

EGYPT OIL&GAS
RESEARCH & ANALYSIS

EMPOWERING JVs

A ROADMAP FOR

GROWTH IN EGYPT'S OIL & GAS SECTOR

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Table of
Contents

Overview	**06**
Analysis of Current Situation	**07**
JVs' Future in Egypt	**11**

Overview

BY JOLLY MONSEF & NERMEEN KAMAL

Partnerships are crucial for success in the oil and gas sector. Different types of partnerships exist, and each offers unique economic advantages. Joint ventures (JVs) are the most common business arrangement for oil and gas companies engaged in exploration, development, and production operations. Companies tend to form JVs to navigate the industry's complexity and remain competitive within the sector.

JVs play an essential role in mitigating risks and costs. Given that projects often involve inherent risks and substantial investments, JVs enable participating companies to share these burdens. Furthermore, JVs allow companies to leverage their unique strengths, such as technical expertise, valuable local market knowledge, or access to critical infrastructure.

JVs also offer a strategic pathway for companies to expand into new geographic markets or oil and gas sectors where they currently lack a presence.

Upstream oil and gas projects inherently involve significant geological, operational, and financial risks. JVs offer a valuable mechanism for mitigating these risks by distributing them among partners. Increased JVs activity would benefit the upstream sector, as these partnerships facilitate expansion and growth without incurring debt. Moreover, JVs members are typically not liable for each other's debts, adding another layer of financial security.

International collaboration is a cornerstone of Egypt's oil and gas sector. International companies investing in the sector are required to form JVs with the Egyptian government, represented by the Egyptian General Petroleum Corporation (EGPC). The EGPC participates in over 41 JVs with numerous prominent international oil companies (IOCs), according to the EGPC website.

Key Success Factors for JVs

Strategy

- Align JV's goals with its parent companies
- Agree on short-term goals for JVs

Governance

- Establish clear rules for joint governance
- Ensure effective communication between JVs & its parent companies

Economics

- Specify resource types & timing based on optimal role fit
- Establish shared risk & performance policies for JVs

Organization

- Agree on the reporting & management system to be used
- Develop a compelling case for continued career progression within the JVs

Exploring the Landscape of JVs in Egypt

JVs have significantly influenced the development of Egypt's oil and gas industry. Early collaborations with major IOCs facilitated access to underutilized reserves. These alliances also introduced cutting-edge drilling techniques. For instance, Badr El-Din Petroleum Co. (BAPETCO) pioneered the first use of 3D seismic surveys in the Western Desert, according to the Ministry of Petroleum and Mineral Resources (MoPMR).

JVs have played a key role in strengthening Egypt's position as a regional energy player by financing and executing major projects. These collaborations have helped reduce financial risk, expand domestic production, and attract substantial foreign direct investment (FDI). Its impact is evident in the renewal of aging fields and the discovery of new fields, such as the Zohr gas field.

In 1957, the first company to operate based on participation contracts in the Arab world was founded as Belayim Petroleum Co. (Petrobel). In 1965, the Gulf of Suez Petroleum Co. (GUPCO) was established as a public-private JV between the Egyptian entity the EGPC and bp (formerly Amoco), as a result, the largest and oldest oil discovery Marjan was achieved in the Gulf of Suez, and the first discovery of the natural gases, Abulghradeek Filed in 1975, according to the MoPMR.

Analysis of Current Situation

Egyptian Legal Framework of JVs

A robust legal framework and streamlined registration system are essential for attracting foreign investment. A clear and predictable legal environment minimizes uncertainty and reduces the perceived risk associated with investing in a new market.

Since 1973, Egypt has operated under the production sharing agreements (PSAs), a unique legal framework, for all oil and gas exploration and production. This legal framework provides investors with confidence that their investments are secure. By signing PSAs between the government and IOCs to create a JVs, it can perform development operations on behalf of the EGPC and the contractor, according to the MoPMR.

This approach allows the EGPC to protect its interests while simultaneously encouraging foreign investment, ultimately maximizing economic returns for both the EGPC and its contractors. Nearly 100% of upstream projects in Egypt are managed through JVs, according to the African Energy Chamber.

Key Players & Projects

Egypt's oil and gas sector has relied on JVs to boost exploration and production (E&P). EGPC launched 50:50 JVs with IOCs in the 1960s, partnering with IEOC, Amoco, and Phillips. Major discoveries followed (1965–1980), including the Morgan, July, and Ramadan fields in the Gulf of Suez, according to Wood Mackenzie.

Over 50 IOCs and independent firms actively participate in JVs, playing a significant role in shaping the country's energy landscape. The IOCs typically fund initial project costs before a commercial discovery, after which production is allocated between the state and the IOCs. With defined time frames and clear operational objectives, JVs remain the most practical and effective model for driving investment, optimizing production, and ensuring the sector's long-term sustainability.

For instance, bp and ADNOC's JV, Arcius Energy, focuses on natural gas exploration in the Mediterranean Sea and East Nile Delta, leveraging key development and exploration concessions, including the Zohr field, and the Atoll field to boost domestic production and expand liquified natural gas (LNG) output. Arcius Energy had an interest of 10% in the Zohr field, working with the operator, Petrobel on behalf of PetroSherouk on the field development, according to Egypt Upstream Getaway (EUG).

In the Western Desert, Apache, through its JVs, Khalda Petroleum Co. and Qarun Petroleum Co., has become the leading operator and the most active driller in Egypt. Additionally, Eni, through its subsidiary IEOC, operates across 21 concessions in the region, according to EUG.

Similarly, Eni's JVs with EGPC, including Agiba Petroleum, which specializes in crude oil and natural gas exploration in the Western Desert, and Petrobel, responsible for the Belayim gas fields, showcase how IOCs deploy advanced technologies to maximize production from mature fields.

In the Gulf of Suez, Petrobel manages the Belayim fields along the eastern shore. The largest assets, Belayim Land and Belayim Marine, were discovered in 1955 and 1961, respectively. These fields have been pivotal to Egyptian oil production since the 1970s, serving as key contributors to the Gulf of Suez's output. In addition to the GUPCO Merged Area, which comprises numerous offshore concessions as the Morgan field, the first and the largest to date, was discovered in 1965, according to Wood Mackenzie.



JVs Contribution to Egypt's Production

JVs play a crucial role in Egypt's hydrocarbon production, significantly contributing to the country's output. Continued discoveries and technological advancements further bolster the sector's resilience and long-term growth.

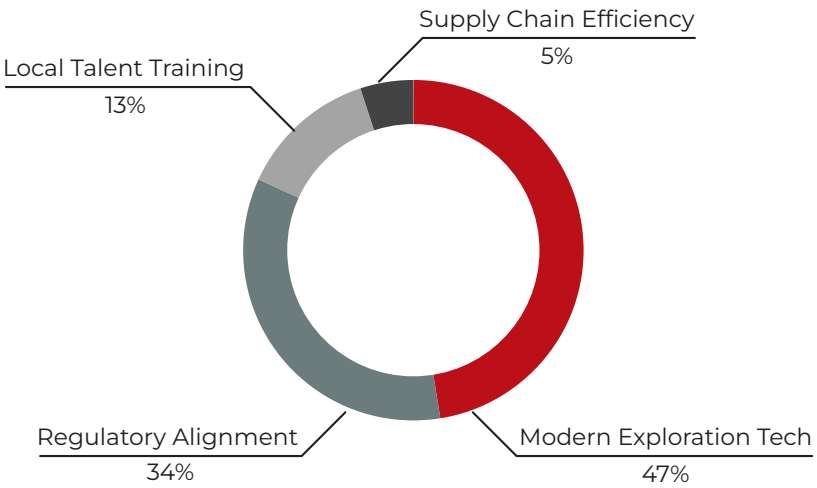
For instance, in JV with Pharaonic Petroleum Company (PhPC) and Petrobel (IEOC JV) in the East Nile Delta, as well as through its operated West Nile Delta (WND) gas development, bp and its partners collectively produce around 70% of Egypt's natural gas, highlighting the critical role of JVs in sustaining output amid declining mature fields.

During the fiscal year (FY) 2023/24, Khalda Petroleum Co. recorded an average production exceeding 220,000 barrels of oil equivalent per day (boe/d) from its fields in the Western Desert. Burullus Gas and Rashid Petroleum Co. reported an average natural gas production of 222 million cubic feet per day (mmcf/d), along with approximately 4,000 barrels of condensates per day (bbl/d). Additionally, PhPC achieved an average production of 79,000 boe/d.

BAPETCO contributed around 1.5 million barrels (mmbbl) of crude oil during the FY while increasing crude oil and natural gas reserves by approximately 2 million barrels of oil equivalent (mmboe), bringing total remaining recoverable reserves to 15 mmbbl of crude oil. Meanwhile, BAPETCO has long-standing operations in the Western Desert, contributing to Egypt's oil and gas output for four decades, with a total production of 1.3 billion barrels of oil equivalent, maintaining a current reserve of 44 mmboe.

The below pie chart shows respondents' opinions regarding the contributions of JVs to boosting oil and gas production in Egypt.

How can JVs contribute more to increasing oil and gas production in Egypt?

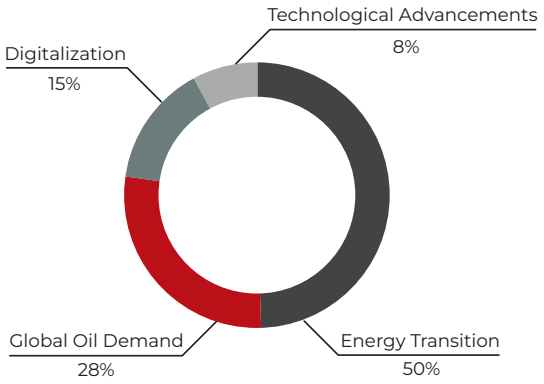


Key Factors Influencing JVs Performance

JVs operating in the sector are increasingly influenced by global energy trends, aligning their strategies with international standards and market dynamics. Driven by the industry's shift toward energy transition, sustainability, efficiency, and digitalization, these companies are integrating advanced technologies, optimizing production processes, and enhancing their environmental performance in line with global best practices.

The below pie chart shows respondents' opinions regarding the global trends that will affect the JVs' activities in Egypt's oil and gas industry.

Which global trend is likely to have the greatest impact on Egyptian JVs?



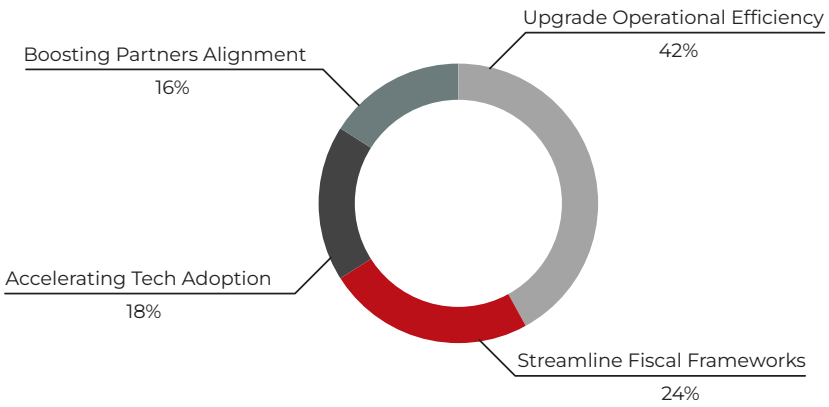
JVs' profitability hinges on key factors that drive operational success and financial returns. Operational efficiency is crucial, as optimizing production and cutting costs boosts output while minimizing expenses.

Moreover, embracing technology, strong partner alignment and adaptable business models are also essential for JVs success.

Strong partner alignment facilitates smooth decision-making, while strategic planning and adaptable business models help JVs navigate market shifts and sustain returns.

The below pie chart shows respondents' opinions regarding the factors that can improve JVs' profitability in Egypt.

Which reform would improve the profitability of JVs in Egypt the most?



JVs' Future in Egypt

Egyptian Legal Framework of JVs

To maximize the success of JVs in Egypt, the government plays an essential role. Securing fiscal incentives, stable policies, and robust infrastructure support can significantly enhance JVs profitability.

Ensuring all JVs partners have a shared understanding of core objectives, timelines, and exit strategies is fundamental for long-term success.

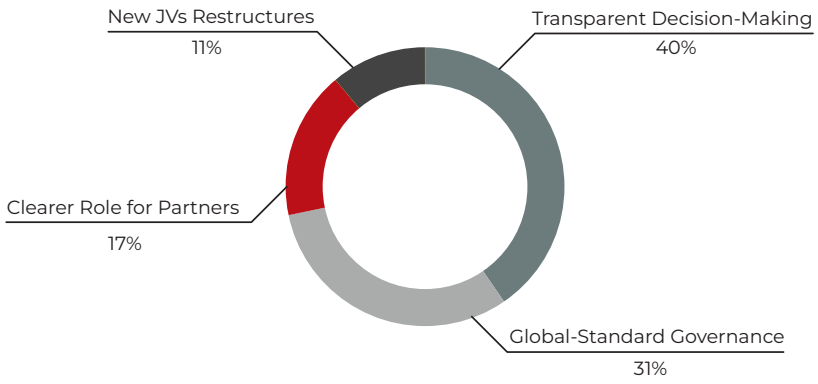
Further, embedding clauses for knowledge sharing, workforce training, and local supplier development strengthens National Oil Companies (NOCs) capabilities and ensures regulatory compliance.

Clear decision-making hierarchies, financial accountability measures, and dispute resolution protocols should be established. Regular audits and transparent communication are vital in preventing conflicts and fostering trust among partners.

By implementing these strategies, JVs in the Egyptian oil and gas sector can achieve sustained growth, resilience, and long-term profitability.

The below pie chart shows respondents' opinions regarding factors that will affect the future of JVs in the oil and gas industry in Egypt and the best management methods for a better future.

What key factors drive effective JVs management in Egypt's oil and gas sector?



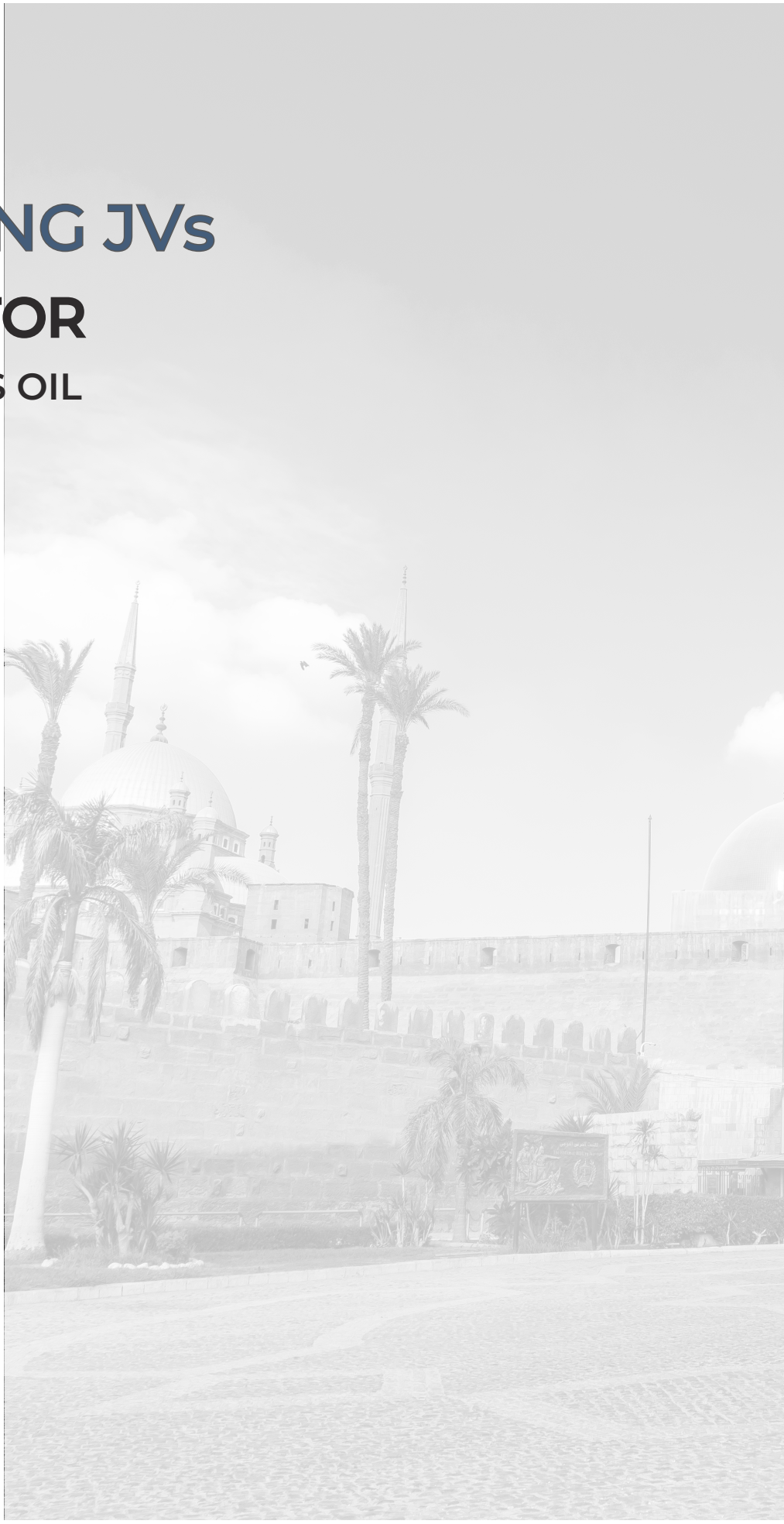
Egypt's oil and gas sector is one of the most dynamic sectors in its economy. JVs are a key success factor and driver of growth. To maintain its competitive edge, JVs must align with global sustainability trends. This requires prioritizing innovation and leveraging advanced technologies to optimize production, unlock new reserves, and ensure operational resilience amid market volatility.

Egypt is focused on strengthening partnerships between the government, significant IOCs, and domestic investors, recognizing the strong impact these partnerships have on the wider economy. The sector put efforts into developing newly discovered wells and integrating them into the production plan. By fostering adaptive partnerships that integrate environmental accountability, operational agility, and inclusive growth, JVs can navigate geopolitical shifts and drive sustainable development, securing Egypt's energy ambitions in a rapidly evolving global landscape.

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