# PETROLEUM INVESTMENTS

## PUMPED BY DIFFERENT SECTORS IN **EGYPT** OVER THE PAST FIVE YEARS

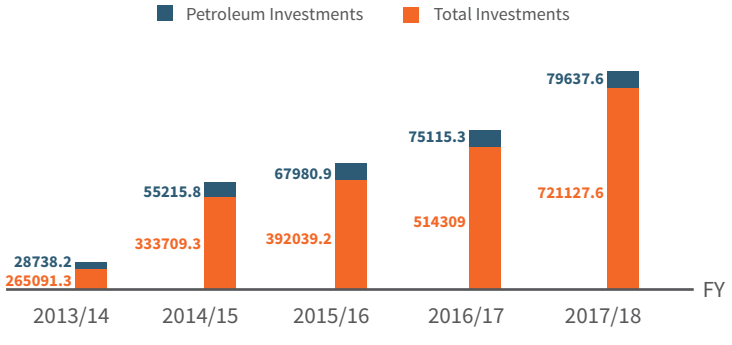
BY **AMINA HUSSEIN, REHAM GAMAL, TASNEEM MADI**

The Egyptian Petroleum Sector overcame some challenges following the 2011 revolution. For instance, it has witnessed slowdown of both domestic and foreign investments. With this regard, the government has taken on several actions; for instance, it has implemented a reform program of its subsidy system, undertaken licensed exploration activities in newly discovered fields, in addition to renewing its efforts to gradually pay off its outstanding debt. Accordingly, the petroleum sector has developed to attract investments that would support the exploration and exploitation of these new sources.

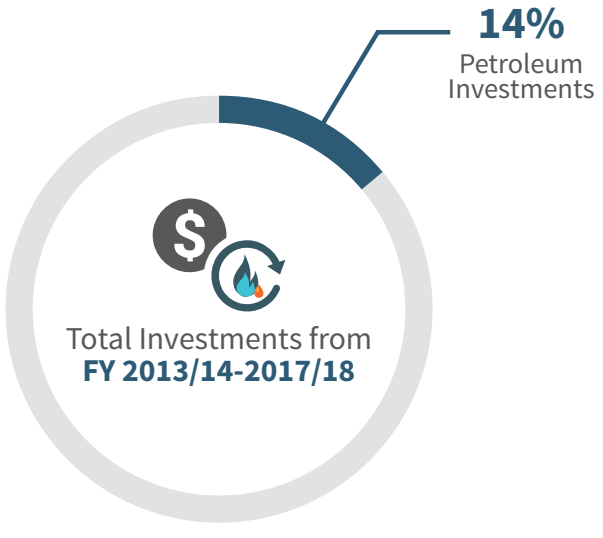
Over the period from fiscal year (FY) 2013/14 to FY 2017/18, the industry witnessed a steady increase, with FY 2017/18 seeing the highest investment value in the past five years, amounting to EGP 79.68 million, a 26% increase.

Total investment recorded during the period reached EGP 306.68 million, representing 14% of Egypt's total investment influx.

**The Petroleum Investment Shares in Total Investments from FY 2013/14-2017/18 (EGP million)**



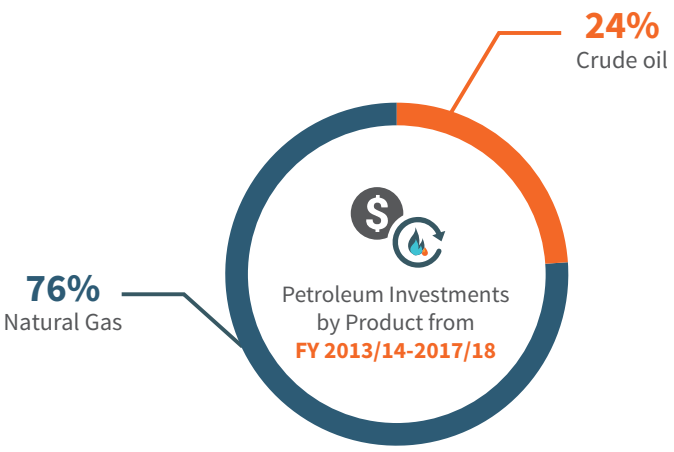

Over the comparison period, natural gas investments represented the lion's share of investments, around 76%, with investments in crude oil contributing the remaining percentage, as per the Central Bank of Egypt (CBE).




### TOTAL CRUDE OIL INVESTMENTS

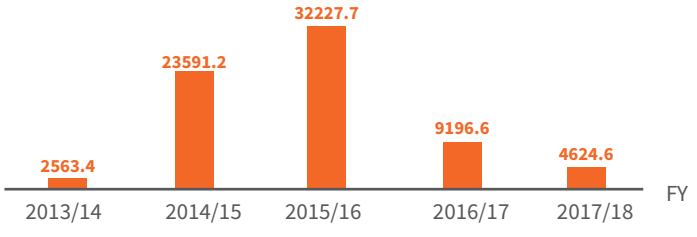
In Egypt, Crude oil has seen a wave of investments in the upstream and the downstream industries as it has undertaken more discoveries and projects. The private sector's investments in crude oil witnessed an increasing trend during the past five FYs.

During the comparison period, FY 2013/14 saw the lowest investments pumped in crude oil, at around EGP 2,563.4 million. On the other hand, investments peaked in FY 2015/16 recording EGP 32,227.7million. Since FY 2015/16, crude oil investment has remarked a decline reaching EGP 4624.6 million in FY 2017/18, according to the CBE.




It is worth mentioning that the number of discoveries and production level highly contribute to the investment level. Over the period from FY 2013/14 to 2015/16, about 99 crude oil discoveries took place in Egypt, according to Central Agency for Public Mobilization and Statistics (CAPMAS). Hence, crude oil production reached 219 million barrel (mb) in FY 2015/16, correspondingly, investment levels peaked as well, according to CAPMAS and the CBE.

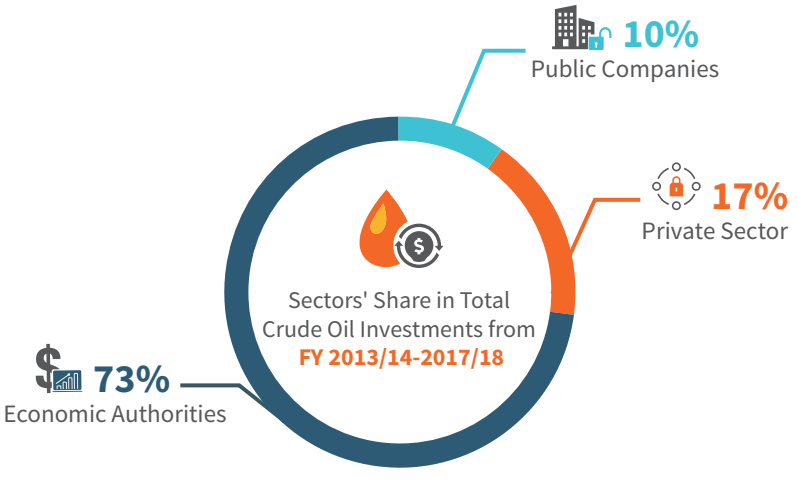
**Total Crude Oil Investments from FY 2013/14-2017/18 (EGP million)**




## CRUDE OIL INVESTMENTS BY SECTOR

Investments in the Egyptian petroleum industry are mainly implemented by four sectors, namely; government sector, economic authorities, public companies, and private sector. Over the period from FY 2013/14 to 2017/18, economic authorities possessed the highest investment share of about 73%, recording EGP 10,510.74 million, on average. The private sector comes in the second place; with an average share of 17% and an estimated investment value of EGP 2,497.6million. Public companies follow with a 10% share, recording EGP 1,419.26 million, on average, according to the CBE.

It is worth noting that the government sector did not invest in the crude oil over the period from FY 2013/14 to FY 2016/17. Yet, it contributed in crude investment in FY 2017/18 by EGP 65.5 million. This investment amount represents 1.4% of the total crude oil investment in FY 2017/18, as per the CBE's figures.

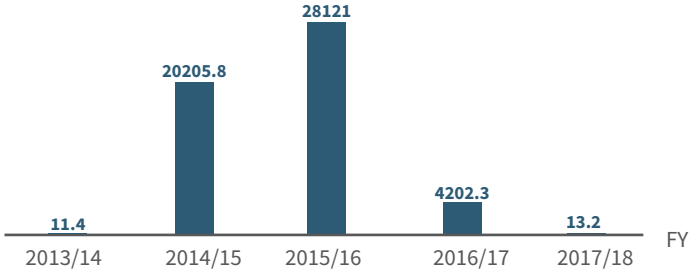



## 1. ECONOMIC AUTHORITIES

Economic authorities in this context refer to local authorities that assist in economic development, setting the country's economic structure, and responsible for the economy as a whole.They have their own independent budgets. There are51 public economic bodies in Egypt in FY 2018/19, including five public bodies belonging to the industrial, mineral wealth, and petroleum sectors, according to the Cabinet.

It is worth mentioning that the Egyptian General Petroleum Corporation (EGPC) and Suez Canal Authority are both considered as economic authorities, contributing effectively in the country's economy and work as a source of income for the economy.

**Crude Oil Investments by Economic Authorities from FY 2013/14-2017/18 (EGP million)**




Economic Authorities could be generally considered as an active participant in crude oil investment along the five years. Their investments in crude oil have been increasing from FY 2013/14 to FY 2015/16. However, they decreased in FY 2016/17, reaching EGP 4202.3 million followed by a further significant decline in FY 2017/18, recording only EGP 13.2 million, according to the CBE.

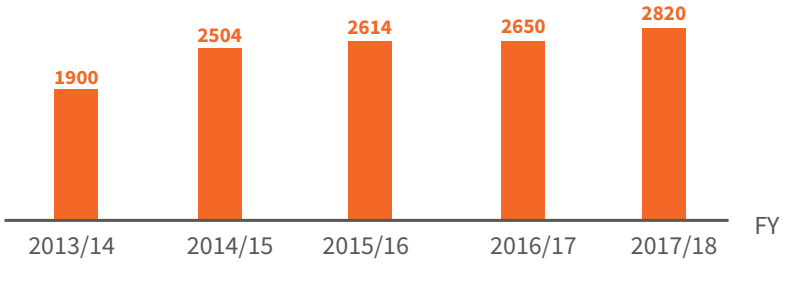
Furthermore, these authorities intensively contributed in crude oil investment in FY 2014/15 and FY 2015/16 with EGP 20,205.8 million and EGP 28,121 million, respectively. Hence, FY 2015/16 represented the highest year of crude oil investment by economic authorities by 54%, explained by the CBE.

On the other hand, FY 2013/14 witnessed the lowest crude oil investment, by EGP 11.4 million, representing only 0.02% of the total investments implemented by the economic authorities of the years, according to the CBE.

## 2. PRIVATE SECTOR

Crude oil investment by the private sector is showing an increasing trend over the comparison period. Investment has been increasing since FY 2013/14 which saw EGP 1,900 million in investments, reaching EGP 2,820 million in FY 2017/18. Accordingly, FY 2013/14 represented the least year of crude oil investment by the private sector, representing 15% of the total crude oil investment by the sector. FY 2017/18 witnessed the highest amount invested over all previous years, at a cost of EGP 2,820 million, representing 23%, according to the CBE.

**Crude Oil Investments by Private Sector from FY 2013/14-2017/18 (EGP million)**

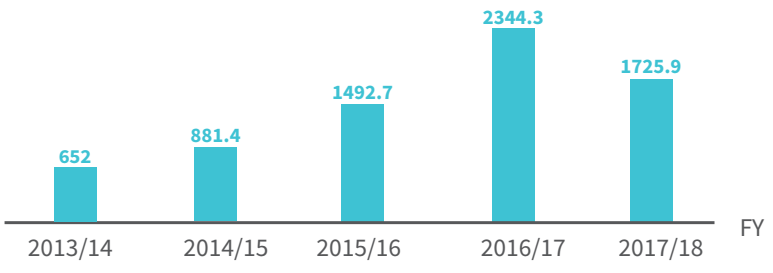


### 3. PUBLIC COMPANIES

Crude oil investment by the public sector is showing an increasing trend over the years as well. However, it declined in FY 2017/18 reaching EGP 1,725.9 million, down from EGP 2,344.3 million in FY 2016/17, stated by the CBE.

Investment in crude oil by public companies reached its peak in FY 2016/17, representing 33% of the investment implemented by public companies over the past 5 FYs. On the other hand, the investment in FY 2013/14 was considered the least, where the public companies contributed by only EGP 652 million in these investments, representing only 9% of its investments in crude oil, explained by the CBE.

**Crude Oil Investments by Public Companies from FY 2013/14-2017/18 (EGP million)**



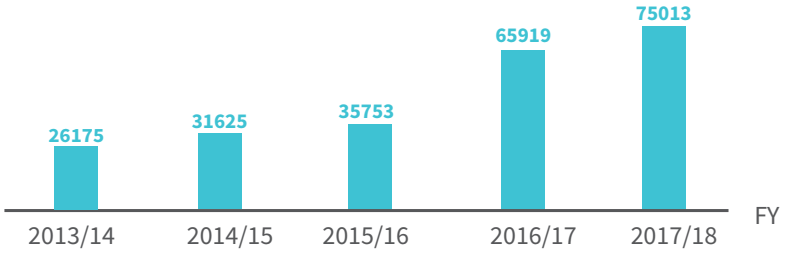

### NATURAL GAS INVESTMENTS BY SECTOR

The CBE's published figures show that, over the comparison period, the investments in natural gas activities totaled EGP 234,484.3 million. The annual investments in natural gas activities witnessed fluctuating trend, however remained positive. The investment level steadily increased, over the referred five years, from EGP 26175 million in FY 2013/14 to EGP 75,013 million in FY 2017/18, according to the CBE.

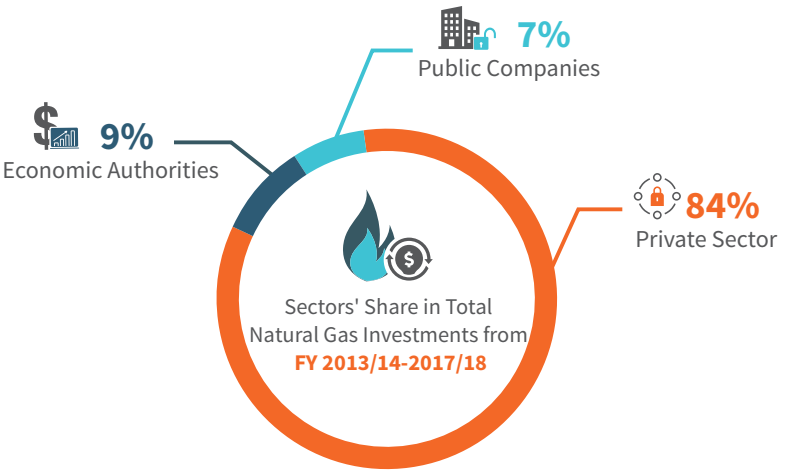
The natural gas investments recorded an annual increase of 84%, the highest growth rate, between FY 2015/16- FY 2016/17, when the amount invested increased from EGP 35,753 million to EGP 65,919 million. This remarkable increase in investments was due to signing four development agreements to produce natural gas in the Mediterranean Sea, stated by the CBE.

According to The Egyptian Natural Gas Holding Company (EGAS), the four leases were signed with a total signature bonus of $10.5 million (EGP 156.3 million) and a total financial commitment of $306.15 million (EGP 4.56 billion) for the drilling of eight exploratory wells. Moreover, five assignments of the concession agreements were approved with a total bonus of $ 48.8 million (EGP 726.4 million).

**Total Natural Gas Investment from FY 2013/14-2017/18 (EGP million)**




The private sector is the main player in natural gas activities acquiring 84% of the total natural gas implemented from FY 2013/14 to2017/18, followed by economic authorities with 9% and public companies with 7% of the total implemented investments, explained by the CBE.

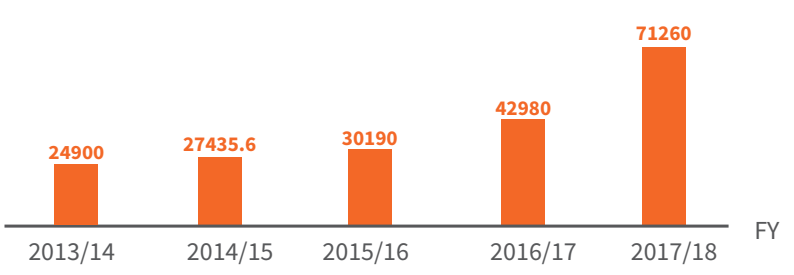



### 1. PRIVATE SECTOR

The private sector invested a total of EGP 196,765.6 million over the five referred years. Contrary to the other two sectors, the private sector's investments witnessed a continuous increasing trend. The amount invested by private sector increased from EGP 24,900 million in FY 2013/14 to EGP 71,260 million in FY 2017/18 indicating a growth rate of 186%, according to the CBE.

Over the period from FY 2016/17 to 2017/18, the private sector's investments achieved the highest level of growth with 65.8%. In their annual report in FY 2017/18, EGAS stated that two assignments of the concession agreements were approved with a total bonus of $208.3 million (EGP 3.71 billion).

**Natural Gas Investments by Private Sector from FY 2013/14-2017/18 (EGP million)**

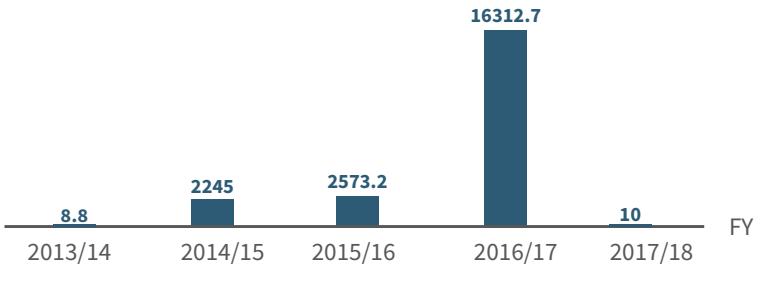



### 2. ECONOMIC AUTHORITIES

The total natural gas investments held by the economic authorities over the comparison period reached EGP 21,149.7 million. The amount invested by the economic authorities witnessed a significant increase from EGP 8.8 million in FY 2013/14 to EGP 2,245 million in the following year, explained by the CBE.

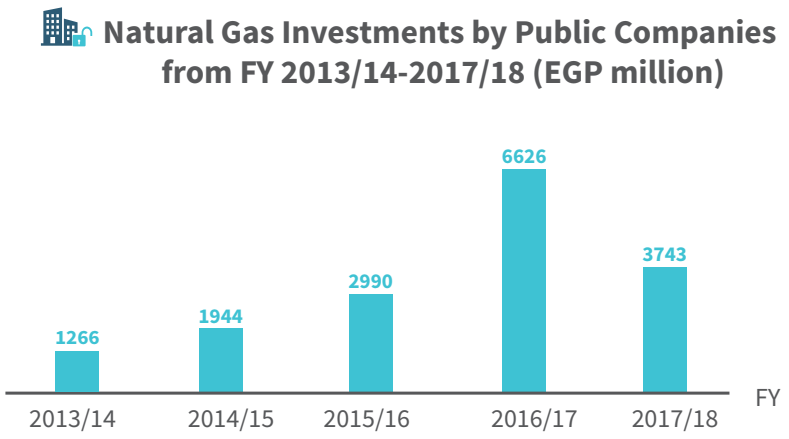
The increase in the investment continued until FY 2016/17 when it reached a peak of EGP 16,312.7 million and then sharply declined to EGP 10 million in FY 2017/18. Despite this decline, the overall growth rate between FY 2013/14- 2017/18 is still positive at 13.6%, according to the CBE's data.

**Natural Gas Investments by Economic Authorities from FY 2013/14-2017/18 (EGP million)**

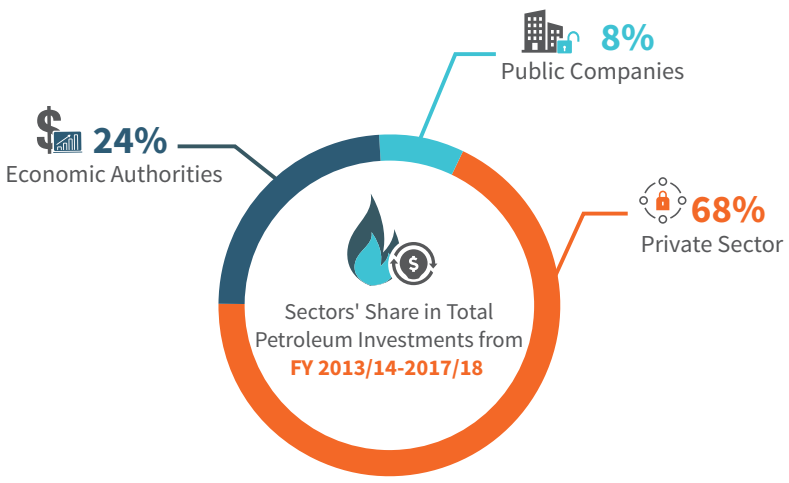


## 3. PUBLIC COMPANIES

Over the comparison period, the public companies invested a total of EGP 16,569 million. The public companies' investments experienced the same trend as the economic authorities'. The investments, first, increased from EGP 1,266 million in FY 2013/14 to EGP 1,944 million and continued to increase until FY 2016/17. After that, it declined by 43.5% between FY 2016/17 to 2017/18. The overall growth rate approximated the 200%, stated by the CBE.

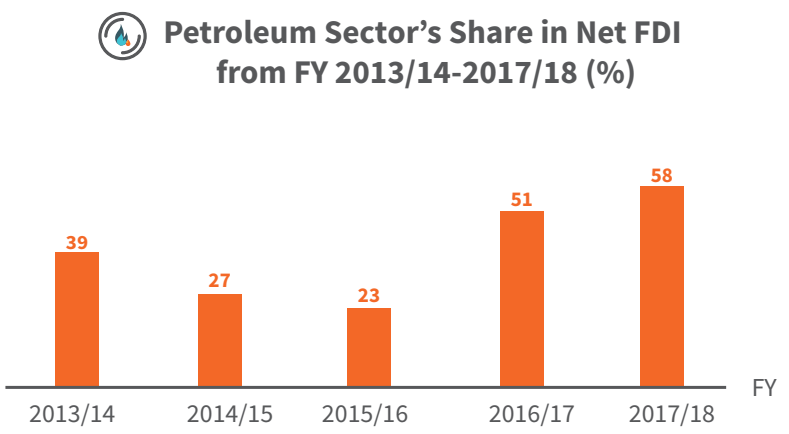



On the whole, the private sector is considered the main contributor in the petroleum investments over the past five FYs. It represented the highest share in these investments representing 68%, followed by the economic authorities that contributed by 24% and finally the public companies provided the last 8%, reported by the CBE.




## NET FDI PUMPED IN THE PETROLEUM SECTOR

Egypt has been considered a very attractive Middle Eastern market for foreign direct investment (FDI) where many factors significantly generate FDI opportunities. For instance, Egypt's gross domestic product (GDP) grew by 5.3% in FY 2017/18, the highest rate during the last 10 years, according to the CBE. In addition, Egypt has a remarkable geographical position in the north-eastern corner of Africa and south-western Asia while having a large domestic market. Moreover, Egypt has an advantage of possessing low labor cost of skilled workforce.




Regarding net FDI pumped in the petroleum sector, over the period from FY 2013/14 to 2015/16, it witnessed some fluctuations. However, post FY 2015/16, it has remarkably been increasing due to the discovery and development of gas fields in the Western Desert as the oil discovery located in the Meleiha Concession in addition to the discovery of a significant gas condensate field in Alamein concession followed by Zohr offshore field, the largest in the Mediterranean Sea. Consequently, From FY 2015/16 to FY 2016/17, net FDI inflows targeting the petroleum sector outstandingly grew by about 150%, according by the CBE.

Over the observed period, total net FDI in petroleum sector recorded $13.4 million. FY 2017/18 witnessed the highest net FDI pumped in the petroleum sector at an amount of $4.5 million, representing 58% of net FDI in this year. Hence, FDI is concentrated in the petroleum sector followed by services, manufacturing and construction sectors in addition to others, reported by the CBE.

For decades, the Ministry of Petroleum and Mineral Resources has been aiming to attract more investments in the sector. In 2016, it has successfully launched a project to modernize the petroleum within which the first pillar is concerned with developing an attractive environment for FDI. The pillar's objects are; improving bidding system for exploitation and exploration, improving agreements' system and facilitating its procedures as well as expanding the concession agreement model portfolio.

In 2017, the new natural gas law was set be a new stage of developing the natural gas market and to boost the Egyptian economy through liberalizing the downstream and midstream segments of the gas chain in Egypt. Under this law, private companies will pay a set fee for the use of public transit facilities and pipelines. Hence, profits from these fees will be used to expand existing pipelines and to encourage investment in gas infrastructure and transportation networks.

Besides, the law contributed in establishing of a regulatory authority named "Gas Market Regulatory Authority". The authority is particularly responsible for regulating the relationship between all stakeholders in the natural gas market, issuing license, setting the mechanism for calculating the tariff for transmission, distribution and usage of storage grids and facilities, drafting model contracts for all natural gas activities as well as handling and resolving stakeholders' complaints.

Furthermore, over the period from FY 2013/14 to 2017/18, Egypt has signed more than 60 petroleum agreements with about $13 billion FDI pumped in the sector, according to CAPMAS and the CBE

Moreover, in FY 2017/18, the arrears to International Oil Companies (IOCs) decreased to record $1.2 billion representing the lowest value since FY 2009/10. This showed the ministry's commitment to enhance the investment climate, which encouraged the IOCs' plans to propel investments of around $10 billion (EGP 175.64 billion) on E&P activities during the next FY 2019/20, according to the ministry's data.

Egypt is always keen on paving the way for higher investment potentials. For instance, the applied reforms concerning arrears reduction as well as signed agreements highly played a part in attracting more FDI from IOCs' side. As over period from FY 2015/16 to 2017/18, the FDI pumped in the petroleum sector trebled. Furthermore, Egypt's recent gas fields' discoveries have set the path to establish an international trading and distribution natural gas hub.