Oil and Gas Development in Egypt Awaits Political Stability page 7

EGYPT OIL&GAS NEWSPAPER

EGYPT'S LEADING OIL AND GAS MONTHLY PUBLICATION - FEBRUARY 2014 - 32 PAGES - ISSUE 86

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GUPCO: Looking Forward

This month at *Egypt Oil & Gas Newspaper,* we strove to bring you an issue that spoke to some of the sector's most pressing concerns, while taking care to offer varying points-of-view with a forward-looking attitude.

Despite the tumultuous events last month surrounding the third anniversary of the January 25th revolution, it is important to note that industry leaders have not lost sight of their goals for the sector and for Egypt's future in general. Even after the ratification of the new constitution, there is still much progress to be made in order to influence the direction of this country.

This issue takes a close look at how oil concessions pass through Egypt's legislature in the Political Review, looking at the experiences of ex-parliamentarians, industry experts, and IOC representatives. Our In Focus is an in-depth examination of what IOCs experience attaining permits to explore for oil and gas in Egypt, considering their concerns as well as the efforts of Egypt's transitional government to regulate the process effectively. An analysis of permit systems in Abu Dhabi and Qatar is investigated for the In Review section, and whether there is any wisdom Egypt can glean from successes of foreign oil and gas investors in those regions.

Each of these articles aims to show a different perspective on technical topics that are well understood by those working in the sector, but about which very little journalistic analysis exists.

For our Energy Focus section, the controversial topic of the use of coal as an energy alternative to natural gas is investigated, weighing environmental and industrial interests against the administrative realities for energy production in Egypt.

As usual, in addition to our features, we bring you an exclusive look at the most current drilling news, technological advancements, and developing projects in Egypt and abroad. I would also like to thank everyone who sat down with us to explain their hopes and frustrations within the oil and gas sector this month. We aspire to continue to engage with your ideas, and facilitate a dynamic and topical discourse of the sector's circumstances in our coming issues this year.

Managing Editor **Lily Leach**

Prices

Bullion Market		Oil Prices	
GOLD	SILVER	BRENT	NYMEX Crude
1225.92	19.65	110.58	97.87
USD/BBL	USD/BBL	USD/BBL	USD/BBL
-3.86%	-5.05%	2.67%	4.19%

EGYPT OIL&GAS NEWSPAPER

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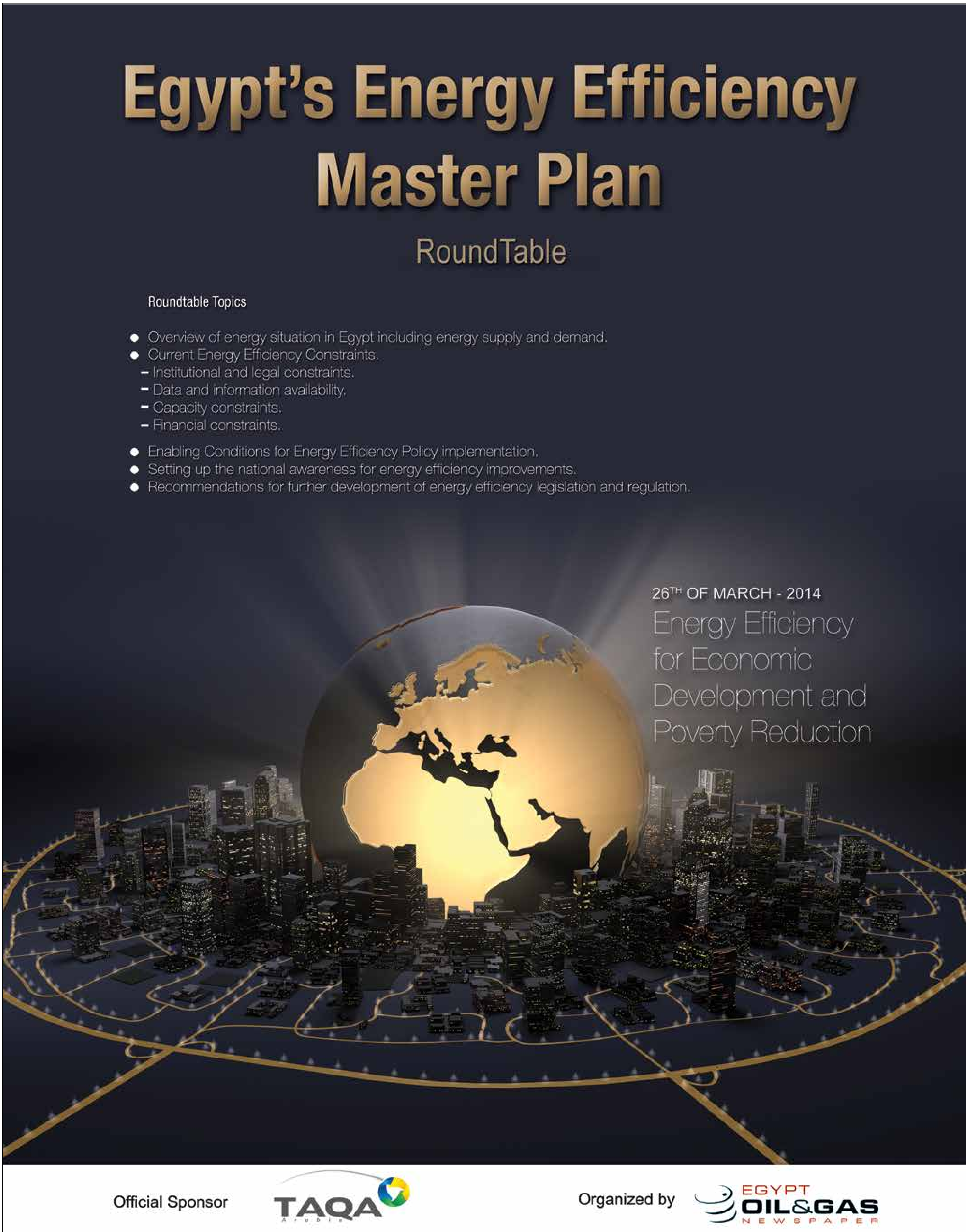
Egypt's Energy Efficiency Master Plan
RoundTable
Roundtable Topics
Overview of energy situation in Egypt including energy supply and demand.
Current Energy Efficiency Constraints.
- Institutional and legal constraints.
- Data and information availability.
- Capacity constraints.
- Financial constraints.
Enabling Conditions for Energy Efficiency Policy implementation.
Setting up the national awareness for energy efficiency improvements.
Recommendations for further development of energy efficiency legislation and regulation.
26TH OF MARCH - 2014
Energy Efficiency for Economic Development and Poverty Reduction
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EGYPT OIL&GAS NEWSPAPER

New Oil Discovery in Beni-Suef Concession

Eng. Mohamed Mounes, Chairman and Managing Director of Qarun Petroleum Company (QPC), stated that QPC has achieved a new oil discovery, WON A-2X, in Beni Suef Concession. The well was drilled to a depth of 9,750 ft (Kharita). Geo. Abd El Khalek Megawer, QPC Assistant Chairman for exploration, said the well proved to show good quality oil and gas in upper A/R (G-5) sands, which was confirmed by E-Logs and PetroPhysical analysis. The production test of the well yielded 700 barrels of oil per day, with an API gravity of oil 40 degrees. This new oil discovery is located 5.8 km northeast of WON-C-1X, the first oil discovery achieved by QPC in the WON area of Beni-Suef concession. QPC is planning to drill another exploratory well, WONA-3X, during this fiscal year to evaluate the extension of this new discovery. The proven reserves of WON A structure are growing to around 3.5 million barrels of oil.

Agiba Drilling New Wells

Agiba Company, a joint venture between EGPC and IEOC, has recently completed drilling four new wells, two developmental and two exploratory, in its concession area in the Western Desert. Production rate of Agiba crude oil reached 1,933,948 barrels in December 2013.

ARCADIA SW-1X

The ARCADIA SW-1X exploratory oil producing well was drilled at a depth of 15,658 ft utilizing the PDI-92 rig. The drilling process took 154 days, and investments surrounding the project are estimated at USD 10.750 million. The well is still under evaluation.

DORRA-17

The DORRA-17 developmental oil producing well was drilled to a depth of 6,300 ft, utilizing the ST-8 rig. Investments surrounding the project are estimated at USD 812,000.

JASMINE SE-1X

The JASMINE SE-1X exploratory oil producing well (under-evaluation) was drilled to a depth of 13,725 ft utilizing the PDI-104 rig. Investments surrounding the project are estimated at USD 6.574 million.

MEL-84

The MEL-84 developmental oil producing well was drilled to a depth of 6,686 ft utilizing the ST-8 rig. Investments surrounding the project are estimated at USD 1.007 million.

El-Mansoura Company Drills New Well

El-Mansoura Company, a joint venture between EGPC and Melrose Resources Company, recently completed drilling a new developmental well in its concession area in Delta. The S.Zarka-1 gas producing well was drilled to a depth of 8,497 ft utilizing the ZJ-47L rig. Investments surrounding the drilling process are estimated at USD 2.483 million. The company's production rate of gas reached 435,069 barrels in December 2013.

BAPETCO Drills New Developmental Wells

BAPETCO Company recently drilled two new wells in its concession area in the Western Desert. Production rate of the company reached 1,150,965 barrels of oil and 1,881,786 barrels of gas in December 2013. BAPETCO is a joint venture between EGPC and Shell.

OBA D-AN (40)

The OBA D-AN (40) gas producing developmental well was drilled in the concession area in the Western Desert to a depth of 13,832 ft utilizing the EDC-55 rig. Investments surrounding the project are estimated at USD 6.323 million.

BED 2 C6-1

The BED 2 C6-1 oil-producing exploratory well was drilled to a depth of 9,251 ft utilizing the EDC-72 rig. Investments surrounding the project are estimated at USD 2.734 million.

West Bakr Company Drills New Well

West Bakr Petroleum Company, a joint venture between EGPC and TransGlobe, recently completed drilling a new developmental well in its concession area in Delta. The M-21 oil producing well was drilled to a depth of 5,112 ft, utilizing the EDC-62 rig. Investments surrounding the drilling process are estimated at USD 572,000.

Petrobel Drills New Developmental Wells

Petrobel Company recently drilled three new developmental wells in its concession area in the Mediterranean and Sinai. The production rate of the company reached 3,597,946 oil barrels and 6,849,244 gas barrels in December 2013. Petrobel is a joint venture between EGPC and ENI.

DENISE N-2

The DENISE N-2 gas producing well was drilled to a depth of 6,539 ft utilizing the SCRABE-4 rig, in the Mediterranean. Investments surrounding the project are estimated at USD 22.899 million. The well was found to be of low output productivity.

B.B#13

The B.B#13 oil producing well was drilled in Sinai to a depth of 9,308 ft utilizing the ST-1 rig. Investments surrounding the project are estimated at USD 2.910 million.

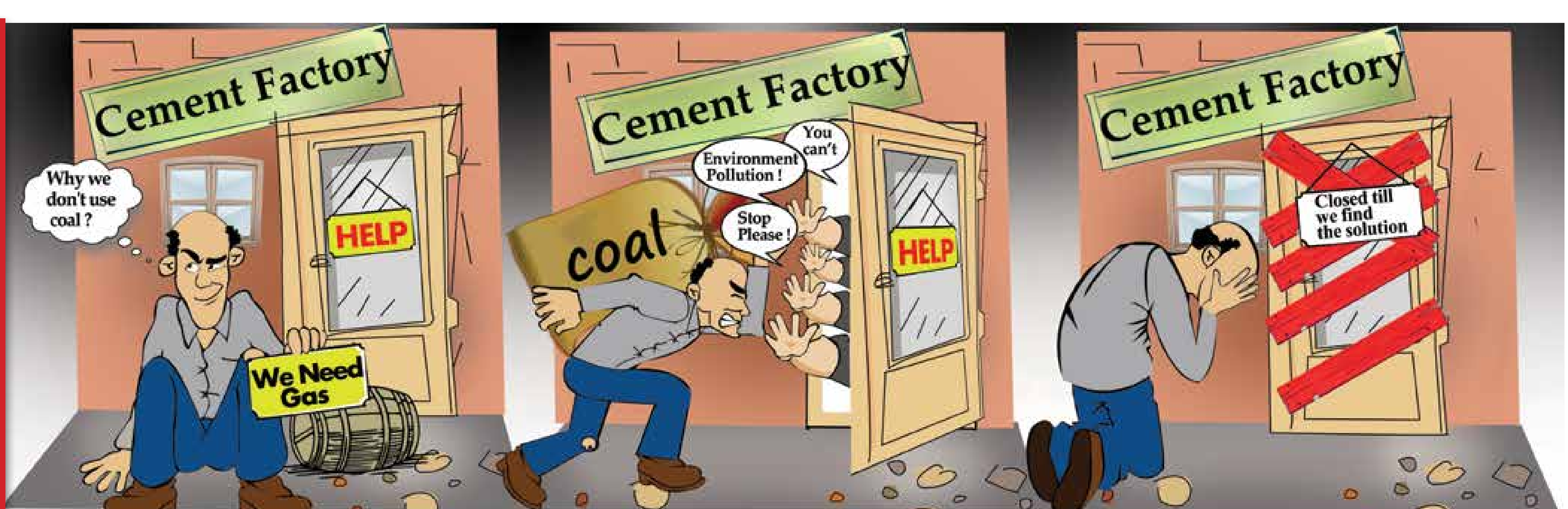
113-127

113-127, the new oil producing developmental well, was drilled in Sinai to a depth of 10,128 ft utilizing the ST-12 rig. Investments surrounding the project are estimated at USD 1.711 million.

Petrosafe Suppresses Oil Spill in the Nile

Petrosafe lately succeeded to suppress an oil spill in the Nile, which resulted from the drowned cruise ship Nivi Christina, which belongs to the Travco Nile Cruise Company. The ship, which drowned near Esna barrage, left an oil spot of 1 km length and 700 meters width as a result of leakage from its fuel tank. The ship was broken and was left in that location since 2005. According to EGPC, different parties cooperated to offer aids to help in the restoration process, namely the Environmental Affairs Department in Luxor, Luxor's Secretary-General, the Tebbin administration, the Environmental Affairs in Esna, and the local administration unit in Esna, which devoted all available potentials into the process. Petrosafe used Sorbent Booms to absorb the oil and quarantined the spill spot using light rubber barriers to avoid spread of oil in the Nile.

Story Board



Khalda Drills New Developmental Wells

Khalda Company recently drilled five new oil producing wells in its concession area in the Western Desert. Production rate of the company reached 4,542,904 oil barrels in December 2013. Khalda is a joint venture between EGPC and Apache.

MEGHAR-5
The MEGHAR-5 oil producing developmental well was drilled to a depth of 12,500 ft utilizing the EDC-1 rig. Investments surrounding the project are estimated at USD 1.835 million. Production from the well is already in phase now.

NADER NW-1X
The NADER NW-1X oil producing exploratory well was drilled to a depth of 11,000 ft utilizing the EDC-11 rig. Investments surrounding the project are estimated at USD 910,000. The well productivity showed low records.

SIWA 2-L2
The SIWA 2-L2 oil producing developmental well was drilled to a depth of 15,400 ft utilizing the EDC-16 rig. Investments surrounding the project are estimated at USD 1.869 million.

MRZK-120
The MRZK-120 oil producing developmental well was drilled to a depth of 7,265 ft utilizing the EDC-65 rig. Investments surrounding the project are estimated at USD 854,000.

TAYIM S-3
The TAYIM S-3 developmental well was drilled to a depth of 13,400 ft utilizing the ST-5 rig. Investments surrounding the project are estimated at USD 1.508 million

GPC Drills New Well

GPC recently drilled a new oil producing exploratory well, JUR-1X, in its concession area in the Western Desert to a depth of 13,715 ft utilizing the ST-4 rig. Investments surrounding the project are estimated at USD 6 million. Production rate of the company reached 1,331,540 oil barrels in December 2013.

Apache Drills New Developmental Well

Apache recently drilled a new oil-producing exploratory well W.KAL W-1X in its concession area in the Western Desert. The well was drilled to a depth of 15,820 ft during the fiscal year 2013/2014, utilizing the EDC-59 rig. Investments surrounding the project are estimated at USD 2.903 million. The well showed very low productivity of crude oil.

Apache
EXPLORING WHAT'S POSSIBLE

Kuwait Energy's New Exploration Agreements

Dr. Mansour Aboukhamseen, Executive Chairman of Kuwait Energy, said in a statement that negotiations with the Egyptian government are ongoing regarding contracts of exploration agreements for newly discovered gas fields, reported *Al-Nahar*. Mansour added that the company's activities in Egypt have never been disrupted by the current unrest, as the they operate in relatively remote areas (the Gulf Of Suez and Western Desert regions). Mansour also stated that the Egyptian government fulfilled a considerable amount of repayments owed to the company, and that the rest of the debt is to be scheduled over no more than two years according to arrangements with the Egyptian partner.

Mid-Sinai Pipeline Bombarded Twice in January

According to a number of witnesses, five masked terrorists bombarded the natural gas pipeline in mid-Sinai, reported *Al-Ahram*. The bombing targeted a cement factory, which belongs to military, though engineers succeeded to close the pipeline valves that pump gas to the factory. Investigations showed that terrorists prepared explosives to bombard the pipeline at El-Risan area in mid-Sinai, using remote-control techniques. They assured that the pipelines supplying Jordan and the Sinai Cement factory are both safe. The same area witnessed the second bombing of the line supplying industrial zones in mid-Sinai, which include Sinai Cement factory and another one owned by the military, which caused a cut in gas supply to the heavily industrialized zone. GASCO, which is in charge of operation and maintenance of the pipeline, decided to close the pipeline valves to control fire spread. GASCO assured that gas supply to houses is ongoing and unaffected, according to *Al-Masry Al-Youm*, and outlined that it would take at least two weeks to cool down the damaged pipeline, in order to be able to fix it and put it back in operation. A committee was formed between GASCO and the Ministry of Petroleum to estimate losses. The Ministry of Petroleum stated that it is currently seeking alternatives for gas supply to the industrial zone factories in order to resume production.

Sea Dragon Attains Offshore Stake in Egypt

Sea Dragon Energy succeeded to gain 12.75% of the concession area of South Ramadan in the Gulf of Suez, with investments up to USD 23 million for a 10 year concession devoted to drilling one well and upgrading facilities, reported *UpStream*. The concession area lies between the Ramadan field and the Saggara filed, comprising 26.2 square kilometers at a depth of 27 meters. It has produced 3.75 million barrels of light oil up to the end of December. Pico International Petroleum owns 37.25% of the concession, while EGPC has 50%.

CHOICE **Words**

If I run [for president] then it must be at the request of the people and with a mandate from my army. ... We work in a democracy.

Abdel Fatah al-Sisi
Egypt's Defense Minister

As Egypt's transition proceeds, the United States urges the interim Egyptian government to fully implement those rights and freedoms that are guaranteed in the new constitution for the benefit of the Egyptian people, and to take steps towards reconciliation.

John Kerry
US Secretary of State

The constitution stresses that government spending on primary, secondary, and higher education should reach 4% and 2% of GDP respectively. One percent of GDP is allocated to scientific research and 3 percent to health care.

Amr Moussa
Chairman of Egypt's Constitution-Drafting Committee

We will not attend or participate in any technical negotiations concerning the Renaissance Dam until we make sure Ethiopia is proposing genuine initiatives that are in line with the Egyptian view, so that these meetings will be meaningful."

Mohammed Abdel Moteleb
Egypt's Water Resources and Irrigation Minister

CARTOON

Deciding Egypt's Future

Shell Oil's Production Capacity to Exceed 100 Million Liters

According to *One Way*, Saher Hashem, the Managing Director of Shell Oil in Egypt, stated that they are running numerous developmental projects to increase their production capacity in Egypt to reach 100 million oil liters within the next three years. Hashem added that Shell's share in the Egyptian market exceeds 15%. Production and consumption rates range between 400 and 500 liters per year. "The past and current political issues do have an effect on Shell production rates of oil," Hashem said. Shell runs a team of 200 researchers, 300 consultants and technicians, and 1,000 oil specialists. Hashim also said that selling Shell service stations to Total Egypt is in line with Shell's marketing and distribution activities in certain potential markets, where 85 stations have been sold so far. Of Shell's plans for 2014, Hashim said that the continues to serve high-tech industries, faces newly emerging energy challenges, and develops partnerships with potential automotive agents.

Dana Petroleum Signs Two Agreements for Western Desert

Eng. Sherief Ismail, Minister of Petroleum and Mineral Resources and the Chairman of Dana Petroleum, signed two oil and gas exploration agreements for the Western Desert region of Egypt: Western Dakhla 1, and Western Dakhla 2, reports *Upstream Online*. Investments surrounding the exploration process are estimated to be USD 24 million, and USD 1 million more is planned for drilling four new exploratory wells. The agreements were conducted through the 2010 Ganoub El Wadi Petroleum Holding Company bid round.

GPC/Scimitar Drills New Wells

GPC and Scimitar companies recently drilled three new developmental wells in its concession area in the Eastern Desert.

ISS-136

The ISS-136 oil producing well was drilled to a depth of 1,957 ft utilizing the ECDC-3 rig. Investments surrounding the project are estimated at USD 450,000.

ISS-140

The ISS-140 oil producing well was drilled to a depth of 1,560 ft utilizing the ECDC-3 rig. Investments surrounding the project are estimated at USD 370,000.

Zs-28

Zs-28 oil producing well was drilled to a depth of 897 ft utilizing the ECDC-3 rig. Investments surrounding the project are estimated at USD 143,000.

Qarun Drills New Well

Qarun Company recently drilled a new oil producing developmental well, APOLLONIA-3, in its concession area in the Western Desert to a depth of 4,590 ft utilizing the EDC-17 rig. Investments surrounding the project are estimated at USD 1.758 million and production from the well has already started. Production rate of the company reached 1,331,865 oil barrels in December 2013. Qarun is a joint venture between EGPC and Apache.

Egypt Approves New Oil and Gas Agreements

The Egyptian interim President, Adli Mansour, approved seven new oil and gas agreements recently, reported *Ahram Online*. The agreements were conducted by the Egyptian Natural Gas Holding Company (EGAS), with companies from England, Canada, Ireland, Italy, and the United Arab Emirates. Another agreement was modified as well by the Egyptian General Petroleum Company (EGPC). The exploration agreements are worth USD 2.1 billion, and at least 17 wells are scheduled for drilling within three years in the Mediterranean, the Nile Delta, and the Gulf of Suez.

Approval of Oil and Gas Budgeting Plans for 2014/2015

According to their website, the Ministry of Petroleum recently hosted the 2014/2015 meeting of holding companies' general committees to approve the planned budget for the fiscal year of 2014/2015. Participant companies included EGAS, EGPC, ECHEM, and Ganoub El Wadi Petroleum Holding Company. Minister of Petroleum Eng. Sherief Ismail stated that the petroleum sector is planning to increase gas exploratory work in deep water in the Mediterranean as well as increasing oil and gas production from deep geological layers, typically in the Western Desert. Ismail added that evaluation is ongoing regarding productivity of shale gas from different wells and geological levels, to make use of it as a potential source of energy.

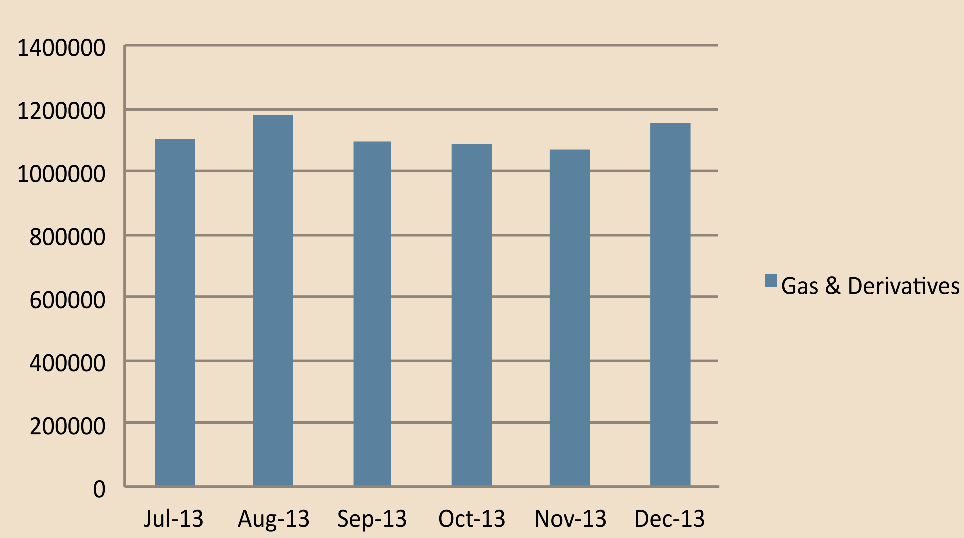
Oil and Gas Development in Egypt Awaits Political Stability

According to the Ministry of Planning, the petroleum sector represented 17.5% of GDP in 2012/2013 financials, reported *Al-Masry Al-Youm*. The Egyptian government announced a bid for oil exploration in 22 spots in the Gulf of Suez, Western Desert, the Mediterranean, and Nile Delta. The Government is trying to revive the energy sector, which has been destabilized since January 2011. During the financial year of 2012/2013, growth rates decreased by 2.7% and in 2011/2012 the rate was only 0.1%. The government announced in December that they are ready to fulfill a repayment of USD 1.5 billion of the USD 6 billion owed to international companies, intended to motivate international investments in oil and gas field. According to a report conducted by the American Energy Information Administration (EIA) in August 2013, BP produces around 40% of the entire natural gas production in Egypt, and debt owed to BP is USD 3 billion. Apache Petroleum already sold 33% of its assets in Egypt last December.

PRODUCTION INDICATORS

Gas Production of WASCO Relatively Stable

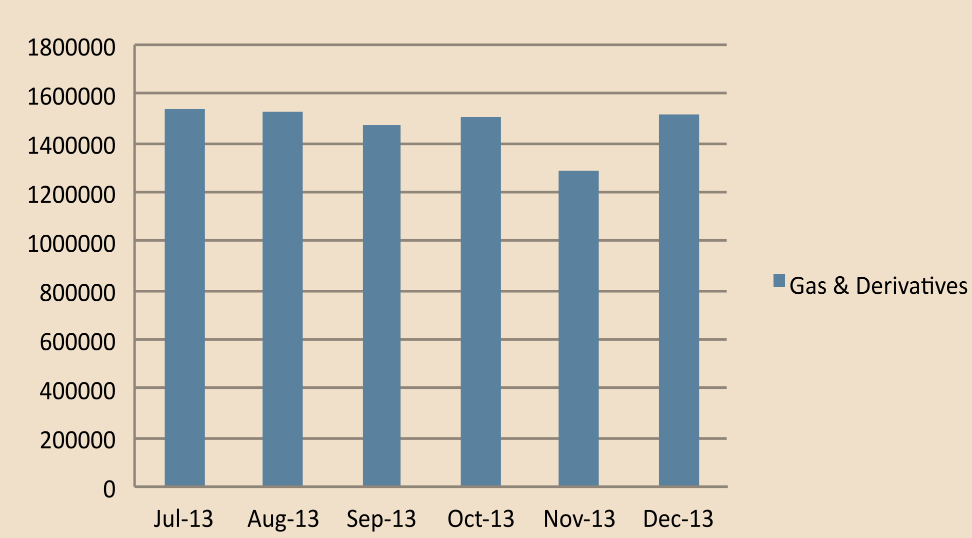
WASCO's Gas Production Indicators July 2013 - Dec. 2013.



The production of gas and derivatives by El Wastani Petroleum Company (WASCO) has been relatively stable from July to December 2013 between 1.0 and 1.2 million barrels of oil equivalent. From the 1,101,847 barrels of July, the production increased to 1,175,873 barrels by August, which is the highest output of the period. However, production fell during the next three months. This resulted in an output of 1,068,201 barrels in November, the lowest figure of the period. However, in December the production increased to 1,155,679 barrels, which is 5% higher compared to July. The average production of the period was 1,113,418 barrels per month.

Abu Qir's Output Stable, Except in November

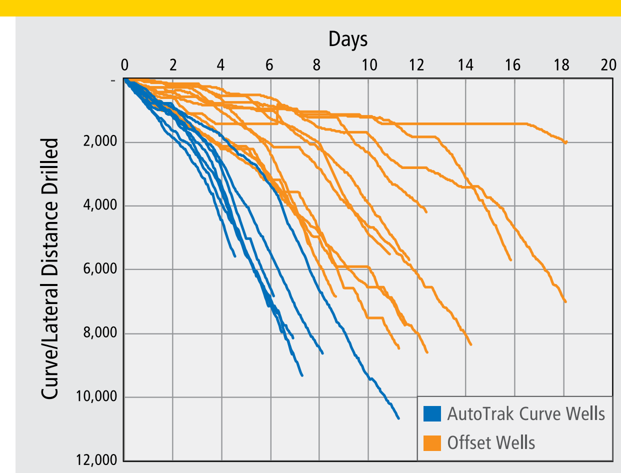
Abu Qir's Gas Production Indicators July 2013 - Dec. 2013.



The production of gas and derivatives by Abu Qir Petroleum exhibited stability from July to December 2013, except in November when it was much lower compared to the rest of the period. November excluded, the production was between 1.4 and 1.6 million barrels of oil equivalent during the six-month period. In November, it declined by 15% to 1,283,958 barrels. However, thereafter the production increased by 18% and reached 1,518,289 barrels by December, which is a slightly higher level compared to July. The average production of the period was 1,474,257 barrels per month.

$58,000,000 and 755 days of rig time saved in unconventional plays

On recent Marcellus shale wells, the AutoTrak Curve system outpaced the field's average drilling time by six days.



bakerhughes.com/autotrakcurve

The AutoTrak™ Curve system drills 3 million feet in 22 months... and keeps on drilling.

Save time and money on unconventional wells by safely and efficiently kicking off from vertical and drilling a high buildup curve and the lateral section in one smooth, fast run.

Maximize ultimate reserve recovery by exposing more of the reservoir with a rotary steerable system with a build-rate of 15°/100 ft (30.48 m). Three-pad steering capabilities keep the well in the target payzone and deliver a smooth, high-quality wellbore.

Advancing Reservoir Performance

BAKER HUGHES

Mediterranean Oil & Gas Appeals Italian Ministry of the Environment

Mediterranean Oil & Gas (MOG) stated that it has attended a tribunal hearing at the Administrative Court in Rome concerning the Ombrina Mare project, according to *Alliance News*. The Italian Ministry of the Environment and Protection of Land and Sea announced that MOG had to obtain an Integrated Environmental Authorization to get approval on its Ombrina Mare environmental impact assessment. Nevertheless, MOG said that there should not be such authorization regarding first production from the project. However, discussions are ongoing between the Italian ministry and MOG to settle for a friendly resolution.

Natural Gas Supply From Israel to Jordan

Israel recently planned to build a pipeline from the Dead Sea to the border of Jordan to supply the country and other neighboring countries. Jordan wants to secure fuel supplies after the interruption of imports from Egypt as a result of consecutive pipeline bombings in Sinai, which also caused a cut of deliveries to Israel, according to *Bloomberg News*. Israel's plans came after promising discoveries in the offshore Leviathan and Tamara field. According to The Ministry of Energy and Water Resources, work in the 15-kilometer pipeline is expected to begin in 2015 and finish in 2016. The project is commissioned on behalf of US gas producer Noble Energy Inc. and a Jordanian partner. Ongoing talks imply selling gas to Jordan for 15 years at USD 500 million to USD 700 million, according to Israel's *Calcalist Business Newspaper*.

Gas Production from the Mediterranean Witnesses Increase in December

Gas production of Egypt from the Mediterranean showed a slight increase in December compared to November. Production rate of gases from the Mediterranean in December reached 18,706,071 barrels of gas equivalent, 1,060,922 barrels of gas condensate, and 372,482 barrels of liquefied natural gas, yielding 20,139,475 barrels of gas and its derivatives in total. In November, statistics showed a production rate of 18,473,214 gas equivalent barrels, 1,020,050 barrels of gas condensate, and 387,864 barrels of liquefied natural gases, yielding 19,881,128 barrels of gas and its derivatives in total. This increase is due to completion of regular maintenance for wells. Production rates are expected to increase more steadily since EGAS recently put seven new concessions in the Mediterranean for bidding. Eng. Taher Abd El-Rehim, Chairman of EGAS, outlined the main budgeting considerations for 2014/2015, saying that around USD 688 million are devoted for an exploration plan to drill 25 exploratory wells, and added that seven new developmental projects are planned to get in phase with estimated production rate of 875 million cubic feet per day and 8,300 barrels of gas condensate.

Mediterranean Oil & Gas Gets PSC Extension in Malta

Mediterranean Oil & Gas (MOG) and the government of Malta have agreed on a six-month extension to the production sharing contract covering blocks 4, 5, 6 and 7 in the area 4 in the Mediterranean Sea. With the extension, the first exploration period to the contract will expire on July 17th. The extension will enable sufficient time for completing the exploration drilling activities that are set to start in the first quarter of this year, announced MOG. "The first half of 2014 will be an important time for the company with the drilling of two exploration wells; one offshore Malta Area 4 and one onshore Italy," commented Bill Higgs, Chief Executive of the company.

Lebanon Delays Gas Tender for Third Time

Lebanon decided to delay its first offshore gas licensing round again for a third time after politicians once again failed to form a government that could authorize the bidding process. The licensing round was postponed from January 10th to April 10th, reports *Reuters*. "As far as I am concerned as minister of energy and water, this is the last time I will delay the tender," said the country's Energy Minister Gebran Bassil. According to him, the ministry may launch bidding on its own, if attempts to form a government remain unsuccessful and the caretaker government also fails to launch it. Forty-six companies have pre-qualified to bid for gas exploration, but the caretaker government, which is in place since the Prime Minister Najib Mikati resigned last March, insists that its powers should remain limited and hence it cannot launch the licensing round.

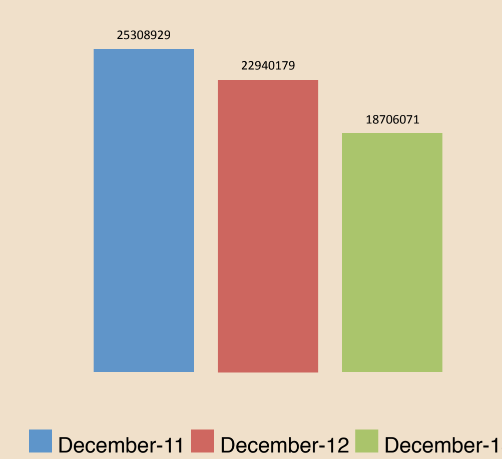
Syria Signs Exploration Deal With Russia

Damascus on December 25th signed its first offshore oil and gas exploration and production deal, which foresees the Russian company Soyuzneftegaz drilling in Syria's waters. According to Syria's oil ministry, the deal is a result of months-long negotiations between Damascus and Russia, reports *RT*. The 25-year contract allows Soyuzneftegaz to explore 2,190 square kilometers of Syria's waters between the cities of Tartous and Banyas. It has committed to cover all the costs of exploration, which are estimated at around USD 90 million. If test drilling reveals commercial-scale reserves, Soyuzneftegaz will build the infrastructure needed for developing the field and extract the resources. The deal also foresees that the company will train Syrian staff at the Syrian General Establishment of Petroleum, *SANA* news agency reported. Since the start of the uprising against Syria's President Bashar Assad in March 2011, the country's oil production has declined by 90% and gas production by 44% as a result of international sanctions.

Mediterranean STATISTICS

Production/ Barrel

Oil		
December-11	December-12	December-13
N/A	N/A	N/A
Equivalent Gas		
December-11	December-12	December-13
25308929	22940179	18706071
Condensate		
December-11	December-12	December-13
1419609	1269135	1060922
Liquefied Gas		
December-11	December-12	December-13
392613	370311	372482



Mediterranean Rig Count 2013

Total	Percentage of Total Rigs
8	7 %

Libya Threatens to Sink Tankers that Deal with Militias

Libya's Prime Minister Ali Zeidan on January 8th threatened to sink any foreign tankers trying to load oil supplies from the port terminals seized by militias. "Any country or company or gang trying to send tankers to take oil from the seized ports" without coordinating with the state oil company, said Zeidan at a news conference, "we will deal with them, even if we are forced to destroy or sink them." On January 7th, the leader of a self-declared regional government in the Cyrenaica region welcomed foreign companies to buy oil controlled by his militias and pledged to guarantee the safety of tankers entering their waters. A few days before that, Libya's navy fired warning shots near a Malta-flagged tanker that according to the government officials was trying to load at the occupied port of Es-Sider, writes *The New York Times*. The owner of the tanker, Palmali Shipping, denied that it was attempting to cooperate with militias to smuggle oil. Libya's oil production almost reached its pre-war rate of 1.6 million barrels per day in 2012, but fell by more than a million barrels a day last year since militants unsatisfied with the central government have disrupted production of the commodity, which accounts more than 90% of the state revenues.

Assad Receives Oil Despite Sanctions

Since western sanctions have been imposed on Syria, Iran—also under strict sanctions—has been thought to be Assad's only petroleum supplier. Previously undisclosed shipping payments and documents show that crude is also coming from Iraq on Iranian ships via Egyptian and Lebanese ports, reports *Saudi Gazette*. The firms involved have denied this lucrative trade agreement, which was reported to *Reuters* through an anonymous source. The Beirut-based company Overseas Petroleum Trading and Cairo's Tri-Ocean Energy are the alleged firms involved, according to the documents. MENA analyst Ayham Kamel told *Reuters*, "Aiming to cut off a regime from oil supplies is very very difficult. Especially as the regime still has a few allies."

Oil Supply Uncertainties Pushes Brent Prices Higher

According to *Sky News Arabia*, stock futures of Brent crude oil recently encountered a rise of 45 cents to reach USD 107.18. The rise appeared after losses over 5 consecutive sessions affected by doubts concerning oil production in Libya, violence in Iraq, and unconventional production in the US, which may disrupt oil production activities. Meanwhile, American Brent contracts went up to reach USD 93.60 early this January.

Statoil Halted Oil Production From Gallfaks B

Statoil recently announced they had to shut down their Gullfaks B platform after a hole was discovered in one of pipes serving the gas flaring system, as reported by *Upstream*. According to Statoil spokesman Orjan Heradstveit, the repairing processes are ongoing to commence production as soon as possible. Gullfaks B is one of three platforms owned by Statoil in the Tampen area of the northern North Sea where the other two platforms are still operational and were not affected. "We have also implemented an in-depth study to establish why the hole occurred in the pipe and to prevent this recurring at other installations," Heradstveit said.

Iran Encourages West to Reinvest in Oil and Gas

Iran listed seven Western oil companies, urging them to invest in its massive oil and gas fields, upon the expected termination of international sanctions on the country. Iran signed a landmark nuclear deal in Geneva in November 2013 with the US, Britain, Russia, China, France, and Germany. Based on the deal, the six powers are committed to end some sanctions against Iran, which in return has to limit specific aspects of its nuclear activities within six months. Iran namely introduced the seven oil giants to be: Total, Royal Dutch Shell, ENI, Statoil, BP, Exxon Mobil, and ConocoPhillips. Senior executives from a number of French companies are set to visit Iran in February, reported *The Wall Street Journal*. The visit would be one of the highest profile visits by European corporate executives since talks started progressing last year. "Iran possesses vast resources of oil and gas," said Peter Voser, Shell's outgoing chief executive. Chief executive of Total, Christophe de Margerie announced earlier last November that the company would definitely go back to Iran, if the sanctions were lifted.

Turkmen State Gas Head Ousted

As a result of "underperformance", as described by Turkmen President Kurbanguly Berdymukhamedov, Kakageldy Abdullayev, the state gas head of Turkmenistan, has been fired. Berdymukhamedov said that although Turkmenistan has devoted billions of dollars to the gas sector in recent years, the sector is tottering, reported *Reuters*. "For example, we could have raised production and exports of liquefied gas and other products which are in great demand on world markets," Berdymukhamedov added. However, Berdymukhamedov outlined the fact that GDP rose by 11.1% in 2012 and economic growth continued throughout 2013. Berdymukhamedov and Chinese President Xi Jinping inaugurated Galkynysh, the world's second-largest natural gas field, in September. Records also show that Turkmenistan has got the world's fourth-largest natural gas reserves, and is expected to sell its gas soon to Europe, Pakistan and India.

Carbon Market Restoration to Be Led by EU

Lawmakers in the EU want to withhold carbon permits until the end of the decade to help push up carbon prices, in an attempt to encourage investments in clean energy, reported *The Economic Times*. Efforts to suppress supply in the EU Emissions Trading Scheme are expected to raise European carbon prices by more than 50% this year, and increase the value of global emissions markets for the first time since 2011, according to an analyst. Globally, this rise will raise carbon markets worldwide to 46 billion euros this year, which was 40 billion euros in 2013, according to Bloomberg New Energy Finance (BNEF). The 'backloading' measure, which targets removal of 900 million permits from the EU market between now and 2016, will drive European carbon permit prices up to an average 7.50 euros in 2014.

Growth Rates of Gas Slowing Down in the US

Data released from the US government shows that production of natural gas jumped to 70.21 billion cubic feet in 2013, meaning growth rates increased only by 1.5% from 2012, which represents the slowest rate since output declined in 2005, reported *MarketWatch*. This decline has considerable influence on gas prices. As plentiful supplies continued overlaying the market, benchmark US gas prices have fallen, to approach USD 3.20 per million British thermal units over the last five years, compared to USD 9/mmBtu in 2008. Analysts expect that slowing output could move prices towards USD 6/mmBtu in coming years, which is below desired levels. Widening the use of new drilling technologies in recent years allowed the release of massive quantities of natural gas from shale rock formations. "All the growth has been in shale plays and they have a very high decline rate. The data is starting to reflect that," says Kyle Cooper, Director of Research at IAF Advisors, a Houston-based energy consultancy. Cooper added that the US needs to drill more wells just to break even, and outlined that prices should go up in order to motivate drilling. According to Energy Information Administration (EIA), gas will often be cheaper in the Northeast than in areas like Louisiana that have traditionally had the most abundant gas supplies. The EIA is projecting output to rise by 2.1% in 2014 and 1.3% in 2015.

Czech MND Standing Against Russian Gazprom in Courts

The Czech government and MND, one of the biggest local oil and gas companies in Czech Republic, conflicted with Russian gas exporter Gazprom against the European Commission over gas storage rules. MND argued that it was legal to get an exemption from European standards to free up capacity at natural gas storage facilities, to be used to motivate increasing gas competition, and suppress local monopolies in gas sales and trading. Czech ministry of industry gave the exemption, while the Russian side claims illegality of such exemption, reports Radio Praha. A contract was signed in 2013 between MND and Gazprom to build an underground gas storage facility in Damboici in southern Moravia, Czech Republic, worth 2.5 billion Czech crowns (approximately USD 124 million). The first round of the court battle in Luxembourg witnessed a partial victory last September for MND and the Czech government. The Czech cabinet lately assured that it will continue support for MND in the upcoming court battle.

Natural Gas Prices Witness Remarkable Jump in the US

According to *Bloomberg News*, natural gas futures jumped in New York to their highest price of more than three years. This boost is accompanied by increasing demand for heating fuel as a result of below-normal temperatures across most of the lower 48 states throughout January. "We will sustain this level of cold and we could challenge lows over multiple days over the next five days," said Bob Yawger, director of the futures division at Mizuho Securities USA. in New York. Gas jump approached 5.6%, closer to USD 5 for the first time since August 2010. On a weekly basis, gas has jumped 14% in January's penultimate week, witnessing the biggest increase since September 28th, 2012.

Gulf **News**

Oil Sector in UAE to Begin a New Phase

On January 11th this year, the UAE witnessed the completion of a 75-year partnership agreement between four oil giants: Royal Dutch Shell, ExxonMobil, Total, and British Petroleum. The oil producer Abu Dhabi Company for Onshore Oil Operations (ADCO), held by the aforementioned giants, is now fully vested with state-owned Abu Dhabi National Oil Company (ADNOC), reported *Gulf News*. An equity of 40% that has been held by ADCO since 1939 allowed Western oil companies to explore and produce oil, and helped in the development of the oil industry in the UAE, leading to a modern industrial economy for the country. Now Abu Dhabi's decision is on hold regarding whether to continue negotiations with existing partners for extension, or to seek new partners to cope with changes in the world oil markets. Emerging Asian players are in the view, including China and South Korea, as the market is witnessing a notable shift from Western buyers to Asian alternatives.

Oil and Gas Sector Pushes GDP in Bahrain

Substantial gains in the oil and gas sector drove Bahrain's GDP growth to approach 5% for 2013. The Bahraini Economic Development Board (EDP) conducted an assessment for the last quarter of 2013, which showed that output levels in the oil and gas sector have recovered after some technical interruptions, reported *TradeArabia News Service*. A report stated that the non-oil sector increased from 2.5% in the second quarter of the year to 3% in the third quarter, whereas the oil and gas sector is expected to continue supporting the Bahraini economy. "The anticipated greater contribution from the non-oil sector next year reflects the continued focus on diversifying the kingdom's economy, and the investment in key infrastructure projects will also strengthen Bahrain's position as the gateway to the USD 1.5 trillion Gulf market." said Kamal Ahmed, EDP Chief Executive.

Kuwait Petroleum to Attain Stakes in India's ONGC

Indian state-run Oil and Natural Gas Corp (ONGC) signed an initial agreement with Kuwait Petroleum Corp (KPC) for a broad partnership, reported *Reuters*. Upon this agreement, KPC would attain stakes in the ONGC Mangalore Petrochemicals Ltd (OMPL) and ONGC Petro-Additions Ltd (OPAL) projects. "We are seeking strategic partnership in the two companies. Twenty-six percent stake is being offered in [each of] the two projects," ONGC Chairman Sudhir Vasudeva said. On the other hand, Nizar al-Adsani, KPC Chief Executive, mentioned that this agreement is nothing but a start for wider cooperation with India and other potential parties. This agreement is considered a step that coincides with India's efforts to go beyond oil exploration and production.

Court's Decree Regarding Oil Bribery Case in Oman Announced

Head of the tender committee at Petroleum Development Oman (PDO), the state-run oil company, and two foreign senior officials from Galfar Engineering and Contracting, a private company, were convicted in a bribery case. The Omani official has to serve a three-year sentence in jail and pay OMR 600,000 (approximately USD 1.6 million) as fine, and has been removed from his position, upon Muscat Primary Court's decree. According to *Times Of Oman*, The Omani official has to pay OMR 300,000 bail. As for the two expatriate officials, one of them, the Managing Director of Galfar Engineering and Contracting, has to serve a three-year jail term and pay OMR 600,000 fine, and leave the country after completing the jail term. His bail is set at OMR 300,000. The other manager at Galfar Engineering and Contracting has to serve two-year sentence in jail, pay OMR a 200,000 fine and has to leave the country. To get a bail, the manager has to pay OMR100,000 in the court. The case goes back to 2011 when the head of the tender committee reportedly received bribe from the expatriate officials to extend the term of a PDO contract.

Major Oil Pipeline Attacked in Yemen

Senior Yemeni government officials announced the bombing of a major oil pipeline, according to *CNN*. Militants planted explosives under the pipeline in the Urf Valley of the Southern Hadramout province, which halted oil production dependent on this line. The pipeline, linking the Masila oilfield to the port town of Shihr, transports more than 100,000 barrels per day. Yemen exports of crude oil are the main lifeline for the country's economy. "Lost oil production due to pipeline attacks cost the government more than USD 1 billion in 2012, and cost the government even more in 2013," an Oil Ministry official said. Last year, many attacks targeted oil pipelines and other oil infrastructure, a great threat to political stability in Yemen. Mr. AbdulSalam Mohammed, President of the Sanaa based Abaad Research Center, said "The more attacks on oil pipelines, the less of a chance Yemen has to recover from its economic woes," and outlined the fact that Yemen currently will not be able to preserve state infrastructure in light of its current economic paralysis.

Unconventional **News**

Foreign Investors Move Away From Polish Shale

Major oil players continue to pull out of Polish shale gas fields after a number of unclear announced regulations and mixed well results, reported *Upstream*. Eni, which had three concession agreements with the Polish government, has already terminated two; the third is due to expire in June. Last year, independents Marathon Oil and Talisman Energy ended up cutting their investments in Polish shale, as well as US ExxonMobil. Meanwhile, Poland is issuing a bill to regulate exploration and extraction of shale to refresh their unconventional market. Chevron has signed a preliminary deal with Poland's PGNIG to explore for shale gas in the country, also US ConocoPhillips still shows interest in Polish shale.

Total to Invest in UK Shale Gas

French oil and gas company Total signed an agreement with UK energy firm IGas Energy that devotes 40% interest in two shale gas explorations in Lincolnshire. "The entry of the first major into UK shale gas licenses is a further endorsement of the potential that exits, and demonstrates strong support for our operating capability," said IGas Energy Chief Executive Andrew Austin. Total is supposed to pay USD 1.6 million in back costs, and fund a work program estimated at USD 46.5 million with a minimum amount of USD 19.5 million. Total's Senior Vice President for Northern Europe Patrice de Vivies described the deal as an important milestone in the onshore game. Estimates, according to the British Geological Survey, show that there might be around 1,300 trillion cubic feet of shale gas in northern England. Concerning fears of environmental damage from fracking, Prime Minister David Cameron assured the safety of this technique, if properly regulated, outlining that it can create thousands of jobs and reduce energy bills. According to the *BBC*, 10% extracts of estimated gas reserves in the UK can sufficiently supply the country for 50 years.

Eni Planning to Enhance Shale Gas Exploration in Pakistan

A meeting was held in Karachi between Shahid Khaqqan Abbasi, Pakistan's Minister of Petroleum and Natural Resources, and Paolo Scaroni, CEO of Eni, to discuss Eni's oil and gas activities in Pakistan, according to *Energy Global*. Both sides discussed the potentiality of shale gas exploitation together with deep offshore exploration. Abbasi outlined the procedures that the government undertook to find more energy resources and make use of them to enhance domestic gas production. Eni is the largest oil and gas producer in Pakistan, and is operating there since 2000.

UAE: Shale Revolution Will Not Diminish OPEC's Status

UAE is insisting that the shale gas revolution in North America will not cause a drawback in OPEC's status as a supplier of 40% of the world's oil. "I don't understand why some people look at this as a threat at OPEC producers" said Ali Al Yabhouni, the UAE's OPEC governor, responding to doubts that OPEC will keep its dominant role in the oil industry, while North America emerges as a competitor. Matar Al Niyadi, the UAE Under Secretary of Energy, stated that shale gas could help to speed the adoption of cleaner fuel in power generation and other industries. Abu Dhabi, whose current production capacity of refined products is around 2.9 million barrels per day, is planning to have a production capacity of 3.5 million barrels per day in addition to more than 830,000 barrel per day of refining capacity by 2017, reports *The National*. "That should send a signal that there will be security of supply and OPEC countries are acting as responsible suppliers," Al Yabhouni said.

EU Framework for Shale Gas Exploitation

The European Commission recently issued a number of recommendations to ensure that clear environmental safeguards are followed regarding the controversial technique of fracking necessary for shale gas extraction processes. "The commission is responding to calls for minimum principles to address environmental and health concerns and give operators and investors the predictability they need," said Environment Commissioner Janez Potocnik. These recommendations were released upon the will of a number of EU countries to begin drilling for shale gas, reports *Global Post*. France, which has already banned use of the technique, is concerned about its potential environmental impact. The Commission urged the 28 EU member states to put the recommendations in action within six months, and required them to submit annual reports regarding how shale gas measures are executed.

Bahrain Plans to Build LNG Plant

A senior official in the Bahraini government stated that Bahrain is planning to build an LNG plant, reported *TradeArabia News Service*. Shaikh Ahmed bin Mohammed Al Khalifa, Bahraini Finance Minister, was invited to attend the 11th International Oil and Gas Conference and Exhibition (Petrotech-2014) in New Delhi, India, and had the chance to speak about the LNG project in Bahrain. Shaikh Ahmed also added that Bahrain is now developing its oil and gas output, and that ongoing efforts are in progress to develop alternative energy sources to meet demand, pointing at three main targets namely: reduction of harmful fuel emissions, ensuring sustainability of power supply, and optimization of energy consumption. Shaikh Khalifa also cited the ongoing low carbon sustainability program running in cooperation with the World Bank. Bahraini National Oil & Gas Authority (NOGA) has already finalized the required feasibility studies for the LNG project.

Gas Pipeline Partner Sues Norwegian Government

Njord Gas, a partner in the Gassled gas pipeline network, has filed a lawsuit against the Norwegian government's decision to lower the tariffs that energy companies can be charged for using it. According to the company, owned by Swiss UBS and France's Caisse des Depots, the decision regarding tariffs that the network charges for transporting gas from North Sea platforms to processing plants in Norway as well as terminals in the UK, Germany and France, does not have sufficient legal basis, reports *Reuters*. The decision was made in January 2012 by Norway's previous government, which argued that lowering the tariffs would encourage exploration by energy companies. The new government reaffirmed the decision in December. Several partners in the pipeline have said that the cut would decrease their earnings by USD 6.6 billion over 20 years. Three of them – Silex Gas, Infragas and Solveig Gas – have threatened to also sue the government. International investors have invested more than USD 5 billion into Gassled in recent years.

Oil Starts Flowing Through Keystone Pipeline in Texas

The Canadian company TransCanada on January 22nd started transporting oil through the Texas portion of the Keystone pipeline. The oil is being delivered from the Cushing hub in Oklahoma to customers in Nederland, Texas, reports *seattlepi.com*. The USD 2.3 billion Texas aka Gulf Coast portion, which is expected to transport on average 300,000 bpd, is the shorter leg of TransCanada´s proposed Keystone XL pipeline. Once completed, Keystone XL would transport heavy tar sands crude from Canada and oil from the US Bakken shale. However, the USD 5.4 billion longer leg of the pipeline has not yet been approved. The US President Barack Obama fast-tracked the shorter leg, but has not given approval for the longer one since there is a lot of opposition to it as tar sands are considered dirtier than other forms of crude.

EU Gives Preliminary Approval to South Stream

The European Commission and Russia have agreed to find a solution that enables to go ahead with the South Stream gas pipeline despite the fact that it breaks the EU law. The two sides agreed in January to create a commission that deals with legal and technical details of the pipeline, which is expected to satisfy 15% of Europe´s gas needs by 2018, reports *RT*. Gunther Oettinger, the European Commissioner for Energy, told *Vedomosti* that the two sides will find a solution which honors previous intergovernmental agreements Gazprom has made with European transit countries, even though these technically break the EU law. This is so because under EU rules, an energy company cannot own the infrastructure it uses for shipping its produce. Gazprom, which opened an office in Brussels in December, has concluded deals for South Stream with Austria, Bulgaria, Croatia, Greece, Hungary, Slovenia and Serbia. Strategic partners in the project are Italy's Eni, France's EDF, and Germany's Wintershall. Last year, Russia´s gas export to Europe, including Turkey, increased to a record 5.7 trillion cubic feet, which is 16% more compared to 2012, informs *Reuters*.

Explosion at Shell Oil Refinery in Western Germany

An explosion has occurred at Shell oil refinery in Cologne, Germany. According to a representative of the company, one of the tanks with chemicals has caught fire, reported *Voice of Russia*. The tank containing toluene, a solvent, caught fire at the Rheinland refinery in the Godorf district of Cologne, a Shell statement said. Officials said that the explosion resulted in a mass of dark smoke, and assured no injuries occurred. An emergency service operation rushed quickly to the explosion site and local residents were requested to close doors and windows and stay indoors until further notice, according to Shell. City authorities announced in a statement that the blaze had been brought under control in less than 90 minutes.

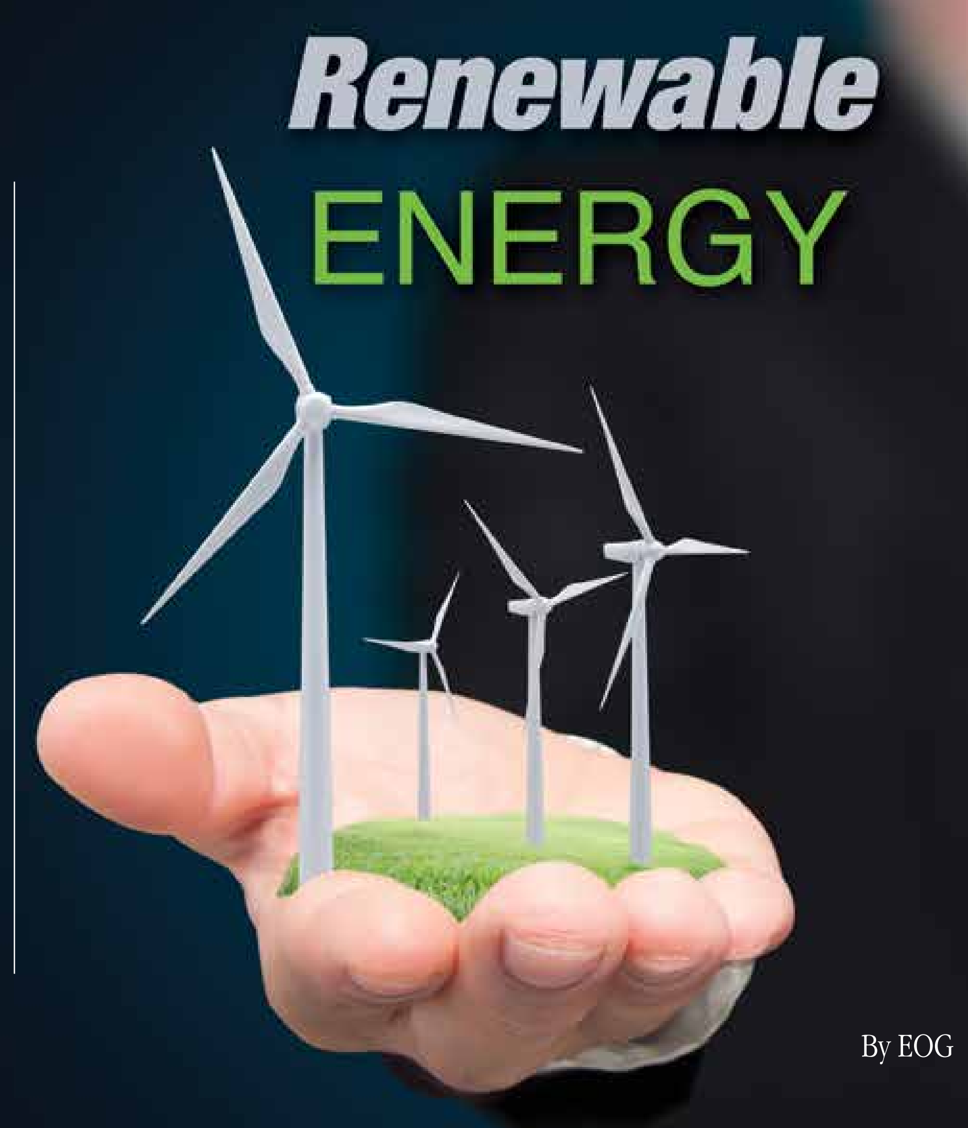
New Batteries for Renewable Energy Storage

Researchers from the University of Harvard recently invented a new battery to store intermittent renewable energy. The battery is supposed to replace expensive solid-state batteries. The battery does not use a precious metal catalyst, its underlying chemistry is metal free and is based on naturally abundant water-soluble compounds that store energy in plants and animals known as "quinones," which can be found in all green vegetables, as reported by *The9Billion*. Concerning this research that was published in *Nature*, an international weekly journal of science, researchers say that the new "metal free organic-inorganic aqueous flow battery" should be able to charge and discharge renewable energy more quickly than normal batteries and are feasible to be used large scale.

Uncertainty for US Solar Energy

The Obama administration has made efforts to boost renewable energy development on public lands. The administration devoted 20 million acres of federally owned land in the west for developers of green energy. However, analysts say that the poor economy has made it tough to fund such projects. "I would say we are in an assessment period," said Amit Ronen, Director of the George Washington University Solar Institute. "Nobody's going to break ground on any big new solar projects right now—utilities want to see how farms coming online this year fit into the grid, and developers are waiting for more certainty about state policies and federal tax credits."

Records show that since 2009, only 20 solar power plants out of 365 applications to build such plants are being built, reported *The Los Angeles Times*. Only one large-scale facility is in operation now in Nevada and two in California. Moreover, the first federal lands auction for solar developers last fall failed to attract a single bid.



By EOG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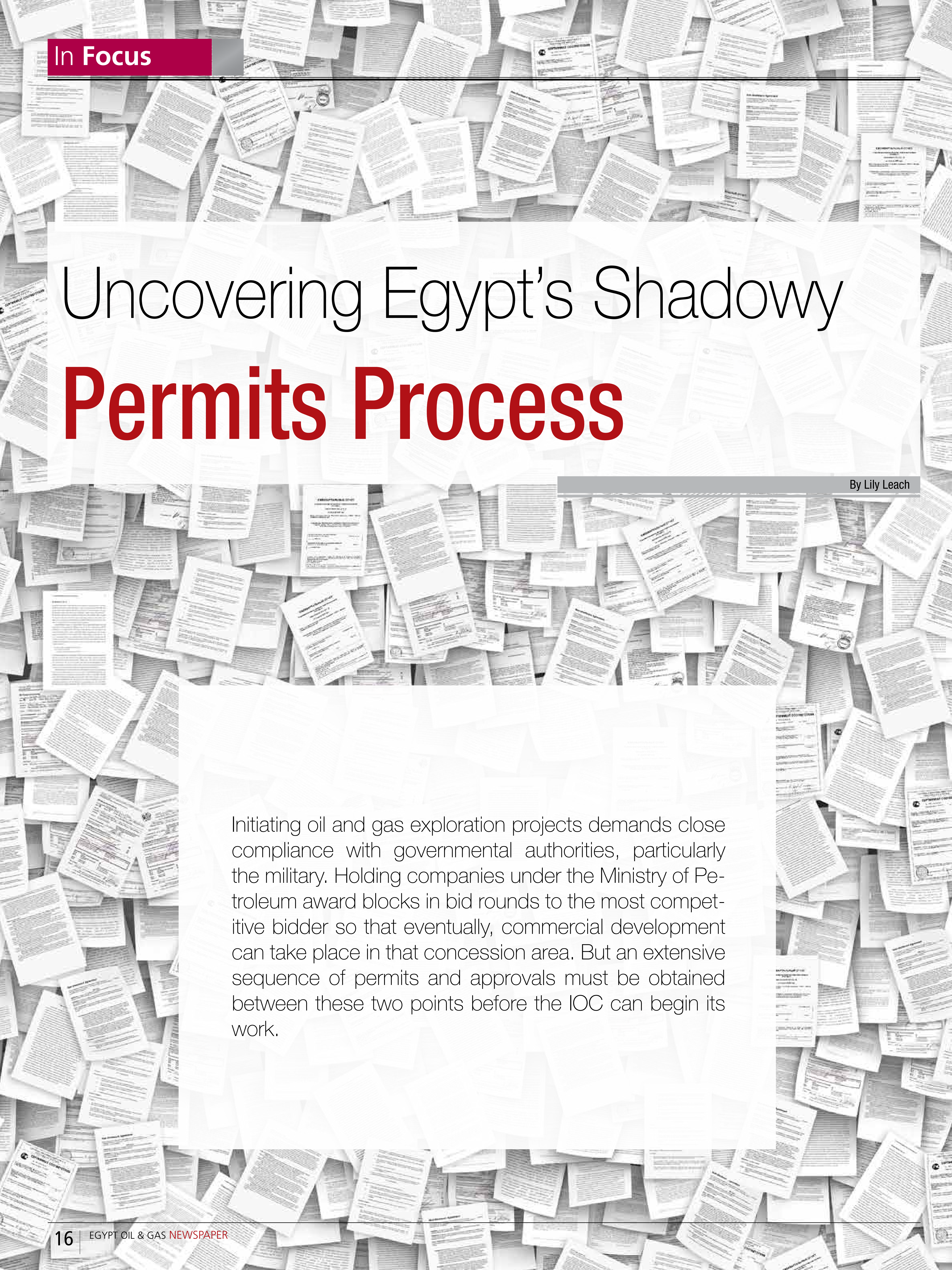

Uncovering Egypt's Shadowy Permits Process

By Lily Leach

Initiating oil and gas exploration projects demands close compliance with governmental authorities, particularly the military. Holding companies under the Ministry of Petroleum award blocks in bid rounds to the most competitive bidder so that eventually, commercial development can take place in that concession area. But an extensive sequence of permits and approvals must be obtained between these two points before the IOC can begin its work.

From ratification to ministerial permitting, the relentless bureaucracy leading up to oil or gas exploration puts the Egyptian General Petroleum Company (EGPC) in a duel role as a regulative body, as well as the business partner of international oil companies (IOCs) in resulting joint ventures. Some IOC executives perceive a conflict of interest here and bemoan needless red tape—regulations that EGPC emphatically insists are in place to protect national interests. Unfortunately, lack of transparency for both oil companies and the government make it difficult to discern objectively what the practices are of one of Egypt's dominating sectors. The following was ascertained from industry sources as well as governmental information.

Bid Round and Ratification

Bid rounds are hosted by one of The Ministry of Petroleum's holding companies: EGPC, the Egyptian Natural Gas Holding Company (EGAS), or the Ganoub el Wadi Petroleum Company (for concessions in Upper Egypt). After the concession is awarded to the most competitive bidder, it goes through the ratification process, which typically takes one year (see "Egypt: Crude Democracy?" in this issue, for in-depth analysis of oil and gas legislation).

Hamid Ibrahim A. Karim, General Manager and Managing Director of Gemsa Petroleum, says ratification typically goes smoothly if the Ministry of Petroleum reviews it carefully first. "By the end of the day you will never have qualified people within the parliament to evaluate or take responsibility for something like that. It has to come from the Ministry. It is very technical and economical and the people in charge of evaluating the bid round itself—that is their responsibility," Karim said.

However, disapproval of a concession at this stage is not unprecedented if "the conditions offered by the IOC in somebody's mind, in the parliament for example, are not competitive enough," says Ahmed Farid Moaaz Country Manager and Director of Sea Dragon Egypt, "but it's very rarely done."

Currently, due the lack of parliament, the president is ratifying concessions, and at an accelerated rate. According to political and economic expert David Butter of Catham House, "The fast-tracking of agreement ratification while there is no parliament" has helped encourage the "recent revival of IOC interest in exploration."

Accessing Permits and Ministry Permission

Once the concession is ratified, the permit process begins. Agricultural permits are necessary when the working area belongs to the Ministry of Agriculture, from the Ministry of Tourism in areas under their ownership, or from the Ministry of Antiquities if areas have archeological restrictions, Mahmoud Atta, Exploration Manager of TransGlobe in Egypt informs. Accessing approval needs to be acquired from landowners or local governments if the concession is in a populated area. An environmental impact assessment (EIA) must be submitted to the Egyptian Environmental Affairs Agency (EEAA) for approval.

For environmental permits, the EEAA reviews the "concession or well location, the plan of seismic or drilling program, the impact of the executed program on the environment [in that] area, and the assessment of the restoration of the environment after completing the work," says Atta. According to the EEAA's 2005 EIA Guidelines for Oil and Gas Sector, after the EEAA evaluates the documents, the assessment may be approved, with or without recommendations. This approval can be made explicitly, or implied by lack of response after 60 days. Alternately, more data may be requested to complete the report, or the assessment could meet disapproval, which is subject to appeal. However, since the EEAA doesn't publicize EIA reports, it's unclear to what extent they are actually completed by IOCs or enforced by the EEAA.

According to Moaaz, concerning accessing approval, the most difficult areas to acquire permissions for are the most heavily populated, despite any general agreement that may take place initially. "If you take an area in the Delta for example, this area has farmers, industrial buildings, whatever. You have to go and compensate each and every one of them. You have to go to the local authorities and deal with them. Then you have to go to the individual owner of the piece of land and compensate him. If you're going to cut a tree, you're going to have to compensate the owner of the tree. But it's up to your negotiating skills."

A Series of Military Approvals

For unpopulated areas however, the main authority IOCs have to deal with is the military. According to Tim Armsby, partner of the law firm Eversheds, there are no Egyptian laws or public documents stipulating the military permission process, and there is an utter lack of transparency. Nevertheless, there is multi-tiered process in which IOCs continually return to the military for approvals of every activity, sometimes experiencing over a year of delays.

Before the bid round, general permission is taken from the military for the proposed concession area on the map. This was not always the case. IOCs had to take the risk on their concession without indication from the military that they would be permitted to do work there. Now, informs Moaaz, "it will be carved from the concession and the rest of the concession will be given to the IOC, [which saves] me the embarrassment that happened several times. Like in the Western Desert when the company was awarded a concession, but they couldn't access it. Without reason."

According to a source who prefers to remain anonymous, after an on-land concession is awarded, the area must be cleared of any existing mines. This must be done exclusively by the military; no outside service company is involved of the mine-clearing process, which can take about six months.

Once the concession is cleared of mines, further military approval is required pending a seismic acquisition survey. The IOC contracts a service company to complete it, which ideally takes three to four months. Military approval of the seismic survey often comes with certain restrictions on certain areas, and of course disapproval is always a potential.

Based on the seismic survey and the various restrictions given by the military, the company can determine where specifically to drill wells within the approved areas of the concession. Then, the IOC must seek additional approval from the military for these particular sites. Again, any approval typically comes with restrictions on proposed locations, and this stage of the process can take two to three months. In the case that the military rejects the request outright, a committee between EGPC and the military will be created to make a new drilling plan according to strategic and scientific research.

Throughout the entire permit process, dealing with the military is the most unpredictable and time-consuming. Anything can account for the military relinquishing previously approved areas. It could merely be a matter of military maneuvers having shifted over the coarse of the several months passed since completing other tests and permits, which suddenly conflict with the IOCs plan. Certain restrictions on any given area can be permanent or temporary. Rejections and restrictions can come spontaneously with no explanation, after months of time and money invested in a certain project. Yet seasoned IOCs are familiar with the process, and they always have hidden options in case the military refuses development of any given area.

A Country in Transition: Implications and Recommendations

IOCs often struggle to fulfill governmental standards quickly and efficiently in an effort to avoid expensive time delays, and EGPC's role is to help facilitate the process. "EGPC has done their best to alleviate most of the problems we used to have with government awarding the concession," Moaaz says, yet their best isn't always enough. "The IOC has to do everything," he continues, "and I have to chase the army, the Ministry of Agriculture, the local authority, the municipality, I mean, you name it. And that is a killer." According to Armsby, EGPC is nearly incapable of influencing the military, and they lack motivation to help accelerate the process for other permits since their minority share of the cost is provided retroactively to the IOC in cost recovery.

Ideally for IOCs, they would receive unconditional permission for all drilling activities prior to the bid round. "In my opinion," says Moaaz, "it has to be done before you award the concession to the IOC, at the highest level, in detail, and it has to be rubber stamped by all the authorities. I as an IOC should receive a free area to deal with so I don't have to start over again."

According to sources within EGPC, getting these approvals isn't really possible until after measures have been taken, that are illogical to complete before the bid has been awarded—a seismic survey for example. However, EGPC is required to compensate the IOC for money lost on the seismic survey for a rejected area, and the clock is reversed for the time lost on the concession. Armsby cites Egypt's General Authority for Investment and Free Zone's (GAFI) "one-stop-shop" system as a potential model for streamlining the process, in which establishing companies acquire necessary approvals from one desk.

The recent unrest and Egypt's transitional government has had a varied impact on the sector and the permitting process, particularly concerning the military. It has become more complicated, more restrictive, and according to Armsby—more delayed.

"The government has to decide what EGPC is. Is it my partner? Or is it the governor? EGPC is currently playing both sides and it's counterproductive for Egypt," says Moaaz. However, he sees the current political situation as an opportunity to improve the efficiency and efficacy of the regulative systems that have been in place for decades, citing success in Brazil's oil sector, which has experienced a boom following the separation of the government's oversight role from its role as an operator. "That change has to be made now, and it's very appropriate to make it now as we are rebuilding Egypt. That's where we have to start, that's where the oil sector has to start."

Streamlining the Permit Process: **Lessons from Abu Dhabi and Qatar**

According to University of Oxford energy expert Justin Dargin, no country exists in the MENA region where oil and gas permitting is an easy process for international energy companies (IOCs). However, some countries—notably Qatar and the UAE, as Dargin and other experts point out—cope much better than the rest of the region. This article looks into the permit processes in the emirate of Abu Dhabi and Qatar, and what Egypt could learn from them.

By Laura Raus

NOCs as Regulators

The right to explore and produce is granted to IOCs through production sharing agreements (PSAs) in Qatar, and through concessions in Abu Dhabi, informed Jason Rosychuk, energy and natural resources specialist at the law firm Pinsent Masons LLP. In both jurisdictions, IOCs have to form joint ventures (JVs) with national oil companies (NOCs), in order to develop oil and gas fields.

According to Robin Mills, the head of consulting at Manaar Energy Consulting, in Abu Dhabi "The level of activity, the number of exploration licenses and new field developments is much lower than in Egypt, and the size of individual projects is much larger, so the relative burden of compliance is less." However, as several experts point out, the ease of obtaining permits in Abu Dhabi and Qatar mostly stems from the fact that in both jurisdictions, NOCs—ADNOC and QP respectively—are also the main regulators of the oil and gas sector. In Abu Dhabi, each upstream project has to obtain approval from the Supreme Petroleum Council (SPC), and in Qatar from the Ministry of Energy and Industry, according to Thomson Reuters Practical Law portal. However, considering very close links between these institutions and NOCs, such an authorization is more of a formality. Namely, SPC acts as the board of directors of ADNOC in Abu Dhabi, and the Minister of Energy and Industry is the chairman and managing director of QP.

Upstream activities usually need approval of an environmental impact assessment (EIA) and other permits—such as labor, security and municipal authorizations—depending on the nature of the project. However, experts say that the smooth acquisition of those permits is almost taken for granted since the projects have the backing of NOCs. According to Shawn Davis, senior counsel at the law firm Akin Gump Strauss Hauer & Feld LLP, the process in Abu Dhabi is "to some degree relationship-based," and despite careful analysis of applications, "there is an underlying element of trust and an expectation that [they] have been prepared and submitted in good faith by persons with a history of involvement in the emirate's oil and gas sector." Such trust is thanks to the fact that ADNOC is a well-established organization, known to have highly qualified staff, and has majority stake in JVs, which are acts of law.

In Qatar, the NOC has similar strong position and cooperative relationship with other authorities. This is reflected by the fact that the committee who decides on EIAs also contains a representative of QP who facilitates the process, explains Dani Kabbani, a partner of the law firm Eversheds LLP.

Kabbani added that in Qatar, many oil and gas projects are concentrated in industrial cities managed by QP. QP provides infrastructure and services for the companies operating in the cities. After the approval of EIA, IOCs only need to obtain a license from QP to operate in a particular industrial city, and other issues such as safety and waste management are taken care for them by QP for a fee.

"Since ADNOC and QP are essentially the regulators, most of the requirements of additional authorizations or permits will be set out in the PSA and the concession," explained Rosychuk. Hence, "completing the PSA or concession is most likely the biggest step, and thereafter the IOC can usually count on the support of the NOC to obtain whatever ancillary authorizations are required." He added that, "Though the responsibility for those authorizations will typically lay with the IOC, the NOC and IOC will work closely together."

As a result, experts say that they have heard hardly any complaints from IOCs regarding permitting in Qatar. In Abu Dhabi, there are sometimes delays when ADNOC does not consider a project to be a priority. Then IOCs need to make more efforts to expedite permits, but such delays are infrequent, said Philip Stevens, an associate of the law firm Simmons & Simmons Middle East LLP.

Tim Armsby, partner at Eversheds, pointed out that the permit process is relatively smooth in the UAE also because use of concessions, as opposed to PSAs. "In Egypt IOCs enter the industry by signing contracts that are in essence PSAs with EGPC, which foresee that IOCs cover all the expenses related to exploration and production and their costs will be recovered afterwards. In the UAE, there are concession agreements instead of PSAs in which ADNOC typically has a majority participating interest," he explained. "Such agreements stipulate that parties cover the percentage of expenses that corresponds to their stake in the concession and JV operating company. Therefore, in the UAE, NOCs are more interested in the permit process proceeding quickly and make more efforts to facilitate it."

Less Bureaucracy and Corruption

In most countries—including Egypt, the US, and Germany— entities other than NOCs act as regulatory authorities of the petroleum sector, pointed out Christopher Gunson, energy counsel of the law firm Pillsbury Winthrop Shaw Pittman LLP. The process is smoother since Abu Dhabi and Qatar are ruled in a very centralized manner, and there are fewer players involved in decision-making, added Jim Krane, Rice University's Baker Institute fellow in energy studies.

It is conceivable that such favorable conditions for the energy industry would be at the expense of environmental and social concerns. However, Rajan Phakey, a partner at the law firm Dentons & Co, said that ADNOC is "proactive in seeking to facilitate appropriate environmental protection, through its Codes of Practice, concessions, and other contracts." Kabbani added that in Qatar there is a high level of group concern among officials and IOCs. They understand that any environmental accident that may result from loose standards would influence not only the particular site where it occurred, but also the wider sector, especially since in Qatar's industrial cities different plants are operationally related via the common services that QP provides. Such interconnectedness is further reinforced by the fact that QP has a stake in all oil and gas projects, which sometimes amounts to 100%.

In the Transparency International's corruption perception index 2013, UAE is the 26th and Qatar the 28th least corrupted country, whereas Egypt ranks 114th. The high ranking of Qatar and the UAE is perhaps due to the fact that their officials are highly educated and trained, and make decisions based on the long-term impact on the country.

Lessons to Learn

Experts are doubtful that the systems in Abu Dhabi and Qatar could successfully be implemented elsewhere. It is difficult for Egypt to replicate them already because it is a much bigger entity. Secondly, the petroleum sector in Egypt is not given priority since its share in the economy is much smaller in comparison, just about one-tenth of GDP, reports *World Review*. The oil and gas industry in the other two jurisdictions comprises roughly 60% of the economy, according to *Arab News*.

Despite these fundamental differences, there are still some lessons that can be gleaned from the administrative efficacy of Abu Dhabi and Qatar. Rosychuk pointed out that, "A common theme in Qatar and Abu Dhabi is the presence of a strong and capable NOC with a clear mandate and authority from the government to develop the oil and gas industry."

Kabbani stressed the importance of clarity when it comes to requirements for IOCs. According to him, the standards that IOCs face are generally more stringent abroad than in Egypt. But in Egypt there is often a lack of clarity regarding what exactly is required, which can bring about unexpected delays and expenses. "Working together is the key," Kabbani added, explaining that regulators should not be seen as institutions that impose restrictions, but they should rather be the ones who facilitate the adherence to international standards.

The capacity of EGPC, which could facilitate the permit process, would increase if it involved its employees in JVs in a more meaningful manner. "ADNOC in Abu Dhabi has more involvement in actual exploration and production activities compared to EGPC in Egypt, which facilitates transfer of knowledge from IOCs to ADNOC," noted Armsby. "EGPC does sometimes assign its employees to JVs, but due to lack of coordination between EGPC and IOCs for a variety of reasons, sometimes the people assigned are not needed at all for the a particular project or have the incorrect skill set."

Armsby added that exploration and production activities would proceed more quickly if it was not neccesary to obtain EGPC approval for every item of expenditure. "It does not make sense for Egypt to fundamentally change its existing PSA model that has been in place for more than 30 years and has been very successful in attracting foreign investments to oil and gas sector up to 2010. After all, currently Egypt's government does not have financial resources to cover a part of exploration costs, which would be required under concession model," Armsby stressed. "However, considering that under Egypt's PSA model, IOCs carry all initial costs and bear risks, EGPC should consider giving [them] more flexibility and let them carry out their everyday activities based on the rules set forth in PSAs."

Obviously, since permitting is not an isolated process, overall measures for promoting good governance would be extremely helpful as well. "Decrease bureaucracy, get rid of corruption, ensure market economy," outlined Hugh Fraser, managing partner of Andrews Kurth (Middle East) JLT, his main recommendations along those lines.

Conclusion

However, all those changes require political will. Considering the energy crisis that Egypt is facing, the will should be there. "When an energy producing country [in the MENA region] is experiencing an energy crisis in some form, such as a shortage of natural gas production… projects are generally fast tracked to alleviate the crisis," noted Dargin. For example, in Abu Dhabi, permitting is getting faster according to Fraser, because the level of technology needed to explore and produce hydrocarbons is higher, which has increased the influence of IOCs there. But in the case of Egypt, the will to streamline petroleum projects seems to be overshadowed by other severe problems that the country is facing. Surely the efforts by the Ministry of Petroleum could ease the permit process for IOCs to some extent, but its level of convenience and efficiency is unlikely to even come close to what is seen in Abu Dhabi and Qatar unless Egypt's overall political, security and economic situation improves.

Egypt: Crude Democracy?

Tom Rollins is a freelance journalist based in Cairo.
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Egypt's oil and gas sectors have been vital drivers of the economy through years of dictatorship, revolution, and democratic upheaval. Like any aspect of life in Egypt since the January 25 revolution, the industry's fortunes have ebbed and flowed. And yet its relationship with Egypt's under-construction democracy is more complex than it might first appear.

July 3, the day General Abdel Fattah al-Sisi announced the end of one year of Mohamed Morsi's beleaguered presidency, and set out a transitional "roadmap" for the future. While Egyptians were celebrating in the streets—Tahrir Square was a carnival of fireworks, military fly-overs, and car horns that day—oil and gas businesses were nervously eyeing their prospects. What would all this mean for the fuel sector? In many ways, it was another in-flesh incarnation of what one analyst called the "materialization of political risk" in post-Mubarak Egypt.

Egypt's internal struggles since 2011 have had an undeniable effect on the fuel sector, as well as foreign investments in it. Egyptian officials are working hard to dispel foreign perceptions of perceived "anti-democratic" developments in Egypt. On January 22th, industry and trade minister Mounir Fakhry Abdel Nour emphasized the need to "correct" these views, adding, "Egypt is open" for business, *The Washington Post* reported.

Despite months of upheaval, there is still a process which the sector is meant to follow. After the state and foreign company have made a concession agreement, the contract by law must pass through Egypt's democratic institutions. Sameh Khodeir, senior partner at Zaki Hashem & Partners, a large law firm based in downtown Cairo, lays out the process.

"The EGPC or EGAS [Egyptian Natural Gas Holding Company] usually sends a concession to the cabinet first," he explains, occasionally looking down at Law 66 of 1954, which covers the handling of concession agreements between Egyptian governments and foreign companies. "The cabinet, being the executive body of the state, have to take the opinion of the state council. After the cabinet approves it, they then refer it to the parliament according to the law. This is the basic procedure."

After parliamentary approval, the concession should be "promulgated" (decreed) by Egypt's president. "This authorizes the Minister of Petroleum to contract for exploration and/or exploitation." Egypt's interim president, Adly Mansour, has so far signed off on 21 new concessions.

"The natural resources belong to the state and the people, so these contracts should pass through the parliament and go through the right legislative procedures," Khodeir continues. "This ultimately gives the minister of petroleum the right to sign the contract on behalf of the state."

"That's usually what happens," he says, but because the country is currently without an elected body, Mansour has signed off on contracts in his capacity as interim president. Khodeir believes the process, clear and well established, creates a practical procedure for exploration and exploitation contracts. Despite the sometimes high-risk nature of the oil and gas sectors, the process is meant to "ensure the continuity of the business," Khodeir explains.

Ahmed Farid Moaaz, country manager and director of Sea Dragon Egypt, agrees. "If the parliament discusses the content and listens to the arguments set out by the owner—the petroleum ministry—it goes smoothly and easily."

And yet Moaaz admits that Egypt's democratic institutions have brought up problems in the past. Parliamentarians in the past knew "very little" about the oil contracts they were discussing, he claims. "The kinds of personalities composing previous parliaments were not qualified enough to pass any kind of judgment on these things. Only special committees were professional enough to talk about them seriously."

Mahmoud Elfeky, a member of the Shura Council's economic committee before June 30th, claims the last parliament played an active role in reviewing agreements as "mediator."

"Committees modified some agreements between the Egyptian government and foreign companies…and saved USD 250 million for the country through loopholes in contracts. Bonuses, for example." When asked if parliamentarians were best disposed to review, amend and ratify contracts, Elfeky says: "Of course they were qualified. [Egypt's] parliament is like any parliament in the world – we came to the parliament through fair elections. We were the legislative authority and we serve only the people."

Moaaz believes the 50% representational quota (for workers and farmers) in previous parliaments, a relic of Egypt's Nasserist past, meant a sizeable portion of MPs would not be disposed to properly judge a concession agreement passing through the chamber.

"Laborers and farmers are not normally educated enough to know about special business matters—like oil," he explains. However, Egypt's new constitution—passed with a 98.1% approval rating in the January 14-15th referendum—has put an end to the parliamentary quota. "The new constitution has got rid of that. The next parliament's composition will be freely elected by the people and not mandated by a special quota descended from the old socialist regime," Moaaz says. "I think that will have a big impact."

"I hope that the new parliament is going to be a different composition and qualified enough to pass fair business judgments on these contracts."

Mika Minio-Paluello works with the Egyptian Initiative for Personal Rights (EIPR) and has written several books about the global oil sector's relationship with democracy. "Oil contracts tend to be quite complicated and hard to assess, particularly in terms of revenue flows. [Parliamentarians] are not clued up at all." He suggests that one way to improve the system in the future would be to make the contents of concession agreements publicly available, like in the British parliamentary system, whereby specialists, non-governmental organizations, and the media promote public debate about oil deals passing through the political system. "If contracts aren't public in the first place, then it's entirely up to the MP to work through it and many of them don't have the relevant expertise."

Ultimately this can turn the parliament's consultative process on fuel contracts to mere box-ticking, whereas the law states that parliament should be discussing, debating, and consulting contracts before ratification. But democracy is not just confined to the four wood-paneled walls of the parliamentary chamber. Moaaz believes part of the problem comes from a lack of public understanding of the sector. "One problem we know the oil sector has faced in the last 30 years is that we've failed to educate the public," he explains. "The oil sector is all about risk rewarding business. If the government is able to educate the public, then people will be more willing to accept that a company will be sharing the revenues of an oil concession with a foreign partner because it has taken that risk."

It is possible for any Egyptian to walk into a bookshop and buy a book of law setting out the basis for any concession agreement. However, the revenues and negotiated elements that define each concession agreement are obviously not included, perhaps the most important and contentious elements of any deal. "The system is transparent enough but people are not spending their time learning about it," Moaaz claims. "That message has to be clearly published and clearly understood by new MPs. Then the people will understand exactly what the business is all about."

A sudden public appetite for fuel sector knowledge is unlikely when most Egyptians focus on a return to political and socio-economic stability. But looking back at the records of Egyptian parliaments in the past, small changes could have meaningful effects—to ensure fuel and democracy enjoy a mutually beneficial relationship in the future.


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GUPCO: Looking Forward

The Gulf of Suez Petroleum Company (GUPCO) is going through a significant phase in its history of almost 49 years, as the company implements a number of projects that would put GUPCO in the position it is worthy of. The most important of these projects were presented to Engineer Al-Sharif Ismail, the Minister of Petroleum and Mineral Resources, during his recent visit to Gulf of Suez in mid-November.

By GUPCO

Reconstruction of the Helal Platform

In April 1994, a ship collided with the Helal platform, which led to the crash of the platform's upper part. The work on the platform was suspended until a plan for repair was implemented, but the metal structure beneath the Gulf's surface did not meet the company's standards of safety. In order to meet the standards of environmental protection and for the safety of employees, the field was shut down in 2007. The company decided to build a new production platform 300 meters away from the old one. The Initial procedures were started in 2011, followed by implementing the engineering studies that started before the end of the year. Materials were purchased in early 2012, and manufacturing in PETROJET workshops at the Maadya port began in April 2012. Building the platform took a whole year. The installation of the platform began in May 2013 during inclement weather conditions in the Gulf of Suez. Rebuilding the platform ended at the beginning of December.

The project consists of the Helal platform that weighs about 2,900 tons, as well as production and feeding lines with diameters of 18 inches for oil, and 8 inches for gas injection. The platform has a jacket installed on the sea floor, which weighs 840 tons of iron at a depth of 80 meters under the surface of the water. The disk was installed in the platform, which weighs about 480 tons.

In addition, groups of assistive devices and optical cells are to produce electricity needed for operation.

1.4 million working hours were recorded at the platform without injuries. The field is scheduled to be back in production as of April 2014 at a production rate of between 1,500 barrels and 5,000 barrels per day. It is worth mentioning that the cost of the project is USD 112.3 million for the construction, not including wells.

Sharif Ismail conducted an inspection of the platform in December to prepare for its operation.

Rehabilitation of Ramadan-6

Rehabilitating and renewing the infrastructure for the main production station Ramadan-6 and related sub-platforms are currently taking place. The shutdown has resulted in a production deferral of about 5,000 BOPD during the shut-in period. It is planned to complete the whole work plans during the second quarter of 2014.

Infrastructure Repair of Morgan-1 Platform

Offshore production station Morgan-1 and the related platforms have been shut down since August 2012 to implement the inspection and production plan for facilities (lines, valves, and production vessels), which can be considered a rehabilitation of this station. The platform is expected to return to the production map by the end of 2013, adding about 1,500 BOPD.

Two Production Platforms of Shoab Ali Field Back on Production

The production platforms D and A of Shoab Ali field have been shut down for five years. The work-over operations for the infrastructure elements of production facilities were carried out in addition to implementing the work-over programs for the wells on both platforms, which led to an increase in production by about 1,000 BOPD.

It is scheduled during the coming period to restart operating several wells that were shut down, either planned or unplanned (wells in the fields of Ramadan, July, October, Morgan, Badri, and Shoab Ali), which adds about 25,000 BOPD.

Work-over Operations of the Wells

The company has implemented successful programs for the work-over and maintenance of the wells, the most prominent of which is repairing nine wells using a drilling rig. The total of its initial production is estimated to be about 9,000 BOPD in the fields of July and South Gharib-300. In addition, successful programs have been implemented for the work-over and maintenance of 17 wells using wire units and the total of its initial production is estimated to be about 5,000 BOPD in the fields of Edfu, Q x-373, Shoab Al, Badri, and Morgan.

Added Reserves

The company succeeded in adding 4.5 million barrels of oil to its reserves of crude oil, in addition to the development of about 3.3 million barrels of undeveloped crude oil reserves. This achievement was a result of the implementation of engineering studies, development drilling programs, and reviewing the performance of the producing fields.

Exploratory Studies to Maximize Reserves of Producing Fields

In terms of exploratory studies for the development of existing fields, the company is making great efforts to raise production and increase reserves through reevaluating its most important fields. Initial studies indicated that there is a total of 705 million barrels of oil underground the work areas of the company, which can be added to the reserves of the fields. The October field comes in the first phase, with an available potential of 177 million barrels of oil based on the initial study. To extract what can be extracted from this quantity, it is required to reexamine the density of wells and drill new development and exploratory wells. These are currently being studied and arranged in terms of profit, low risk factor, and the use of some modern techniques such as low salinity water injection and dealing with high-viscosity crude.

This study will be an introduction to similar studies for all fields, and the company will focus on the necessary actions needed to extract oil (298 million barrels underground) as a first stage.

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Industry Demands Solution to Egypt's Gas-Coal Problem

By Tom Rollins

The huge load of black coal sitting on the docks in Alexandria last October was laden with symbolism.

Lafarge, one of Egypt's largest cement multinationals, imported a shipload of coal into Alexandria without prior approval from the government. The environment ministry initiated legal proceedings soon after—a fine is likely, according to officials. "Uncovered, and barely separated from the surrounding, densely populated residential neighborhood by a flimsy sheet of metal, the coal pile freely scattered its ashes and hazardous particles into the air," Louise Sarant then wrote in *Mada Masr*. The image of this "giant mountain of coal" reflects growing environmental concerns, delays, and frustration over Egypt's gas-coal issue.

The controversial debate between using natural gas in Egypt or importing coal has only grown. And clearly impatience is growing too.

At first, coal can certainly seem an attractive choice. Egypt's cement industry is pushing for a more reliable fuel source than natural gas, as Egypt struggles to manage its resources and financial dues owed to international companies and investors. Gas consumption has doubled in Egypt over the past 10 years, while production has been in decline since 2009. This has had an adverse effect on cement production in particular, which currently relies on natural gas, and in some cases has turned to burning waste to fuel production.

Costs are another vital consideration. According to state-owned newspaper *Al-Ahram*, investment required to switch fuel sources could cost somewhere between USD 6-8 million while using waste, or a renewable source as fuel, could cost USD 8-12 million. Importing coal could also take potential incomes away from the national economy in the future. The main thinking behind these options is driven by the need for a quick fix, caused by the fuel crisis, over a more environmentally sustainable and long-term renewable choice. But with the fuel crisis already eating into profits and raising costs for Egyptian businesses (Suez Cement has claimed it was forced to cut production by around 30% last year), the push for a quick and cheap solution will drive decision-making.

Political instability also means new investors are less likely to turn to Egyptian natural gas, demonstrated by Russian producer Novatek's hasty exit from the market due to last February's violence and instability in Port Said, Suez, and other Canal cities. The spread of jihadism and armed violence in the Sinai Peninsula is of course a growing concern. In September, Islamist militants targeted a Chinese-owned cargo ship passing down the Suez Canal with rocket-propelled grenades. Hopes for future exploration and contracts in the fuel-rich region will have to take into account risks to investments and workers alike. Without stability, US National Defense University's economic professor Dr. Paul Sullivan recently told *Egypt Oil & Gas*, "all other policies could prove to be just background noise."

But what are the downsides? Egypt has Africa's third largest unproven gas reserves, amounting to some 77.2 trillion cubic feet, according to US Energy Information Administration figures. Gas discoveries have not dried up either. In September BP unveiled a new offshore discovery. There are also positive signs that deeper drilling in the Nile Delta could prove a lucrative exercise, according to *Reuters*.

And yet there are inherent problems with coal imports too—chief among them, concerns about the environment.

When industrialized countries started negotiations to tackle greenhouse gas (GHG) emissions in the 1990s, news channels regularly ran with shots of coal-burning chimneys billowing black smoke into the sky. For many campaigners, conservationists and increasingly members of the public, coal has negative associations, emblematic of an outdated form of industry that conjures images of industrial revolutions as well as modern-day climate change.

Perhaps as a result, government officials are increasingly nervy. The environmental affairs ministry is still to make a decision on whether to allow imports, while industry and trade officials are pushing for a solution. Egypt's fuel crisis means this is not simply about applying environmental idealism in a business context—of course, politics comes into the debate.

Weeks before his overthrow on July 3rd, Mohamed Morsi voiced his support for importing coal to support the Egyptian cement industry. A Morsi-era environment minister, Khaled Fahmy (who was appointed by Prime Minister Hesham Qandil last January), was also a vocal proponent of using clean coal, a form of power generation that mitigates CO2 and GHG emissions from coal burning. On leaving his post, he made a series of recommendations to his successor to follow up on clean coal, *Egypt Independent* reported at the time.

And yet now, new minister Dr. Leila Eskander has weighed in on the opposite side of the debate, urging businesses to avoid coal imports and look for alternatives. This comes despite cement companies looking for ministerial permission to start importing coal—a frustration which can occasionally extend to intransigence, as seen with the stockpile of coal imported by Lafarge at Alexandria last year.

The government's international commitments to reducing emissions are a factor—by 2005 Egypt had both signed and ratified the Kyoto Protocol. A 2010 report by McKinsey & Company found Egypt contributed 0.7% to global emissions, with cement and construction industries among the highest producers. Meanwhile, analysts forecast the global emissions percentage from business to decrease, of which cement and construction contribute over 20%. But the environment ministry appears reluctant to reverse that trend. Government officials may also be reticent to relinquish a source of national profit to foreign companies through an import system.

The Doha talks, which failed to reach a concrete deal over the "second Kyoto commitment period" between 2012-2020, nevertheless pressed for "national measures" from signatory states—that would include "new and renewable forms of energy" and "enhancement of energy efficiency in relevant sectors of the national economy," Dr. Ted Christie noted in *Independent Australia*. The second point is of particular significance to the current Egyptian debate: clean coal would represent an "enhancement" as opposed to bog-standard coal fuel, but would it not also represent a step backwards away from more renewable forms of energy in the economy?

Views like Eskander's are starting to take hold within the cement industry, though. A number of hugely profitable companies, including CEMEX Egypt and Suez Cement have started turning to more environmentally-minded policies with regards to coal, natural gas, and cement production.

Egyptian civil society has also taken up the call for alternatives, in attempts to soften the binary debate between gas and coal. The Egyptian Center for Economic and Social Rights (ECESR) issued a report last summer strongly condemning "the move to use coal as a source of energy in the cement industry" and to consider "alternatives at hand, in order to overcome energy problems without causing health and environmental degradation."

Isabel Bottoms works on environmental issues for the ECESR. "We don't have a blueprint for the alternatives…[but] we don't feel there's been much attention brought to this." Bottoms says that while the debate is suffering from a "wasteland of information," not enough is being done to explore the alternatives.

Clearly the narrative is not as simple as some have made out. Some cement companies are looking elsewhere for fuel, just as government officials are not convinced avoiding coal imports is the answer. But whatever the solution to Egypt's gas-coal problem, key players must factor in the environment alongside business decisions.


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Khalda Progress of the Hydra Gas Development Project

The Hydra Gas Development Project of Khalda Petroleum Company initiated on April 4th 2013, and is set to complete its first phase on March 31st this year with the second phase to end September 30th. Genesis has been contracted for engineering and procurement support, while construction and installation is contracted by Petrojet. The project's budget is USD 50 million for a USD 2.1 million expenditure. The issue date for the project was October 10th 2013, and its project managers are Neil Clark and Eng. Mohamed Ismail.

Project Background

Hydra is a hot, normally pressured gas condensate field located in the Western Desert of Egypt that is being developed by Khalda Petroleum Company (KPC), a joint-venture between Apache Corporation and the Egyptian Government Petroleum Company (EGPC).

The field is located south of the Obayied Gas Plant and to the north of the Qasr field, approximately 8 km southwest of the pipeline that runs from the Shams manifold to the Obayied Gas Plant.

Phases I and II involve installing Hydra facilities which accommodate the fluids only in early field life where the pressures are sufficiently high enough to free flow to the host facilities. Fluids will be cooled and separated via a three-phase separator. The separated gas and condensate is comingled and transported to end of line EOL at Obayied for further processing via the existing Shams to EOL carbon steel pipeline. Water is further processed and disposed of locally.

Phase I

Hydra fluids will be cooled by two air cooler bays relocated from the Qasr start of line (SOL) prior to the fluids entering the CS pipeline to EOL. Phase I is the tie-in to the existing Hydra trunk line and the installation of the duplex air coolers, chemical injection, associated tie-ins for future phases and associated utilities.

Plot space shall be provided for all project phases inclusive of Phases I, II, and III.

The tie-in to the Shams Obayeid Pipeline will use the existing tie-in location downstream of the line break valve.

Off-takes and tie-ins for future phases shall be included to allow future expansions to be carried out without shutdowns.

Phase I is a temporary mode production prior to the installation of Phase II to remove free water.

Phase III

Hydra fluids will be separated via a new three-phase separator. The separated water will be sent for further treatment and the gas and condensate will be comingled and transported to the host facilities. The separator will require corrosion-resistant cladding or shall be entirely duplex and will be designed utilizing the same design philosophy as Qasr SOL, i.e., regarding internals, etc.

Phase II (Future phase not included in current project scope)

Phase III is an LP phase that will require compression. This is out of scope with regard to the design, however, tie-in points with DB&B valve isolation and spectacle blind in closed position shall be provided during Phase II for future installation of the compressor and its associated equipment during Phase III, i.e., the KO drum, cooler, auxiliaries, instrument air, and nitrogen packages.

This project will enable Khalda to sustain the current gas deliverables prior to Qasr compression project by producing gases up to 150 MMSCFD. Khalda plans to backfill the decline in Qasr deliveries to Obaiyed by initially producing gas from Syrah field and then substituting with Hydra gas.

Accelerating the development of the Hydra field is now considered to be a major priority for Khalda to achieve our target production goals and support the need for additional domestic gas supplies within Egypt. The following reports cover progress up to September 30th 2013.

Progress of the Engineering Phase and Procurement Support

For this phase, 71.68% of the process has been completed. Genesis Oil & Gas Company (GOGC) was contracted by KPC's shareholder Apache to perform a conceptual study for the development of the Hydra Gas Development Project that they completed in March 2013. The study provided a number of options that could be implemented for the proposed development and it was eventually concluded that an optimum development would be based on a combination of two option, option 6 and 7, named option 6a.

After EGPC gave approval for the Hydra Gas Development Project in April 2013, Apache engaged GOGC to complete the required detailed engineering and procurement support for both phases of the Hydra Project. As a part of the scope of work, Genesis has developed a phased procurement strategy to enable Khalda to deliver the Hydra Project in two phases based on the schedule mandated by its shareholders—end Q1 2014 for Phase I and end Q3 2014 for Phase II.

- Piping isometrics for Phase I (excludes tie-in to trunk line) issued AFC, piping MTO for Phase I issued, piping special items list and data sheets issued. Phase II isometrics prepared and in GOGC checking cycle.
- Civil drawings and specification are being updated having received the soils report and the foundation drawing being progressed, awaiting vendor data to finalize foundations. Issue of structural steel work drawings commenced. Civil work being added to PDMS model.
- AFC issue of cold vent drum, production separator, fuel gas KO drum, fuel gas pre-heater, fuel gas super-heater, produced water treatment package, diesel storage tank and closed drains drum.
- Updating of electrical documentation to incorporate KPC confirmed power requirement of 400v.
- Manual firefighting equipment finalized and enquiry under preparation.
- P.O.S. and/or LOIs placed for valves, CCSS, chemical injection, tagged instruments, piping bulks, UPS, and MCC. Clarifications ongoing on E&I bulks and instrumental air package. Firefighting equipment tender to be issued.
- Phase II requisitions received for HP separator and LP vessels for review.
- Genesis target for issue of drawing at AFC issue by the end of October.
- HAZOP/SIL review arrangements being made for outstanding vendor supply, Phase I systems for instrument air, diesel system for power generation, and chemical injection package.
- Revised fence design proposed by KPC/Petrojet and accepted.
- HAZOP, HAZID, SIL, and constructability review study were completed in June 2013, further HAZOPS will be performed on vendor packages as documentation is received.
- 30%, 60%, and 90% model reviews have been carried out, with the 90% review having been held late July 2013. Model updates will incorporate vendor package interfaces.

Cost Control

Project approval for total cost of USD 50 million in circulation for AFE approval. Petrojet Construction awarded with the estimated cost of USD 13 million based on the current CSA. KPC allocated cost for engineering, materials, studied, procurement, contingency, etc, at USD 37 million.

Materials

Based on the approval procurement strategy by shareholders for Phase I, Apache is procuring the material to achieve the Phase I project target date for the following commodities:

- Manual and actuated valves P.O. issued.
- Combined control & safety system and fire & gas devices P.O. issued.
- Chemical injection packages P.O. to be issued.
- Piping bulks and fitting material LOI issued.
- UPS LOI issued.
- LV switchgear LOI to be issued early October
- Tagged instruments LOI to be issued early October
- E&I bulk tenders being evaluated and clarifications issued.
- Firefighting equipment tenders to be issued.

Based on the approval procurement strategy by shareholders for Phase II, GOGC will prepare and compile the tender requisition packages for KPC to procure the materials to achieve the Phase II project target date. Requisition for HP separator is being prepared for issue to KPC for review, and requisition for LP vessels being prepared for issue to KPC for review.

Construction Phase

- Fax of award issued to Petrojet on August 28th 2013.
- Kick-off meeting held September 4th 2013.
- Petrojet delayed commencement, rough grading and leveling for process area from first week of September, and delayed to start in early October.
- Petroject scheduled completed geotechnical survey on September 2nd, and for the technical report to be issued on September 9th 2013. Report finally received September 16th, and this delay has impacted the civil work being carried out by GOGC.

Reporting by Wael Elserag


We Manage Risks & Maximize Opportunities
RiskFree
Risk Management Consultancy
RFG is a privately held full service risk management consultancy company. Our founders and consultants each have more then 25 years of experience in different sensitive positions in the Egyptian Ministry of Interior, State Security, Ministry of Foreign Affairs and international organizations.
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Fugro offers an effective, long-term and real-time alarm tool for BOP and Riser Motion Monitoring, onboard offshore drilling rigs.

By Fugro

Benefiting from an unrivalled global presence, which covers a versatile range of services around the world through its network of sister Opcos, Fugro SAE offers unconventional structure monitoring services.

Why Motion Monitoring Tool?

Research and development in the prevention of future possible gas or oil leaks from the drilling rig Riser and BOP has currently become essential. This is a natural outcome to help companies adhere to more strict QHSE measures that rise day after day, especially in the oil and gas industry, for the safety of operations to man, environment and machine.

Accordingly, we worked further on improving the BOP and Riser material design, redundancy, and verifying healthy BOP operation on regular BOP operation drills.

Before starting the drilling program, conductor fatigue service life studies (for Riser assembly) are carried out. In most cases it shows that its service life could be less than the expected duration of drilling activities. That is due to excessive riser motion and vibration, especially for long, deepwater HPHT well drilling programs.

Thus, the Riser assembly motion needs an effective, real-time motion monitoring and alarming tool, which enables operating companies to monitor the BOP and Riser motion, and to stop the drilling operation in case of excessive vibration.

Hence, the Riser assembly can then be retrieved in order to prevent excessive fatigue leading to possible failure and leakage.

Primary Cabled System Configuration

The system consists of two upper-motion modules (one redundant unit) that will be installed near the top of the riser at a depth of up to 200 m below deck level (constrained by cable availability). They will be cabled back to the deck, and from there to the display PC.

Two lower motion modules (one redundant unit) are installed around the BOP. These will be connected into an umbilical cable, which will be strapped to the riser and deployed from a reel. These units will also be cabled back to the display computer.

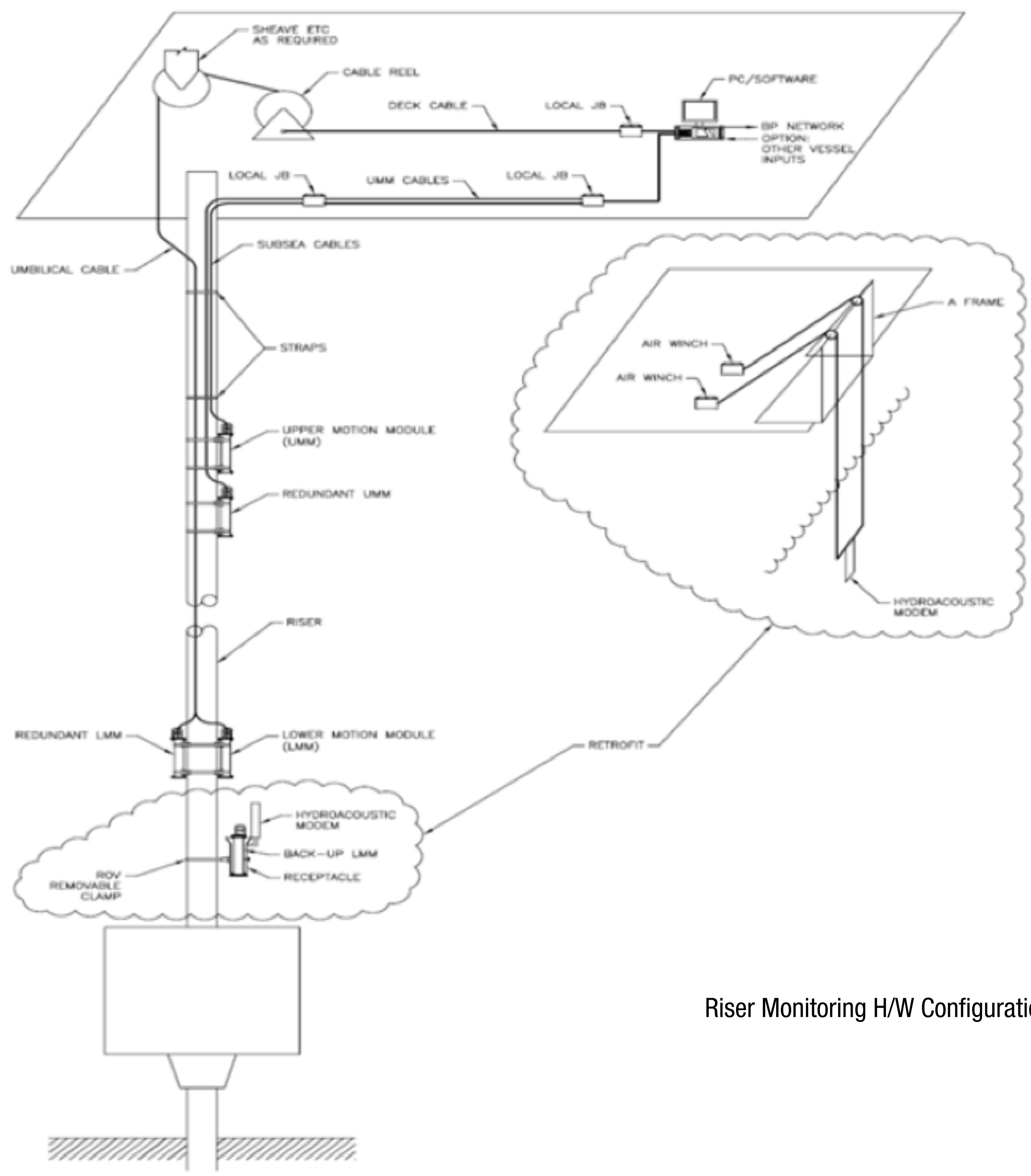
ROV Retrievable Backup System

In addition, a fully ROV redundant deployable solution is therefore offered as an optional back up. The ROV deployable system can be installed at locations to be agreed. The units are battery powered. For the ROV deployable option, each subsea instrument will be provided with an internal battery pack and data logger, so that data will be saved in the event of loss of communications from the primary wired system.

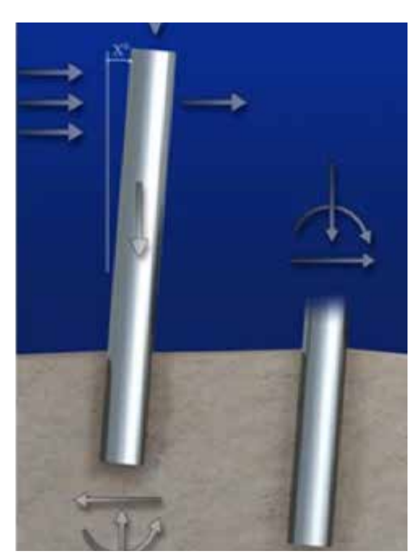
Thus, In the event of communications failure for the primary cabled system, the motion can be recovered to the surface by ROV for data retrieval and download. The recovery interval would be set by the client operational requirements.

Data Analysis and Interpretation

In addition to the configuration and installation of the monitoring system, Fugro has the capability to collate and analyse the recorded data. The content of reports is tailored to the requirements of the individual customer, and typically may include quality control and presentation of the data, fatigue calculations, or spectral and modal analysis of structural responses. On the other hand, clients are able to define motion alarm limits on the software.



Riser Monitoring H/W Configuration



ROV Retrievable Clamp

Data logging and Analysis PC

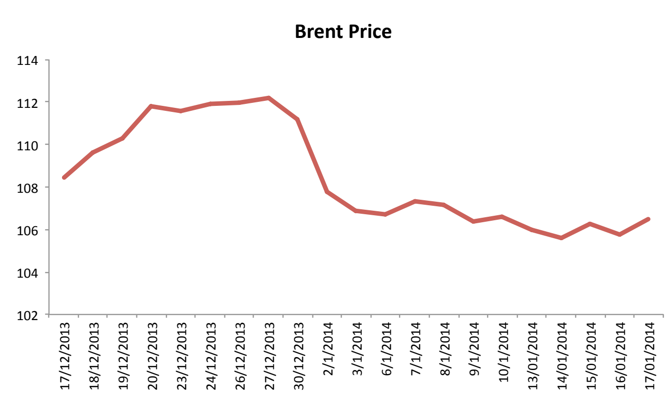
Deep Data Units in Production

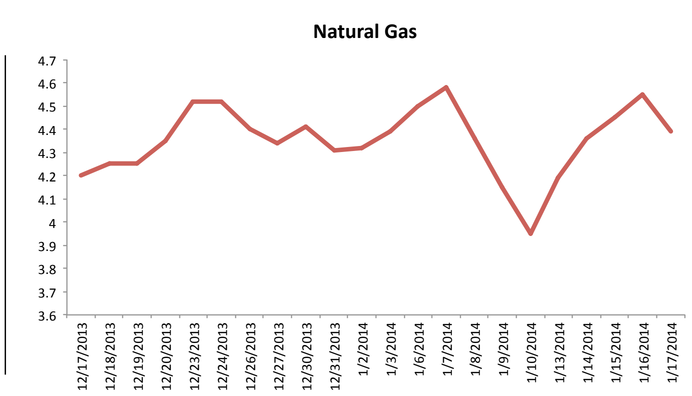
Egypt Statistics

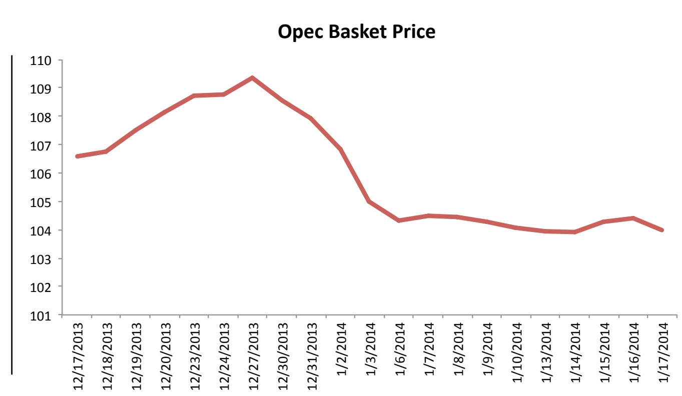
Egypt Rig Count per Area – December 2013

Area	Total	Percentage of Total Rigs
Gulf of Suez	11	9 %
Mediterranean Sea	8	7 %
Western Desert	83	70 %
Sinai	9	8 %
Eastern Desert	5	4 %
Delta	2	2 %
Total	118	100%

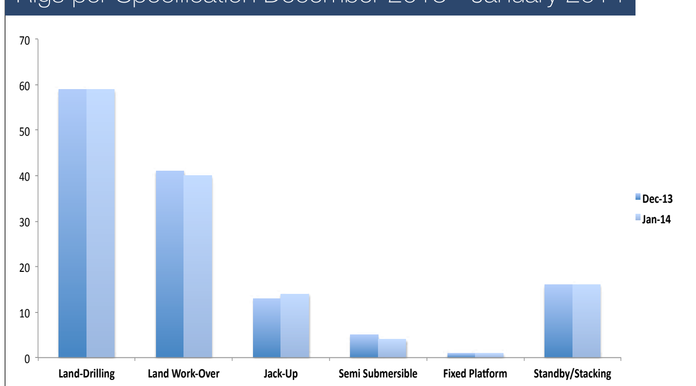
	Oil			Equivalent Gas			Condensate			Liquefied Gas		
	Barrel			Barrel			Barrel			Barrel		
	December-11	December-12	December-13	December-11	December-12	December-13	December-11	December-12	December-13	December-11	Decem-ber-12	December-13
Med. Sea				25308929	22940179	18706071	1419609	1269135	1060922	392613	370311	372482
E.D.	2322670	2344063	2392638			59464			3123			6442
W.D.	8071871	8757285	9495606	6938036	7017679	7200893	1713774	1438379	1389919	792884	679507	864204
GOS	4777355	4468263	4034357	187321	240714	274464	61754	67739	59415	187374	204964	199224
Delta	102651	84336	62562	1989643	1644821	1871607	167371	143639	184476	96235	94652	128572
Sinai	2159965	2119665	2182979	2143	3036	5357	33557	29945	32689	56671	64154	81052
Upper Egypt	16476	10341	11884									
Total	17450988	17783953	18180026	34426072	31846429	28117856	3396065	2948837	2730544	1525777	1413588	1651976



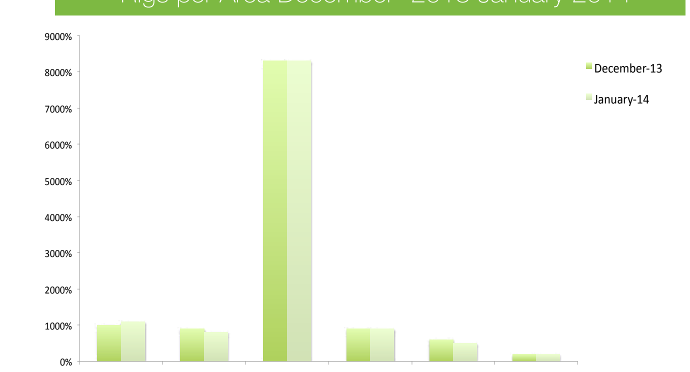




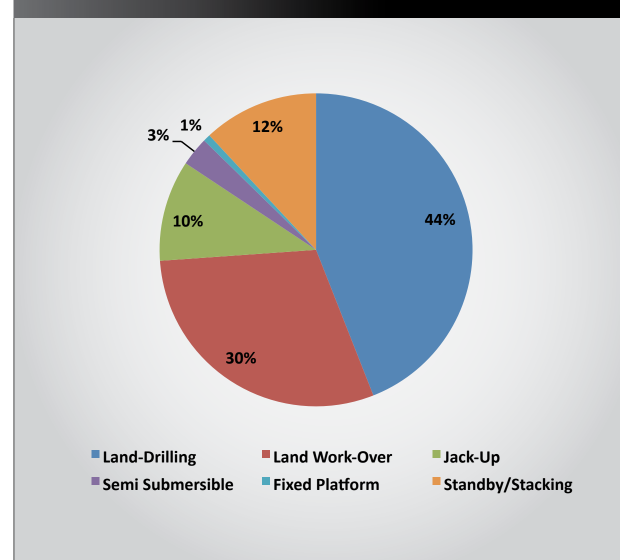
Rigs per Specification December 2013 - January 2014



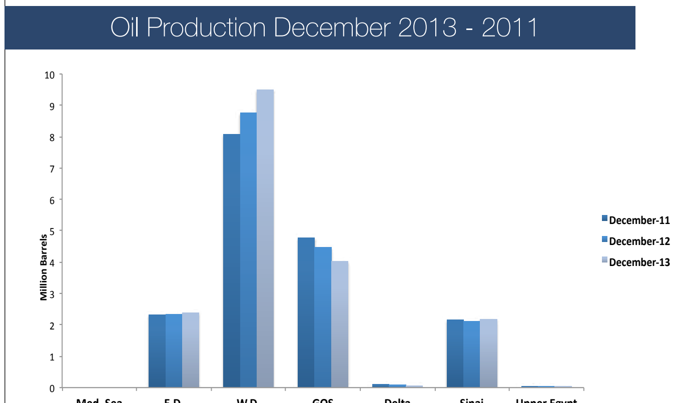
Rigs per Area December -2013 January 2014



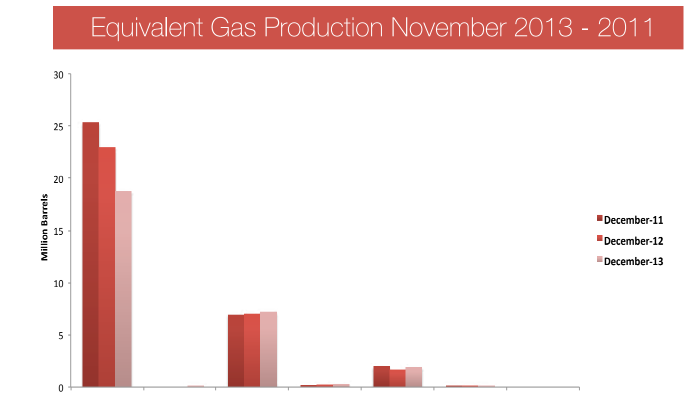
Rigs per Specification January 2014



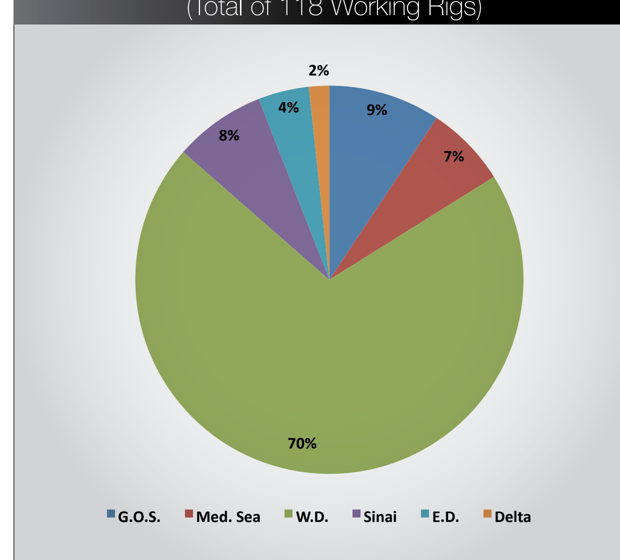
Oil Production December 2013 - 2011



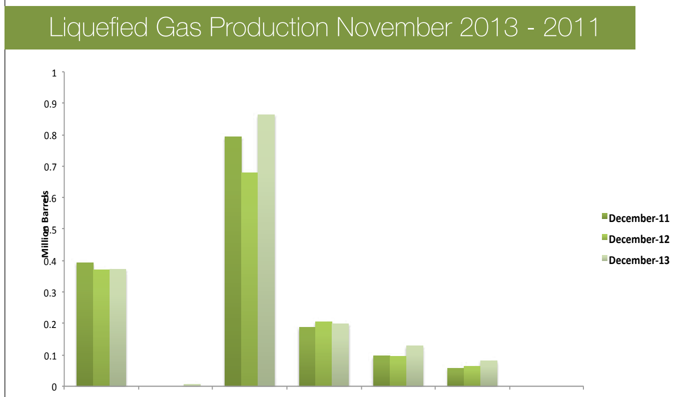
Equivalent Gas Production November 2013 - 2011



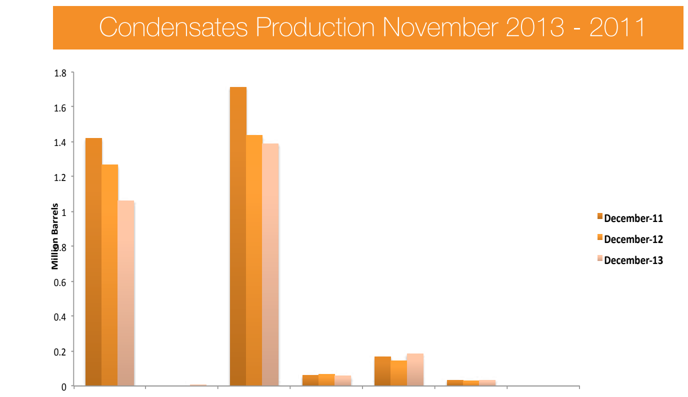
Rigs per Area January 2014 (Total of 118 Working Rigs)



Liquefied Gas Production November 2013 - 2011



Condensates Production November 2013 - 2011



TAQA Arabia is the largest private sector energy distribution company in Egypt with over 16 years of experience, investing and operating Energy infrastructure including gas transmission and distribution, power generation and distribution and marketing of petroleum products.

TAQA Gas

TAQA Gas develops and operates natural gas distribution networks through 4concessions in 11Egyptian governorates.

Nile Valley -Upper Egypt City Gas -Suez, South Sinai and the Red Sea Repco - Damietta Transgas - Kafr El Sheikh

TAQA E.P.C.

E.P.C provides quality engineering services, designs gas engineering networks and operates and maintains PRSs through EGUSCO in Egypt and its regional subsidiaries in their locations.

TAQA Power

TAQA Power is positioned itself in the market of power generation and distribution as a pioneering licensed developer and operator.

TAQA Power aggressive expansion plan has resulted in growth in the power contracted capacity from 70 MW in 2006 to 876 MW in 2010 plus about 2000 MW projects in pipeline.

TAQA Oil Marketing

TAQA Oil Marketing, is the first privately owned Egyptian company licensed to market petroleum products including fuels and lubricants through a retail petrol stations network under the "TAQA" brand name as well as being the sole distributor of CASTROL products in Egypt.

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