THE CHANGING ENERGY LANDSCAPE IN THE EASTMED: CASE OF EGYPT

Dr Sohbet Karbuz

Nicosia, 21 November 2016

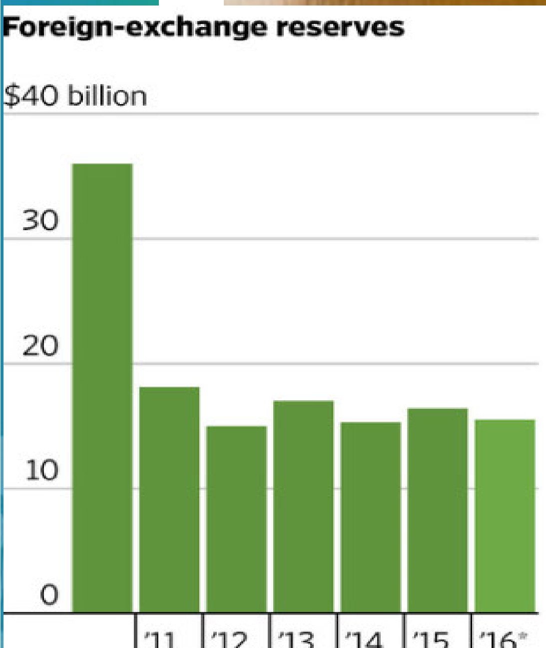
ome

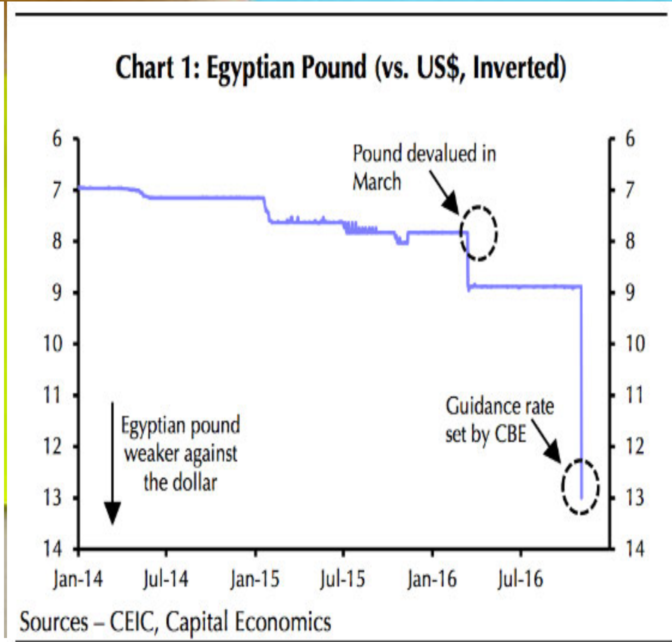
Observatoire Méditerranéen de l'Energie

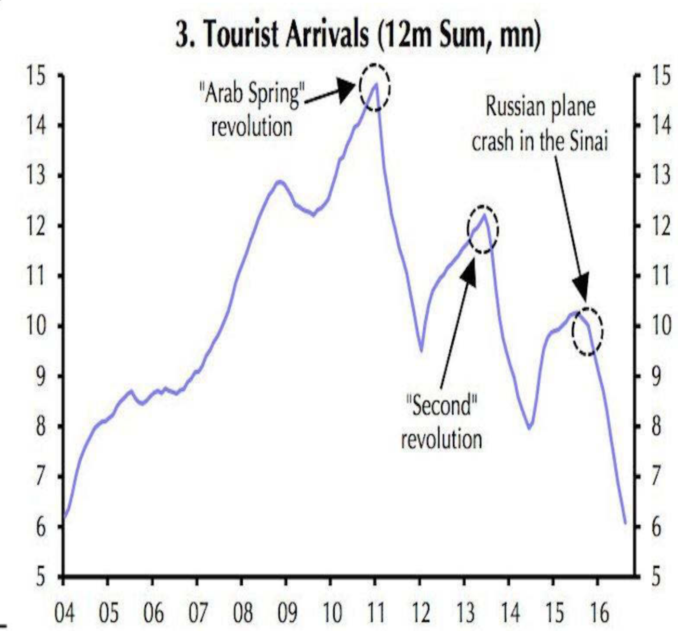
The Egyptian Economy

“between a rock and a hard place”

The Egyptian Economy
"between a rock and a hard place"

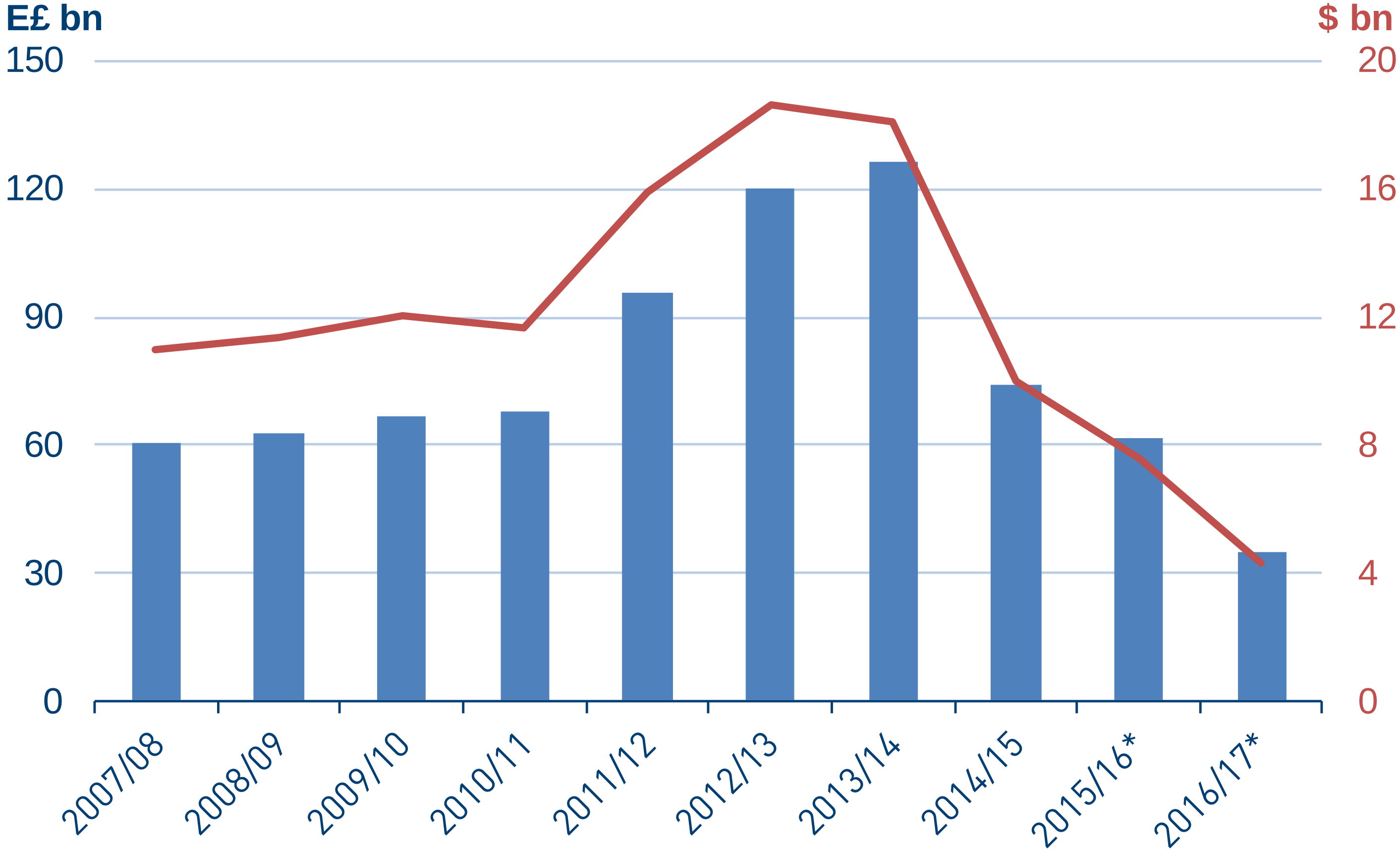






Fuel Subsidies: a painful economic burden

- Fuel and electricity prices were raised
- Even after the reforms, subsidies are 8.5% of GDP
- Phasing out of subsidies has become necessity



* Budget figures

Egypt's pressing energy challenges

- Primary energy mix dominated by gas (50%) & oil (45%)
- Egyptians plugging in more: meeting peak load challenge
- 75%+ of electricity is based on gas/
  power plants consume >50% of the gas supply
- Contribution of RES to energy/elec mix fairly limited
- Energy demand to more than double and
  electricity demand to multiply by a factor of 3
- Gas is/will remain the backbone of the powergen

Growing importance of gas

- Commercial gas production started in 1975
- Gas exports by pipeline in 2003, via LNG in 2004.
- Turned into LNG importer in 2015
- 2 FSRU (cap 13.4 bcm/yr)
- Launched the world’s biggest tender for LNG in October

- **The main culprit: Not being able to convert resources into production capacity**

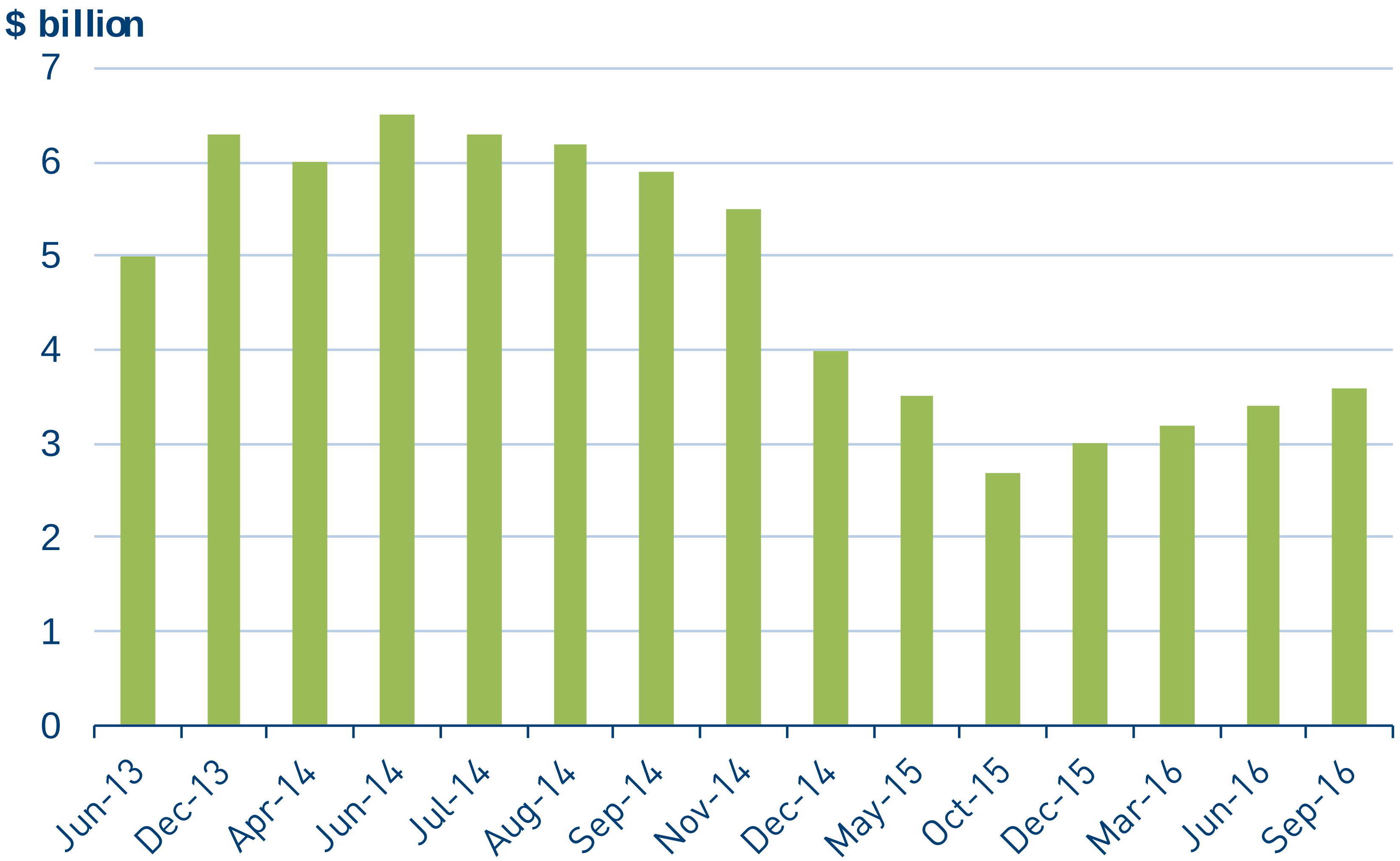
Investment climate in upstream sector

has worsened due to two main challenges

- **Payments to foreign partners**
- **Low gas prices paid to the foreign companies**

The government has been trying to address them for a long time, albeit not very successfully

Overdue payments to foreign companies



Reduction of the debt is a priority for Cairo

Several formulas are considered

Low gas prices paid to the foreign companies

- In 2013, EGAS increased the price threshold *in order to compensate for the high cost of drilling*
- Purchasing price of gas in new deals (production from new discoveries) = \$3.95 to \$5.88/MMBtu,
  instead of \$2.65/MMBtu
- The new prices negotiated on a case by case basis
- Modifications to existing agreements have also been made

Bright Prospects for Future Gas Production

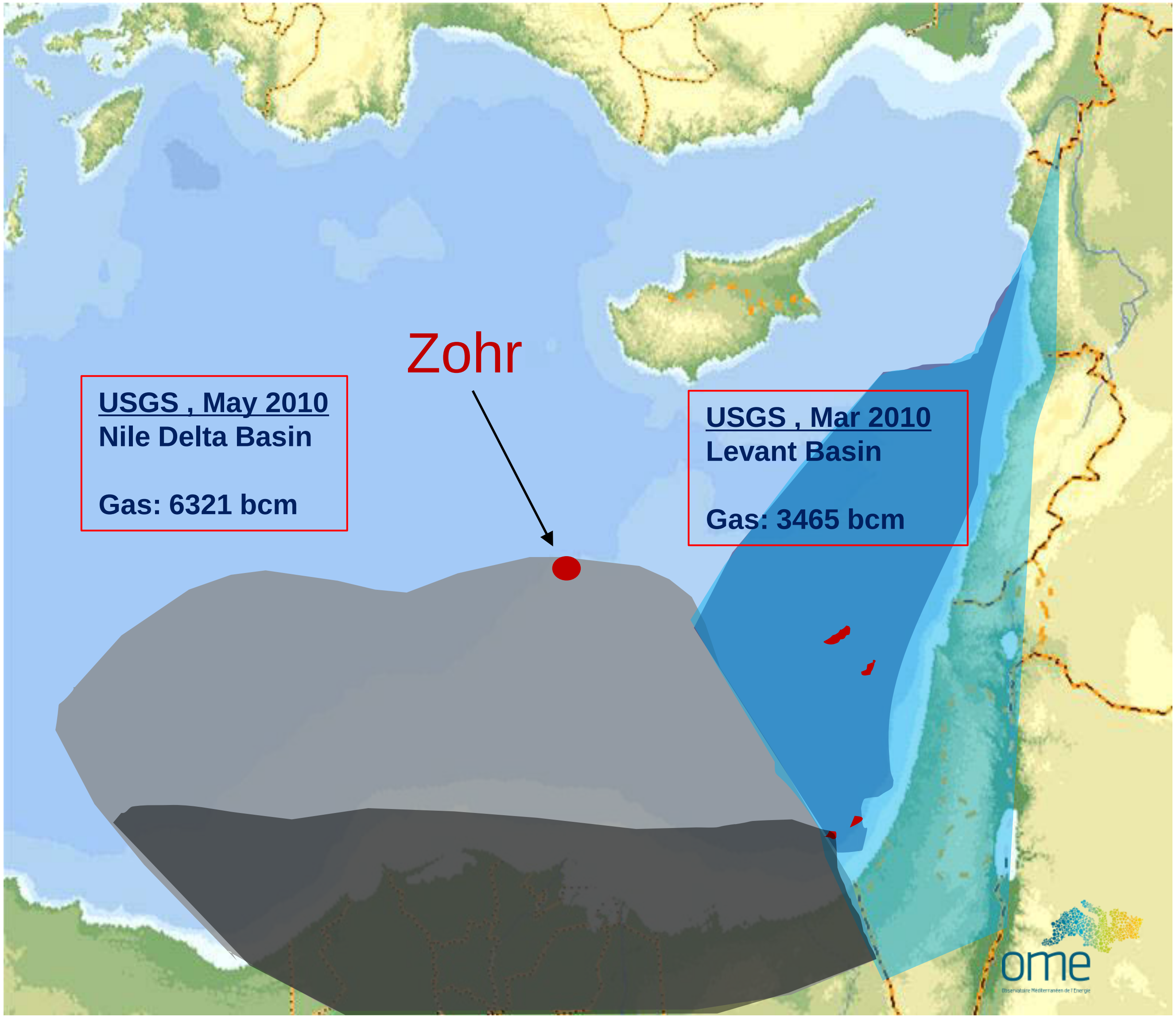
- **Numerous significant discoveries since Zohr:**
  Nooros in the Nile Delta (Eni),
  Salamat, Atoll, Baltim South in the East Nile Delta (BP)

- Over a dozen of ongoing field development projects

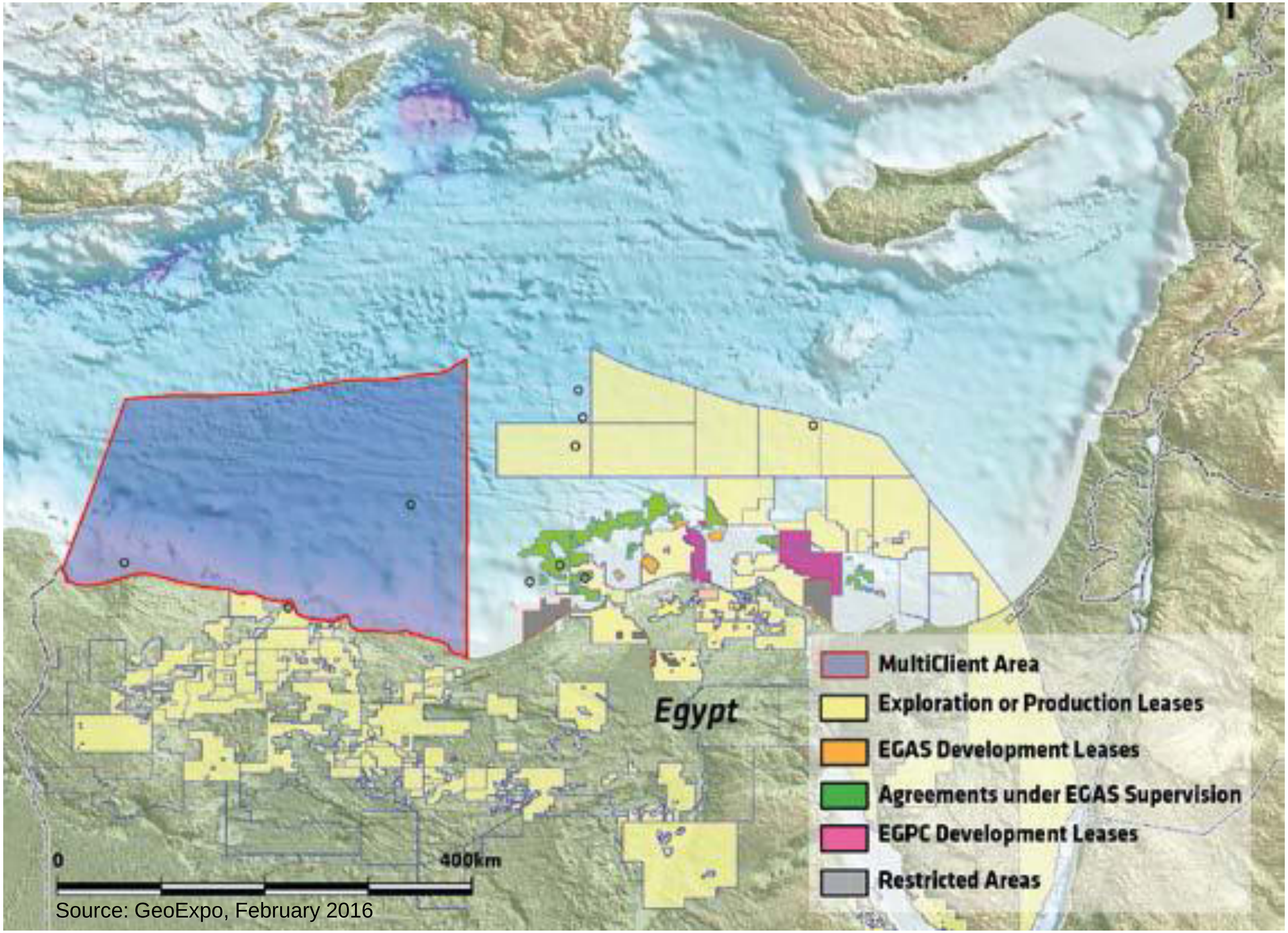
  - Zohr, WND, Atoll, Salamat and WDDM will add 62 bcm/yr to Egypt's gross gas output

- New bidding rounds

Undiscovered, technically recoverable resources

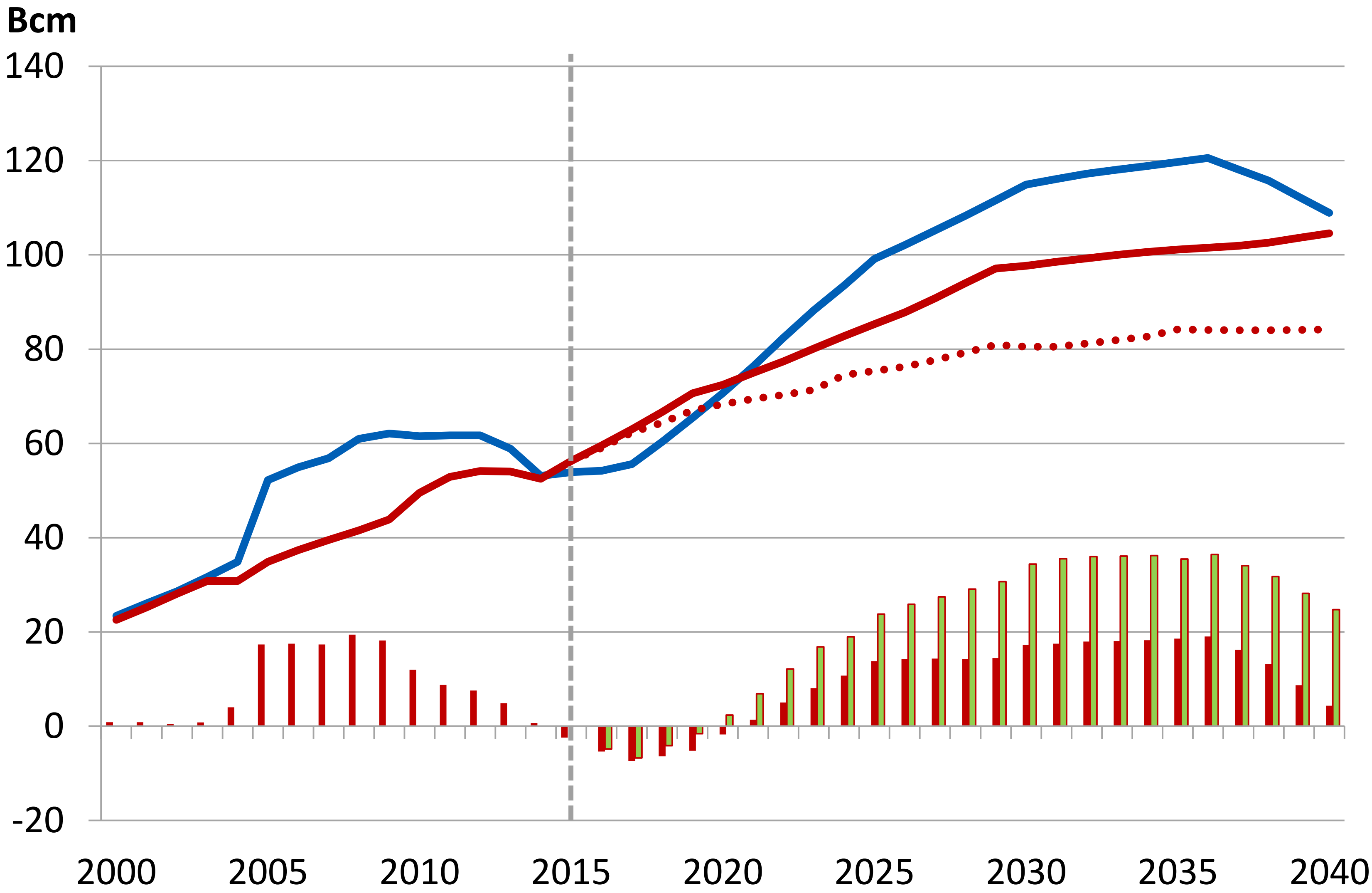


Exploration in the Western Med has been limited



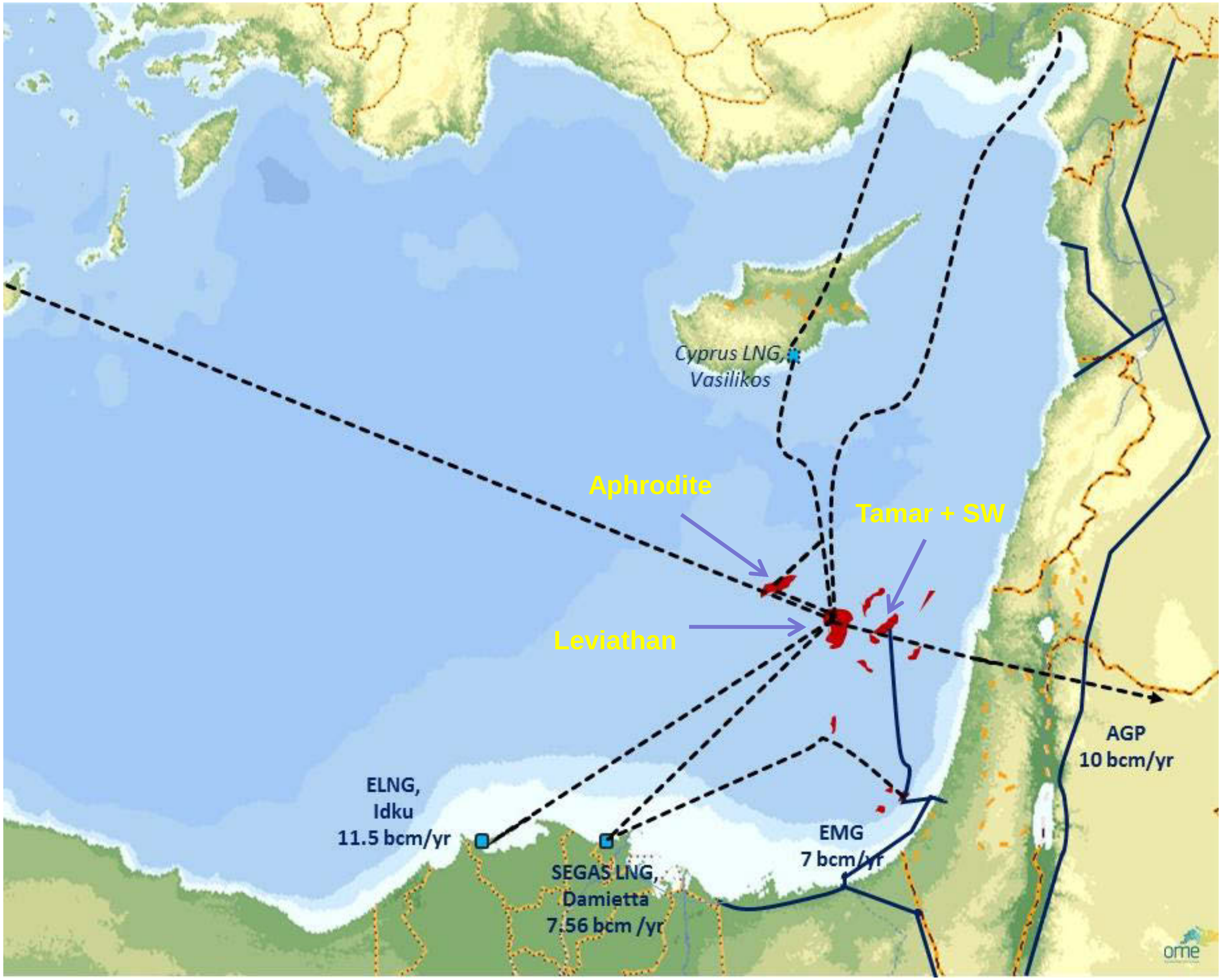
Source: GeoExpo, February 2016

Egypt – Gas Balance



Egypt will become a gas exporter sooner than expected

Eastmed gas export options



Concluding Remarks

- Recently, the gov has taken active steps to reverse deteriorating investors confidence
- But some other obstacles must also be overcome
- An integrated energy strategy and formulation of adequate demand management policies are a must
- Urgent need to diversify energy/powergen mix, to increase the efficiency in energy sector
- Bright future, provided that right policies are developed and implemented

Thank you.

ome

Observatoire Méditerranéen de l'Energie