YOUR COMPLETE LEGAL GUIDE TO EGYPT OIL & GAS MARKET

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Egypt is not only considered as a wealthy country due to its abundant oil and gas resources and discoveries; but also, it is fortunate to have continuous government legislative pro-market reforms, especially between 2014 and 2019. Focusing on the legislative improvements, there were a number of laws, amendments and issuances. For instance, the Gas Market Activities Law No. 196 of 2017 aims to liberalize the natural gas sector and attract investments.

As a result of these reforms, the oil and gas sector in Egypt became more stable and prominent, with a spark for a brighter future. This report is a brief outlook for the legal and regulatory framework of the Egyptian oil and gas market.

1. OIL & GAS EGYPTIAN MARKET GENERAL REGULATORY OVERVIEW

A. OIL & GAS ORGANIZATIONAL STRUCTURE

The Ministry of Petroleum and Mineral Resources (MoP) is the entity responsible for issuing and reviewing general policies and regulations in the sector. The Ministry was established after the Presidential Decree No. 409 of 1973. The Ministry continues its role in issuing policies and regulating through its affiliated entities, according to a study titled "A General Introduction to Oil and Gas Law in Egypt" published on November 17,2020.

I. EGPC

Under Law No. 135 of 1956, before the Ministry's establishment, the General Petroleum Authority (GPA) was formed. In 1962, the GPA's name was changed to the Egyptian General Petroleum Corporation (EGPC), established under the Law No. 20 of 1976.

II. EGAS

By the issuance of Prime Ministerial Decree No. 1009 of 2001, the MoP established a subsidiary for the EGPC, which is the Egyptian Natural Gas Holding Company (EGAS). EGAS's main role is to manage and organize natural gas activities to efficiently support the Egyptian economy.

III. GANOPE

GANOPE was previously known as South Valley Development Company (SVDC). It was established under the Prime Minister Decree No. 1755 of 2002 in accordance with Law No. 203/1991, to supervise the oil and gas various activities in Upper Egypt.

B. LEGAL & REGULATORY FRAMEWORK

According to the Egyptian Constitution of 2014 (Article 32), all natural resources are owned by the state, represented in the Ministry. Accordingly, the MoP has the right to allow interested investors to invest in oil and gas explorations and exploitations within a concession, according to two studies titled "A General Introduction to Oil and Gas Law in Egypt", and "The Oil And Gas Review" published in 2014.

2. LICENSING

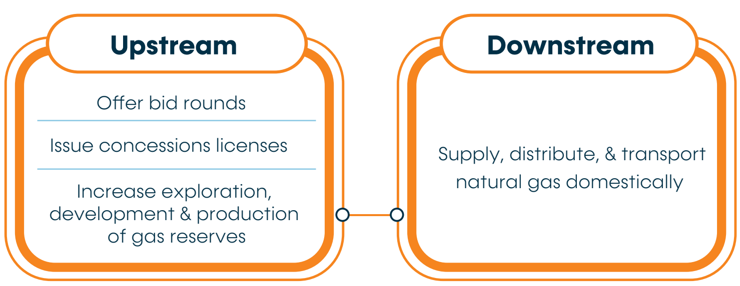
As an initial step, a license is granted to oil and gas companies for the purpose of conducting geological surveys, where the results lead to further oil and gas prospecting. Then, a concession agreement is signed to grant exclusive rights to explore and ultimately exploit oil and gas, either onshore or offshore. Since all concession agreements are laws, they are published and follow a standard format, subject to some amendments.

EGYPTIAN PETROLEUM SECTOR MAIN ENTITIES

EGPC'S ORGANIZATIONAL STRUCTURE

EGPC'S ROLE

EGAS'S ROLE



A. PROCEDURES

I. NATURE OF OIL & GAS RIGHTS

The related authority (either the EGPC or EGAS) has the power to apply the provisions and conditions regarding the exploration and exploitation of oil and gas under the Mining and Quarries Law No. 66 of 1953, as amended by law No. 86 of 1956 and its Executive Regulations issued by Ministerial Decree No. 758 of 1972 (referred to as the Fuel Materials Law). Obtaining a legally binding concession agreement include 2 processes: issuance of concession, followed by sources ownership.

First: Issuance of Concession

The authority leads negotiations on the draft concession agreement until reaching a mutual approval with the contractor; the draft will then be submitted to the Minister of Petroleum and the parliament for approval and issuance of the relevant law. The law delegates the Minister to represent the Government in entering a concession agreement with the EGPC or EGAS and the contractor.

Second: Sources Ownership

The EGAS or EGPC announces a bid round to all the companies interested in oil and gas activities. The bidding companies are required to submit to these authorities two separate stamped envelopes. The first envelope embraces the technical qualifications of the bidding company, while the second one involves the commercial criteria. After one of these companies wins, negotiations on the draft concession agreement will commence.

The government gives contractors a specified discovered amount of resources, complying with a production sharing scheme. Then, the contractor can sell and export his share at the price determined in the concession agreement.

During the initial exploration terms, if the contractor proclaims any commercial discoveries, a percentage of the exploration area (usually 25%) must be relinquished. If a proposed withdrawal happens after a discovery, both the contractor and the EGPC must mutually agree on the area that will be relinquished, as stated in a report entitled "Oil and gas regulation in Egypt: overview", published in 2014.

II. TERMS OF CONCESSION

Concession activities are divided into two phases: the exploration and the exploitation phases. During the exploration phase, the contractor has the right to only explore the land subject to the concession for oil or gas without extracting any material from the ground. The concession agreement shall be terminated if neither oil nor gas is worth being commercially produced. The duration of the exploration phase is differently determined under each concession and is usually three years with the option of extension.

In the exploitation phase, following a commercial oil or gas discovery, the area will be approved to be converted into a development lease without the issuance of any additional legal act or permission. Usually, the exploitation phase for each development lease is 20 years from the date of the discovery and could be extended, as stated in "The Oil and Gas Law Review" study.

The Mining and Quarries law sets the terms and criteria required for the issuance and renewal of licenses.

III. RELATED TAXES AND ROYALTIES

Taxes and royalties are payable by oil and gas interest holders to the government. Generally, the contractor is subject to 40.55% of Egyptian income tax and must submit returns, tax assessments and bookkeeping, which will be collected as determined in the concession agreement.

APPLICABLE LAWS REGULATING OIL & GAS SECTOR

Law	Official Decree
Mining & Quarries Law No. 66 of 1953	Ministerial Decree No. 758 of 1972
Gas Market Activities Law No. 196 of 2017	Prime Ministerial Decree No. 239 of 2018
Oil Pipelines Law No. 4 of 1988	Ministry of Petroleum Decree No. 292 of 1988
Environmental Law No. 4 of 1994	Prime Minister Decree No. 338 of 1995
New Public Procurement Law No. 182 of 2018	–
Egyptian Income Tax Law No. 91 of 2005	–

TERMS OF EXPLORATION AGREEMENTS

Period 7 - 9 years

Divided Into Initial Term, 2 Extensions

FOR COMMERCIAL DISCOVERY

Period 25 YEARS

Extension 35 YEARS

TERMS OF CONCESSIONS

Required financial & technical criteria

Duration of the license

Requirements for renewal

Rental fees during the exploration phase

The EGPC pays the tax on behalf of the contractor and provides him with a receipt of payment.

In the franchise agreement, the contractor and the operating companies are exempted from custom duties, effective taxes, levies and fees related to the import of machinery, appliances, vehicles and other items used in their operations as long as they are not manufactured locally at comparable prices. There is also recovery of costs and expenses for the contractor (about 35- 40%).

In addition to the royalty, payable by the EGPC in cash or in kind (10%), the contractor has to pay specific bonuses to the EGPC or GANOPE, such as signature bonuses, payable bonuses on the approval of each development lease and production bonuses. The amount of the bonuses can vary from one concession to another, according to "The Oil and Gas Law Review" study & "Oil and gas regulation in Egypt: overview" report.

B. COMPANIES REGULATION

I. JVS FORMATION

During the development phase of the contract, after achieving a commercial discovery, a joint venture (JV) is formed between the contractor company and the concessionaire, including the EGPC, the EGAS, and GANOPE, to operate as a special joint stock company. Each party holds 50% of the JV's stakes, and has the right to nominate four members in the board of directors, as stated in a report, published in 2016, entitled "Conducting oil and gas activities in Egypt" .

The JV acts as an agent company to carry out exploration, development, and exploitation operations for the commercial discovery, while the contractor company funds these operations. As the JV is only an agent, the decisions, actions, and proposals concerning the concession are taken by the concessionaire and the contractor jointly.

II. TERMINATION & TRANSFER OF INTERESTS OF CONCESSION

The concession agreement is terminated by the end of the contract's duration. In addition, the government has the right to revoke the agreement. This occurs if the contractor fails to meet the obligations under the agreement. For example, if the contractor becomes bankrupt or assigns one of his rights in breach of the concession agreement.

The contractor is given 90 days' written notice to remedy the violation, otherwise the concession agreement may be terminated by a presidential decree, according to "The Oil and Gas Law Review" study.

The transfer of interest occurs through farm-in-out agreements. The farm-in agreement is a way of acquiring a license interest. Conversely, farming-out is a way of disposing a license interest.

The transfer of interest is subject to the executive regulation of law No.66 of 1953 (Articles 67-68), and Law No.198 for 2014 (Minerals Law) (Article 7). The regulatory approvals are required for the acquisition of interests held under a license.

III. STABILIZATION & DISPUTE RESOLUTION

In case of any changes in the regulations that significantly affect the economic interest of concession agreement, the parties can possibly negotiate modifying the agreement terms. If these modifications cannot be agreed within a certain limited period, the dispute resolution provisions will apply.

Disputes between government and agreement parties are settled before the Egyptian courts. Other disputes between the concessionaire and contractor company must be settled by arbitration.

3. TRADE, TRANSPORTATION & PRICING

A. DISTRIBUTION, SALE, AND TRADE

Oil and gas trade is only allowed with the permission of the relevant authorities. Following a discovery, the contractor company has a share in the production. However, the EGPC and EGAS have the right to purchase part of the contractor's share for domestic demand. Hence, the sale of oil and gas must be performed by the EGPC, EGAS or the contractor in accordance with the terms of the concession agreement.

Transportation through pipelines is regulated by specific laws that set the terms and conditions needed to construct, maintain, and operate pipeline networks. For natural gas, the EGAS governs all transportation operations to all residential areas, industries and power stations. With the EGAS approval and supervision, private companies can incorporate the process of transportation.

Furthermore, a third party, other than the EGPC and the EGAS, can agree to have its oil and gas transported through existing pipelines networks.

B. PRODUCTS PRICING

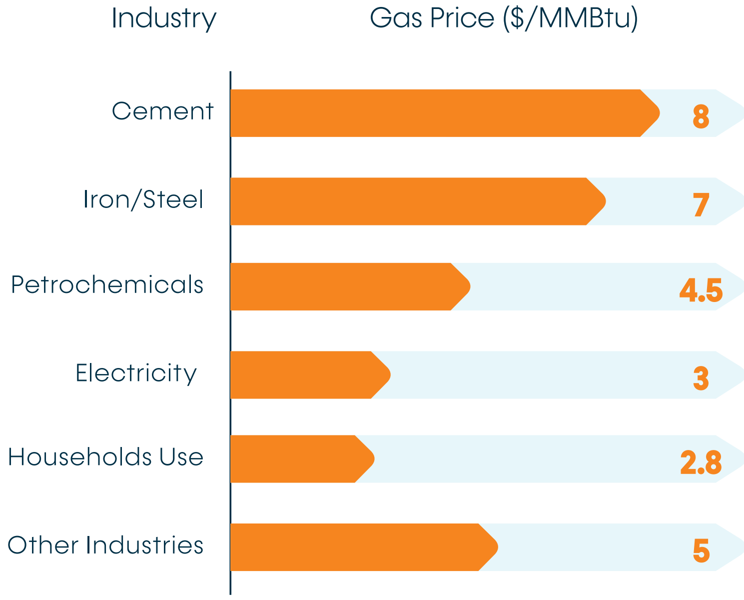
The pricing of the produced oil and gas is determined by the formula stipulated in the concession agreement. Hence, the agreement parties can agree on a revaluation process to change the price.

As for the petroleum products, in June 2018, Egypt's Prime Minister approved a new pricing mechanism to efficiently regulate the fuel market. According to this mechanism, the price will be set according to the global price of Brent crude, the US dollar exchange rate, and other relevant costs including transportation costs. However, the changes will be kept within a ±10% band. The prices are set on a quarterly basis by the "Automatic Fuel Pricing Committee", which decided in April to increase prices by EGP 0.25 per liter for Q2 2021, according to the Committee statement.

Natural gas is priced by two mechanisms, either by pricing formula or by ministerial decrees. Both mechanisms are considered to be long-term contracts between the EGAS, distributors, and consumers, according to the GasReg website.

The MoP and its affiliates are taking fierce steps to achieve financial sustainability and resources self-sufficiency and to convert Egypt into an oil and gas regional hub. The restructuring of the legal framework and directive regulation supported the Ministry and the whole economy to harvest the benefits of the continuing success in the oil and gas activities, and attract more investments in the different market segments. Accordingly, there are more than 50 IOCs currently operating in Egypt. Furthermore, in 2020, there were 22 signed agreements with major IOCs that work in the Egyptian petroleum sector domain, such as ExxonMobil and Chevron, with investments of about $1.6 billion and 12 petroleum agreements are still in the issuance phase, according to the Minister's Interview.

GAS PRICES SET BY MINISTERIAL DECREES



LATEST FUEL PRICES (EGP/ LITER)

Octane-95	Octane-92	Octane-80
8.75	7.75	6.50