshore oil rig *ST Bahari I* lies in the shallow waters off the coast of Ain Sokhna, Egypt, in 2011, around the time when Egypt shifted from being an energy exporter to an importer.

Credit: Barry Iverson  
Photography/Barry Iverson/Newscom



« An oil and gas control building under construction in Egypt.

Credit: Shutterstock

established oil and gas sector, with one of the most diverse corporate landscapes in the world. BP and Eni have been operating in the country for over 50 years for example.”

### NOT FLYING SOLO

But it's not just BP and Eni's participation in the oil and gas sector that will transform the face of Egypt's economy however, there are other players with a history. Apache is one such. With a 21-year heritage of exploration, development and operations experience in the nation, Apache holds 4.8 million gross acres in 23 separate concessions. With 63 percent of that acreage undeveloped, plans in 2017 to operate eight to 10 drilling rigs, and to drill some 90 to 100 wells, opportunities appear to be bountiful. This substantiates Pollard and Schmitt's view that Egypt has become one of the top destinations for upstream development.

“The Egyptian investment of BP and Eni will make up 29 percent and 33 percent of their respective investments worldwide, which is a great shot in the arm for the country,” the analysts explained. “There will be an obvious impact on the local economy and employment, and we've already seen new investors coming in, with Rosneft

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– Tarek El Molla, Minister of Petroleum and Mineral Resources

taking a stake in Zohr.” A recent Rosneft deal will support 10 liquefied natural gas, or LNG, cargoes to Egypt this year.

“The new volumes of gas will help offset costlier imported LNG, and could ultimately lead to more gas exports — both of which will be a boost to the national budget.” However, the analysts added that in recent years, Egypt has struggled to pay its oil and gas producers, and they have built up several

billion dollars of receivables. Clearing those and paying for large volumes of new domestic gas will be a challenge.

Pollard and Schmitt point out, however, that the government has managed to reduce arrears owed to independent oil companies from US\$6 billion to US\$3.5 billion “so 2017 is set to be a turning point for the country.

“Reversing its fortunes, after five years of falling production and the switch from net exporter to importer in 2015, has been driven by stellar exploration results and higher gas prices. The Petroleum Ministry's pragmatic

approach to pricing has secured more than US\$28 billion in new gas field investments since 2015, at a time when investment in other regions has been slashed.”

### PRIVATE INVOLVEMENT URGED

In that regard, the ministry is keen to see much more private sector investment in oil and gas activities. In the Oxford Business Group's *The Report Egypt 2017*, Tarek El Molla, minister of Petroleum and Mineral Resources, emphasized the commitment to maximizing private sector participation in oil and gas activities in a more effective manner, “particularly in the petroleum industry, which has promising opportunities for fruitful partnerships with qualified private sector companies that have the technical and financial capability. In terms of the refining and petrochemicals industry, there are distinct models for a number of joint projects to fulfill the domestic market requirements and increase the value of the oil and gas sector.”

El Molla added that the Egyptian Refining Co. project was one of the most significant joint ventures with the private sector, and aimed to increase the amount of locally available petroleum products.

There are also significant opportunities for greater private sector participation and investment, particularly in the natural gas domain, he said. Under the country's new gas law, active participation by the private sector in the Egyptian gas market and in mineral resources projects is encouraged, while the new investment law, which is expected to be passed shortly, will add several incentives to encourage private investors by creating a healthy climate to develop their investments in the petroleum domain."

## PREPARING FOR THE FUTURE

Egypt is preparing to become an important energy center. "Our geographical location and natural resources are enormous assets, (but) these are not enough in themselves," El Molla said. "Egypt has excellent infrastructure from the Suez Canal to the LNG plants in Damietta and Port Said, the refineries on the Red Sea and north coast to the Suez-Mediterranean (Su-Med) pipeline. This makes us well positioned to not only produce our own energy, but to process supplies from other countries. So, the gas surplus in our system by 2020 will be used for two things: to satisfy local demand — electricity, industry and so forth — including an expansion of our petrochemicals industry.

"Second, it will go towards meeting our contractual obligations for export. Between four big gas developments — BP's West Nile Delta, Atoll, Zohr and Nooros — total production will amount to more than 5.5 billion cubic feet per day, representing more than US\$30 billion worth of investments."

For service providers, such as the logistics and supply chain players, this is good news. Many oil companies already have a presence in Egypt, given its long history. However the fast speed of growth is attracting new entrants to the country, such as Apex International, which picked up two blocks in last year's Egyptian General Petroleum Corp.'s bid round.

"Developing supply chain and local content is also present across other sectors and could gain further momentum in the future," Pollard and Schmitt added. "For example, Siemens signed a deal to

build a rotor blade factory for wind turbines components in Egypt back in 2015. New companies and strategic partnerships are always going to be welcome."

## CUTTING OUT EPCS

Eni CEO Claudio Descalzi has also reacted to the potential for transport suppliers. During the company's most recent strategy meeting, he highlighted the restructuring of Eni's supply chain and its contract strategy for supply chain management, both of which aims to reduce costs. Essentially, Eni is the main contractor and no longer outsourcing to an engineering, procurement and construction company. It is a system that is already working well in the organization's Angola Block 15/06 operation and now in Egypt. Descalzi said that it allowed Eni to have direct contact with its contractors and interface on all the different packages of supply chain delivery while motivating a huge amount of savings. Eni's needs in Egypt in terms of supply relies on drilling contractors to meet its commitment for production startup of the Zohr field by the end of 2017.

As the country seeks to elevate its status from being the fifth-largest oil producer in Africa, Egypt has on its plate a very significant advantage, as the Oxford Business Group pointed out. "In addition to being a major energy producer, Egypt serves as a transit platform for the global energy system thanks to two key pieces of infrastructure: the Suez Canal and the Suez-Mediterranean pipeline — the only alternative route in the region to move crude oil from the Indian Ocean to the Mediterranean Sea without going under Africa." About 9 percent of waterborne crude passed through either the canal or the pipeline in 2014. Egypt's energy infrastructure also includes about 7,000 kilometers of pipelines carrying oil, natural gas and fuels.

Such a crucial positioning coupled with increasing oil and gas activity means that Egypt will continue to be important to the project cargo industry and this, in turn, will solidify Egypt's status as a regional and continental influencer. **BB**

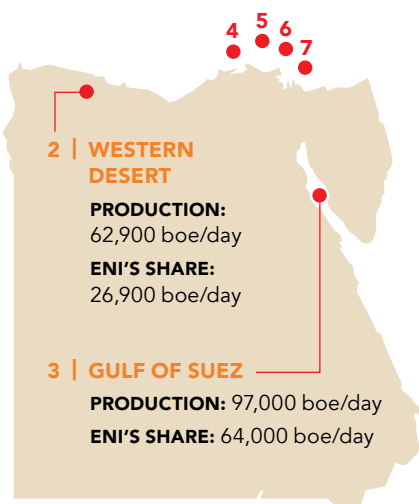
## ENI IN EGYPT

### 1 | ZOHR OIL FIELD

**850 BILLION CUBIC METERS** — potential gas resources

**5.5 BILLION BARRELS** of oil equivalent (boe)

**100 SQUARE KILOMETERS** — total extent of the Zohr field, the largest in the Mediterranean



### 2 | WESTERN DESERT

**PRODUCTION:** 62,900 boe/day

**ENI'S SHARE:** 26,900 boe/day

### 3 | GULF OF SUEZ

**PRODUCTION:** 97,000 boe/day

**ENI'S SHARE:** 64,000 boe/day

### 4 | BALTIM

**PRODUCTION:** 40,000 boe/day

**ENI'S SHARE:** 12,000 boe/day

### 5 | RAS EL BARR

**PRODUCTION:** 83,000 boe/day

**ENI'S SHARE:** 25,000 boe/day

### 6 | EL TEMSAH

**PRODUCTION:** 115,000 boe/day

**ENI'S SHARE:** 32,000 boe/day

### 7 | NILE DELTA NORTH PORT SAID

**PRODUCTION:** 25,000 boe/day

**ENI'S SHARE:** 18,000 boe/day

Source: ENI

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