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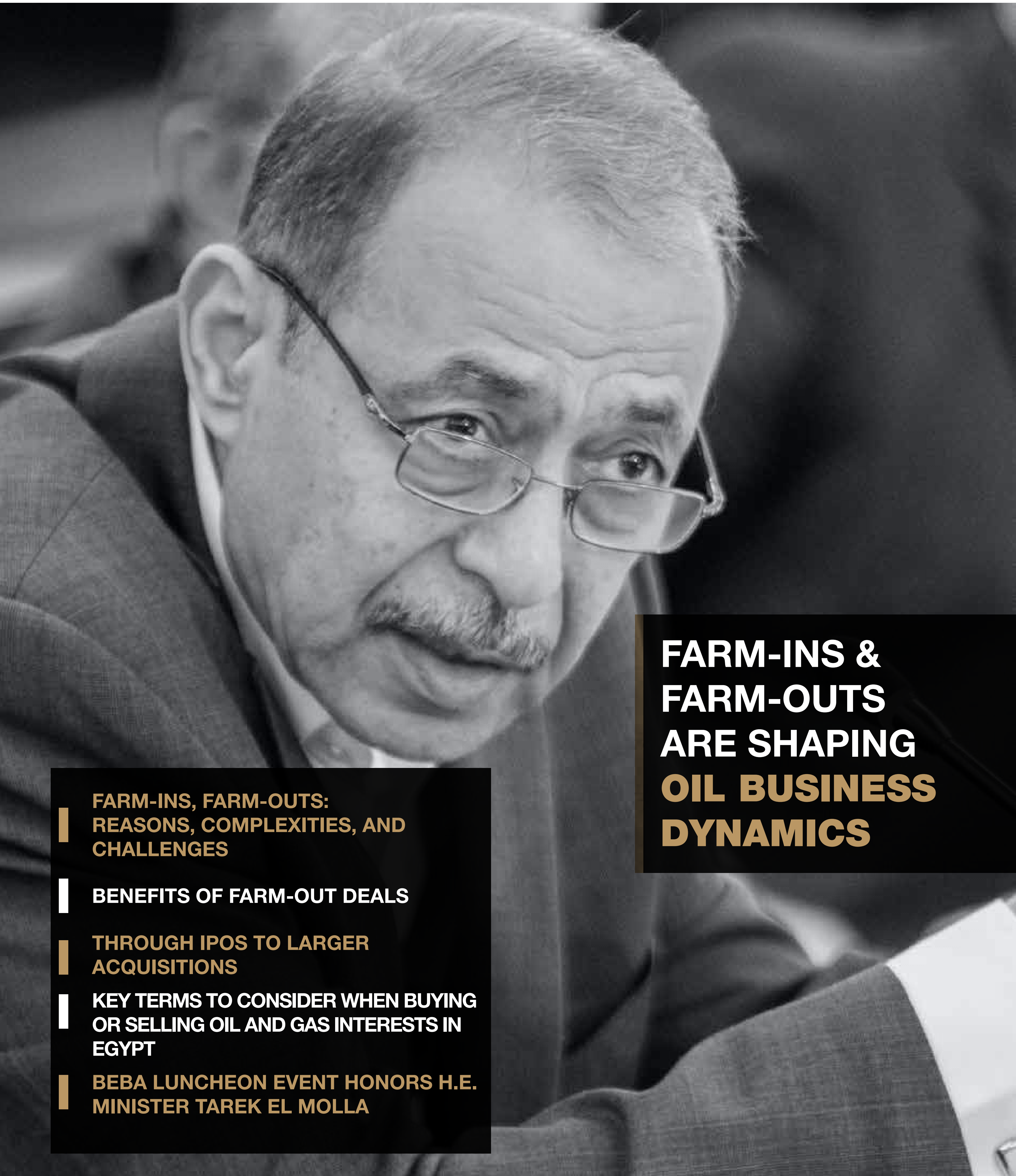

FARM-INS & FARM-OUTS ARE SHAPING OIL BUSINESS DYNAMICS

- FARM-INS, FARM-OUTS: REASONS, COMPLEXITIES, AND CHALLENGES
- BENEFITS OF FARM-OUT DEALS
- THROUGH IPOS TO LARGER ACQUISITIONS
- KEY TERMS TO CONSIDER WHEN BUYING OR SELLING OIL AND GAS INTERESTS IN EGYPT
- BEBA LUNCHEON EVENT HONORS H.E. MINISTER TAREK EL MOLLA

EDITOR'S NOTE

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Farm-in and farm-out deals in the oil and gas industry have become more relevant than ever before. This issue is exploring the benefits and challenges that this type of transaction brings forward, significantly shaping the dynamics of the sector.

In two interviews EOG team conducted with AHMED FARID MOAAZ, Country Manager of SDX Energy Inc. and SAMIR ABDELMOATY, Country Manager of Rockhopper Exploration plc in Egypt, the two key industry leaders share their views on the topic pointing out to the complexities that frame the farm-in/farm-out agreements in the Egyptian context.

Andrews Kurth Kenyon further explains in more details all the legal aspects of selling and buying interests in Egypt that may serve as a useful tool for companies pondering similar transactions in the near future.

We further examined other issues related to mergers, acquisitions, initial public offerings, farm-ins and farm-outs to provide a full picture of the industry dynamics in this segment.

In addition, we bring you coverage of a recent luncheon with Egypt's Minister of Petroleum and Mineral Resources, Tarek El Molla, organized by The British Egyptian Business Association. On this occasion, the Minister highlighted major success stories and presented projections for the industry as a whole with the country's aspiration to become a regional energy hub.

On a personal note, this is my last issue as Editor in Chief of EOG.

I would like to take this opportunity to express my gratitude to the entire EOG team for an inspiring cooperation and friendship. It was an honor for me to meet and work with the talented and enthusiastic colleagues. I wish them all the success on their future journey through the complexities of the Egyptian oil and gas industry.

EOG thanks you for all your support and readership.

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EGYPT'S LEADING OIL AND GAS MONTHLY PUBLICATION

Publisher **MOHAMED FOUAD**

This publication was founded by **Mohamed Fouad** and **Omar Donia**.

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CHALLENGES
AND
DEVELOPMENTS
OF IOC/NOC & SERVICE
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The Roundtable will discuss the relation between IOC's/NOC's & service companies focusing on offshore/onshore & unconventional activities development. Also, focusing on the industry collaboration, barriers of the contracting, procurement and people.
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El Molla Inspects Zohr Field Progress

The Egyptian Minister of Petroleum and Mineral Resources, Tarek El Molla, visited Port Said Governorate to inspect the work progress at Zohr field as part of following upon the new gas development project in Italian Eni's Shorouk concession, Al Ahram informed.

El Molla stated that the project is in full swing in both drilling development wells and constructing marine equipment, as well as in processing in building land stations, which will be used to receive and treat the gas extracted from Zohr.

The minister's visit followed upon the inspection by Italian Eni's CEO, Claudio Descalzi, who came to examine operations on the $11b Zohr offshore gas development. The company is aiming to bring the gas on stream by December 2017, less than three years since the field had been discovered, reported Energy Egypt.

According to Eni, the company is to increase oil and gas production by 3% per year over the next four years after a string of high profile discoveries, reported Reuters. The project in Egypt would be the fastest of its size that has started production in industry history as Descalzi noted. In an interview with the Financial Times, he stated that "the industry has forgotten how to do exploration." He added: "Everybody else went looking for tar sands or tight oil or acquisitions. We thought there was still potential in conventional exploration."

In related news, Italian Eni announced it will start producing 200mcf/d of gas from Egypt's Zohr deep water field in the Mediterranean by October 2017, through a temporary ground gas processing station, reported Daily News Egypt.

A source at the Egyptian Natural Gas Holding Company (EGAS) stated that Eni will rent the temporary processing station until it completes the establishment of a permanent treatment plant. Eni plans to complete the first phase of the plant with a capacity of 650mcf/d of gas by the end of 2017. The treatment plant came with an investment estimated at $4b. The plant will have a total capacity of 2.7bcf/d of gas.

The total investments in the Zohr field amounted to $12b and are expected to reach $16b throughout the life of the

EGAS Cuts Natural Gas Imports

The Egyptian Natural Gas Holding Company (EGAS) has cut natural gas imports to five monthly shipments, which is an equivalent to 700 mcf/d, down from eight shipments of 800 mcf/d, since the beginning of 2017, due to rising domestic production and lower consumption, as reported by a local newspaper.

An official source at EGAS stated to the local newspaper that the company started supplying 100mf/d of imported natural at the port of Aqaba after a two-month halt. The contracted quantities with the Jordanian side are estimated at 200mcf/d.

In addition, domestic natural gas production is expected to increase to 5 bcf/d, from the current 4.5 bcf/d by the second half of the year, before launching production from Zohr field.

Meanwhile, the Egyptian House of Representatives' Energy Committee has amended clauses of the Natural Gas Act placing the new gas market regulatory authority under the jurisdiction of the Egyptian Cabinet, instead of the Ministry of Petroleum and Mineral Resources, Al Borsa informed, citing a Committee Member, El Sayed Hegazy.

According to the amendment, Prime Minister, Sherif Ismail, will be assigned the Chairman of the gas market regulator. The Committee is expected to vote on 53 articles of the gas law to be then submitted to the parliament for approval.

Egypt to Increase Gas Production in 2017

A source in the Egyptian oil and gas sector informed Egypt Oil&Gas that the government plans to increase natural gas production from 4.5bcf/d to 6.2bcf/d within 2017.

The government's plan primarily aims at reducing importing bills and saving US dollars. The plan is to be implemented in two phases; the first is to develop the discovered gas fields to be available for daily production, whereas the second phase includes launching new international tenders through the Egyptian General Petroleum Corporation (EGPC) and Ganoub El Wadi Petroleum Company in order to attract new investments that will increase Egypt's oil and gas production.

Egypt's gas production will increase due to the new huge projects executed with total investments reaching $32b. The country will further witness an increase through adding production of Zohr and Atoll fields to the national grid, as well as adding 870mcf of Nooros production.

Egypt will intensify work with international oil companies in the upcoming period in order to buy their shares of oil and gas, instead of importing oil and gas for $13 per 1mtu..

Rosneft to Provide 10 LNG Cargos to Egypt

A trading unit of Russia's largest oil producer, Rosneft Trading SA (RTSA), has signed a deal to supply ten liquefied natural gas (LNG) cargos to the Egyptian Natural Gas Holding Company (EGAS) in 2017. The first delivery by RTSA is expected in May, Reuters informed. "This agreement will help to further strengthen the strategic partnership between RTSA and Egypt in an important area of energy security," Zawya reported, citing a company's official announcement. Rosneft does not produce its own LNG, but plans to launch production jointly with ExxonMobil later in this decade. In addition, the company declined to comment on the sourcing of the LNG cargos to Egypt.

Agiba Drills New Oil Exploratory Well

An official source at Agiba Petroleum Company stated exclusively to Egypt Oil&Gas that the company has drilled a new explanatory well, Rosa N 1X, in its Meleiha concession area in the Western Desert, which has showed a discovery of oil reserves in a new layer in Ras El Qatara, not reached before. The discovery of oil in the new layer with a thickness of 50ft can produce 600b/d of oil and 1mcf/d of gas. Furthermore, the company has also discovered two additional layers; the first is in Alam Elbueib with a thickness of 98f, which can produce up to 3,153b/d of oil and 6.7mcf/d of gas, whereas the second layer is in Al Safa with a thickness of 122ft and can produce up to 2,120b/d of oil and 7mcf/d of gas. Accordingly, potential underground oil reserves of the Rosa N 1X well reached 20mb, with 5mb of oil producible.

WASCO to Boost Production

An official source at El Wastani Petroleum Company (WASCO) stated exclusively to Egypt Oil&Gas that the drilling program carried out by the company during the last two years, which included drilling of 22 development, exploratory, and evaluating wells, contributed to an increase in the company's production and compensated for a natural decrease. The company is currently producing more than 43,000boe/d, natural gas, condensates and butane. The source added that WASCO is currently drilling the West Ward Delta-2 well, and evaluating drilling new wells in the concession area as well. He also mentioned that WASCO's production decreased from 194,737b of crude oil and almost 1.15mb of gas during January 2017 to 183,286b of crude oil, and 1.02mb of gas in February 2017.

El Molla, BP's CEO Reviewed West Delta Project

A press release to Egypt Oil&Gas stated that Minister of Petroleum, Tarek El Molla, received BP's CEO, Bernard Looney, during his visit to Egypt to review the status of the West Delta development project. The West Delta project is executed to develop North Alexandria and West Mediterranean gas fields. The West Delta project is implemented with the latest well drilling technologies used above water. It is executed through drilling and completing 21 wells in deep water reaching a 1,000 meter depth below water surface, as well as the rehabilitation of processing facilities, which includes construction of a 25 km pipeline to link Taurus and Libra fields to the Burullus fields' pipeline. The pipeline will help in processing production of the two fields. Production is planned to add around 600mcf/d of gas and 2,200b/d of condensates to the grid by the end of March 2017.

El Molla: Egypt Received Aramco's Diesel Cargos

Egypt's Minister of Petroleum and Mineral Resources, Tarek El Molla stated in March that Egypt had received two cargoes of diesel fuel from Saudi Aramco despite previous halt in imports. Following Aramco's decision to resume shipments, the minister added that he was revising the import schedule with distributors, according to Reuters.

In addition to the two shipments of diesel, two benzene shipments from Aramco are to arrive to Egypt by the end of March 2017 to the Suez and Ain Sokhna ports.

An official source at the Egyptian Ministry of Petroleum and Mineral Resources disclosed to Al Arab News that the Egyptian General Petroleum Corporation (EGPC) and Saudi Aramco are planning to hold meetings regarding the supply schedule by April 2017 and to set up the quantities of petroleum products required by Egypt.

In 2016, Saudi Arabia agreed to provide Egypt with 700,000 tons of refined oil products per month for a period of five years worth $23b, with payment facilities up to 15 years, but the cargos were halted in early October.

Nonetheless, Former Egyptian Minister of Petroleum, Osama Kamal, speculated in an interview with Egypt Oil&Gas that Saudi Arabia is facing financial problems and external pressures, which, when combined, led to the halting of fuel exports. However, as he added, he believes that the country's refineries can replace Aramco halted shipments, especially as Egypt has allocated a special budget to develop refineries in order to save US dollars through decreasing import bills.

Furthermore, an official source in the petroleum sector stated to Egypt Oil&Gas that the Egyptian government is currently conducting new negotiations with a number of foreign suppliers to import fuel for April and May.

As the source explained, the Egyptian General Petroleum Corporation (EGPC) is aiming to import 250,000 tons of gasoline and diesel per month, in anticipation of Saudi Aramco halting fuel shipments again at any time.

He also pointed out that the new imported shipments will be used to increase the strategic inventory and meet the national demand at gas stations all over Egypt to avoid fuel crisis.

The value of the new imported shipments will be paid 50% in the Egyptian pounds and 50% in the US dollars to other Arab suppliers, whose identities the source refused to disclose until the negotiations are officially concluded.

Previously, Egypt had closed a deal with Iraq to deliver as much as 1mb of crude a month. The first batch of oil is estimated to arrive by the end of March. Meanwhile, Egypt, Iraq, and Jordan plan to extend oil and natural gas pipelines from Basra oil fields through Aqaba port in Jordan to Egypt, Egypt Independent stated.

Shell to Increase Gas Production

A press release to Egypt Oil&Gas stated that Egypt's Minister of Petroleum and Mineral Resources, Tarek El Molla, met with Country Chairman of Royal Dutch Shell Egypt, Gasser Hanter, in the presence of Shell's Executive Vice President, Sami Iskandar, and the Ministry's First Undersecretary for Gas Affairs, Mohamed Moanes to discuss the company's plans for exploration, development, and drilling new wells in its concessions in Egypt's Western Desert and the Mediterranean.

The minister and his attendees reviewed Shell's plans to drill three new wells in the Western Desert during April 2017 and the ways to speed up the development of the eight wells in phase B9 in the Mediterranean. In addition, Shell plans to drill two new exploratory wells as part of the company's target to increase production. The company intends to increase the Western Desert production from 130,000b/d of condensates to 200,000b/d, and to boost production from the Mediterranean area from around 0.5mcf/d of natural gas to

approximately 1bcf/d in the given timeframe.

Shell's Executive VP, Sami Iskandar, said that Egypt has many investment opportunities in the coming period that encourages pumping more capital into the sector.

During the meeting, the Egyptian Minister and Shell agreed on forming a joint group to study the work programs and future plans and to set up mechanisms to be followed. The minister and Shell further agreed that the company will contribute to training to enhance efficiency and abilities of the youth professionals in the sector.

SDX Drills High Impact Exploratory Well

SDX Energy has started drilling the potentially high impact SD-1X well at its South Disouq concession in the Nile Delta area of Egypt.

The well is targeting gas in the upper Abu Madi section, and oil is targeted in the lower AEB & Abu Roash sections. Drilling will take between 30 and 45 days, as informed by Proactive Investors.

The SD-1X well's first target is the shallower gas prospect. This is seen to be a continuation of the discoveries in the Abu Madi-Baltim trend and, importantly, it is substantially de-risked given the correlation to the seismic interpretation and nearby well successes.

As drilling begins, SDX also confirmed that it has received a six-month extension for South Disouq, allowing it to evaluate the well results prior to making a decision to commit to the next exploration phase until mid-September.

SDX Energy, which operates with a 55 % interest in the concession,

agreed with partners on a location for drilling and exploration well following interpretation of 3D seismic data at South Disouq last November. The company also has a working interest in two producing assets – 50% North West Gemsa and 50% Meseda, located onshore in the Eastern Desert adjacent to the Gulf of Suez.

According to the company's CEO, Paul Welch, SDX looks forward "to providing updates over the course of the campaign."

Petrobel Extends Contract for Saipem

The Egyptian company Petrobel has extended a contract for the Saipem-owned Perro Negro 4 jack-up drilling rig for work offshore in Egypt by two additional years, Offshore Energy Today informed. It is unclear as to where the rig will operate when the contract begins. Currently, the Italian oilfield services provider, Saipem, has the Castorone, Castoro Sei, Saipem FDS, Normand Maximus, and the Saipem 7000 vessels working in the Zohr field. Another option for the Perro Negro 4 jack-up is to carry on working in the Belayim field, in the Gulf of Suez, as it did last year where it operated as a work-over rig. Saipem said in its Q4 of 2016 financial results that the rig has been under contract with Petrobel, a JV company between Italy's Eni and the Egyptian General Petroleum Corporation, since the beginning of 2017.

BP to Produce Gas in Northern Alexandria

The British Petroleum (BP) intends to produce 600mcf of gas per day from Taurus and Libra fields in Northern Alexandria by the end of April. BP will pay 30 cents per 1mcf of gas processed for the station owner, Royal Dutch Shell, Al Borsa reported. The project includes developing five fields, starting with Taurus and Libra, and by linking them to the onshore processing facilities by the second quarter of 2017. In addition, an official source in the petroleum sector said that the company is working on connecting pipelines between the treatment plants in Burullus and Northern Alexandria. He also explained that the Ministry of Petroleum's plan aims to accelerate producing from the Northern Alexandria project, following production halt since 2011.

EBRD to Finance Egypt's Green Economy

The European Bank for Reconstruction and Development (EBRD) along with the European Union (EU) and the French Development Agency (AFD) will offer a $140m loan to Egypt to increase the country's energy efficiency projects under the umbrella of new green economy, reported Al Borsa.

EBRD's Managing Director, Southern and Eastern Mediterranean Region, Janet Heckman, stated that the fund is a part of the bank's green economy financing program aiming to encourage green economy investments and increase awareness.

She further pointed out that the program in Egypt will benefit from the European expertise to renew sustainable energy investments. Heckman explained that three local banks, QNB, National Bank of Egypt, and Kuwait National Bank, will participate in the program's financing, adding that Egypt has great potentials; therefore EBRD is interested in providing funds for the small and medium new and renewable energy projects.

Meanwhile, AFD's Cairo Office Director, Stephanie Lanfranchi, said that transforming energy is the main challenge to face climate change. She added that AFD and its partners are seeking to support investments in the fields of energy, energy efficiency, and renewable sources.

Ganope Signed New Concession Agreements

An official at Ganoub El Wadi Petroleum Company (Ganope) informed Egypt Oil&Gas that the company signed two new concession agreements with Joint Stock Company Naftogaz of Ukraine Overseas Petroleum. One of the agreements is for exploration in Wadi El Mahareith concession under Article no.129 of the law, while the other is for the company to search for petroleum in South Wadi El Mahareith Area under Article no.130 of the law.

Naftogaz started phase I of the drilling process following the agreements, according to which, phase I includes having the company re-execute 2D seismic analysis on 1,306 km2, conduct aeromagnetic survey and aerial survey over 16,000 km2 area, perform 3D seismic survey on a 3,100 km2 area, and drill four wells divided into two wells in each concession area.

Additionally, the company hired the Nuclear Materials Authority to perform the aerial survey with the 7,720 altitude on 18,760 km2 area, and aeromagnetic survey with the 23,474 altitude over a 18,760 km2 area. The total cost of the aerial and aeromagnetic surveys was over $1.2m.

Ukraine's Naftogaz Commercial Director, Yuriy Vitrenko, however, stated that the company considers contracting an investment and banking adviser to assess a possible sale of its assets in Egypt, reported Interfax Ukraine News Agency. This came as Naftogaz' CEO, Andrey Kobolev, announced last December that the Egyptian assets make no profit for the company, according to InVenture Investment.

DRILLING

QARUN

QARUN, a joint venture between EGPC and Apache has completed drilling a new oil development well in its concession area in the Western Desert. The production rate of QARUN in February 2017 was 958,214 barrels of oil.

FARASHA NW-6

The well was drilled at a depth of 7,403ft utilizing the EDC-64 rig. Investments surrounding the project are estimated at $1m.

ED-74

The well was drilled at a depth of 6,550ft utilizing the EDC-64 rig. Investments surrounding the project are estimated at $1.3m.

NED-39

The well was drilled at a depth of 6,200ft utilizing the PD-1 rig. Investments surrounding the project are estimated at $1.25m.

WON A-7

The well was drilled at a depth of 7,500ft utilizing the EDC-63 rig. Investments surrounding the project are estimated at $1.1m.

PETROBEL

PETROBEL, a joint venture company between EGPC and Italian Eni is drilling a new development well in its concession area in the Mediterranean and Gulf of Suez .The production rate of PETROBEL in February 2017 was 2,673,837 barrels of oil and 7,109,628 barrels of gas in total.

ZOHR-2

The well was drilled at a depth of 13,684ft utilizing the SPM-10000 rig. Investments surrounding the project are estimated at $13.592m.

NIDOCO SW-2

The well was drilled at a depth of 15,748ft utilizing the EDC-55 rig. Investments surrounding the project are estimated at $4m.

BAPETCO

BAPETCO, a joint venture between EGPC and Shell, has completed drilling a new exploratory gas well in its concession area in the Western Desert. The production rate of BAPETCO in February 2017 was 2,517,949 barrels of gas and 1,296,371 of oil in total.

BTE-B

The well was drilled at a depth of 19,508ft utilizing the EDC-52 rig. Investments surrounding the project are estimated at $12.1m.

KHALDA

KHALDA, a joint venture between EGPC and Apache, has completed drilling new oil development wells in its concession area in the Western Desert. The production rate of KHALDA in February 2017 was 3,983,591 barrels of oil and 3,995,703 of gas.

FAGHUR S-6

The well was drilled at a depth of 16,300ft utilizing the EDC-54 rig. Investments surrounding the project are estimated at $3.231m.

PINOT S-3

The well was drilled at a depth of 7,122ft utilizing the EDC-65 rig. Investments surrounding the project are estimated at $1.2m.

MIHOS-1X ST-2

The well was drilled at a depth of 15,289ft utilizing the EDC-18 rig. Investments surrounding the project are estimated at $1.9m.

SALAM-73

The well was drilled at a depth of 9,270ft utilizing the EDC-61 rig. Investments surrounding the project are estimated at $1m.

W.RZK-151

The well was drilled at a depth of 6,505ft utilizing the EDC-65 rig. Investments surrounding the project are estimated at $1.002m.

WD 33-14

The well was drilled at a depth of 12,400ft utilizing the EDC-3 rig. Investments surrounding the project are estimated at $1.4m.


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Global Oil Inventories Increase

The Organization of Petroleum Exporting Countries (OPEC) announced oil inventories have risen and prices continued to fall despite the global deal to cut supply, Reuters reported.

According to BBC, the OPEC member Saudi Arabia is one of the countries responsible for the hike in the inventories. The kingdom, which is the biggest member of the cartel, showed a surprising output jump, increasing production in February by 263,000b/d to 10mb/d, after making a larger cut than required by the OPEC accord to ensure strong initial compliance in January.

However, the cartel noted that stockpiles will begin to fall thanks to the supply cut. OPEC's report revised upward its forecast for world oil demand in 2017 and said the requirement for the cartel's crude would average 32.35mb/d – more than current production, suggesting stocks will drop if output does not rise.

The output cut follows several years of depressed oil prices due to a supply glut on the market, which has seen prices more than halved since 2014. OPEC has been curbing its production by about 1.2mb/d from early January, the first reduction in eight years.

In March, OPEC and some non-OPEC oil producers reaffirmed their commitment to oil production cut reached in 2016, Xinhua informed. According to Saudi Energy Minister, Khalid al-Falih, oil market fundamentals were already improving after the agreement, and oil prices are up more than 10% since the output curb deal was struck in November 2016, stabilized above $50.

Al-Falih further stated that global oil demand is likely to grow by 1.5mb/d in 2017, yet, he cautioned against any "irrational exuberance" among investors. According to the Saudi minister, inventories in developed countries remain about 300mb above the norm.

It was premature to consider whether the cuts should continue into the second half of 2017 or not, he said. Those discussions would be held in May, when OPEC meets, however, some member states confirm their commitment to the output cut plan.

According to Bloomberg, Kuwait wants OPEC to extend output cuts beyond June 2017 as initially agreed, becoming the producer group's first member to call for more time to balance the global oil market. Iraq and Angola were also reported as willing to extend the production cuts during the second half of 2017 as the global rally in prices shows signs of stalling.

Libya Revives Oil Production

Libya's National Oil Corporation (NOC) announced that oil production has reached 700,000b/d as the country is recovering from a drop earlier in March caused by fighting at two key oil ports, Arabian Industry reported.

NOC's Chairman, Mustafa Sanalla, disclosed that the country expects output to continue increasing. "We are working very hard to reach 800,000b/d by the end of April 2017, and, God willing, we will reach 1.1mb/d next August," he said, as informed by Hellenic Shipping News.

In early March, according to Bloomberg, Libya had halted exports from two major oil terminals of al-Sidra and Ras Lanuf and reduced production from some fields after clashes threatened to reverse the North African country's progress in reviving crude output and sales. Libya's output then fell to around 600,000b/d before eastern security forces regained control of the two ports 11 days later.

Additionally, NOC stated that some output could come from the southwestern Sharara field, where the Corporation aims to increase production by 70,000b/d, up from the current 221,000b/d.

Despite the increase, Libya's output still remains well below the 1.6mb/d level that the North African country had been pumping before the 2011 uprising.

Libya, along with Nigeria, is exempted from recent production cuts agreed by the Organization of the Petroleum Exporting Countries (OPEC).

Lukoil Targets New Projects in MENA

Russian oil giant Lukoil is targeting new projects in the United Arab Emirates (UAE), Iran, Oman, and Kuwait as it plans to expand its operations in the Middle East, the company's Vice President in the region, Gati Al Jebouri, told Gulf News in an interview.

The company is currently involved in two projects in Iraq, including West Qurna-2 oilfield, where production reaches 400,000b/d, and in the exploration of Block 10 in southern Iraq.

The company also has projects in Egypt where production in Lukoil's share is about 6,000b/d, Arabian Oil and Gas informed.

Al Jebouri explained that part of the company's growth in the Middle East comes from Iraq, because it recently announced a successful discovery of the Block 10 and it will be carrying out further appraisal wells during 2017.

"In other parts of the Middle East, we are in active discussion with National Iranian Oil Company (NIOC) to develop two oilfields, Ab-Teymur and Mansuri, in Western Iran," he highlighted. "We are also looking at opportunities in Kuwait, Oman and the UAE."

Al Jebouri further noted that, in Abu Dhabi, Lukoil's current license extension on the onshore projects shows a clear wish by the authorities to invite a variety of international oil companies.

Aramco to Pay Shell $2.2b to Dissolve JV

Saudi Aramco finalized the execution of definitive agreements with Royal Dutch Shell plc to separate and transfer the assets, liabilities, and businesses of the Motiva Enterprises LLC joint venture (JV), Al Bawaba reported, citing a Saudi Aramco's statement. According to Market Watch, Saudi Arabia's state-oil giant will pay Shell $2.2b to finalize the breakup of their two-decade long refining partnership in the US. The deal gives Saudi Arabia sole control over the largest refinery in the US, a 600,000b/d facility in Port Arthur, Texas. The transaction, which is subject to regulatory approval, is expected to be finalized in the second quarter of 2017.

Bahrain to Invest $7b in Downstream by 2022

The investment arm of Bahrain's National Oil and Gas Authority (Noga), Nogaholding, has substantial expansion plans and expects to invest in excess of $7b across several separate ventures in the downstream sector by 2022, Trade Arabia reported, citing Bahrain's Minister of Oil, Shaikh Mohammed bin Khalifa Al Khalifa. Bahrain, like other Gulf states, given their status as hydrocarbons producers, will further develop its downstream sector to go up the value chain and further diversify its economy, Gulf Base wrote.

Bahrain's good connectivity in the region and its business-friendly incentives environment, allowing for 100% foreign ownership of projects across the country, gives it a competitive advantage, Al Khalifa said. Nogaholding has already expanded its assets portfolio with Bahrain LNG, recently forming a joint venture with a consortium of Teekay, GIC and Samsung.

Iran Starts Oil Production at South Pars Field

Iran started pumping oil from the oil layer of South Pars gas field late March, Tehran Times reported, citing National Iranian Oil Company's (NIOC) Deputy Managing Director for Engineering and Development Affairs, Gholam-Reza Manouchehri. Production from seven oil wells in the South Pars complex began and should reach a net peak capacity of 35,000b/d. According to Manouchehri, output was made possible through a floating production storage and offloading vessel (FPSO), United Press International informed. The Iranian Oil Ministry estimated the field, which Iran shares with Qatar, to hold more than 14b barrels of oil in its oil layer. Additionally, South Pars is estimated to contain a significant amount of natural gas, accounting for about 8% of the world's reserves, which is approximately 18b barrels of condensate.

Algeria to Invest $50b in Oil & Gas

Algeria's hydrocarbon company Sonatrach will invest more than $50b in exploration projects and production from 2017 to 2021, O&G Link informed, following a statement from the group's Vice President for Exploration and Production, Salah Meknouche.

Sonatrach's Head of Associations Division, Farid Djettou, responsible for foreign contracts, disclosed that the company expects to invest $9b from the total budget in search for new deposits of oil and natural gas, as informed by Bloomberg.

As much as $40b has been allocated for the development of oil and gas fields, with the aim to increase primary output.

Additionally, Sonatrach will drill an average of 100 wells annually. Over 1,300 drillings are expected to be achieved during the established period to progressively reach 230m tons of oil equivalents by 2021.

Algeria is Africa's biggest gas producer and a member of the Organization of Petroleum Exporting Countries (OPEC). Sonatrach's exports generate more than half of the government's budget revenue.

The country's oil output has declined since August 2008, and its production of 1.04mb/d in February was at the lowest level since 2002, according to data compiled by Bloomberg.

In light of that, Algeria's President, Abdelaziz Bouteflika, urged for the independence of the country's economy from the oil and gas industry, reported Natural Gas World.

The President stated: "I would underline primarily the necessity of freeing our country from its dependency on hydrocarbons and on fluctuations in world markets. That demands from us all, people and state, more and serious efforts in building a diversified economy," informed O&G Links.

Yet, Algeria is still working on building up its gas production capacity amidst growing domestic demand.

In related news, the country continues pursuing an active national strategy to boost foreign investments in the sector. In line with that the state-run company, Sonatrach, signed an agreement with ExxonMobil and Eni to explore in the country's offshore areas, as Algeria plans to start its offshore oil drilling, according to Reuters. Similarly, Anadarko ponders plans to expand its investment in the country's upstream sector.

Some of the country's giant oil and gas fields urgently need reinvestment to extend their production life cycle. However, the North African OPEC member has struggled to attract oil investment in recent years because of tough terms that have made foreign companies wary.

Rosneft Drills First Well in Iraq

Rosneft group started drilling the first exploration well at Block 12 in Iraq, which is scheduled to be completed in July 2017, Your Oil and Gas News reported. The prospective oil-bearing Block 12 is located in the Najaf and Muthanna provinces, approximately 80 km to the southwest of the city of Samawa and 130 km to the west of the city of Nasriya. Exploration works on Block 12 are considered 'low risk' due to its rich prospects. At the Block, a Salman-1 well, will be drilled to a measured depth of 4,245 meters through the Kurra Chine target horizon, and it will be followed by further testing of five prospective targets, according to Energy-pedia. The Block is a part of the Western Desert, an unexplored region having the biggest oil potential in Iraq, located in an area of 7,680km².

Oman to Pump 1mb/d of Crude

Non-OPEC producer Oman intends to pump an average of 1mb/d of crude in 2017, despite the 45,000b/d production cut it had pledged with the OPEC-non-OPEC deal, a senior official at the Oil and Gas Ministry said, according to Oil Price. In related news, the price of Oman Crude Oil Financial Contract, DME Oman, for April delivery, closed at $55.12 a barrel at Dubai Mercantile Exchange, Zawya informed. The Dubai Mercantile Exchange is a premier energy-focused commodities exchange, and home to the world's third crude benchmark. It is a joint venture between Dubai Holding, Oman Investment Fund and CME Group.

OPEC Lost $1t to Slump in Prices

The Organization of Petroleum Exporting Countries' (OPEC) Secretary-General, Mohammed Barkindo, disclosed that OPEC lost $1t to dwindling oil prices, Daily Trust informed. As he explained, the amount was lost in terms of deferred projects and outright cancellation of projects across its entire value chain, Africa Review wrote. "We need consistent investments in order to maintain current production and take care of reserves and secure future supplies," he added. The OPEC Chief also noted that it was agreed that non-members be invited to build a platform of 24 producing countries to agree on a joint supply, seeking to adjust about 1.8mb/d of crude output cut.

Iran, Iraq to Lead MENA Oil Growth

The Norwegian research consultancy, Rystad Energy, indicated that the oil field development in Iran and Iraq is expected to drive the largest production growth in the Middle East region over the next four years, Break Bulk reported.

According to Rystad, which studies the countries of the Organization of Petroleum Exporting Countries (OPEC) in the Middle East, Iran and Iraq are on track to meet production targets. Both Baghdad and Tehran are expected to specifically contribute to a rise in production in the region already from the second half of 2017, as Press TV informed.

In Iraq, production growth is expected to be underpinned by the launch of the second development phase of the Lukoil-operated Qurna West-2 field, the Nahr bin Umar field, the second phase of the Majnoon, and the third phase of the Halfayah developments.

Furthermore, Iraqi Oil Minister, Jabbar al-Luaibi, disclosed that Iraq aspires to increase its oil reserves to 170b barrels by 2019, up from the current 153b barrels, a national strategy to be achieved through drilling more wells, Hellenic Shipping News informed.

In Iran, the first phase of the South Azadegan project is expected to contribute to oil production growth over the next five years, reaching a plateau of 255,000b/d starting in 2021. In addition, the second phase of Azar oilfield development plan could be conducted within frameworks of Iran Petroleum Contract (IPC) and thus raise the daily production of the field to as much as 100,000b/d.

Tehran is determined to keep its oil production cap at 3.8mb/d in the second half of 2017 if OPEC members stay committed to the oil cut agreement signed in November 2016, Reuters reported, citing Iran's Oil Minister, Bijan Zanganeh.

Riyadh, Beijing Sign $65b Preliminary Oil, Gas Deals

Riyadh and Beijing have signed preliminary deals in the oil and gas industry that could be worth as much as $65b, if finalized, according to Oil Price, reporting on Saudi King Salman's visit to China.

One of the preliminary agreements envisages the joint development of downstream and petrochemical projects in China with local North Industries Corporation.

Additionally, the deal will see Saudi basic Industries Corp. and Sinopec work on petrochemical projects both in China and Saudi Arabia. The two already have a joint project – a refinery in Tianjin in northeastern China.

As informed by The Economic Times, Beijing is rolling out a massive trade and investment initiative across Central Asia and the Middle East called "One Belt, One Road" and sees the kingdom as a regional linchpin.

Furthermore, China is a crucial market for Saudi oil, and the king's visit is widely seen as an attempt to secure future exports, preferably under long-term contracts.

Riyadh intends to maintain its position as China's top oil supplier in line with latest statistics from February 2017,

despite a recently recorded near 13% fall in shipments from 2016, Reuters reported.

China imported 4.77m tons of crude oil from the kingdom, or about 1.24mb/d, Energy World informed, citing data from the Chinese General Administration of Customs.

Russia remained as China's second-biggest supplier with shipments of 4.29m tons, or 1.12mb/d, a gain of 4.5% compared to a year earlier.

Nigeria to Boost Gas Reserves

Nigeria Liquefied Natural Gas Company (NLNG) announced that it could unlock three times as much gas as the country's proven reserves and create hundreds of thousands of jobs if it goes ahead with a proposed expansion plan, Reuters reported.

NLNG currently operates six trains, including liquefaction and purification facilities. According to Gulf Oil and Gas, the company's CEO, Tony Attah, stated that NLNG was ready to add another two trains. The construction of trains 7 and 8 would require a total investment of as much as $25b, Attah added.

Nigeria has the world's ninth largest proven gas reserves with 187tcf. NLNG's CEO stated the company estimated "scope for reserves of 600 tcf" if the firm manages to expand. Furthermore, he affirmed the investment would generate 800,000 new jobs.

However, Attah also warned that train 7 needed assurances around supply, since the six existing facilities were not full, on an annual basis. "We need a billion dollars worth of investment upstream to keep trains 1 to 6 up," he said.

NLNG, which has 23 liquefied natural gas (LNG) carriers, has generated $85b in 17 years with assets of more than $13b.

This comes in line with the national plan to expand investments in the gas sector. Nigeria's Vice-President, Yemi Osinbajo, has unveiled a public-private partnership industrial plan valued at $20b for the development of gas based industries in Nigeria's Niger Delta region, Premium Times reported.

Tagged the Gas Revolution Industrial Park (GRIP), Osinbajo, according to his spokesperson, Laolu Akande, disclosed the industrialization plant at the State House in Abuja during his meeting with the project development partners, a consortium of 500 companies including GSE&C of South Korea, the China Development Bank, Power China and several others global operators from Asia and the Middle East. Osinbajo also said that the GRIP is located at Ogidigben, Delta State, and envisaged to be a regional hub for all gas based industries.

Furthermore, Nigeria is currently planning to export gas to Morocco and other countries along the sub-Saharan region, Nigerian Watch wrote, citing the Presidential Committee on Fertilizer Initiative. According to the initial plan, Nigeria will seek signing a treaty with several other nations as well, that may have the need of the natural resources, Today informed.

Kenyan KPC, KPLR Sign 3-Year Lease Agreement

Kenya Pipeline Company (KPC) has signed a 3-year lease agreement with Kenya Petroleum Refineries Limited (KPRL) as it looks to expand the country's oil storage capacity, Procurement & Logistics Online reported. According to Citizen TV, the move to lease comes after a tussle between the two state agencies that slowed down the acquisition process. The country's Ministry of Energy had initially wanted KPC to acquire the KPRL facilities and convert it into an oil storage facility as Kenya gears up for commercialization of its crude oil. However, in the new lease agreement, the two companies will work in partnership with expected development of the current and new infrastructure. The plan is to use KPRL to increase the country's oil storage capacity.

Nigeria's Oranto to Invest in South Sudanese Oil

South Sudan's government announced that it granted Nigerian Oranto Petroleum International Company a license for oil exploration in a block covering three states that may contain huge oil reserves, reported Energy Voice. Oranto's investment amounts to $500m allocated to develop South Sudan's Block B3, launching a comprehensive exploration campaign starting immediately. The Ministry of Petroleum of South Sudan and Oranto Petroleum Company signed the exploration and production sharing agreement for the block in Juba in March 2017, according to Globe Newswire. Petroleum Minister, Ezekiel Loi Gatkuoth, informed reporters: "They will immediately start exploring this block. We believe the petroleum resources of Block B3 are vast."

Aminex Discovers Gas at Tanzania's Ntorya-2 Well

Oil exploration and production company Aminex announced that, during the production testing on the recently drilled Ntorya 2 well in Tanzania, the area is believed to contain a significant volume of gas, as no formation water was produced, Tanzania Invest informed.

Ntorya-2 was drilled in the onshore Ruvuma Basin of southern Tanzania, on the Mtwara License, which is governed by the Ruvuma Production Sharing Agreement. Aminex further explained that limited test flow rates with a 40/64" choke produced "dry, high quality gas" at an average stable rate of 17mcf/d, or 2,833b/d of oil equivalent.

According to the company's CEO, Jay Bhattacherjee, the overall results of the well have "substantially exceeded Aminex's expectations," Rigzone wrote. "Now we have the potential for a commercial development project in the Ruvuma Basin," Bhattacherjee announced.

As he explained, Ntorya-2 is currently being suspended for future production. "The Ntorya-2 test clearly supports our belief that there is a considerable gas basin to be exploited in our Ruvuma onshore acreage," he added.

The well was drilled to a final total vertical depth of 9,169 ft. At 8,507 feet, the well encountered a gross gas-bearing reservoir unit of approximately 167 feet.

Tullow Sells Uganda Assets to Total

UK's Tullow Oil plc announced that it agreed to farm-down 21.57% of its 33.33% interests in the exploration areas 1, 1A, 2 and 3A in Uganda to Total E&P Uganda B.V. (Total) for a total consideration of $900m, Euro-Petrole reported.

According to Oil News Kenya, CNOOC Uganda Limited (CNOOC) has notified Tullow that it has exercised its pre-emption rights under the joint operating agreements between Tullow, France's Total, and China's CNOOC.

CNOOC will acquire 50% of the interests, while the shares at stake will be transferred to the French company on the same terms and conditions that were agreed between Tullow and Total, including the amount, structure, and timing of the consideration payable to the British firm.

Tullow will work with Total and CNOOC to conclude definitive sale documentation in relation to the farm-down. The completion depends on the fulfillment of certain conditions, which include the approval of the Government of Uganda.

Once the farm-down is completed, the British group will cease to be an operator in Uganda, but will retain a presence in the country to manage its non-operating positions.

Oyster to Commence Exploration in Djibouti

Oyster Oil and Gas Ltd. announced early March that it has received Djibouti government's approval to commence the Phase III of its exploration contract at the country's Block 1. The Production Sharing Contract between the company and Djibouti stands for three years and is set to end in February 2020. According to Oil News Kenya, Oyster has undertaken extensive exploration activities across its four exploration blocks in Djibouti over the past five years; however, the main exploration focus has been on Block 1 since 2016. Located in the southeast part of the country, the block is substantially onshore, but also includes the adjacent offshore acreage, Access Wire reported.

Nigeria's Dangote Oil Refinery to Operate by 2019

Nigeria's $12b Dangote Oil Refinery, which will be the largest in the world slated for Lagos, will be in full operation by 2019 and is expected to produce 650,000b/d of oil, All Africa reported. According to Construction Review Online, the oil plant will also have the largest sub-sea pipeline infrastructure in the world. The project, which is located in Likke Free Trade Zone in Lagos, has three phases, with the first one to be ready by the end of 2017, the second phase, which will entail actual construction, will end in 2018, and the commencement of operation of the refinery is scheduled for 2019. The project is expected to create 60,000 jobs. Once the refinery commences full operations, it is set to benefit many countries, including Zambia, in the imports of the commodity.

ExxonMobil to Buy Eni's Stake Offshore Mozambique

ExxonMobil Corp. announced it will buy 25% of a liquefied natural gas (LNG) project offshore Mozambique from Italy's Eni for about $2.8b, as the US oil giant expands its worldwide LNG footprint, Bloomberg reported.

Eni, which is selling stakes in a number of fields to fund development of its other projects, is currently the operator of Mozambique's Area 4 where it has a 50% indirect stake, held through Eni East Africa, according to Reuters.

The concession, where Eni discovered gas in 2011, holds as much as 85tcf of gas.

Under the deal, Eni will continue to lead all upstream operations in the area, while ExxonMobil will be in charge of building an LNG gas plants. However, the Italian major said it will remain in charge of building the floating LNG plant in the Coral field, which is part of Area 4.

The Area 4 project envisages the construction of onshore and offshore LNG plants to export the gas to areas such as India and Asia.

The Italian energy group has been seeking a partner to help bring Mozambique's vast offshore gas resources on global markets and ExxonMobil was seen as the best candidate, because it already had exploration licenses in the south-east African country.

Senegal's SNE Field to Produce by 2021

Australia's FAR Ltd, a partner in Senegal's SNE offshore field, announced early March that the project could start the production process before 2021, earlier than expected and at a higher rate than flagged before, Rigzone reported. According to Petroleum Africa, Operator Cairn Energy Plc and FAR released updates following the drilling of their latest well, SNE-5, which will help the companies and their new partner, Woodside Petroleum, delineate reservoirs and finalize how to develop the SNE field. FAR currently estimates SNE holds 640m barrels of proved and probable reserves. The company's CEO, Cath Norman, stated that "the companies expect to come up with a joint estimate of the field's reserves around June or July."

Aiteo Produces Oil in Nigeria's OML 29

The integrated energy group Aiteo announced it has achieved a peak production of 90,000b/d of oil in one year after its acquisition of Nigeria's Oil Mining Lease (OML) 29, Today reported. World Oil informed that Aiteo acquired OML 29 in September 2015, when oil major Shell Petroleum Development Company (SPDC) fully exited the facility. At the time of the divestment, average production was 23,000b/d, however, Aiteo, affirms it has now tripled this figure. The company's CEO and Vice Chairman, Benedict Peters, noted that several existing and developing projects could potentially grow Aiteo's asset production to over 150,000b/d of oil.

Chevron Produces at Angola's Mafumeira Sul

Chevron Corporation announced that its subsidiary, Cabinda Gulf Oil Company (CABGOC) Limited, has commenced oil and gas production from the main production facility of the Mafumeira Sul project, offshore Angola, Business Wire reported. As informed by Petroleum Africa, the project has a designed capacity of 150,000b/d of liquids and 350mcf/d of gas. Early production from the project commenced in October 2016 through a temporary production system and a ramp-up to full production is expected to continue through 2018. Located 24km offshore Cabinda province, Mafumeira Sul is the second stage of development of the Mafumeira Field in Block 0. CABGOC is the operator and holds a 39.2% interest in Mafumeira Sul. Chevron's partners are Sonangol E.P. (41%), Total (10%), and ENI (9.8%).

Tanzania's Mnazi Bay Reserves Increase

Wentworth announced the results of an independent evaluation of the gas reserves within the Tanzania's Mnazi Bay concession, in which the company holds 31.94% ownership, Globo News Wire reported. Wentworth's Managing Director, Geoff Bury, stated that the report showed an increase in Net Proved Developed Producing (PDP) reserves of 88% and 2P reserves increasing by 20%, Petroleum Africa informed. The results are believed to strengthen the potential of the Mnazi Bay fields. Moreover, the company expects production volumes to materially ramp up in 2018 with the start-up of new power plants.

Sinopec to Buy Chevron's Assets in SA

China Petroleum and Chemical Corp. (Sinopec) is nearing a deal to buy Chevron's South African oil assets for up to $1b to secure its first major refinery on the continent, Reuters informed.

Sinopec, Asia's largest oil refiner, was the last bidder remaining in the transaction, and close to completing a deal with the US oil major, Engineering News reported.

South African government's desire to keep the refinery operating has, nevertheless, proven to be a major stumbling point for buyers, who would prefer to convert the site into a more profitable storage terminal, the sources said.

Sinopec is in discussions with the government on the ways to keep the 110,000b/d refinery in Cape Town running, but talks could still fail.

Chevron's Spokesman, Braden Reddall, said "the process of soliciting expressions of interest in the 75% shareholding is ongoing." The remaining 25% interest is held by a consortium of economic empowerment shareholders and an employee trust.

If the deal is finalized, it will be Sinopec's first refinery asset in Africa, forming a part of the Chinese major's global fuel distribution network.

Total Commences Production Offshore Congo

Total commences production from the Moho Nord deep offshore project, located 75 km offshore Pointe-Noire in the Republic of the Congo. The project has production capacity of 100,000 b/d of crude oil, World Oil reported.

The Moho Nord field, which is the biggest oil development to date in Congo, is developed through 34 wells connected to a new tension leg platform, the first for Total in Africa, and to Likouf, a new floating production unit. The oil is processed on Likouf and then exported through a pipeline to the Djeno onshore terminal, informed Offshore Energy Today.

The facilities are designed to minimize their environmental footprint. There will be no routine flaring and the all-electric design improves energy efficiency by optimizing the amount of power needed to run the installations. All the produced water will be reinjected into the reservoir.

Total is the operator of the project with a 53.5% interest. Its partners are Chevron Overseas (Congo) Limited (31.5%) and the National Petroleum Company of Congo (15%).

Nigeria's Crude Oil Exports to US Triple

Nigeria has tripled the volume of its crude oil exports to the United States from last year, seven years after the US began depending less on Nigeria's crude, Africa News reported. According to Energy Mix Report, the latest data from the US Energy Information Administration showed that the country imported 76.9m barrels of Nigerian oil in 2016, up from 19.9m barrels in 2015. While in 2014, when global oil prices started to fall from a peak of $115 per barrel, Nigeria saw a further drop in the US imports of its crude from 87.4m barrels in 2013 to a record low of 21.2m barrels. Nonetheless, the recent increase in the US imports of Nigerian crude is being threatened as shale oil production gathers fresh momentum on the back of the rally in global oil prices.

FARM-INS & FARM-OUTS ARE SHAPING OIL BUSINESS DYNAMICS

In an exclusive interview with Egypt Oil&Gas, AHMED FARID MOAAZ, Country Manager of SDX Energy Inc., discussed the rationale of oil and gas companies behind farm-in and farm-out deals. In his view, these forms of cooperation in the industry contribute significantly to the country's business growth. Yet, for this to materialize more efficiently, there are still several key issues that the Egyptian government has to tackle in order to streamline the implicated processes and thus generate essential benefits for the country's economy in general and oil and gas sector in particular.

By Nataša Kubíková, Salma Essam

"Egypt has proved to have a well-established, stable system in the oil and gas business, as one of a few states in the Middle East region. Egypt has been associated with the stability in the oil sector in terms of agreements that have been protected by the law."

Given the economic context following the floating of the Egyptian pound, the dynamic of the oil business in Egypt became informed through an increase in farm-in/farm-out deals. SDX Energy's Country Manager, Ahmed Farid Moaaz, explained the reasons behind this recent business trend in the country, the challenges, and the future of the industry.

"When the country was perceived as politically risky from 2011 to 2014, some oil and gas companies took a decision to leave Egypt," said Moaaz. "However, in these political processes, Egypt has proved to have a well-established, stable system in the oil and gas business, as one of a few states in the Middle East region. Egypt has been associated with the stability in the oil sector in terms of agreements that have been protected by the law," as opposed to being exposed to its arbitrary modifications, "even when the government changed," convincingly stated SDX's Ahmed Moaaz.

"The only negative aspect of farming-in deals in Egypt has been a temporary inability of the government to pay off all its dues to the foreign companies regularly," the Country Manager noted. "However, the arrears are well protected by the Egyptian law, and no government in the history of the country has ever before taken a decision to not comply with the payment obligations to foreign partners. Nevertheless, the delays did occur or there were changes in the currency, in which the dues were paid, which have turned some of the companies reluctant to continue their operations in Egypt."

Yet, whereas "some international oil companies (IOCs) refrained from doing oil business in Egypt in the last few years, still others opted to jump in into the sector." This was a tipping point when "farm-in and farm-out agreements started flourishing, even more so than in the previous periods," according to Moaaz.

As he further pointed out, "the farm-in/farm-out deals, besides being a very interesting process, are also very important for the dynamic of the business, by means of which the economy of the country can grow."

Farming In and Farming Out in Egypt

In Egypt, "there are two common ways to conclude farm-in and farm-out agreements," summed up SDX's Country Manager, one of which is closely related to the structures of production sharing agreements between the companies and the Egyptian government.

"In a purchase of an asset, the government and a buying company sign 'a deed of assignment,' which proves that the company has become the owner of the asset. When the company chooses to farm-out or sell the asset, both the farmor and farmee have to approach the government jointly again to add the name of a new company to the list of owners. This process takes about six months, which is a very lengthy procedure, and many companies are not willing to participate in this. In addition, a new clause has been added to the framework of such transactions, which is a fee of 10% of the asset sale value to be paid to the government upon the completion of a farm-out deal. This has added an extra cost to the procedure, which had not been previously factored for in the farmor's and farmee's calculations and has nearly suffocated the processes."

Another scenario for the farm-out/farm-in deals, according to Moaaz, is to sell one of the companies operating under the umbrella of the mother company. These affiliated firms have their own business identities and registrations and in case of a purchase a new owner gains all the shares and all the assets of the company. The government, as Country Manager Moaaz elaborated, is no longer involved in the process.

In either case, however, purchasing a 100% share in a company represents a high burden on a smaller

> **"The farm-in/farm-out deals, besides being a very interesting process, are also very important for the dynamic of the business."**

player. From this perspective, the farm-in/farm-out deals provide a leeway for almost all the companies, both small and large, to acquire potentially productive assets at a lower expenditure and thus guarantee to limit implicated risks through shared assets. Such a business model is preferable in the oil and gas industry, as Moaaz emphasized. Following upon a concluded deal to come together and share ownership of an asset, the involved parties sign a Joint Operating Agreement (JOA) defining the exact shares and obligations of each of the partners, which is then approved by the government.

Risk-Sharing Rationale

The rationale that surrounds the farm-in/farm-out deals comes in different shapes and sizes. According to the Country Manager of SDX Energy, "some companies face financial issues, which is the main reason [for them to opt for a farm-out] or they cannot win a new concession or they evaluate their current asset without positive prospects and decide to drop it."

"When a company's asset is not yielding positive cash and forecast for a specific concession is negative, another larger company, with higher overheads and capital, and a different business model, may view the same concession differently," further explained Moaaz. Global giant firms are better capable of operating certain assets than smaller companies for which these generate lower net profit due to high operating costs. The less optimistic balance sheet of costs and profits is one of the main reasons, for which companies resort to farm-outs.

Another essential reason, as Moaaz continued, is "when a company sees no up-side in a concession it possesses and forecasts low or no potential to find more producing areas." On the other hand, in these cases, another company may estimate positive production outlook in the same field and agrees to farm in. As an example, Country Manager Moaaz, pointed to Shell Egypt that "had farmed out an area in its Western Desert concession, as the company believed that it was not worth the investment, and a Tunisian company farmed in into this relinquished area; as a result, its production amounted to $400 million worth of output." The Tunisian farmee has concluded a successful deal.

Oil and gas companies thus clearly have a choice between, on one hand, offering an undesired area as a whole through a public tender to another company, once this area becomes uninteresting for the player's business plan, and, on the other, selling parts of the concession zones through a farm-out deal to another firm. Bidders who may become interested in the farmed-out areas commonly first "evaluate the seismic data and choose to bid when they notice that the previous owner overlooked some existing potentials," Moaaz noted. "This is the best thing in the oil business. There is always a chance for a company to think of a different concept for a play that the previous operator did not see."

This scenario can also occur when the company simply decides to modify its business strategy, according to which it sells the entire asset in order to redirect its capital and capacities elsewhere, as Moaaz summarized.

Another reason for farming-in and farming-out is "high risk areas" and companies tend to choose to share these risks, which, according to Moaaz, is "a very wise policy." "Mitigating risks by taking only a 50% share of an asset, while finding a collaborator or several collaborators to split the remaining 50% in these risky areas, can sustain operations for longer," he explained.

Financial difficulties that the companies may face, rendering them unable to continue developing their plays, unoptimistic prospect of the assets, or an objective to mitigate risks are the key factors that motivate farm-in/farm-out agreements.

Pondering the Challenges

For these agreements to generate the desirable effect, the wordings have to be "very clear in defining responsibilities and accountability of the operator and non-operator(s)," Moaaz further stated. The clarity of the farm-in/farm-out agreements can be achieved through several steps, most importantly, "there will always be a Joint Operating Agreement (JOA) signed between the partners," that will frame any future cooperation.

In addition, "the farming-in companies have to do their due diligence in the process to not overlook any items of the deal and in order to be aware of the exact financial commitments that would arise from the agreement, as there are always issues behind the deal such as taxes, liabilities," revealed Moaaz. To illustrate this point, he further pointed to a recent example of an unnamed company that has gone bankrupted over a farm-in/farm-out deal in Egypt. The company was interested in farming in into an asset of a more senior operator in Egypt, yet, after the deal between the companies was stricken, the company could not have acquired necessary approvals from the Egyptian petroleum authorities. Therefore, as he stressed, for a successful completion of such a deal, "knowing how to do the legal process is more important than anything else."

There is no hesitation as to the fact that farm-in/farm-out scenarios can be profitable to both parties, as SDX's Country Manager said, explaining the financial benefits of the deals in more details amidst the existing and possible challenges. Hence, for a deal to be successful, "the farmor has to evaluate the asset value and identify its target for such a sale to meet the desirable objectives." On the other hand, "the farmee has to be absolutely sure about its economic model as in the purchase expenses and the costs of the process itself, as well as about its future plans and calculations regarding the costs and profits that the asset can generate." Having a diligent economic model for the entire process and purchased asset with all external and internal financial factors carefully calculated, mitigates the risks of the agreement.

> **"When a company's asset is not yielding positive cash and forecast for a specific concession is negative, another larger company, with higher overheads and capital, and a different business model, may view the same concession differently."**

As Moaaz affirmed, "even though some of the external factors cannot be forecast and they are not under one's control, yet, the companies have to have some kind of a vision as to how the market may shift and what may happen." It is, therefore, that Ahmed Moaaz recommends "the economic model should include sensitivity for oil prices to be able to tell where a breaking point is." Furthermore, "it has to include the factor of possible problems with receivables from the government and the consequence of failure" against the initial project plans and the outputs predicted.

In other words, the economic model itself is fully under the control of the farming-in company, and market indicators can bring in optimistic results. Therefore, speaking of external economic factors in the Egyptian context, it is to be noted that the recent floating of the currency in November 2016 has "affected everybody" from among investors in a positive sense, as the business environment resulted in all oil and gas players gaining extra capital. In this regard, the floating has immensely contributed to the oil and gas business in the country and, as Ahmed Moaaz stated, "the floating of the pound has been even more encouraging for the farm-in processes."

Nonetheless, with a future prospect in focus, "the [farm-in/farm-out agreements] process needs to be optimized here in Egypt as there are still many issues that need to be addressed and streamlined. The government can facilitate these improvements through educating people in the processes and shortening the present timeframe for the agreements," Ahmed Moaaz concluded.

Farm-ins, Farm-outs:
Reasons, Complexities, and Challenges

Country Manager of Rockhopper Exploration plc in Egypt, SAMIR ABDELMOATY, shared his views on the farm-in/farm-out agreements and revealed the challenges in the processes that the companies face in the existing economic environment.

By Nataša Kubíková, Salma Essam

Reasoning behind Farm-Outs

There are four mains reasons for companies to consider the reduction in the interest of their property through a farm-out option, according to Samir Abdelmoaty.

First reason is "the change of the company's strategy," that may revolve around a focus of business, explained Rockhopper's Country Manager. For instance, if a company decides to invest in the domestic market, it would be divesting all international assets.

Another reason for a farm-out deal is that "some companies are trying to get rid of the tails of their portfolio; these are the smaller assets with a lower rate of return on investments, a limited scope of activities, or high cost assets." An example of such a rationale is "what BP did in the North Sea and what they are also trying to do in the Gulf of Suez," he added. "Major oil companies have huge portfolio and they have fields with high production levels, but,

"THE FARM-OUT IS A LONG PROCESS."

eventually, the fields turn mature and production is declining. Simultaneously, the cost of operation gets higher and the return on the investment drops." As he further elaborated, "these types of fields also require greater attention from the company's technical team that can be otherwise allocated to a more profitable concession. The company thus tries to replace the tails of its portfolio with more promising assets." This is the point when a farm-out plan can materialize.

Third reason can be the fact that "some companies need a partner for technical expertise for their specific concessions and for the partners to share some of the risks with them," Samir Abdelmoaty said. This will also "increase the number of experts in the field and bring in more advanced technologies into the field for a farmor."

"Some companies are trying to get rid of the tails of their portfolio."

A possible fourth reason for companies to choose a farm-out path is that "some companies need financial assistance. In general, they have a good asset, but they do not have sufficient funds to continue its operation."

This reasoning commonly leads to a farm-in/farm-out agreement. "The basic terms of a farm-in/farm-out agreement are the same as in the standard sale purchase agreement (SPA). The terms specify the amount of financial obligations to be paid for the working interest the two parties are selling/purchasing," explained Samir Abdelmoaty.

Following a signing of such an agreement, "the involved players draft a Joint Operating Agreement (JOA), which further governs the relationship between the two companies, including the decision making processes, the voting rights for each party, budget approval mechanisms, individual operation approvals, decisions on drilling wells etc."

"The Joint Operating Agreement is an important [part of the farm-out deal] that will bring together any gaps in the farm-outs."

Possible Complications

While these processes seem rather straightforward, there are multiple complications that can threaten a profitable business plan. "The complications may be noticeable in relation to the farmor's employees," whom the company may request to accommodate by the farmee, after the farm-out process is completed, as Rockhopper Country Manager pointed out. Although the scope of involved obligations and commitments that stem from the farm-in/farm-out agreement necessarily depends on the percentage share the farmee is taking, and which of the parties will become the operator of the negotiated asset, the disputes are almost a daily routine. These relate to a variety of issues such as payment obligations, infrastructure and others.

"The payment obligations agreed upon between the farmor and farmee can come in different forms; either as a cash commitment or part in a work program and part in cash or at a later stage, once production commences," shared Samir Abdelmoaty. Therefore, the disputes come to light less in relation to the finances that are precisely specified, and more often with regard to the situations when an asset comes with "a complicated infrastructure, mature areas, liabilities, or other legal issues."

In order to minimize these potential disputes, "the farmor has to disclose all liabilities from third parties that would be tied to the asset and provide warranties for the farmee that there are no loans associated with the asset, no arbitration or no legal suits pending." In fact, it is both the farmor and the farmee that have to declare to the other side their existing obligations and provide required warranties. Such a declaration by the two parties is a basic factor that should ensure a successful transaction.

As disputes may likely occur, especially after the drafting process of the farm-in/farm-out agreements is completed, possibly in cases when there is no alignment among the farm-in/farm-out partners, there is another defined safety net in the form of JOA. "That is why the JOA is an important agreement that will bring together any gaps in the farm-outs," according to Abdelmoaty. Nonetheless, he continued, "disputes may still surface especially when the parties interpret the terms of the JOA, which sometimes leads to arbitration." However, arbitrations are lengthy and costly processes, therefore, the companies opt to resolve their disputes alone.

Challenges for Farmors and Farmees

Beyond disputes, there are other challenges that the oil and gas companies face when farming in and out. As Country Manager Abdelmoaty elaborated in more details, the farmor should consider the following aspects: "the overall strategy, the number of partners, the timing, the target group of companies or a public tender, what percentage to be given away, the objectives such as technology, cash, financial strength, which can be achieved through a targeted selection of a partner etc." Based on these objectives, "a company may identify a single partner or several partners in order to reduce competition in the market," clarified Samir Abdelmoaty.

Furthermore, as he added, for a farmor, there is a need to "frame the farm-out carefully and in the right way." This means that the overall objective is crucial to overcome a challenge in preserving the company's reputation. It can be defined by "the relationship with the government" or "a possible previous failure in the concession."

Another challenge relates to the framework of the agreements. Currently, in Egypt, "the farm-out is a long process," mainly in terms of the bureaucracy, affirmed Samir Abdelmoaty. To ease this process, achieving clarity of the agreement is essential. That is why the farmor and farmee should require relevant declarations from one another before any preliminary deals are outlined.

Similarly, the timing of the deal can pose conundrums, most importantly, because this can be affected by economic, political, and industry factors, as Abdelmoaty noted. This also necessarily relates to the global oil prices and regional industry dynamics. For instance, "when the oil prices are low, the market turns into 'a buyers' market'," however, the rationale behind the farm-outs in this environment is questionable, unless forced by the financial stability of the company. In Egypt, there have been cases of buyers in the oil and gas sector, as Abdelmoaty pointed out, who decided to purchase assets to add value to a concession, but only to then sell off the property to generate cash, not with an intention to produce oil in the country and contribute to the overall economic recovery.

"The payment obligations agreed upon between the farmor and farmee can come in different forms; either as a cash commitment or part in a work program and part in cash or at a later stage, once production commences."

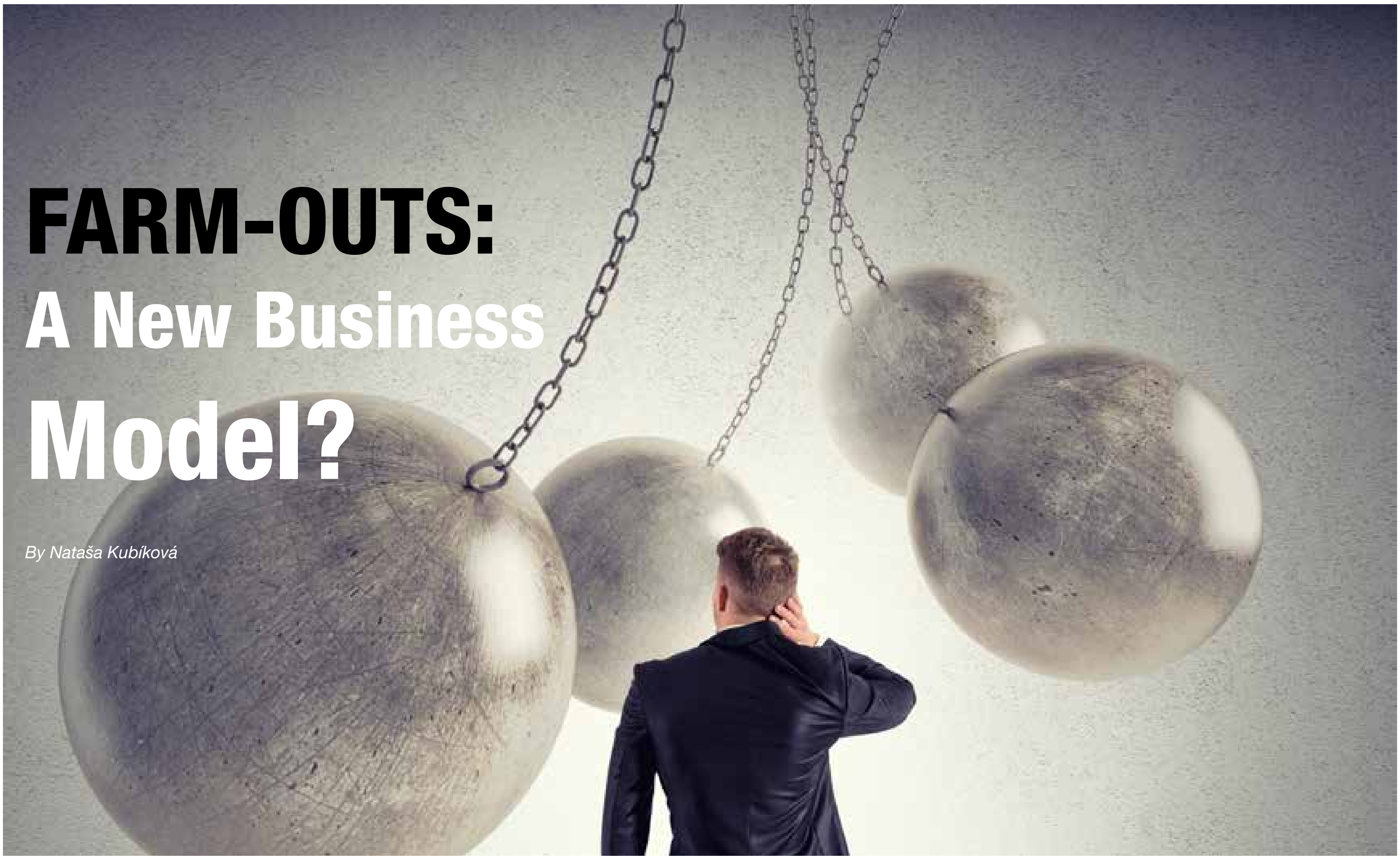
Optimistic Vision

Nonetheless, Rockhopper's Country Manager is optimistic about Egypt's oil and gas industry, farm-ins and farm-outs regardless.

As he said, "we still have to do more studies to find new hydrocarbon resources in new untouched basins like the Red Sea, the western side of the Mediterranean area and in Upper Egypt. Also, within the existing basins, we still have not explored and tested all the zones." What is also optimistic, he continued, "we still find new oil in the Morgan field after sixty years of the drilling." Continuous production from the mature fields in the country showcases a strong potential for the future. Moreover, "there are a lot of unconventional fields in Egypt; both oil and gas, and we need to encourage companies to invest in the unconventional plays."

"The farmor has to disclose all liabilities from third parties that would be tied to the asset and provide warranties for the farmee that there are no loans associated with the asset, no arbitration or no legal suits pending."

In light of that, the current production sharing agreement seems to not be the best suitable model for the development of these plays. Therefore, Abdelmoaty explained, Egypt needs new agreement models to allow the unconventional resources to be developed and to compensate operators to make returns on their investments. Through these measures, the conditions for farming in and farming out will also likely promise improvements and encouragement for the private sector, especially, as the Petroleum Ministry is currently working on changing the agreement model under the umbrella of the comprehensive and complex Modernization Program.



FARM-OUTS: A New Business Model?

By Nataša Kubíková

The last tumultuous years in the global oil industry have unleashed the power of creativity performed through smaller and mid-size independents. This wave of alternative approaches is likely to continue.

Previously, the oil and gas business was run by international oil giants (IOCs) in a rather conservative manner for decades, ending up on its knees with a gigantic burden of low oil prices hovering above it. While under the weight of the 12-year low crude price, the international oil and gas market was counting its winners and losers almost on a daily basis. This has led many firms to re-strategize their businesses and search for new methods to withstand the pressures.

Amidst these challenges, mid-size independents have been the ones who have set a new trend for the business. "The mid-2000s saw a wave of independents flock into the [MENA] region, seeking to catalyze on the potential to acquire sub-giant fields in these notoriously IOC-dominated countries," noted Samuel Merlin in a recent analysis for Gulf News. The impact of the independents' business model has been noticeable in Egypt as well.

Standard Oil Transactions Declining

In the low crude price environment, some of the companies divested high cost assets and redirected their investments to areas with lower production costs in order to maximize their profits. For some of them this had turned into a struggle for survival.

Given the restricted business conditions, the global upstream sector had to shift from "opportunistic mergers and acquisitions (M&A) to capital discipline and targeted transaction activities," wrote Ernst & Young Global Limited (EY) in its Global Oil and Gas Transactions Review 2015, "as those with stronger balance sheets [restructured and] focused on portfolio optimization and acted conservatively in light of oil price volatility."

This reflected on the volume of oil and gas deals that has been decreasing since the mid-2000s at a striking level, according to EY's 2015 Review: "Total global reported deal value declined in 2015 to just under $380 billion, a reduction of 17% compared with 2014, while the total number of oil and gas transactions declined by almost 33%."

The November 2016's OPEC – non-OPEC freeze plan significantly helped to re-bounce the declining trend, yet, the overall M&A deal volumes were still depressed, the EY's Global Oil and Gas Transactions Review 2016 summarized. As M&A were sidelined, the priority for the companies was to delineate a new path that will sustain their businesses. Currently, "the oil and gas industry continues to reconfigure its business model to enable to sustain and grow in a low oil price environment," further explained EY.

In these attempts, the oil and gas players had to venture alternative tactics, even if those were to function only temporarily, as urgency calling for un-traditional approaches was felt strongly across the globe since mid-2014. Hence, the oil and gas firms sought new forms of partnerships and deemed diversification of their portfolio as a necessity. As a result, this has opened a gap in the market allowing for smaller and mid-size companies to make their way through as influential partners, equal to giant IOCs.

While rising to prominence, indeed, the role of junior oil actors contributed majorly to setting up a new creative business model, inspiring others to refrain from the old style of running the business with its established certainties, as today there are truly none left to rely on anymore.

From Portfolio Rationalization to New Partnerships

In identifying new business parameters, major oil and gas upstreamers re-evaluated their massive projects. EY wrote in its 2016 Review that "the majors have been engaged in portfolio rationalization. The stress placed on their balance sheets by the price downturn and the implicit obligations to maintain dividend distributions have, if anything, accelerated the focus they place on this activity."

As it turned out, IOCs' strategy to diversify and integrate internally was the first step towards sustainability. "Lower commodity prices have forced companies to re-evaluate their portfolios, diversify or close non-core or underperforming assets while pursuing vertical integration and scale," further noted EY. Yet, "this impact of 'flight to quality' and 'equity compression' has meant that companies with low-risk portfolios and thus lower cost of capital are able to leverage this position to expose themselves to higher-risk and higher-return assets," which necessarily opened up a door for newcomers from among the independents.

"In a lower for longer environment, the ability to find oil has in many ways become secondary to the ability to produce it cheaply. In this context, low-cost basins that the shifting geopolitical landscape has opened to participation have proved attractive," analyzed EY in 2016.

In line with that, in many cases, IOCs identified the need to opt for an alternative form of partnerships that would enhance cheap production. This came to be framed through farm-in/farm-out deals with a plethora of mid-size independents.

> "THE OIL AND GAS INDUSTRY CONTINUES TO RECONFIGURE ITS BUSINESS MODEL TO ENABLE TO SUSTAIN AND GROW IN A LOW OIL PRICE ENVIRONMENT."
>
> **Ernst & Young Global Limited**

Farming out of interests in certain oil and gas concessions, the companies found new collaborators and with their help sought to minimize corporate risk. Having multiple oil companies partnering on the development of large concessions, with a vision to generate higher returns on investments regardless of the market environment, has proved as a wise strategy that can generate considerable benefits for all parties.

Oil and Gas Junior Independents

Junior partners thus became key trend-setting actors. "The country seeing the biggest wave of independents flocking to the market is Egypt," the Gulf News' analysis argued. And these "junior exploration-and-production companies are well positioned to capitalize on the [current] investment environment," as The Oil & Gas Year indicated already in 2015, especially in the context of low crude prices.

They can benefit from the current environment thanks to their smaller balance sheets, which they have turned into an advantage in the Egyptian industry. These firms have a large appetite for investments, yet, their financial limits make smaller assets preferable, which is a suitable option for the country that eagerly eyes new investments to tap into its unexplored, even if smaller, concessions with strong hydrocarbon potentials.

From the perspective of a newcomer to Egypt, Tom Maher, President and COO of Apex, acknowledged to Egypt Oil&Gas in an interview that the appetite for investments is there and enthusiasm behind the company's first bid in 2016 is enormous. "As a new US-based E&P company entering Egypt in mid-2016, Apex was very fortunate to receive its Commercial Registration from Egypt's relevant authorities just days before bids were due in the 2016 EGPC Bid Round. On December 1st, 2016 Apex was awarded two of the six Western Desert blocks that EGPC placed for bid. EGPC expects these new concessions to be approved by Parliament and ratified into law by June of this year."

"JUNIOR EXPLORATION-AND-PRODUCTION COMPANIES ARE WELL POSITIONED TO CAPITALIZE ON THE [CURRENT] INVESTMENT ENVIRONMENT."

The Oil & Gas Year

Although Apex relies on an initial investment commitment of up to $500 million from Warburg Pincus, other companies stand face to face with a rather constrained capital. "Many of the mid-size to smaller E&P companies in Egypt are suffering from lack of capital to meet their work commitments and increase their production," said Tom Maher. These smaller players thus had tougher times to confirm their position in the market, which until recently has been dominated by global majors.

In this respect, smaller to mid-size oil and gas firms had to strategize between their participation in Egypt's bid rounds to acquire new concessions, on one hand, and partnerships with others in their working interests through farm-outs, on the other, with a considerable success.

In May 2015, DEA Deutsche Erdoel AG's farm-out deal with BP of its $12 billion South Disouq project in the West Nile Delta (WND) helped to better balance the company's portfolio. The deal included the sale of a portion of DEA's stake in the ongoing Phase 1 development of 5tcf of gas resources, wrote Offshore Energy Today. Thomas Rappuhn, CEO of German-based DEA, stated to media that "recognizing the world scale of the development, divestment is in line with our strategy to manage risk through greater portfolio diversification." Hence, by simplifying the holdings to as low as 17.25%, DEA has achieved efficiency and its field cost management improved.

Affirming Juniors' Market Influence

In the recent period in Egypt, the perception of smaller and mid-size oil and gas firms has significantly changed. "New players, whether big or small, provide the Egyptian oil and gas sector with much needed capital to invest," Apex's President and COO noted. Yet, smaller companies may seek better capitalized partners, and they are therefore open to forge partnerships with oil majors through mainly farm-outs or possibly through farm-ins in concessions with low production costs that IOCs may deem uneconomical. As Maher continued, "Apex, with its up to $500 million line of equity from Warburg Pincus and Egypt operating experience, can potentially provide these [smaller] companies with a total exit or a capital infusion in a win-win partnership. This is good for Apex, good for the company needing access to capital, and good for Egypt that is trying very hard to attract foreign direct investment."

Whether with a higher or lower initial capital, smaller and mid-size companies as well as all new actors can contribute to the development of the Egyptian industry by becoming a reliable partner of oil majors. In this regard, Tom Maher noted: "Apex would be happy to partner with larger players, including Apache, Shell, and Eni in the Western Desert, should those larger companies be interested in selling down or farming down of their positions to deploy capital in other areas." Providing a safer net for international giants who may decide to divest some of their smaller concession areas, active junior companies prove their influential position in the market and allow for a larger portfolio diversification across the oil and gas sector.

New investors simply have an added value to the market, because bringing in fresh capital, smaller or bigger, does not only mean huge cash, it also implies brand new attitudes, creativity, and boldness to apply untested approaches and expand E&P activities beyond the standard production zones. As Tom Maher added, "our award of the two blocks comes with a significant investment commitment to explore," and therefore, "we are actively looking to acquire producing assets in Egypt."

Juniors Farming-out

Given their limited funds, smaller or newer companies to the Egyptian market thus seem to be jointly establishing a new business model as an inspiration of today, but, possibly, as a necessity of tomorrow. Even when not ready to farm-out their freshly acquired acreages in the Egyptian concessions, this eventuality is highly likely to occur in the near future as the companies would need to free some of its capital to make new acquisitions. "Farm-outs of high-interest concessions could help leverage further investments in other Egypt opportunities and thus spread risk to multiple investments," affirmed Maher. In case this scenario materializes for Apex, the company's President hopes that "any partner we might bring in could offer Apex other investment opportunities," which would be a pre-requisite for win-win transactions and lasting partnerships.

Besides the opportunities to boost the company's capital, indeed, as he further elaborated, "farming out of interest in exploration blocks can be an effective means of mitigating risk and raising capital." However, as Apex's President Maher also explained, the timeline of the company's strategy is subject to change: "At this point Apex is more interested in receiving the remaining subsurface geological, geophysical and engineering data on our two blocks to complete our evaluation before considering farming down our 100% working interest. Apex is well capitalized to execute our work program and financial commitment for both blocks, so any consideration on farming down to bring in a partner(s) would be made after better understanding the risk/reward profile."

"FARM-OUTS OF HIGH-INTEREST CONCESSIONS COULD HELP LEVERAGE FURTHER INVESTMENTS IN OTHER EGYPT OPPORTUNITIES AND THUS SPREAD RISK TO MULTIPLE INVESTMENTS."

Tom Maher

President and COO, Apex

Creativity in Oil Business

Smaller and mid-size companies are forced to approach their financial assets more creatively by economizing and strategizing their capital. These two features show that their new business model comes with bigger flexibility and diversity in order to prove successful. As EY argued, the low crude oil prices prompted IOCs and independents into action through a variety of tactics. Business performance visibly shifted "from defensive survival tactics to those actions required to be market leaders and winners." Hence, with new players in the picture, who have contributed to the alternation of the business transaction structures, there is a clear indication that the oil and gas industry will, in the foreseeable future, be informed by "transaction excellence" as a key for success, predicted EY in its 2017 outlook. "Transaction structures may increase in complexity as swaps and strategic alliances become more common." In addition, as EY continued, "transactions with milestone payments rather than pure cash up front may become the norm," which serves smaller and mid-size companies better in order to help them establish their business portfolios even with a lower capital level.

Accordingly, "the oversupply of farm-outs with near-term capital requirements is likely to continue," with the overall objective to generate larger profit in the existing conditions. As Apex's President concluded, the company's "mission (motivation) is to grow a profitable E&P company of scale by investing in a mix of exploration, development, and production enhancement activities." And this can come in different forms; farm-out deals being one of several likely options.

Therefore, in consequence, the support of smaller and mid-size companies by the Egyptian petroleum authorities may prove inevitable for the exploration and production from a range of "low-risk onshore assets with low operational costs in an environment with limited competition," as the Gulf News' analysis suggested. The success of such a dynamic business model is not certain, however, the prospects can be positive, if the turbulent forces, which have been dictating the path for the industry worldwide in the past decades, are accommodated.

CHALLENGES OF FARM-OUT AGREEMENTS

By Salma Essam

Unlike micro-businesses, oil and gas projects are established upon long term cycles, taking the operators many years to fulfill. The existence of recoverable reserves acts as an obsolete uncertainty to the petroleum industry, particularly in the exploration and production phase. In several occasions, therefore, upstream companies resort to tackle this uncertainty by divesting all or a part of their possessions in certain concession areas to another partner through farm-out agreements. Nevertheless, reconciling the competing interest of the farming-out party (farmor) with those of the farming-in (farmee) is associated with many challenges that could be contained by successful partners only.

The Level of Uncertainty

There are plenty of purposes for venturing farm-out agreements, with the need for financial assistance, technical expertise sharing, and a change in the company's strategy being the main reasons. However, the genuine motivation behind a farm-out agreement comes from the farmor's desire to shift the risk to another party, while the farmee seeks to leave as much of that risk as possible to the farmor, as the former generates profits.

When the farm-out agreement is being drafted, both parties have to reach a common ground, where interests on both sides are maintained. Yet, the level of uncertainty poses a huge risk, and the

> **"The balance struck between the parties to a farm-out agreement will reflect the point at which the sale and purchase of the concession interest is affected."**
>
> **ANDREWS KURTH KENYON, 2014**

higher the uncertainty is, the weaker the agreement tends to be; the likelihood of disputes arises. A lack of certainty for the existence of proven hydrocarbon reserves results in unequal interests between the two parties, which would even risk finalizing the agreement. As Andrews Kurth Kenyon's article - De-Risking Petroleum Exploration and Production – The Farm-Out Agreement, published in 2014, stated, "the balance struck between the parties to a farm-out agreement will reflect the point at which the sale and purchase of the concession interest is affected."

The level of uncertainty in a specific concession area will reflect the fiscal terms the farmee is willing to provide as a condition to farm-in and set ground for the farmor's expectations. This means that if a concession is poorly assessed it will certainly result in a lower level of consideration to be paid by the farmee, as a condition for taking part in the concession. Similarly, farmor's expectations are associated with the potential degree of the asset. Revealing possible high proven reserves may turn the compass to the farmor's benefits, consequently, increasing his headline level of considering high interest to be achieved from the concession. Thus, in both cases, the negotiating strength of the parties is of extreme importance in formulating a coherent agreement that guarantees mutual interests.

> **"Disputes happen after the drafting process of the farm-out agreements is concluded, especially, while interpreting the terms of the JOA."**
>
> **SAMIR ABDELMOATY**
> Country Manager of Rockhopper Exploration Egypt

Carried Costs

The financial incentives play a key role in the farm-out agreement. According to Andrews Kurth Kenyon, the financial value obtained from the farmee could take different forms including "the recovery of costs already expended on a project, the deflection of costs that will need to be incurred on a project in the future, and the generation of a pure profit element from a concession or project."

The terms of the farm-out agreement articulate the means, through which a farmor would take this value. Yet, the most serious challenge that occurs is the repayment of this structured value. Indeed, the carried costs paid by the farmee to the farmor - and whether or not these costs are to be repaid to the farmee - form a matter of consideration in the negotiations between the farming-out and the farming-in parties. Even though disagreements may take place while deciding upon this issue, mitigating this risk could be achieved by adhering to the specificities in defining the costs incurred.

Next to agreeing on and drafting the extent of the carry, which the farmee is offering, including potential caps on intended carried costs and settling on unspent costs; it is important to include well-formulated terms in the agreement to determine the attribution of the unspent cost i.e. whether the unspent carried costs should stay entitled to the farmor or remain with the farmee.

Deferred Payments

Another challenging issue, that correlates with the farm-out agreements, is when the farmee happens to defer part of the consideration to be paid to the farmor upon completion of the transaction. This is a method that farmees adopt to guarantee the elimination of a defined risk, to which they may be subjected to. When premiums are not paid in recognition of the payment, deferral can bring about serious concerns to the farmor. The problem is that sometimes even risks occur when there is a justifiable non-payment reason. Even though the deferred payment tends to be unappealing to the farm-out party, there are some measures that could be taken to mitigate this risk.

It is thus important that contingency events, that allow deferred payment, would be carefully defined; one of them being the reserves enhancement. This is an event where the deferred consideration is warranted under the condition that an independent third party ensures the existence of specific quantities of petroleum in a concession area. This happens through "a recognition of the migration of contingent resources to reserves through the gradation of reserves probabilities (3P to 2P; 2P to 1P), in each case by reference to an agreed method of petroleum classification," as explained in the Andrews Kurth Kenyon's article.

A second contingency event, namely Development Milestone, requires a deferred payment when a major development of the project agreed upon between the partners is accomplished in a determined timeframe. This milestone can include many examples such as a major commercial discovery or a governmental approval for a field development plan.

A third event is Production Milestone. The number one objective of operators is to achieve optimum quantities of production. In addition, the production milestone is a multi-level event and can take place throughout the lifecycle of the project. One of the essential measures is to ensure that this event satisfies the conditions. This can take place by appointing an auditor, working along the parameters of the industry metrics, and putting forward a mechanism that would be enforced in the event of disputes between the parties of the agreement.

In fact, the farm-out party should know it may be running credit risks if it does not receive the full value of the deferred consideration from the farming-in party. Therefore, and in order to avoid this risk, the farming-out party may require a provision that would oblige the farmee to make the payments when due. That said, transaction will be guaranteed and restored to the farm-out party on a more transparent basis.

Interest Development Conflict in JOAs

Following the completion of the farm-out agreement, the role the farmor and the farmee will play has a lot to do with the deferred considerations that holds within another challenge. If the farmor offered the entire concession for sale, then the farmor may encounter a hardship with the farmee, who would want to exercise full power in dictating the manner, in which the interest is developed for the farmor. In other words, the farmee could do little with the interest and thereby contingency events may not satisfy its criteria, thus risking the payment of the deferred consideration.

Although the farm-out agreement may include a clause that gives the right to the farmor for managing the concession interest, this will necessitate both a careful definition and consent between the farmor and the farmee. That said, the Joint Operating Agreement (JOA) plays a key role in maintaining the interests of the parties, acting as a balance for the farm-out agreement. In these cases, "the JOA comes to govern the relationship between the two parties," explained Country Manager of Rockhopper Exploration Egypt, Samir Abdelmoaty in an exclusive interview with Egypt Oil&Gas. In essence, the JOA is a complementary phase for farming out a concession area, which, if not drafted properly, it may lead to serious issues. In the Joint Operating Agreement, alignment of interests among the partners is a cornerstone for the success of the farm-out process.

The JOA comes to regulate the voting rights for the partners that highly depend on the share in the concession. In addition, the budgeting is determined in the JOA phase and any modifications the partners wish to apply in the approved budget should refer to the JOA terms and clauses. Determining the timeline, duration, and liabilities of the farm-out takes place in the drafting process of the JOA. The operation approval is, as well, defined according the clauses agreed upon in the agreement. For example, if the farmee wants to take more interest in the concession by drilling more wells, both partners need to revise the articles in the JOA. More clearly, a joint operating agreement will determine whether or not the partners have the rights to drill more wells in a single concession.

The essence of the JOA as an indispensable component of finalizing the farm-out agreement is that it ensures whether or not the farm-out process would be successful. And in order to ensure this, the terms of this agreement should be clear and precise. In the same sense, Country Manager Abdelmoaty explained that usually "disputes happen after the drafting process of the farm-out agreements is concluded, especially, while interpreting the terms of the JOA." If any obscurity occurs, incompliance with the wording of the agreement by one or both of the two parties may eventually "lead to arbitration."

As the farm-out agreement has been popular in the oil and gas industry, mitigating implicated risks can save the partners huge costs. This is why the farmor should first identify its strategy, objectives, and the percentage of the concession the company wants to offer. It should also determine the number of partners it is willing to bring in. "Sometimes we need to reduce competition among the partners, so we bring more companies on board," Abdelmoaty clarified.

Furthermore, the timing of farm-out announcement should fit with the market dynamics. For instance, there comes a time when it is not beneficial to offer concession areas for farm-outs. "If there is a bid, one should not make a farm-out call, because everybody is busy with the bid round," Abdelmoaty noted.

In this regards, it becomes essential to observe the political and economic situation of the country and ensure a safe environment for farmees, who are more concerned about the secure business atmosphere of the operations. With that, associated risks of the farm-out agreements can be contained.

BENEFITS OF FARM-OUT DEALS

By Mahinaz El Baz

The current global oil price environment has challenged both large and smaller players in the market to accommodate the financial, operational, and legal challenges they face. The low crude prices led to a range of new deals, in which oil and gas companies evaluated the sustainability of the existing and new projects in the long term and in many cases opted for farm-outs.

The underlying rationale of farm-outs relies on "the reduction or sharing of risk to the farmor," according to Charles Birch's analysis 'Choosing the Right Joint Venture Structure for a Farmin or Farmout.' This is one of several immediate results, however, farm-outs present other significant benefits to the companies that have opted for such a scenario.

Farm-out agreements play an important role in the exploration and development operations of the oil and gas industry worldwide, and only the creativity of draftsmen and negotiators limits the options that such an agreement may entail.

An oil and gas farm-out agreement is defined as an agreement between a company that owns drilling rights (a farmor), which opts to assign all or a portion of these rights to another company (a farmee) in return for drilling in its concessions. Typically, these rights include drilling a well to a certain depth, in a certain location, in a certain time frame. The agreement further stipulates that the well, if reserves are proved, must be turned into commercial production. In other words, a farmee gets an assignment, while a farmor keeps an overriding royalty interest. The two parties thus commonly agree to complete a producing well at the sole costs and expenses of the farmee, in return for which the farmor agrees to assign to the farmee an interest in the acreage surrounding the well.

In drafting the agreement, the parties should anticipate challenges and develop mechanisms for tackling them. Among them are the two parties' financial capacities available to develop an agreed-upon project, the pace of drilling activities and well development, and potential new partners to provide additional funds for the completion of the project. Equally crucial are considerations whether to enlarge, contract, or terminate the agreement about an area of mutual interest that the parties had meanwhile established.

Risk-Sharing Advantages

There exists no single model of a farm-out agreement that would be strictly applied, therefore, both parties much carefully scrutinize each draft individually before signing.

Accordingly, benefits associated with the legal framework of a farm-out agreement differ greatly. In this respect, a Senior Associate at Zaki Hashem & Partners, Essam Hamdy, stated to Egypt Oil&Gas: "The main legal benefit of the farm-out - in case of partial farm-out - is sharing the risk of the costs and expenses of the activities to be carried out during the term of the agreement, especially in some areas where the cost of drilling a well may reach to tens of millions of dollars." The risk sharing is of critical importance to all oil and gas players, because "in case of non-commercial discovery, the companies involved shall incur all the expenses for exploration phase and shall relinquish the area to the state or a national company, without the claim for cost recovery or other compensations," added Essam Hamdy. Farm-outs could thus be translated as a reaction to increased risks and are majorly preferred by oil and gas companies.

From the financial perspective, farm-outs also grant advantages in incurred drilling costs and taxation. Oil and gas wells are costly to drill and only a few companies are having sufficiently large initial capital to afford entering into such a business proposition. The same applies to new exploration activities and concessions. Hence, earning through drilling in another company's area can provide an effective method to acquire new acreage and at the same time decrease the taxation burden.

Furthermore, a considerable number of oil and gas companies have been unwilling to abandon potentially valuable undeveloped leaseholds for cash. Instead, a lessee opts for a farm-out arrangement for a sale of a portion of its lease. This scheme has proved beneficial, because it permits the company to remain in control of its operations. This strongly resembles a joint operating agreement, a model which some farm-out agreements take. Accordingly, drilling will be an obligation for a farmee rather than an option, the farmee will earn its interests merely by drilling, whereas a farmor may share part of the costs.

Continuity in Operations

Farm-outs provide also operational benefits as through fresh capital flowing into a concession area by new co-players ensure that the development continues. According to Professor John Lowe, who, in his paper Something Old, Something New:

The Evolving Farmout Agreement, has identified seven key factors that motivate the farmor to enter into a new deal, the operational benefits relate to "lease preservation, lease salvage, for example, monetizing prospect that the farmor has condemned, risk sharing, obtaining geological information to evaluate other leases held by the farmor or to delineate a play, access to the farmor's market for the sale of the farmee's production, securing reserves to fill the farmee's transportation or refining needs and drilling an obligation well, for example, a well required to prevent drainage, and to further develop the leasehold or prevent the application of a Pugh clause."

On the other hand, as Professor Lowe added, the farmee is motivated to enter into a farmout, because it allows the company to "quickly acquire an acreage position or obtain reserves, using available cash, equipment, or personnel, particularly, if the farmee or its affiliate is a drilling services company, positively evaluating a prospect that the farmor has dismissed, and desiring to become active in the area while sharing the risks".

Sometimes farmor's management goal is to obtain geological information from the leases so that it can evaluate other leases that it holds in the same area. While the farmor in this situation hopes that the farmee's operations will yield production, the farmor's primary purpose of the agreement is similar to its purpose in entering into an acreage contribution agreement. The farmor wants the information that drilling operations will produce, whether or not drilling operations locate hydrocarbons.

When the farmor's main purpose in the farmout deal is to develop exploratory information, the contract will emphasize the tests to be conducted in the course of the drilling, the formations to be tested, and the depth to be drilled. The number and complexity of the tests that they require typically distinguish exploratory farm-outs from other kinds of farm-outs. Exploratory farm-outs are also likely to contain area of mutual interest clauses, which obligate the two parties to share leases on properties that may look attractive as a result of the exploratory drilling. Farm-out deals can also specify whether drilling is an option or an obligation, whether the farmee will earn by completing a well for commercial production or merely by drilling to a specified depth and testing the formations, and what percentage interest will be earned in what acreage. These are all matters that will depend upon the bargaining leverage of the parties.

Farm-outs have developed over time. In many countries, where oil and gas business is defined through production-sharing agreements, farm-outs create a leave way for industry entities to address emerging challenges. Early farm-out agreements were generally quite brief, while today's ones are likely to be much more complex and far-reaching.

In Egypt, SDX Energy Inc., previously known as Sea Dragon Energy Inc., made a farm-out agreement for its South Disouq Concession in the Nile Delta in 2014. The South Disouq concession comprises 1,275 km2 of acreage and is anticipated to contain significant gas potential. The company decided to enter into an agreement with IPR Energy Resources, Ltd (IPR) to farm-out a 45% participating interest in the area. Under the terms of the agreement, IPR carries the cost of the Phase 1 Commitment Well, subject to a cap, with a signature bonus of $1.9 million. The funds are to cover a proportionate share of the remaining work program in South Disouq and IPR will have an option to operate the Commitment Well.

At the time when the deal was closed, Paul Welch, CEO of Sea Dragon, said to Amwal Al Ghad newspaper: "This agreement is an important milestone for the development of the South Disouq concession, which in itself is a key asset for the company, representing significant exploration upside potential in an area the Sea Dragon management team have had proven success. The farm-out will also provide Sea Dragon with the financial flexibility to continue to develop and invest resources across our wider Egyptian asset base. We look forward to working with IPR to explore for the significant potential within this concession."

Following the agreement, in 2016, SDX and IPR further developed their operations by contracting other companies to provide necessary support for the concession area. "SDX and its partner have agreed on the location for drilling the exploration well, as announced on the 14th of November, 2016. SDX has confirmed that Zenith Energy has been appointed to provide technical assistance for the drilling operations. In addition to working with Zenith Energy, SDX has signed a Letter of Intent with Sino Tharwa Drilling Company, the rig contractor, who will supply the Sino-Tharwa 6 rig at South Disouq," the company's website informed.

As it appears, the main reason for the farmout deal was to share feasibility study and operational costs, which was made possible through the financial boost provided to Sea Dragon as the farmee.

In the current environment, the majors are not particularly concerned with saving individual leases and they are, instead, interested in entering into farm-out agreements more often, especially if these cover a substantial percentage of acreage and involve an exploration play. In this case, the oil and gas firms use the farm-outs to gather information or to reduce their financial costs and operational and legal risks in the early stages of the play.

Through IPOs to Larger Acquisitions

By Sarah Samir

In quest for larger capital amidst financial instabilities in the global oil and gas industry, companies resort to different mechanisms to acquire necessary funds to expand their businesses. One way to do so is to opt for Initial Public Offerings (IPOs). This global trend has opened a number of state-owned oil and gas firms to the privatization structures and private companies themselves then take this as a first step to increase their pool of acquisitions.

Egypt has also begun walking down this path. Under the umbrella of the strategic national plan designed by the Ministry of Investment and in cooperation with NI Capital of the National Investment Bank, in November 2016, Egypt's Ministry of Petroleum and Mineral Resources selected and announced eight oil and petrochemical companies for IPOs on the Egyptian Stock Exchange (EGX). The companies will include the Middle East Oil Refinery Company (MIDOR), Egyptian Ethylene and Derivatives Company (ETHYDCO), SidiKerir Petrochemicals Company (Sidpec), Alexandria Mineral Oils Company (AMOC), and Misr Fertilizers Production Company (MOPCO), as well as Engineering for Petroleum & Process Industries (Enppi).

The country is thus confidently following an international trend, according to which hydrocarbons producing countries reform through privatization and oil and gas companies themselves become open to offering their stakes through IPOs. Their ultimate goal is thus to generate stronger financial cushions, diversify their portfolio, decrease implicated risks, and eventually create and guarantee sustainable business face to face with the existing challenges in the global market. Accordingly, an IPO helps in boosting "the transparency of the firm by subjecting it to capital market discipline," eloquently stated Anil Shivdasani, Merih Sevilir, and Ugur Celikyurt in their article 'Going Public to Acquire?: The Acquisition Motive in IPOs'. Yet, each and every oil and gas firm has high expectations as to the benefits that such a public conduct may deliver.

Seeing Benefits of IPOs

IPOs can be useful on several levels. "An IPO creates liquidity for the firm's shares, provides an infusion of capital to fund growth, and allows insiders to cash out," as Shivdasani, Sevilir, and Celikyurt wrote. Furthermore, an IPO "provides cheaper and ongoing access to capital, facilitates the sale of the company, gives founders the ability to diversify their risk, and allows venture capitalists and other early stage investors to exit their investment."

Opting for IPOs can enhance companies' positions in the market by also generating "funding for future cash-based mergers," noted Armen Hovakimian and Irena Hutton in their paper 'Merger-Motivated IPOs.' IPOs have been seen as helping companies in boosting capital for future acquisitions by "relaxing financing constraints that might have impeded a private firm's ability to acquire attractive targets."

Furthermore, through access to the public equity market, a firm enhances its ability to access the public debt market. Hence, an IPO further paves the way for "publicly traded stock [to] be directly used as a method of payment in stock-based acquisitions." This leads to a situation, in which companies manage to establish a firm ground for their sustainable business ahead of tumultuous periods.

Various case studies of hydrocarbons companies showed that IPOs, indeed, generated required capital. In Colorado, Denver-based Extraction Oil & Gas Incorporation "sold 33.3m shares for $633m [in 2016] in an IPO for $19 per share," as mentioned in Mikaila Adams' article 'Oil and Gas Companies Testing Investor Appetite for IPOs.' Following this move, "the company's D&C capex budget for 2016 was at $335m and increased 60% to $535m for 2017. Thus, the company had announced plans to add a third drilling rig [in its operating concession already] in the first quarter of 2017, which is earlier than the previously disclosed mid-2017 timing." Accordingly, the IPO allowed the company to increase its exploration operations and drew a positive image for future projects.

In light of the notion that IPOs can also open a door for new and more profitable acquisitions, James C. Brau and Stanley E. Fawcett had surveyed 336 Chief Financial Officers (CFOs) in 2006 enquiring about the motivation behind IPOs. According to their article 'Initial Public Offerings: An Analysis of Theory and Practice,' the authors found that "CFOs identify the creation of public shares for acquisitions as the most important motivation for going public."

Expanding Business through Fresh Acquisitions

An IPO can, in fact, increase companies' properties, boost their business and help them grow. Oil and

> **"An IPO creates liquidity for the firm's shares, provides an infusion of capital to fund growth, and allows insiders to cash out."**

gas companies understandably aim to expand their business, but to do so through IPOs, they need liquidity to be able to purchase stocks. In line with that, the banking sector is to play a crucial role in enabling smooth transitions, especially in situations of such intensity and length as the low-oil-prices environment has brought about since mid-2014. It is therefore that many industry executives still expect the banking sector to recover its trust in oil and gas players, whom they viewed less favorably in the past couple of years. "Banks that lend to the energy sector are still very hesitant to extend credit backed by oil reserves," as Tom DiChristopher and John W. Schoen wrote in their timely article 'Oil and Gas Mergers and Acquisitions Are Finally Making a Comeback.' But as "recovery [in oil and gas acquisitions globally] has so far largely depended on buyers' ability to tap into equity markets," there appears to be no better option than for the two sectors to collaborate through the IPO schemes.

Subsequently, and "by expanding the menu of choices for acquisition financing, the public status may not only allow a firm to pursue more acquisitions, but it may also allow it to pursue the types of targets that could be [otherwise] out of reach of private acquirers," Hovakimian and Huton explained. This means that, without IPOs, "very large targets could be difficult to acquire for cash, as this may require borrowing beyond the potential acquirer's capacity." Similarly, "a target's owners are likely to be more receptive to a stock-based acquisition by a publicly traded firm, because of the liquidity and relative ease of valuation of the public bidder's stock." The same proposition applies "for targets where insiders want to maintain some ownership in the combined firm instead of immediately cashing out."

> **"CFOs identify the creation of public shares for acquisitions as the most important motivation for going public."**

There are many reasons that can trigger acquisition in any industry. According to Marc Goedhart, Tim Koller, and David Wessels, a company could resort to acquisitions for "improving the performance of the target company, removing excess capacity from an industry, creating market access for products, acquiring skills or technologies more quickly or at lower cost than they could be built in-house, and picking winners early and helping them develop their businesses." Therefore, an acquisition does not always come with benefits and values merely for the acquirer company, but may bring profit to the acquired company as well, explained the authors in their article 'The Five Types of Successful Acquisitions.'

In assets acquisitions, "the acquirer only owns the assets without taxes and without liabilities," while, in shares acquisitions, "the acquirer buys a company's shares, taxes, liabilities, and trademarks," Sharkawy&Sarhan's Associate, Reham Eissa, explained to Egypt Oil&Gas. Thus both assets and shares acquisitions can boost operations and activities associated with companies' implemented projects. Egypt's Enppi's General Manager for Civil Engineering Division, Eng. Galal Soliman, stated to Egypt Oil&Gas that "offering stocks to other firms is beneficial to the company on the technical level." In addition to these technical benefits, cost reduction comes into the picture as well. Eng. Soliman explained that "for international companies, manpower's cost is highly expensive, so when a partner is awarded a project that needs around 2,000 [staff], Enppi can supply 1,000 of them at a lower cost," which is facilitated through acquisition partnerships.

These success stories are, however, not a rule. There is a great chance for the acquisition transactions to fail or to generate lower-than-expected profits. Therefore, when a company is studying acquisition deals it should consider "corporate culture and that of the company [that is to be acquired]," according to Richard Bloch's article 'Acquiring Another Company.' Furthermore, the company should ensure "apprehension among both [its] employees and those of the company [it] acquires" as well as "a potential increased debt on [its] balance sheet if [it is] borrowing money to fund acquisition, which could impact ability to borrow additional funds for other purposes." Accordingly, the acquiring company can resort to means other than loans in order to ensure the best possible profit out of the acquisition transaction.

The oil and gas industry requires huge funds to perform efficiently and generate required profit amidst cash-demanding environment, which relates most importantly to technological innovations. As Loretta R. Cross stated in the article 'The Technology Revolution in Oil and Gas,' "the days of so-called 'easy' or conventional oil are dwindling; so the oil and gas industry has focused on developing technological solutions, thereby increasing the world's producible reserves and creating the 'new normal' of exploration and production." This progress strongly indicates that it is almost essential for oil and gas firms to increase their liquidity in order to be able to acquire new assets, adopt new technologies, and apply new exploration methods to survive. Presenting part of the oil and gas firm in IPOs can help the company to secure the funds it needs for the growth.

ARAMCO'S INITIAL PUBLIC OFFERING

By Mariana Somensi

Saudi Arabia has set up plans to sell Aramco's shares by most likely the second half of 2018. The state-owned oil company, the world's top exporter of crude oil and natural gas liquids, will be publicly listed both in Saudi Arabia and abroad, and its initial public offering (IPO) is expected to be the biggest one ever recorded.

The income will be directed to Saudi Arabia's move to diversify the economy and end the almost total dependence of the Gulf country on the oil industry. As stated by the Saudi Prince Mohammed bin Salman to Bloomberg, the IPO "will technically make investments the source of Saudi government revenue, not oil."

According to the Saudi government, the oil giant might be worth more than $2 trillion. The share sale, which may tender about 5% of the firm's assets, is projected by the kingdom to bring approximately $100 billion of revenue.

Bringing the Books to Light

Since Aramco's listing was announced, it has stirred up investors. The Saudi decision of selling off its shares was a boom given the fact that the kingdom holds as much as one-fifth of the global petroleum reserves and pumps more crude oil than the top four listed oil companies combined.

Aramco's production alone, which reaches around 10 million barrels a day, is nearly enough to cover China's daily consumption completely. Furthermore, the Saudi firm is believed to have around 265 billion barrels of crude, enough to meet the whole world's demand for eight years.

However, although the IPO represents an exciting opportunity to have a small share of the world's most valuable company, the lack of transparency has caused mixed reactions in the market, as the kingdom keeps information on its oil fields as a state secret. Additionally, the small number of Saudi stocks publicly traded creates an uncertain ground on which investors may think twice before walking.

To engage with the global market and to attract the private sector's investment, Saudi Aramco may wish to let the curtains fall. Carnegie Middle East Center's Non-Resident Scholar, Carole Nakhle, stated to Forbes that "when selling in public tender, Aramco will have to publish its books."

OPEC Agenda

In addition to the improvements in transparency, listing Saudi Aramco will also drive the Gulf country to change its economic decisions as a member of the Organization of Petroleum Exporter Countries (OPEC).

Although the firm intends to tender only 5% of its shares, which is not enough to transform a company's standard completely, the private investment is likely to set up its interests on the Saudi oil strategies, which could conflict with those of the OPEC's agenda. Some analysts' speculations suggest that it would force the kingdom to withdraw from the oil cartel.

> **"[Saudi Arabia] would need to clean up its act and put the interests of its investors ahead of the king's."**

Financial Journalist and Commentator, Cyrus Sanati, stated in his review for the Fortune Magazine that, following the listing, Saudi Arabia "would need to clean up its act and put the interests of its investors ahead of the king's."

Hence, in order to keep up with the private investment it is currently seeking, Saudi Aramco could face considerable changes in its policies, and, consequently, influence the country's position in the cartel.

Hidden Motivations

Considering that the al-Saud family has been successfully managing the country's fortune for a long period, in addition to its characteristic as a long-term investor, some market analyses also indicate that there is more than a financial perspective behind the enormous IPO.

An evidence to sustain the idea that other motives play a role is that the low interest rate environment makes share selling a less effective maneuver if the kingdom's only objective was to raise funds, instead issuing debt would be more positive.

Additionally, the Gulf country does not show an urgent need for money. Despite the slump on the price of crude oil barrels, Saudi Aramco's gigantic reserves are valued in as much as $600 billion, and its great number of barrels makes pumping oil in Saudi Arabia a lot cheaper than in other countries.

An overview published by the Strategy and Risk Consultancy, Verocy, indicated that the listing might, at a first glance, hint "an acknowledgement of its [Saudi Arabia] failure to destroy US shale or non-OPEC production."

INSEAD Innovation & Policy Initiative's (IIPI) Senior Research Fellow, Yasser Al-Saleh, went further on the subject and suggested in his review for IIPI's website that "listing Aramco is not about raising money as such; it is more a bold political message that no sector is immune from privatization."

According to him, "announcing these plans—irrespective of whether they bear fruit or not—is part of an unprecedented economic overhaul that has been enthusiastically labeled a 'Thatcherite revolution' for Saudi Arabia."

Time to Adapt

Although there are no official statements on whether the IPO targets more than a fund-raising objective or not, the public listing will definitely bring more consequences than meets the eye, as it represents the opening of the kingdom's traditionally closed doors.

To welcome its new "guests" and make the IPO effective, Saudi Arabia will have to adapt to a completely new package of responsibilities and pressures. In a short-term perspective, the share selling already brings major changes for Riyadh, starting with the end of its traditional secrecy on the company's finances.

Furthermore, the kingdom will have to engage with investors' expectations and adapt some of its policies to those of the liberalized market, which means that Saudi Arabia will have to enter the high-profit hunting game instead of focusing mainly on social stability.

The country must also be ready for the possibility of having its membership and commitments with OPEC in disagreement with those of its private investors, which could result in a more significant transformation for the company and, subsequently, for the whole kingdom in case of being driven to exit the cartel.

New Era

Implementing the necessary changes and breaking with the traditional management of Saudi Aramco indeed signals the beginning of a new era. Diversifying the country's revenue sources through the IPO and the other steps incorporated in its Vision 2030 builds up the path for a more reliable economy to sustain Saudi Arabia's wealth.

As the Atlantic Equities LLP's London-based Analyst, Christopher Wheeler, stated to Bloomberg, following the IPO announcement, "banks are seeing a big wallet to go after and they won't want to miss out," so the market should be ready for the subsequent boom.

KEY TERMS TO CONSIDER WHEN BUYING OR SELLING OIL AND GAS INTERESTS IN EGYPT

By Chris Richardson and James Comyn, Partners of the international law firm Andrews Kurth Kenyon LLP, in the Houston and London offices, respectively.

With the Egyptian oil and gas market continuing its rapid development amid increased stability in the country and exciting new deepwater discoveries, upstream merger and acquisition activity is poised to increase significantly. When considering a sale or purchase of an interest in oil and gas properties in Egypt, the most critical document governing the transaction is the sale and purchase agreement (SPA). Although SPAs can be heavily negotiated and are usually tailored to the specific transaction, there are certain elements common to nearly all upstream oil and gas SPAs. In this article, we seek to highlight and explain the key SPA terms that would prove essential to any acquisition or divestiture of oil and gas interests in Egypt.

Given the nature of the business, the oil and gas sector has always generated a significant amount of M&A activity worldwide — and Egypt is no exception. Oil and gas companies regularly seek to bring in new partners by selling down a portion of their interests after a large exploration success in order to spread development costs and risks, and to monetize the initial success. At the other end of the spectrum, long-term investors holding substantial interests in mature oil and gas operations will often seek to limit their exposure by bringing in new partners, or they may decide to exit altogether if such assets no longer form a core part of their strategy. Sometimes such divestitures are made to entirely new players looking to make an entry into the country's market, while, in other cases, the sales are made to familiar names looking to strengthen their current position in country.

Egypt has seen and should continue to see these trends play out in its upstream sector. There have been a number of transactions in Egypt that follow this well-established energy industry pattern. In August 2013, Sinopec acquired a 33% stake in Apache's Western Desert portfolio of assets for $3.1 billion. More recently, Eni has sold down its interests in the giant Zohr field/Shorouk concession to both BP, a 10% interest announced in November 2016 for $375 million, and Rosneft, a 30% interest announced in December 2016 for $1.13 billion. In late December 2016, Shell announced that it was considering divestiture of its interest in the Rosetta block offshore Egypt.

Key Terms in SPAs

Although every deal is unique, in our experience, the key terms to consider in a SPA for an acquisition or divestiture of upstream interests in Egypt should include provisions covering:

1. Purchase Price Calculation, Adjustment, and Payment Terms
2. Warranties Regarding the Acquired Interests
3. Conditions to Closing and Interim Period Covenants
4. Post-Closing Liabilities and Limits on Liability

It is worth noting that transactions in the oil and gas industry can be structured as either a corporate i.e. share sale or as an asset transaction. In the United States, for instance, asset transactions predominate, given the nature of private ownership of minerals, which permits oil companies to own undivided interests directly in the underlying oil and gas. For a variety of reasons including government regulations, tax considerations, preemptive rights, and joint venture structuring, a deal can also be structured (or in some cases, must be structured) as a corporate sale. In a corporate sale, the buyer acquires some or all of the shares in a company, which directly or indirectly holds the underlying oil and gas assets. Although there are important legal distinctions between these two types of transaction structures, the core concepts described below generally apply in both types of deals. Even when buying shares in a company that indirectly holds oil and gas properties, the SPA's treatment of the underlying assets is usually a core aspect of the deal (although less so in public company deals).

1. Purchase Price Calculation, Adjustment, and Payment Terms

Although mutual agreement on the purchase price remains the essential prerequisite for any deal, agreeing on the headline number is only the first step. The SPA often addresses considerations regarding how and when the purchase price will be paid and how it should be adjusted before and after closing.

The purchase price is not always paid in one lump sum. When signing the SPA, the seller will sometimes demand that the buyer provides a deposit (usually 5% to 10% of the purchase price) in order to encourage the buyer to complete the transaction. If a deposit is included, the SPA will set forth how it will be held and under what circumstances it will be returned to the buyer. If the buyer does not complete the deal (except where excused under the SPA), the seller may be entitled to retain the deposit as the seller's sole remedy and as liquidated damages. The SPA will also need to address whether interest will accrue on the deposit and whether it will be held by the seller or by an escrow agent.

The converse to the seller demanding a deposit upfront is the buyer withholding a portion of the full purchase price in the form of a holdback or contingent payment. The portion of the purchase price withheld could be used as security to cover any claims that the buyer may have against the seller for breach of the SPA following closing e.g. breach of warranty claims, or to cover specific identified risks e.g. pending the resolution of a tax dispute or lawsuit. Contingency payments can be used to increase the purchase price payable upon the occurrence of certain events, including approval of development plan or a final investment decision on the project. Alternatively, contingency payments can be tied to commodity prices over a certain period of time, such that the seller shares in the potential upside. Both of these mechanisms can be heavily negotiated and must be carefully addressed in the SPA.

The SPA will also typically cover adjustments to the agreed purchase price. Most oil and gas transactions feature a valuation date — often called the "effective date" — set several months prior to signing, usually at the end of the prior year or quarter. This permits the buyer to make a determination of the value of the underlying assets as of that fixed point in time. In the case of a corporate deal, the buyer will also have to evaluate the financial assets and liabilities (including debt and working capital) of the company as of the effective date through examining the financial statements. Because the effective date occurs in the past, the SPA must set out provisions adjusting the purchase price from such date through to the closing date, which can occur months, or even over a year, after the effective date. For example, the proceeds from the sales of produced hydrocarbons that are paid to the seller after the effective date should reduce the purchase price, while funds contributed by the seller to the operations should increase the purchase price. In a corporate deal, the final purchase price payable at closing is adjusted based on changes in working capital or debt, or dividends paid out and capital contributions paid in. SPAs will often contain detailed provisions on the calculation of these adjustments, as well as covenants and warranties regarding what actions the seller can take during the time period between the effective date and closing date that would so affect the purchase price.

Finally, external factors might also affect the final calculation of the purchase price payable by the buyer, and the SPA will need to address these contingencies. If third parties or other shareholders exercise any applicable preferential purchase rights to acquire a portion of the interests being sold, the SPA should set forth a mechanism for adjusting the purchase price in a manner that reflects the removal of this portion of the interests from the deal. The buyer will generally allocate its purchase price among the various assets or corporate interests being acquired such that a party holding preferential purchase rights will know what price it has to match to acquire the assets, and to ensure that the purchase price is adjusted appropriately in light of the removal of such interests. In situations where all or substantially all of the interests are acquired by those parties holding preferential purchase rights, the SPA will likely provide for termination of the deal between the original buyer and seller; in these cases, the seller will instead sell the interests to such third party on substantially the same terms as contained in the SPA.

KEY TERMS IN SALE AND PURCHASE AGREEMENTS

- Purchase Price Calculation, Adjustment, and Payment Terms
- Warranties Regarding the Acquired Interests
- Conditions to Closing and Interim Period Covenants
- Post-Closing Liabilities and Limits on Liability

2. Warranties Regarding the Acquired Interests

A warranty is a legal promise that certain conditions are true and correct, and a breach of a warranty provides the counterparty with a breach of contract claim for damages. Warranty provisions are often one of the most heavily negotiated sections in an SPA. Warranties serve several important functions in a SPA: they drive the seller's disclosure regarding the assets or company being purchased; they may permit the buyer to refuse to close a transaction; and they provide the buyer with some level of liability protection post-closing. In other words, warranties provided are a primary factor in determining the allocation of risks in the transaction.

A buyer will likely seek — but may not ultimately be able to obtain — comprehensive warranty coverage from the seller regarding the oil and gas interests being transferred, whether indirectly in a corporate deal or directly in an asset deal. These warranties may cover the following topics:

• Title/Ownership/Host Country Agreement

The buyer will want to ensure that the seller directly or indirectly owns the underlying oil and gas interests. Unlike deals in other industries where warranties regarding title or ownership are rather straightforward, ownership of oil and gas properties is more complicated. This is due to the fact that in most jurisdictions, including Egypt, the government is the ultimate owner of the resources. Given this unique nature of oil and gas properties, there is no standard way to document these warranties in cross-border deals, so the language is often carefully negotiated. As such, a seller of oil and gas assets will typical warrant that it has not transferred or encumbered any portion of the underlying assets and that it is validly a party to the host country agreement (e.g. the concession, license or production sharing contract or other instrument granting the company the right to explore for, develop, and produce oil and gas). In a corporate deal, the seller will also warrant title to the shares being transferred.

• Compliance with Laws; Environmental Matters

The seller will seek warranties that operations have been conducted in compliance with applicable laws and regulations, that all necessary environmental standards have been followed, and that material required permits have been obtained and maintained. The seller typically will warrant that it has provided all information regarding non-compliance and has disclosed the receipt of any notices of claims from the government or third parties about non-compliance, pollution, or contamination. Most SPAs will also include warranties (and covenants) regarding compliance with anti-bribery laws.

• Preferential Rights and Consents

The buyer will seek warranties regarding whether any third party holds a preferential purchase right or a consent right over the transaction. The requirement of Egyptian government consent to the transfer is customarily covered by this warranty where applicable, but consents might also be needed from counterparties under important contracts related to the operations. Existing partners may have the right to match the offer made by the buyer for all or some portion of the assets or shares involved in the transaction. Anti-trust filings may also need to be made in various jurisdictions.

• Material Contracts

The buyer will want to understand what key contracts are involved in the operation of the underlying oil and gas properties and whether those contracts have been breached or terminated. Material contract warranties often cover joint operating agreements (or, as is often the case in Egypt, the agreements governing joint operating companies); unitization agreements; hydrocarbon sale and transportation agreements; major construction contracts; key long-term supply and service contracts; and other contracts involving significant sums of money or those that will bind the buyer for a long period of time. The seller often lists these contracts in connection with providing this warranty.

• Status of Operations

The buyer will want to understand whether there are any outstanding commitments to the government or project partners in connection with the conduction of operations, including but not limited to minimum work obligations under the host country agreement, drilling obligations, the status of development plans, non-consent or sole risk obligations, authorities for expenditures, work programs, and budgets.

• Litigation and Claims

The seller is usually required to disclose all material litigation and claims that affect the target company being acquired or the underlying assets, including government investigations, threatened litigation, and notices of potential claims. The seller is usually liable for failing to disclose litigation or claims if they result in liability to the buyer, and in some cases the buyer might have the right to terminate prior to closing. The SPA should also address how the obligation of the buyer to close the transaction will be affected by litigation or claims that arise unexpectedly after signing but before closing.

• Egypt-Specific Concerns

A buyer of upstream interests in Egypt should also consider obtaining warranties, and conducting diligence, regarding: (i) the timing of payment for gas sold to the Government of Egypt and the status of any outstanding receivables; (ii) whether there are any indirect government-imposed restrictions on transfer or bonus payments that might be due under the underlying concession; (iii) whether the concession has been ratified by the Egyptian Parliament; (iv) the status of minimum work obligations and relinquishments under the concessions; (v) the status of the joint operating company operating the assets (including employee related matters); (vi) any arrangements with government-owned entities regarding the sale, transportation or processing of production; (vii) cost recovery status (and whether there are any cost recovery disputes, audits or disallowances); (viii) currency convertibility and foreign exchange controls; (ix) whether there are any local content requirements; and (x) the import of materials related and duties on such imports.

• Other Issues

The list above is certainly not exhaustive. The seller's warranties often also address other issues such as tax matters, employees and labor relations, payment of royalties, and finders' or brokers' fees. Additionally, both the buyer and seller typically offer a set of standard warranties regarding corporate authorization, approvals, non-contravention, bankruptcy, financing, etc.

Importantly, warranties are rarely given in absolute terms. Certain warranties are qualified by knowledge of the party giving the warranty, by materiality, or by reasonableness, and are further qualified by disclosures accompanying the SPA. Disclosures are often given in the form of a disclosure letter or schedules attached to SPA, but in some instances the seller will also seek to include all the material disclosed in a data room, which is often resisted by buyers. The repetition of the seller's warranties regarding the condition of the assets at closing and the ability of a party to update its disclosures after signing (and the effect of such updates on liability and the obligation to close the transaction), are often contentious topics in negotiating the SPA.

The breadth and scope of warranties largely depends on the relative commercial leverage that each party has in the transaction, but it will also be influenced by the agreed purchase price, the ability of the buyer to conduct sufficient due diligence to identify and "price in" the risks, the nature of the underlying assets i.e. whether it is a new discovery or a mature field, and the extent to which the seller controls the operations of the underlying oil and gas properties. Depending on these factors, a seller may ultimately provide a robust set of detailed warranties in favor of the buyer, but in other instances the warranties may be in a limited scope, heavily qualified, and provide scant protection for the buyer.

WARRANTIES REGARDING THE ACQUIRED INTERESTS

- Title/Ownership/Host Country Agreement.
- Compliance with Laws; Environmental Matters.
- Preferential Rights and Consents.
- Material Contracts
- Status of Operations
- Litigation and Claims
- Egypt-Specific Concerns
- Other Issues

3. Conditions to Closing and Interim Period Covenants

Transactions involving the acquisition and divestiture of oil and gas interests in Egypt and in most other jurisdictions typically involve a separate signing and closing, due to the need to obtain government and other consents to the transfer and in order to deal with preferential purchase right issues. As such, the SPA will set out conditions for closing, establishing when the buyer and seller must proceed with the transaction and the circumstances where one or both of the parties may elect to terminate the deal without closing. Common closing conditions include: (i) obtaining consents, usually by some agreed deadline; (ii) confirming that there has been no change in laws or any litigation filed that would prohibit the transaction from occurring; (iii) confirming that warranties given by the other party are true and correct in all material respects; (iv) confirming that the parties have complied with their obligations in the SPA in all material respects; and (v) sometimes, but not always, allowing the buyer to refuse to close the transaction upon the occurrence of a "material adverse event," the definition of which is always heavily negotiated.

Because there is generally an extended period of time between the signing and closing under a SPA (the "interim period"), a SPA will often set out certain covenants that the parties agree to follow during such interim period. Some of these covenants help ensure that the transaction is more likely to achieve closure and may include covenants obliging the parties to make certain filings or cooperate to obtain necessary consents. Other interim period covenants require that the seller continue to own and operate the assets or the target company in a manner that ensures the buyer will, at closing, acquire the assets or company in the condition that they valued it at signing; this also ensures that the buyer will not be saddled with additional liabilities or obligations that could be avoided through the actions of the seller during the interim period. Common interim period covenants of this type include an obligation to operate the assets in the ordinary course of business to get the buyer's permission before entering into major new contracts or undertaking significant new commitments, complying with existing work programs and budgets, and not transferring or encumbering the assets. A breach of these interim period covenants may give rise to liability for damages. If the breach is sufficiently material, the other party (usually the buyer) may be allowed to elect to terminate the agreement prior to closing, if such breach is not cured.

4. Post-Closing Liabilities and Limits on Liability

Once a closing occurs, the provisions relating to post-closing liabilities, and limits on such liabilities, are the most critical aspects of a SPA. In a major oil and gas transaction, it is not uncommon for potential liabilities to exceed hundreds of millions or even billions of dollars. The SPA is the primary document that will govern the allocation of such liabilities between the parties after closing. This reality makes the negotiation of the post-closing liability provisions in the SPA one of the most antagonistic areas for negotiators.

Although the seller is disposing of the interests at closing, the buyer will seek to ensure that the seller remains responsible, at least for a certain time period, for certain risks (e.g. liabilities arising from pre-effective date actions of the seller). This is often accomplished by requesting an indemnity from the seller for a set of specifically defined retained liabilities. The seller will seek to ensure that the buyer adequately assumes liabilities going forward and that the SPA adequately protects the seller from third-party claims relating to the divested property. This typically comes in the form of an indemnity provided by the buyer in favor of the seller, often covering all future liabilities arising after closing as well as historic liabilities, subject to the retained liabilities. The buyer will also want protection in the form of the ability to raise a claim for damages against the seller for breach of contract, if it is determined post-closing that the seller breached any of its covenants or warranties in a manner that results in the buyer suffering a loss.

The seller, however, will typically insist upon time limits and other limitations on its liability to the buyer under the SPA. These limitations often include: (i) a time limit as to when the buyer can bring a claim for a breach of the seller's covenants or warranties under the SPA (e.g. six months to two years, although claims relating to certain fundamental matters may survive longer, or even indefinitely); (ii) thresholds that must be crossed or deductibles that must be paid by the buyer before the seller is liable to pay the buyer's claims for damages (usually a small percentage of the purchase price, e.g. 1% to 5%); (iii) exclusions for minor "de minimis" claims (e.g. claims under $10,000 per occurrence); and (iv) overall caps on liability of the seller (usually calculated as a percentage of the purchase price, although covenants, retained liabilities and certain fundamental warranties are often carved out of this liability cap or subject to a cap of 100% of the purchase price). All of these limitations are subject to intense scrutiny and negotiation by the parties and their legal teams, and are often traded up until execution of the SPA.

Road Map for Successful Deals

The terms and conditions negotiated and agreed to in a SPA or similar agreement will form the legal and commercial basis for the acquisition or divestiture involving upstream oil and gas interests in Egypt. Although certain general trends and market standards can be identified, the key provisions of SPAs should be tailored specifically for each transaction. SPAs, when properly drafted, not only provide road map to ensure that a deal can be implemented successfully; they also serve to allocate risk and liability between the buyer and seller. That risk allocation, adapted to the particular circumstances of the deal and commercial and strategic aims of each party, is crucial to ensuring that the deal gets signed and that both parties achieve their objectives. As such, each of the buyer and seller would be well advised to obtain quality legal counsel in connection with the preparation and negotiation of the SPA. The insights provided by knowledgeable international oil and gas transactional lawyers with experience negotiating SPAs in Egypt can prove to be invaluable in protecting the rights, and in identifying and managing the risks of a buyer or seller in any such transaction.

- Chris Richardson and James Comyn both have extensive experience in the MENA region, including advising on oil and gas purchase and sale transactions in Egypt, work closely with the firm's Dubai office on Egypt matters.
- Interests in upstream assets can also be acquired through farm-in agreements, under which the acquiring party agrees to undertake certain obligations (e.g., drilling wells) or agrees to pay a disproportionate amount of future costs (often referred to as a "carry") in order to earn an interest in the underlying concession. Although there are some legal and contractual distinctions between farm-in agreements and SPAs, many of the concepts set out in this article are relevant to both types of transactions.

REGULAR GAS PRICES ADJUSTMENT CAN INCREASE FOREIGN INVESTMENTS

Amending gas prices every two years and paying the latest government's debts are the demands by CEOs of foreign companies operating in Egypt. Accommodating these demands is a key element in increasing the number of signed oil and gas agreements in Egypt. In the past two years, the number of oil and gas agreements with foreign companies reached as many as 60 for a total amount of $14.3 billion in investments.

In line with that, the current government, headed by Prime Minister, Sherif Ismail, should accelerate the amendments to natural gas prices in some petroleum agreements so that the country can achieve economic balance between foreign investors and national corporate companies.

It is my belief that a fair price of gas for foreign companies should amount to $6.5 per 1 million BTU. The new price would be a good step to improve the investment environment in the sector, especially that foreign partners are the main drivers of the economy, after the Egyptian production wheel had stopped, accompanied by a reduction in income from tourism. Having a new price of gas is a main requirement by all foreign partners in light of the fact that Egypt imports natural gas from suppliers abroad with a price of $13 per 1 million BTU. As foreign companies would purchase gas for a new price, this would provide an added value to the national economy and the country's overall financial status. This should be considered in the context of previously halted petroleum agreements between 2011 and 2014, which contributed to the country turning into an energy importer, while energy subsidies amounted to as much as EGP 128 billion in 2012.

Amending the gas prices for foreign petroleum companies can guarantee to raise the number of international bids in the field of research and exploration for natural gas in the territorial waters of the Mediterranean and the Red seas in the coming years. The measure will also ease the process of attracting foreign companies to participate in new bids as explorations for gas cost billions of dollars.

The government also should compensate its foreign partners as they take the risk of working in new places that cannot necessarily guarantee output and profit. Hence, incentives for the launching phase of production and production profit, should be separated from the cost of research, exploration, and development conducted by the foreign partners. The rest of the production profits can be split between the Egyptian General Petroleum Corporation and the foreign partners, taking into consideration the agreed upon rates as per mutual agreements' clauses.

Finally, accommodating legitimate demands of foreign companies with respect to the amendments of petroleum agreements, can guarantee that Egypt would minimize the scenarios, in which international companies will seek to operate in other competitive markets outside the country. It will also ensure development of the Egyptian oil and gas concessions and boost national production, which will in turn decrease the volumes of imports, a key factor given the rise of the cost of royalties, rent, and taxes.

Dr. MOHAMED ASIM MEHDI
Economist & Expert in Gas Affairs

AGREEMENTS MODIFICATION AS A PREREQUISITE FOR GIANT PROJECTS

Egypt cannot continue implementing national projects fully without its foreign partners as these participate in giant programs together with the with the country's petroleum authorities. These major projects include the development of refineries in order to increase national refining capacity, which is planned for the amount of $8.2 billion, with an aim to cover the national market demand and to provide foreign currency for Egypt's Central Bank.

The state has to find a method to satisfy the foreign partners without changing the terms of the production sharing agreements; if relevant amendments are adopted, the number of petroleum agreements that Egypt concludes with its partners will likely increase. This measure will also guarantee extraction of new petroleum products from the current 38 discoveries in years to come, out of which 24 are new oil discoveries and 14 are the discoveries of natural gas. This would then necessarily increase national reserves and boost production of oil and gas from all Egyptian concessions. In addition, such amendments would ensure that Egypt can reach targeted gas production of 7.5 billion cubic feet of gas per day at the end of 2019 for the country to achieve its aspired self-sufficiency. As a result, the transition that Egypt aims for to become a regional hub for oil and gas in the Middle East can be accomplished.

Foreign companies operating in Egypt can inject as much investment in the sector as $8 billion in 2017 and an additional $30 billion by 2023. However, these can benefit the state treasury only if the government quickly modifies oil agreements and grants stronger investment opportunities to our foreign partners. Taking into consideration that the Egyptian government owes $3.6 billion to its foreign patterns due in March 2017, a timely re-payment of these arrears can ensure the continuity of research, exploration, and development of oil and natural gas fields, especially in the Mediterranean Sea concessions.

Furthermore, ten other new oil and gas projects are waiting to be executed by the Egyptian government and foreign companies. But these projects can be paused in case the government fails to satisfy the foreign companies' requirements regarding the amendment of some terms of petroleum agreements. The amendments are thus important, as Egypt depends on these projects to cover the needs of the national market and reduce oil subsidies bill, which currently stands at EGP 35 billion.

Lastly, the Western Desert represents the largest area of undiscovered hydrocarbon reserves, amounting to 56% of the area to date, which needs at least $12 billion in investments; an amount that represents the cost of oil and gas subsidies' bill in the national budget. Egypt is currently importing oil and gas products at a cost of around EGP 106 billion a year to meet the national demand that in return generates not more than EGP 70.4 billion in sales of products in the local markets. This shows that Egypt is in need of a series of amendments in the oil and gas agreements to accommodate the existing challenges.

Dr. MEDHAT YOUSSEF
Former Deputy Chairman of the Egyptian General Petroleum Corporation

TAXES, ROYALTIES, AND RENT AS DANGEROUS BARRIERS FOR PETROLEUM AGREEMENTS

Taxes, royalties, and rents are three dangerous barriers that Egypt faces in its efforts to increase the number of petroleum agreements with international oil companies (IOCs) for the upcoming period. Oil and gas agreements started in 1992. The agreements aim at achieving an adequate financial return of investment and thus, encouraging IOCs to invest, explore for new reserves, and develop the existent ones to then provide for the needs of the national market.

Currently, oil and gas tax and royalty rates in Egypt amount up to 5% of a total investment package signed in an agreement.

The government insists on dealing with IOCs through a variety of the production sharing agreement schemes. IOCs are thus to cover the risks of exploration in new reserves. When a concession proves its commercial value and production begins, a part of production profit is set aside to cover the exploration processes and the rest of is divided between the IOC and the Egyptian partner, according to the agreed upon sharing rates. Yet, after the collapse of the global oil prices, Egypt should change the terms of these agreements to create better investing opportunities.

The main section of the Egyptian production sharing agreements system is that the Egyptian General Petroleum Corporation (EGPC) insists on strict terms in gas extraction concessions, which reflects upon the country's necessity to build up national gas reserves estimated at 12 tcf, which can be then exported in a liquid form. IOCs have the right to abandon the discovered gas if (1) it was in the range of 7 billion cubic meters or more and be compensated for the costs of exploration, or (2) if the reserves are of less than 7 billion cubic meters, at which point IOCs can abandon it to the EGPC without repayments, which is extremely useful for the national economy.

The agreement terms also state that Egypt has the right to gain 75% of gas production and LNG agreed upon in the gas sales agreement. The evaluation of gas prices depend on the average price of diesel and sulfur, applying a 15% discount, whereas LNG is evaluated based on the global price of propane and butane, with the application of a 5% discount. Hence, adjusting the gas prices in the petroleum agreements is the main request by IOCs working in Egypt. EGPC has already agreed with the key players to amend the agreements with a retroactive effect calculated since 2000, part of which includes the adjustment of gas pricing terms for the purchase of gas from foreign partners with a maximum limit set at $2.65 per 1 million BTU, at a price of $22 a barrel of Brent crude oil or more, and a minimum limit of $1.50 per 1 million BTU, at a price of oil at $10 a barrel.

IOCs are eager to amend the prices of gas on a regular basis, which in turn will encourage them to expand their operations in the Egyptian concessions. Egypt should thus conduct a preliminary study that would explore natural gas reserves to be offered for international bidding and thus attract higher foreign investments flowing into the country.

Prof. AHMED SABRY
Professor of Internal and External Agreements at Cairo University

BEBA LUNCHEON EVENT HONORS H.E. MINISTER TAREK EL MOLLA

By Salma Essam, Ahmed Mansour

Even amid a significant dwindle in global oil and gas prices, Egypt's energy sector is witnessing an unprecedented boost, fueling prospects for a bright petroleum industry. On Sunday March 19th 2017, The British Egyptian Business Association, BEBA, hosted a luncheon event in honor of His Excellency, the Minister of Petroleum and Mineral Resources, Eng. Tarek El Molla, bringing together Egypt's key industry leaders at the Conrad's Cairo Hotel. The event showcased the government's achievements in the energy sector including most recent progress Egypt had reached in the development of the industry, the future of gas resources, and Egypt's role in the regional market as an energy hub. The event came in line with the Egyptian Ministry of Petroleum and Mineral Resources' efforts to shed the lights on arising issues in the Egyptian energy industry, in an attempt to push forward the Arab Republic's economy following a period of political unrest.

A meet-and-mingle networking session took place outside Conrad's Ballroom with the presence of petroleum industry elites, including newly appointed Chief Executive Officer of the Egyptian General Petroleum Corporation, Eng. Abdel Ezz El Regal, Vice President and General Manager of Apache, David Chi, the Country Manager of Rockhopper Exploration plc, Samir Abdelmoaty, and the General Manager of Edison Group, Nicolas Katcharov, with Egypt Oil&Gas Newspaper being the official media sponsor of the event.

The event kicked off with a welcoming speech by Khaled M. Nosseir, Chairman of the Board of Directors of The British Egyptian Business Association (BEBA) and a keynote speech by His Excellency, Minister of Petroleum, Tarek El Molla, who presented a general overview of the country's oil and gas sector. In his speech, Minister El Molla praised the Egyptian government's endeavors to bolster the country's economy, noting that the government "has taken the necessary measures including the currency floatation." He further outlined the government's latest attempts in expanding and innovating the oil and gas sector in terms of energy security by boosting, diversifying, and managing the energy supply, ensuring financial sustainability, and addressing internal and external debts. Furthermore, the government contributed to the enhancement of the sector's performance by reforming energy subsidies schemes and sector governance in terms of expanding private sector investments by streamlining current concession agreement processes and expanding the concession agreement portfolio.

Moreover, the Minister pointed out major success stories that the country marked in 2016, which includes 76 new upstream exploration agreements signed with a minimum commitment of $15.3 billion in investments and the bid rounds conducted by the EGPC and GANOPE, whereas new blocks continue to be on offer by EGPC, EGAS, and GANOPE.

In line with the Oil Ministry's Modernization Program, which is an overhaul transformation

> "We believe that by 2019 Egypt will be an exporter of energy and not an importer."
>
> **TAREK EL MOLLA**
> Minister of Petroleum and Mineral Resources

policy to help enhance the country's potential in the sector and thus contribute to economic prospects of the country, the ministry has embarked upon a unified strategy to achieve financial sustainability and "unlock the sector's full value chain potential by 2021," as Minister El Molla stated. He further affirmed that Egypt had concluded a deal with Saudi Aramco and, to date, the country had received two cargos of diesel fuel worth $340 million. He also added that he was thrilled that the import schedule with the distributors had resumed after an inexplicable halt to Aramco's shipments in November.

Aiming for Gas Self-Sufficiency

Held under the patronage of H.E. Minister El Molla, the discussion panel was moderated by the Vice President, Country Chairman and Managing Director of Shell Egypt, Gasser Hanter, and General Manager of British Petroleum Egypt, Nader Zaki. The debate tackled an influential role that the energy sector is playing in the overall welfare of the country, domestic self-sufficiency in gas, and Egypt's positioning as a regional energy hub. El Molla honored the June 30th wave of protests that brought about stability across the country and as a result, an equiponderant oil and gas market. In turn, the government was able to pay a large amount of its arrears to the foreign IOCs, bringing down the total amount of remaining dues to $3.5 billion.

The discovery of Zohr, the super giant offshore gas field, has massively transformed forecasts for Egypt's bright future in energy self-sufficiency. Indeed, Italian Eni's news for the field's discovery has tipped the odds, signaling a prosperous future for the industry as a whole and for the thriving gas sector in particular. Not only did the industry eye huge cash inflows to the country, it further changed forecasts for gas production. As domestic gas demand has hiked in the last few years, El Molla affirmed that by the end of 2018 Egypt will achieve self-sufficiency in gas. The government predicts that Egypt can regain its position as a gas exporting country. The Minister said: "We believe that by 2019 Egypt will be an exporter of energy and not an importer." As he explained, "Egypt is going to have a sufficient amount of gas from Zohr field that will ensure Egypt's natural gas demand for decades and the rest will be used for export."

As the country is taking favorable steps towards gas production, the country will remain reliant on petroleum exports for some time. As a matter of fact, "we [Egypt] still import 35% of our refined products," El Molla said. Nevertheless, the government is striding forward to take strict measures to depend less on imports so that "by the year 2020, we will go down to around 5% to 7%."

Egypt: A Potential Energy Hub

The fierce regional and international market competition has driven oil players to come up with multiple approaches to increase their efficiency in the energy industry. In this regard, the discussion brought to the table Egypt's aspiration to become an energy hub and the government's commitment to achieve this target. Egypt possesses many advantages that would qualify it to be a center for energy trade. Egypt's Sumed pipeline, EDCO, and Damietta LNG plants, huge refining capacities, and the strategic location of the Suez Canal, are all factors that can turn Egypt into a hub. This is besides the North African country's geographical location and its national gas grid. In this sense, El Molla said that the new gas law will provide independence for the private gas sector as the "law will stimulate having an independent regulator," offering a transparent platform for suppliers to handle gas.

> "Egypt is going to have a sufficient amount of gas from Zohr field that will ensure Egypt's natural gas demand for decades and the rest will be used for export."
>
> **TAREK EL MOLLA**
> Minister of Petroleum and Mineral Resources

As the discussion came to an end, officials from the government expressed their admiration for the luncheon event. General Manager of Mass Communication at the Ministry of Petroleum and Mineral Resources, Ahmed Kowarshi, told Egypt Oil&Gas: "We are thrilled to be a part of such a magnificent event; everything is in order and absolutely top notch. The information that were stated by the Minister are very essential to all those who work in the field, and also for all the media personnel so that they would spread it to comfort the people about the entire Ministry's progress."

SCHLUMBERGER LAUNCHES EXCLUSIVE TRAINING PROGRAM

By Sarah Samir

The Egyptian oil and gas industry is in need of well-trained talented technicians to work on the Egyptian fields in order to positively affect the production. Hence, Schlumberger Egypt has launched a training program in cooperation with the Ministry of Man Power at a dedicated event held in one of Cairo's biggest hotels in February. The aim of the program is to train young technicians to meet the best international standards.

The service provider in the oil and gas industry in Egypt is thus offering a specialized training program for technicians, framed as a part of its corporate social responsibility (CSR) initiative. "We have responsibility towards this country and towards developing training in the fields of petroleum and macro gas," said Schlumberger's Vice President (VP) and General Manager, Hussein Fouad El Ghazzawy.

Three Years Dedicated Program

Schlumberger's training program will be built on a three-year lifecycle as the company's Education Services Training Center Manager, Heba Abaza, told Egypt Oil&Gas. "The plan is to train 900 people over three years. Every four months we will have a group of 100 trainees who will spend two months in soft skills and then move on to field training, & finalizing the program with a graduation project."

Training Center Manager Abaza added that after six weeks of soft skills training, "there will be one day of induction training on Schlumberger, and the services provided to the petroleum industry." In addition, the program will deliver training on "health, safety& environment to increase the safety of personnel and facilities. This training will last for four days," Abaza shared further details.

This will be followed up with two-month field training in line with Schlumberger's services portfolio. The company fulfills its role in the industry throughout multiple segments. Accordingly, trainees will be divided among respective segments during their field training. "Each segment will have ten trainees for an on-job training and they will work with the field engineers and specialists."

Following upon that, "the program will offer one week supervision for trainees to prepare their graduation projects that will be presented at a graduation ceremony," noted Heba Abaza.

The soft skills training will be provided by the Education for Employment (EFE), which is "a non-profit organization that is working under the guidance of the Ministry of Social Solidarity," according to EFE's Operational Manager, Ismail Habrouk.

As Schlumberger's VP El Ghazzawy explained to Egypt Oil&Gas, the company chose to dedicate its program to technicians rather than other professionals from the industry. He explained the reasons behind this choice. "We did not think of the engineers first, instead we thought of technicians. This youth is excellent, but they need somebody to help them understand teamwork and their commitment. The experience will have a learning curve. It will enable us to learn from the youth as well as teach them and develop them."

> **"We have responsibility towards this country and towards developing training in the fields of petroleum and macro gas."**
>
> **HUSSEIN FOUAD EL GHAZZAWY**
>
> SCHLUMBERGER'S VICE PRESIDENT AND GENERAL MANAGER

To End Unemployment

The main target of the training program is to overcome "the unemployment ghost" on several levels, as stated by the Egyptian Minister of Manpower, Mohamed Safan, who attended Schlumberger's event.

According to Schlumberger's Training Center Manager, Heba Abaza, "the training program's goals are to support youth with the basic skills that will help them in their technical skills and their professional growth in general. We aim to teach work ethics, and part of the training will also

focus on passing experience to others." In this way, Schlumberger will overcome the shadow of knowledge transfer and succeed in creating a sustainable program with multipliers.

The program will further focus on talents that will help young technicians to "stay in the job," according to EFE's Operational Manager, Ismail Habrouk. As he explained, "the labor market is seeking responsible youth with energy, self-confidence, credibility, and ambition." This is what the program is promising to deliver, reflecting on the actual, present, and tangible needs dictated by the market and specificities of the Egyptian oil and gas industry.

Empowering Women

Another significant segment of the training program is Schlumberger's focus on female professionals.

The company has embarked upon a commitment to empower women, who are represented in the oil and gas sector with a higher percentage than in any other industry in the country. "The percentage of women working in the oil and gas industry is 25%, but, today, in Schlumberger, we are starting the training program with even a higher percentage than that," stated Strategy and Transformation Manager at Schlumberger, Mohamed Helal. VP and General Manager El Ghazzawy pointed out that the company is "glad that 30% of the trainees are women." Helal added that Schlumberger hopes that in the future the program will generate growing percentage of female technicians, and those who will receive the specialized training "may increase to as much as 50%."

> **"The plan is to train 900 people over three years. Every four months we will have a group of 100 trainees who will spend two months in soft skills and field training, completed through a graduation project."**
>
> **HEBA ABAZA**
>
> EDUCATION SERVICES TRAINING CENTER MANAGER, SCHLUMBERGER

In line with Egypt's Year of Women in 2017, as President Abdel Fattah El Sisi announced, "Schlumberger has been always empowering women," Heba Abaza further noted. "Schlumberger always had women in the field, it is not a new concept, and we are used to that." Accordingly, "we are supporting women, as women are just as powerful, just as strong, and just as mentally powerful as men. So why shouldn't they be given an equal chance to work in fields, where they may be even more creative," Abaza said. In the program, as she further affirmed, women perform excellently. "I was impressed during my interviews with the ladies [in the program] as they are very enthusiastic." Hence, Schlumberger "aims to expand this initiative to the entire country."

Offering a Better Future

It is beyond doubt that the training program is offering a brighter future for the youth involved in Schlumberger. VP and General Manager El Ghazzawy pointed out that "10% of the accomplished trainees will [get the chance to] have training abroad. Thus, [trainees] should seek success and compete together to get the training outside of Egypt. We started talks with UAE, Saudi Arabia, Kuwait, Asia, and Africa to send our people there, or as Minister Safan said before, to export our people. Egypt currently exports talents and will export them to the whole world" for years to come.

Accordingly, Minister of Manpower, Mohamed Safan, stated that the training program aims to improve the Egyptian talents. "What we are [seeking] is to have the youth mastering the talents and experience [whom we will] be proud of, to have the youth as a symbol for Egypt here and abroad, and for the companies to have a desire to hire Egyptian employees in the future."

Schlumberger training program is an initiative that will empower youth and develop their skills and expertise. El Ghazawy told Egypt Oil&Gas

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>
> **MOHAMED SAFAN**
>
> EGYPT'S MINISTER OF MANPOWER

that Schlumberger is "waiting for the launching of the training center to observe its capacities and then it will present training for other talents in the fields of engineering, logistics, safety, and procurement."Hence, the sustainability is guaranteed. It is a program that will improve technicians and in the future enhance talents in other sectors, which will eventually help develop the oil and gas industry and boost the Egyptian oil and gas production.

OIL GIANT REACHING OUT TO SOCIETY

US based giant, Apache, is the No. 1 oil producer in Egypt and it is determined to build on its success, but not only in the core business, but also beyond that. Apache is indeed a pioneer in corporate social responsibility (CSR) in Egypt and has proved its commitment to the country through its numerous CSR programs.

Apache's approach to CSR is based on a simple philosophy - "give where we live." The company's CSR programs encompass a wide variety of activities that create value for its stakeholders and the community. CSR activities include employee-driven philanthropic acts, civic infrastructures, building and maintaining schools, supporting future engineers and providing an environment that encourages a healthy workforce.

Springboard: Educating the Future

At the forefront of Apache's community efforts is its ongoing campaign to provide educational opportunities through the partnership with Springboard: Educating the Future.

In 2004, Apache funded the National Council for Childhood and Motherhood's project by building more than 200 schools in rural areas in Egypt. Overall, Apache Egypt built 209 schools out of which 125 are in Fayoum, 39 in Minya, 37 in Giza, and 8 in Matrouh.

Since then, Apache has supported the schools with regular maintenance activities, school supplies, computers and medical needs. As many as 7,000 students benefit from these schools yearly.

As the company's Vice President and Country Manager, David Chi, told Egypt Oil&Gas, "I am proud to say that to date we have contributed to educating more than 10,000 girls." Today, around 2,200 graduates from Springboard schools are currently enrolled in middle schools and high schools to continue their education.

Apache is keen on following up on the graduates' progress and on providing them with assistance to pursue their dreams.

"I AM PROUD TO SAY THAT TO DATE WE HAVE CONTRIBUTED TO EDUCATING MORE THAN 10,000 GIRLS."

DAVID CHI
Vice President and Country Manager, Apache

Matrouh Schools

In the Matrouh area in Egypt's Western Desert, Apache has constructed a total of eight co-educational schools to benefit the Bedouins in the area. Around 300 students attend these schools.

These social investment initiatives have been conducted in line with the company's philosophy. To articulate it in Apache's words, the company is pursuing these activities in the localities "because we appreciate the people who live and work in the communities where we operate."

Apache Egypt's engagement with the Bedouins not only includes building schools, but also regular meetings to exchange information on Apache's oil and gas exploration and production activities.

Furthermore, these collaborations across the community borders allow the company to provide employment and aid for the Bedouin families.

Health & Wellness Program

Philanthropic activities do not represent the full extent of Apache's commitment to the Egyptian society. The company focuses on Fun Run/Walk/Cycle Events to encourage healthy standard of living of its employees, their families, and the entire communities.

As a responsible employer, every year Apache's wellness program organizes several awareness campaigns and health events to encourage employees and their families to adopt healthy lifestyles.

Biometric screening protocol and health risk assessment tools are conducted to assess the employees' current and future health risks.

"WE GIVE WHERE WE LIVE."

Fitness facilities are open at no charge to employees and offer a wide variety of exercise equipment, fitness, and training classes, and programming to encourage employees' overall fitness.

Developing Youth

To develop the role of youth in the oil and gas industry in Egypt, Apache supports the American Association of Petroleum Geologists (AAPG) in 12 Egyptian university chapters.

Since 2012, around 500 students attended sessions conducted by Apache's technical experts and received information about Apache's latest technology.

In addition, Apache supports the AAPG's "Imperial Barrel Award" in Egypt to allow university teams to compete against other AAPG university chapter teams from across Africa, then if successful, become part of the global competition.

Apache also supports the Egypt Exploration Society's (EPEX) "Al Amal" program that mentors the top Geoscience graduates in an intensive program. In line with the program, the company provides opportunities for fresh graduates and young professionals to expand their skills and knowledge of the industry through practical training.

Apache's summer internship and development programs specialize in land, geosciences, and petroleum and drilling engineering disciplines. The programs include subspecialties such as seismic mapping, well correlation, production, reservoir, completions, drilling and field operations. These programs involve extensive educational and on-the-job training with cross-functional and professional rotations. The internship programs thus aim to promote professional skills and invest in individual employees to develop their potential.

The success of these programs is critical to Apache's future; hiring and retaining top-tier diverse talent ensures that the company maintains a robust supply of future leaders for the country to benefit from in the long run.

Civic Efforts

Apache Egypt and its employees support many civic efforts through volunteer work and financial contributions. In For instance, the company and Apache's employees in some years raised as much as EGP 380,000, which marked a new record.

Apache has been helping Egypt's orphans since 2005. A total of around 60 associations and orphanages all over Egypt benefit from the fundraising campaign yearly.

Furthermore, Apache has also donated medical equipment to several hospitals and clinics, proving that its understanding of CSR extends beyond the traditional forms and encompasses an enormous portfolio that can, indeed, serve a successful example for other oil and gas players coming to Egypt.

Having demonstrated a massive record of its social investments in the country, the company shows that forging strong relations with the Egyptian government and society alike is fruitful and beneficial for all involved parties.

APACHE'S CSR ACHIEVEMENTS

- **Building 209 schools**
- **Educating 7,000 students yearly**
- **Regular Fun Run/Walk/Cycle Events**
- **Supporting 60+ orphanages yearly**

A BOOM OR DOOM OF NIGERIA'S PETROLEUM SECTOR PRIVATIZATION

By Mariana Somensi

The debate about the privatization of the Nigerian National Petroleum Corporation (NNPC) revived in January 2016 after Petroleum Resources Minister of State, Emmanuel Kachikwu, announced the country's plans to make its first initial public offering of assets owned by NNPC in 2018. The discussion gained force after Nigeria lost, for seven months, its position as Africa's top oil producer to Angola, retaking it in December 2016 and losing it again in January 2017. Observers indicated that the government involvement in the oil and gas industry is a major cause of the sector's problems, in addition to the militant attacks on the country's pipelines, presenting privatization as the best alternative to boost NNPC's performance.

In line with that, a ministerial address indicated that most energy infrastructure development projects should be financed and managed through private sector participation; hence, privatizing NNPC intends to restructure the public sector in order to substantially reduce the dominance of unproductive government investments in the field. It also looks to changing the orientation of all public enterprises engaged in economic activities towards a new horizon of performance improvement, viability, and overall efficiency.

Furthermore, privatization aims to send a clear message to the local and international community that a new transparent Nigeria is open for business, clearing the company's mismanagement record.

Corruption and Mismanagement

The corruption in the organization and the mismanagement of NNPC is a major concern because the Nigerian economy relies solely on petroleum products. According to the Federal Ministry of Budget and National Planning, 95% of Nigeria's exports earnings and 70% of the total federal revenue come from the oil sector.

In August 2015, NNPC faced one of its biggest scandals after an independent investigative analysis by the Natural Resource Governance revealed that over $32 billion oil revenue was lost to NNPC's mismanagement of Domestic Crude Allocation (DCA), opaque revenue retention practices, and corruption-ridden oil-for-product swap agreements, as reported by Premium Times.

In March 2016, an official audit accused the company of not paying $16 billion in oil revenue to the Federal Government. After the incident, Former President, Olusegun Obasanjo, emphasized that NNPC should be privatized to end what he called "the monumental fraud" in the oil sector.

In January 2017, the company was once again the target of corruption allegations after oil marketers accused NNPC's officials of extortion during the loading of petroleum products.

Revenue loss due to corruption sets privatization as an emergency measure, according to some specialists, but the situation has been further exacerbated due to ongoing militant attacks on the industry's infrastructure, that render any emergency scenarios dubious.

Militant Attacks: An Issue to Consider

The militant attacks against Nigeria's oil pipelines in the Niger Delta should thus be carefully considered before any attempt of privatization is made, since they have severely impacted the country's production.

The militant groups first appeared in the early 2000s, claiming that oil-related activities held by foreign oil corporations have deteriorated the living conditions of people from the oil-rich areas. Moreover, ethnic groups argued they were being exploited as they could not benefit from the oil exploration in the region.

Given the nature of the groups' resistance to the oil and gas producing activities, some analysts believe that the privatization plans for NNPC could further intensify the militant attacks on the oil and gas facilities. In July 2015, The Nation's Columnist, Biodun Jeyifo, published his concerns that the privatization would increase the divisive and nation-wrecking struggles over which zones, which tribes, and which communities would get what percentage or share of the privatized oil corporation.

"In fact, already, there are whispers and rumors that the privatization of NNPC is intended to once and for all 'solve' the endless strife over 'resource control,'" added Jeyifo. From his perspective, the privatization of NNPC may be unable to achieve the goal of stabilizing the country's industry with non-state actors on high alert. As a matter of fact, it will likely instead exacerbate and raise the divisive struggles over the sharing of oil revenues between the different parts of the country to a new level. Hence, the mobilization against NNPC's privatization has been a rather expected turn of events.

Mobilization against Privatization

The moves to privatize NNPC stirred up a lot of controversy in Nigeria, especially in the syndicates. In December 2016, workers in the oil industry under the aegis of Petroleum and Natural Gas Senior Staff Association (PENGASSAN) and the National Union of Petroleum and Natural Gas Workers (NUPENG) reinforced their opposition to the privatization and affirmed their positioning would be sustained as long as privatization discussions continue without proper engagement with the unions.

PENGASSAN Petroleum Industry Bill (PIB) Committee's Chairman, Chika Onuegbu, who disclosed the position of the workers, said PENGASSAN and NUPENG would not accept a PIB that does not pay sufficient attention to the issues of labor with a guarantee of the rights to freedom of association and compliance with international labor standards and laws. According to him, the PIB proposed did not make reference to the collective bargain agreement.

Furthermore, speaking on behalf of the organized labor, Joe Ajaero defended their rights in the Nigeria Labor Congress (NLG) saying that "historically, no nation has had to sell off its treasures as a means of resolving recession." He also explained that selling NNPC's assets would represent a huge loss, since they guarantee the nation's present and future as it provides the much needed resources to continue running the country.

Host communities under the umbrella of PAN-NIGER DELTA Forum (PANDA), led by Akwa Ibom State's Former Governor, Victor Attah, also stated they would reject any PIB that fails to take into account host community funds. However, the organization expressed openness to embrace dialogue to address the age-long crisis that has compromised oil exploration in Nigeria's oil rich Niger-Delta region.

In addition to the unions, stakeholders have also advised the Federal Government against privatization. NNPC's Former General Manager and Finance, Victor Eromosele, who is also the M.E. Consulting Limited's CEO, noted that privatization is not a solution to the problems of NNPC. He mentioned Statoil of Norway as an example of how the government can efficiently run a globally competitive company and equitably distribute wealth.

According to Eromosele, privatization can indeed solve some problems, but it also introduces others. As he explained, "there is a need to balance national sovereign control of natural resources with the need for efficiency and profitability." In his opinion, the government should continue maintaining the ownership control of NNPC, but added it should equally allow it to be managed as an enterprise.

A Delicate Decision

Most recently, nonetheless, the Nigerian Federal Government clearly indicated its plans to sell NNPC's assets. In February 2017, the state executives announced that Nigeria aims to generate up to $16.4 billion through asset sales in the next four years to reduce the burden on the nation's budget. While the company's privatization may remediate corruption and mismanagement to reinstate revenues lost to fraudulent activities on top managerial levels, it is important to consider all the available options before selling out the country's main source of revenue – especially when a militant conflict has been holding production performance.

MEDDLING POLITICS IN LEBANON'S ENERGY INDUSTRY

By Salma Essam

Lebanon has recently fueled prospects for exuberant oil and gas discoveries in the Mediterranean Sea, signaling an energy windfall that would jump start its economy. However, political setbacks that the country has been facing and regional struggles in which Lebanon has been implicated, pose insuperable obstacles to the development of the country's oil and gas wealth.

Can Lebanon Do Energy Business?

On the onset of the 21st century, seismic scans that were carried out in the Levant Basin, particularly in the eastern Mediterranean Sea, offered optimistic prospects for existing oil and gas resources off the coasts of Lebanon, Cyprus, and Israel. The seismic surveys estimated Lebanon's offshore fields to hold 96 trillion cubic feet of gas and 850 million barrels of oil, according to statistics published by Oil Price in February 2017. The discovery of the country's huge reserves has brought about greedy intention among political parties, which resulted in mismanagement of international oil and gas bid rounds announced in 2013.

Even though Lebanon's cabinet started adopting a positive approach towards the industry by issuing decrees for foreign investments, postponing the tendering processes, and, hence, drilling operations, might have led investors to reconsider their decision to do oil business in the Levant state. Former Energy Minister, Gibran Basil, has also been reluctant to reward a number of blocks, causing further lengthy deferrals to any deals. Political Risk Consultant and Co-Founder of Beirut-based Middle East Strategic Perspectives (MESP), Mona Sukkarieh, said that "investors' enthusiasm for the 2013 tender was high, but the delays have undermined this," Reuters cited in its publication - Lebanon to restart oil, gas licensing round after three-year delay, published in early 2017. According to Reuters, several of the 46 companies that had been qualified to take part in the bidding, 12 of which were as operators, including Chevron, Total, and ExxonMobil, have been unable to submit their bids until early 2017. This has necessarily impaired the execution of any operations in the offshore basin, despite the country's dire need for energy resources. In this sense, IOCs have become lukewarm about doing operations in Lebanon especially with the slashing oil prices.

A lack of political will and bureaucratic incompetence to seal any exploration and production (E&P) agreements with international oil companies (IOCs) revealed a genuine fabric of the squabbling political forces unable to make major deals in a transparent manner. This strongly suggests, as some analysts have pointed out, that those in power are not used to striding upon cash flows "without any commission being siphoned into their pockets," as explained in a BBC article, Lebanon Exploiting Oil Resources, published in 2015.

In fact, Lebanese politicians have shown that they are purposefully instrumentalizing the energy industry as it represents a winning card for solidifying power positions of individual factions. Major political forces like Shi'ite Hezbollah, the Free Patriotic Movement, and Future Movement, tend to exploit the energy business, which in turn enroots insurmountable power dynamics in the country even more. Hence, observers believe that Lebanese "politicians are jockeying for the potential sector's local contracts to grease their sectarian-based patronage networks," wrote Financial Times in a 2015 article Domestic Politics Hinder Development of Lebanon's Gas Sector.

Political Mismanagement

The sectarian networks have massively informed Lebanese politics and thus have had a significant effect on the country's energy industry. The political environment in Lebanon has always been in a state of turbulence due to the conflicting interests among political rivals. The political diversity in Lebanon is significantly manifested through the country's demography, breeding faction-based ruling structures. The country is a home to 18 recognized religious sects with the most powerful political forces being Maronites and Greek Orthodox Christians, with Shi'ite and Sunni Muslims, and adherents to the ancient Druze faith, mingling the power dynamics further. Each of the sectarian political communities, many with their dedicated armed militias, has a say in the government, making political consensus unattainable and, in turn blocking major decisions in the executive and legislative branch of the state.

Until recently, the Lebanese presidential seat remained empty for over a year, marking the longest term for the Levant country to stay without the head of state since the end of the civil war in 1990. In effect, Lebanese political institutions were paralyzed as the government has been drowning in the never-ending presidential race and failed to address major issues such as the garbage crisis, electricity shortages, as well as providing basic services to its citizens. Furthermore, Lebanon has been a refuge to a big population of immigrants escaping deadly wars in their countries, with Syrians and Palestinians taking the lion's share – a fact that also takes its lot on the government's agenda. In other words, the parliament is occupied with settling other internal crises that probably makes any discussion on energy seem less appealing and may further stir conflict of interests among the sects.

"Investors' enthusiasm for the 2013 tender was high, but the delays have undermined this."

MONA SUKKARIEH
Political Risk Consultant and Co-Founder of Beirut-based Middle East Strategic Perspectives (MESP)

This political fragility and governmental malfunction seems to have extended to Lebanon's energy potential, which has remained a point of disagreement and contention in recent years. And if major world oil producers reference political stability as a recipe for good governance in the energy sector, Lebanon, with its political dynamics, can prove to be an example of a complete opposite when energy business becomes a new point of contestation. Indeed, when the greed for oil revenues sparks, the energy business could be "the new apple of discord in simmering sectarian rivalries between Lebanon's Sunni, Shi'a, and Maronite Christian communities," stated International Energy Consultant, Scott Belinski, in his article to Oil Price - Will Lebanese Oil and Gas Ignite the Country?.

A successful energy industry could, in fact, be a long-term salve for Lebanon's economy. However, what seems to be happening in the country is that the energy industry has turned into a disputed terrain, which in effect may render the country's volatile internal conflicts among different sectarian communities more intense on various levels. Even when the sectarianism argument is put aside, a bad news for Lebanese oil and gas industry in this regard is a lack of experience in running the energy sector at a high level.

Indeed, mismanaging oil wealth can contribute to instability and raise security concerns. A trenchant lesson learned can be drawn from Nigeria. One of the reasons behind Nigeria's oil-based and low performing energy industry is continual attacks by the Niger Delta Avenger Militias on the country's oil infrastructure. Comparatively, if contention over oil revenues among the Lebanese factions is to happen, which is likely in a country where parties fight over political and economic tokens, a similar scenario can be highly likely in Lebanon as well. "If Hezbollah were frozen out of a future government, it could copy the playbook written by the Niger Delta Avenger in Nigeria by attacking production facilities and pipelines," elaborated Belinski.

Nevertheless, even if this negative scenario does not materialize, the Lebanese oil and gas industry sees major challenges ahead, given the scope of regional competition in place.

Foreign Investments and Competitive Markets

While Beirut has been immersed in its political squabbles, other countries were busy developing their oil and gas resources, attracting foreign investments into their economies. In Egypt, Italian Eni discovered super giant Zohr gas field that has promising prospects for the gas industry of the country. Meanwhile, Cyprus launched international bid rounds during 2016 and ExxonMobil, Qatar Petroleum, Eni, and Total expressed interests in Cypriot southern blocks. Similarly, Israel announced bid rounds in the same year. In addition, the country made major advancements as production kicked off from the offshore Tamar field and a major discovery was made, namely the Leviathan field. It is therefore beyond doubt that foreign investors would choose to resort to other markets that seem more appealing than that of Lebanon with its stalled energy policies.

Yet, the trouble with the Lebanese hydrocarbon market does not lie only in the country's complex politics. The strategic geographic location of the country positions Lebanon amidst major international oil players such as Saudi Arabia and emerging markets like Egypt and Cyprus. Fierce market competition in the region is further ignited by the unprecedented advancements that the oil industry has been marking in Iran, a country that has already had Hezbollah as its life-long ally. That said, Iran is likely to have its indirect say in Lebanon's energy industry and may also hurdle progress on the energy chessboard, trying to keep it in line with the Islamic Republic's agenda.

On top of that, the Lebanese energy industry encounters more difficult challenges over its location, namely those related to the country's maritime borders that remain obscure with Syria's maritime zone in the north and Israel's in the south. Lebanon has not signed a joint field development agreement with its neighbors for each are claiming conflicting shares of offshore natural gas reserves.

As for Syria, demarcating a maritime border is not an easy job amid the ongoing civil war and the international intervention. Therefore, Lebanon would have to wait until the conflict in Syria comes to an end and the two countries develop better relations on their part in order to be able to structure a set of rules and procedures to develop fields in the shared waters. In similar veins, since that the Mediterranean Sea is a major energy resource for Lebanon and Israel, the two countries that are formally at war, tensions between them have a potential to escalate.

Hence, these regional disputes may likely reflect on attempts by the Lebanese government to make a significant progress in the oil and gas sector for the sake of the country's economy. Nonetheless, Beirut is currently planning to offer three partially disputed blocks in the offshore southern zone up for bidding in the country's first oil and gas licensing round. However, this may cause tensions to surface as the three blocks - 8, 9, and 10 - are bordering with Israel.

It is, therefore, highly likely that potential investors will turn more cautious in exploring the area. As a senior US official affirmed to the Lebanese prominent newspaper, The Daily Star, "no oil company would be willing to explore gas in any disputed zone." Indeed, hardly any player would be willing to grant huge cash flows for operations in such territories, least of all those in the eastern Mediterranean Sea charged with conflicting political dynamics. The only exception may be players with a clear political agenda directly in the Levant country.

Beirut Tipping the Odds

With the internal political dynamics, the market competition, and maritime borders disputes, Lebanon would have to start addressing its energy development plans with a sense of urgency. It is important for Beirut to direct more attention to its oil and gas resources in today's energy-dependent world. If firmly anchored plans are efficiently put in place, Lebanon's economy can witness a massive boost that would settle issues the government has been failing to tackle. The discoveries made in the Mediterranean basin in Lebanon will indeed fuel promising results for its economy, introducing the country to the chessboard of the regional energy giants. If the government jumps onto more efficient strategies, the energy industry may offer a door out of country's economic lethargy, shrink hydrocarbon imports, further ramp up investments, and regulate consumption spending.

"[Lebanese] politicians are jockeying for the potential sector's local contracts to grease their sectarian-based patronage networks."

Financial Times, 2015. 'Domestic Politics Hinder Development of Lebanon's Gas Sector.'

Lebanon still has a competitive edge over its neighbors thanks to its relatively small population compared to the countries like Egypt and Iran. Thus, the country is likely to have less pressure to face, comparatively, when it comes to its energy self-sufficiency. Today, the Lebanese government opts to push forward with its oil and gas potentials that would contribute to decreasing budget deficit, create new jobs, and end the notorious power cuts that struck the country. But Lebanon's history is replete with many unsuccessful attempts to put economic aspirations in action. It remains to be seen if Lebanon rebuts expectations and prove able to tip the odds.

KPC ACHIEVED PEAK GAS RATE AT QASR FIELD

By Mariana Somensi

Khalda Petroleum Company (KPC) launched the Qasr Gas Compression Project at Egypt's Qasr reservoir. The objective was to speed up reservoir recovery and maximize the achievement of the peak gas rate, which corresponded to as much as 800 million standard cubic feet per day, when the scheme was proposed.

The Qasr Gas Compression Project is located in one of Egypt's huge gas fields in the Western Desert. Discovered in 2003, it consists of a large pressured gas condensate reservoir. Field production is handled at the Start of Line (SOL) Qasr Plant. The initial treatment consists of cooling and water removal. Following the first procedures, the gas condensate is exported to a combination of the Salam, Tarek, and Obaiyed gas plants for further treatment.

From the wellheads, the reservoir's condensate freely flows through the Qasr Phase I and Phase II facilities, as well as through the export pipelines, under reservoir pressure. Its final destination is the SHAMS manifold and the Salam gas plant. As the gas condensate flows from its initial phase to its final destination, the reservoir pressure declines. With the pressure naturally compromised, the basin's peak gas rate was impaired.

The impossibility of reaching reservoir's peak rate represents a big impact on gas production performance in the country, which brings up the necessity to remediate the negative pressure loss in the gas condensate facilities.

The gas compression scheme was designed to boost production. KPC's project budget amounted to as much as $310.7 million, which was invested in a rich variety of equipment to avoid pressure loss and speed up the reservoir's recovery. The funds were directed to the acquisition of gas turbine driven compressor sets, inlet and discharge scrubbers, discharge coolers, condensate suction drums, condensate export pumps, instrument air system, nitrogen generation system, and fuel gas system.

Furthermore, it included the installation of closed drains, utility systems, expansion to power generation and control system, firefighting, detection and alarm system, permanent camp, tie-in to existing flare system, cold vent, water degassing systems, as well as diesel supply systems.

As the activities progressed, all the proposed tasks were closely monitored by KPC through weekly follow-ups with the Egyptian company, Engineering for Petroleum & Process Industries (Enppi). The periodical meetings were carried out to keep track of all the observed warrantee claims and guarantee the quality of the project.

The gas compression project was scheduled to reach completion in a period of 27 months, and the operations officially started in December 2012. The Commissioning, Performance Test and Start Up were planned by March 2015, however, the project's conclusion was achieved in July, four months after the expected deadline.

In this context, the Qasr Gas Compression Project served as a strong move to avoid production downturn in the gas condensate field. In the current delicate period for the Egyptian trade balance, the project has helped to prevent the fall in the oil and gas industry revenues.

In 2015, before the project was finalized, Egypt started to import natural gas for the first time after years of high scale exports. Therefore, launching the Qasr Gas Compression Project in Qasr onshore reservoir consisted of an important and efficient long-term initiative from KPC and Enppi to minimize the economic impacts that gas imports would have had.

The project's positive influence in the trade balance can be explained by the peak rate achievements in the overall production capacity. Although exploration is believed to be the main way for reaching oil and gas resources, investing in the existing fields is still a more secured way to guarantee production rates.

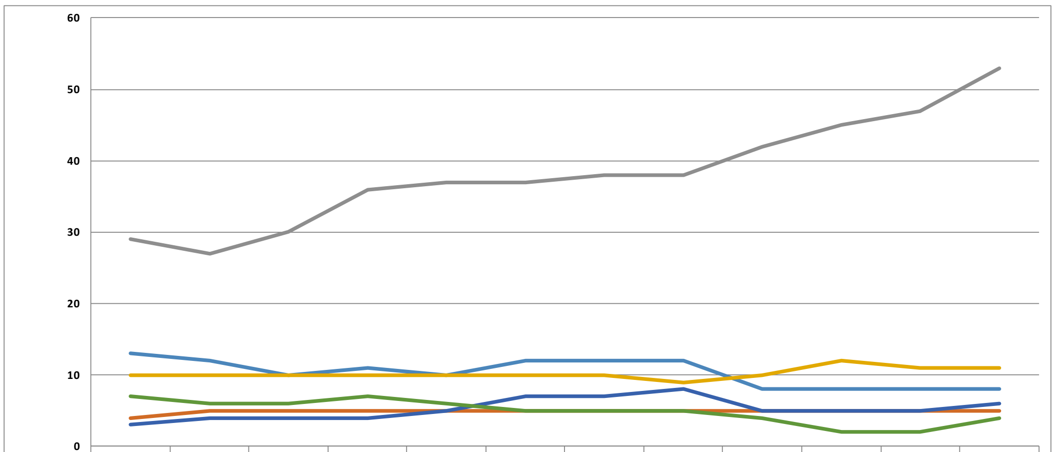
It is undeniable that new findings can largely boost output, which places exploration into a high priority investment for the oil and gas sector, however, it is likely that great findings will experience considerable drops in performance if its facilities are not constantly updated to work on-full operational capacity.

Wael El-Serag contributed to the report.

KPC is an Egyptian joint venture (JV) company between the Egyptian General Petroleum Corporation (EGPC) and the US firm Apache. The JV's main work area is located in Egypt's Western Desert and the main activities of operations include drilling, production, process and shipment of oil and gas. Following recommendations from the evaluation team and EGPC, in addition to an agreement among shareholders, KPC awarded the Engineering Procurement Construction (EPC) phase activities to Enppi. Enppi is a globally recognized engineering, EPC, and management contractor. Headquartered in Cairo, the company has decades of experience in onshore and offshore projects in the oil and gas, refining, and petrochemical industries.

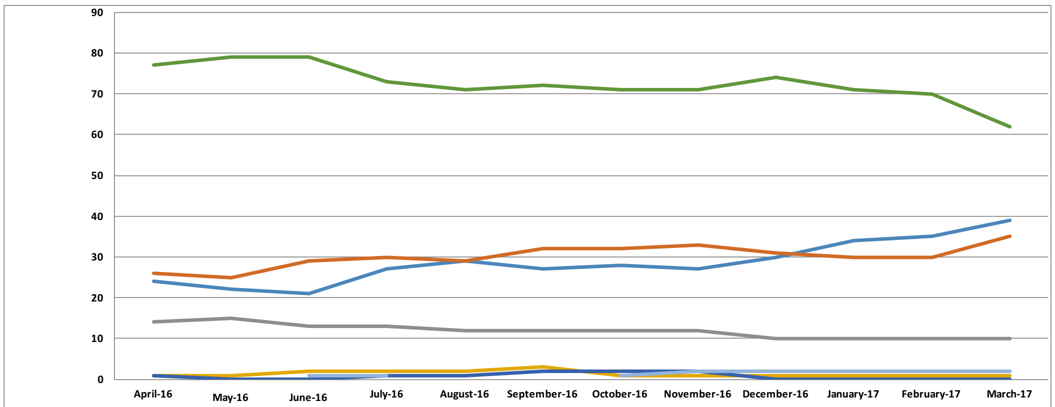
STATISTICS

Changes in Rigs by Area - April 2016 to March 2017



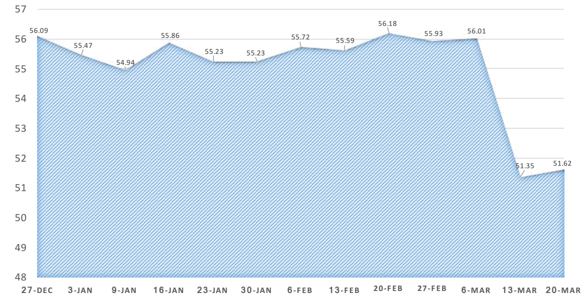
	April-16	May-16	June-16	July-16	August-16	Septmber-16	October-16	November-16	December-16	January-17	February-17	March-17
G.O.S.	13	12	10	11	10	12	12	12	8	8	8	8
Med. Sea	4	5	5	5	5	5	5	5	5	5	5	5
W.D.	29	27	30	36	37	37	38	38	42	45	47	53
Sinai	10	10	10	10	10	10	10	9	10	12	11	11
E.D.	3	4	4	4	5	7	7	8	5	5	5	6
Delta	7	6	6	7	6	5	5	5	4	2	2	4

Changes in Rigs by Type - April 2016 to March 2017

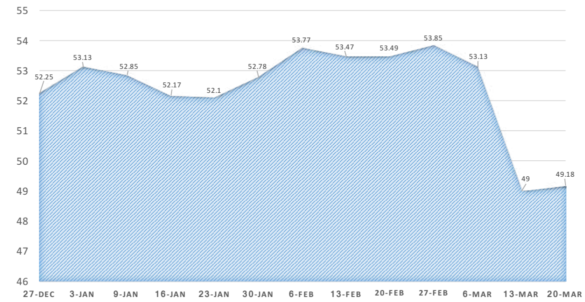


	April-16	May-16	June-16	July-16	August-16	September-16	October-16	November-16	December-16	January-17	February-17	March-17
Land-Drilling	24	22	21	27	29	27	28	27	30	34	35	39
Land Work-Over	26	25	29	30	29	32	32	33	31	30	30	35
Jack-Up	14	15	13	13	12	12	12	12	10	10	10	10
Semi Submersible	1	1	2	2	2	3	1	1	1	1	1	1
Fixed Platform	1	0	0	1	1	2	2	2	0	0	0	0
Standby/Stacking	77	79	79	73	71	72	71	71	74	71	70	62
Drillship			1	1			1	2	2	2	2	2

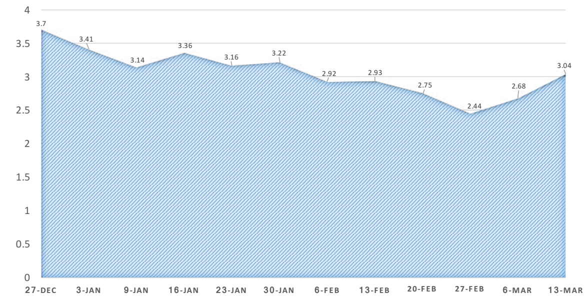
BRENT PRICES



OPEC BASKET PRICES



NATURAL GAS PRICES

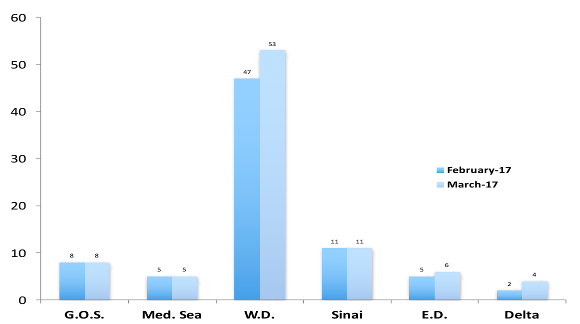


PRODUCTION FEBRUARY 2017

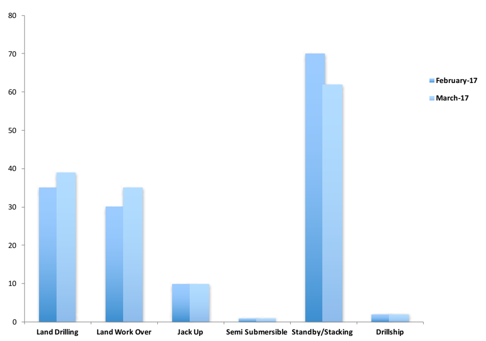
	Crude Oil	Equivalent Gas	Liquified Gas	Condensate
Med. Sea	–	8375714	125412	503125
E.D.	1819780	11071	2368	819
W.D.	8135625	6923929	588192	1273650
GOS	3879543	608750	241624	67821
Delta	24773	6118214	97907	405968
Sinai	1577156	-	25733	22369
U.Egypt	7012	-	-	-
Total	15443889	22037678	1081236	2273752

Unit: Barrel

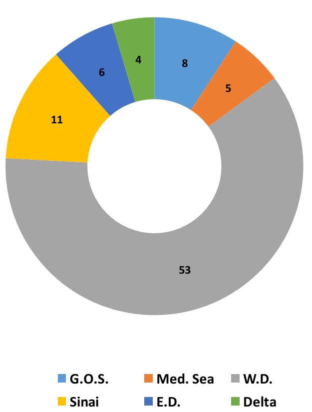
Rigs per Area - February 2017 - March 2017



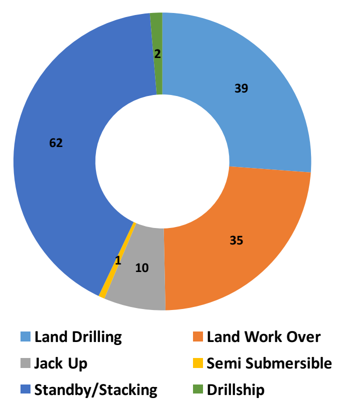
Rigs per Specification - February 2017 - March 2017



Rig Count per Area - March 2017



Rigs per Specification - March 2017



RIGS PER SPECIFICATION
FEBRUARY 2017 - MARCH 2017

LOCATION	February-17	March-17
Land Drilling	35	39
Land over Work	30	35
Jack Up	10	10
Semi Submersible	1	1
Standby/Stacking	70	62
Drillship	2	2
Fixed Platform	0	0
Total	148	149

RIGS PER AREA
FEBRUARY 2017 - MARCH 2017

LOCATION	February-17	March-17
G.O.S.	8	8
Med. Sea	5	5
W.D.	47	53
Sinai	11	11
E.D.	5	6
Delta	2	4
G.W.	0	0
Total	78	87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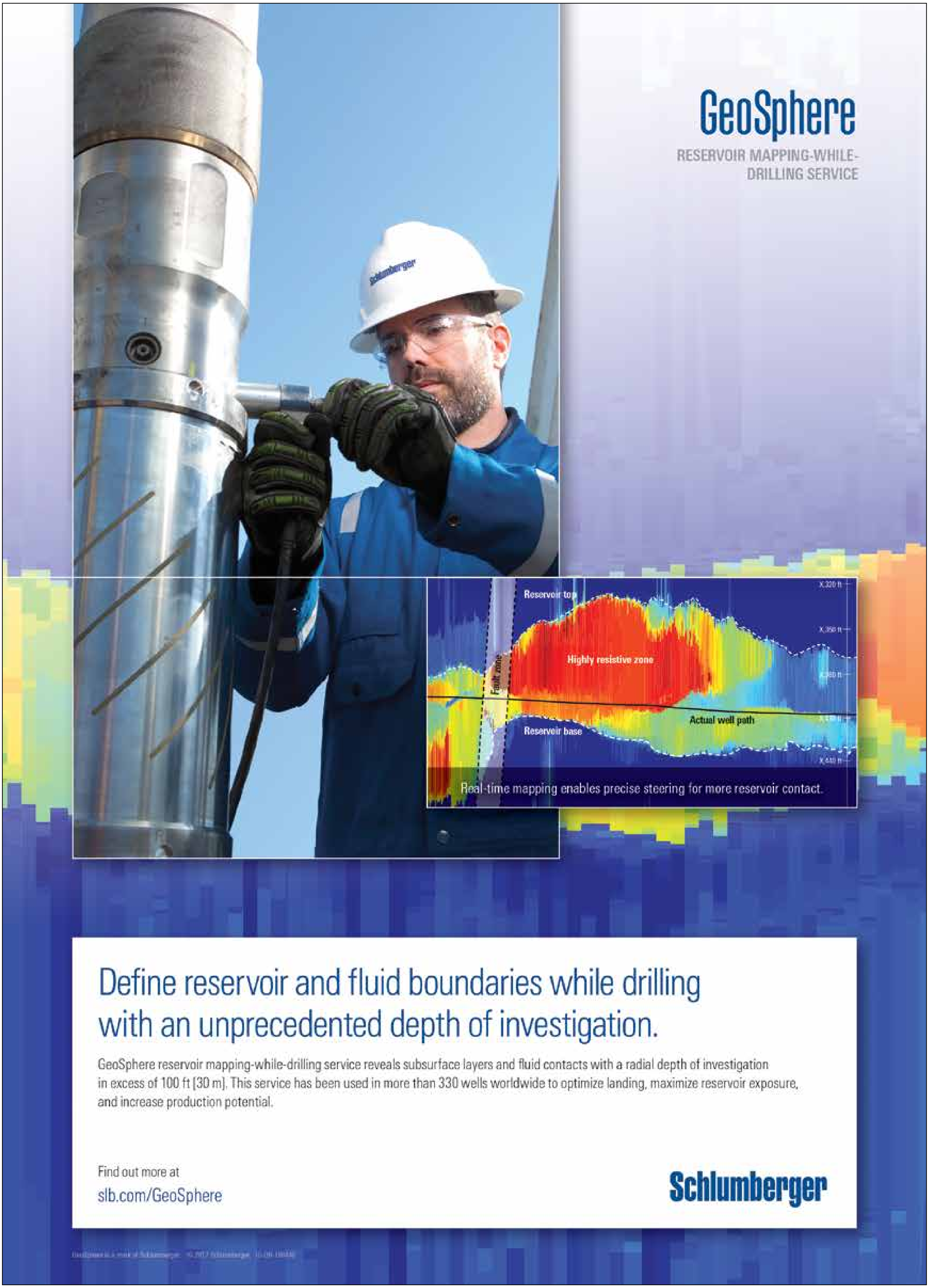
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