In Focus

## Egypt's Impending Subsidy Crisis

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## Sipetrol's East Ras Qattara Concession

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EGYPT OIL&GAS NEWSPAPER

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# The Elusive IMF Loan

# Uncertainty

The scheduling of professional and personal events is becoming increasingly difficult lately. Invitations are increasingly met with a "maybe" or "lets wait to see how June 30th goes." It seems all of Egypt is in a holding pattern braced for what may or may not transpire on the 30th of June.

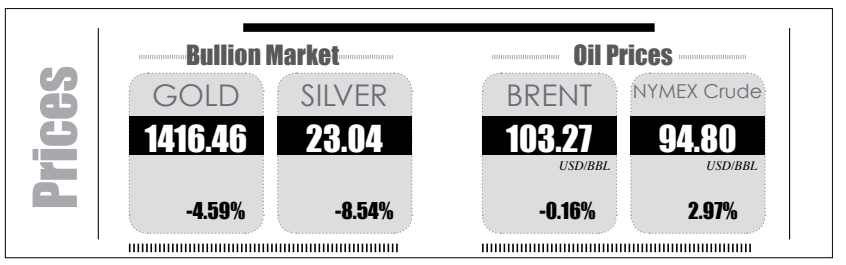
The Tamarod rebellion is ready to "reclaim" the Egyptian revolution but the methods and end game are unclear. Ostensibly, the movement seeks to oust Mohamed Morsi for failing to live up to the revolutionary ideals of Jan. 25 and the Arab Spring. Honestly, as a student of the Muslim Brotherhood, I am as disappointed as anyone by the shortcomings of the MB during its first year in power. Substantive domestic reform and positive foreign policy modification was apparently marginalized in favor of international political appeasement and a strong focus upon retaining and concentrating power. However, given broader systemic and particularly economic factors, one might also ask to what degree anyone could have "succeeded" in implementing a long run plan in post-revolution Egypt.

Recently, an interviewee mentioned that he thought my perspective was short-sighted. As an older engineer and geologist by training, he took it upon himself to impress upon me the long-term and gradual nature of the oil and gas sector. He noted that, "It took millions of years of years to create these resources, and decades to find them." His broader point seemed to be that the problems of the last two years were relatively small compared to the decades and billions of dollars that some entities have invested in Egypt. Apparently, I needed to gain perspective.

While this gentleman was correct on several fronts, I question the degree to which this is possible. We are nonetheless experiencing a unique time in Egyptian history...one in which numerous opinions and predictions have emerged concerning what may or may not occur on 30th. These are generally based upon a short run perspectives and yielding very immediate and thereby short run consequences. Simultaneously, the government is facing very immediate and short run constraints with respect to subsidies, poverty, currency valuation, and Egypt's political status in the region. Egypt is perhaps no longer afforded the luxury of investing in a long run world view.

Even with the magnitude, duration, and outcome of the June 30th protests being unknown, whatever transpires, the economic and political problems will remain. Our issue this month therefore focuses upon those economic problems with particular emphasis upon the elusive IMF loan and the complex issue of energy subsidies. We highlight issues that will linger despite the outcome of the Tamarod rebellion and which will still face whoever our president might be in several weeks, months, or years.

***Julie Herrick*** Editor in Chief

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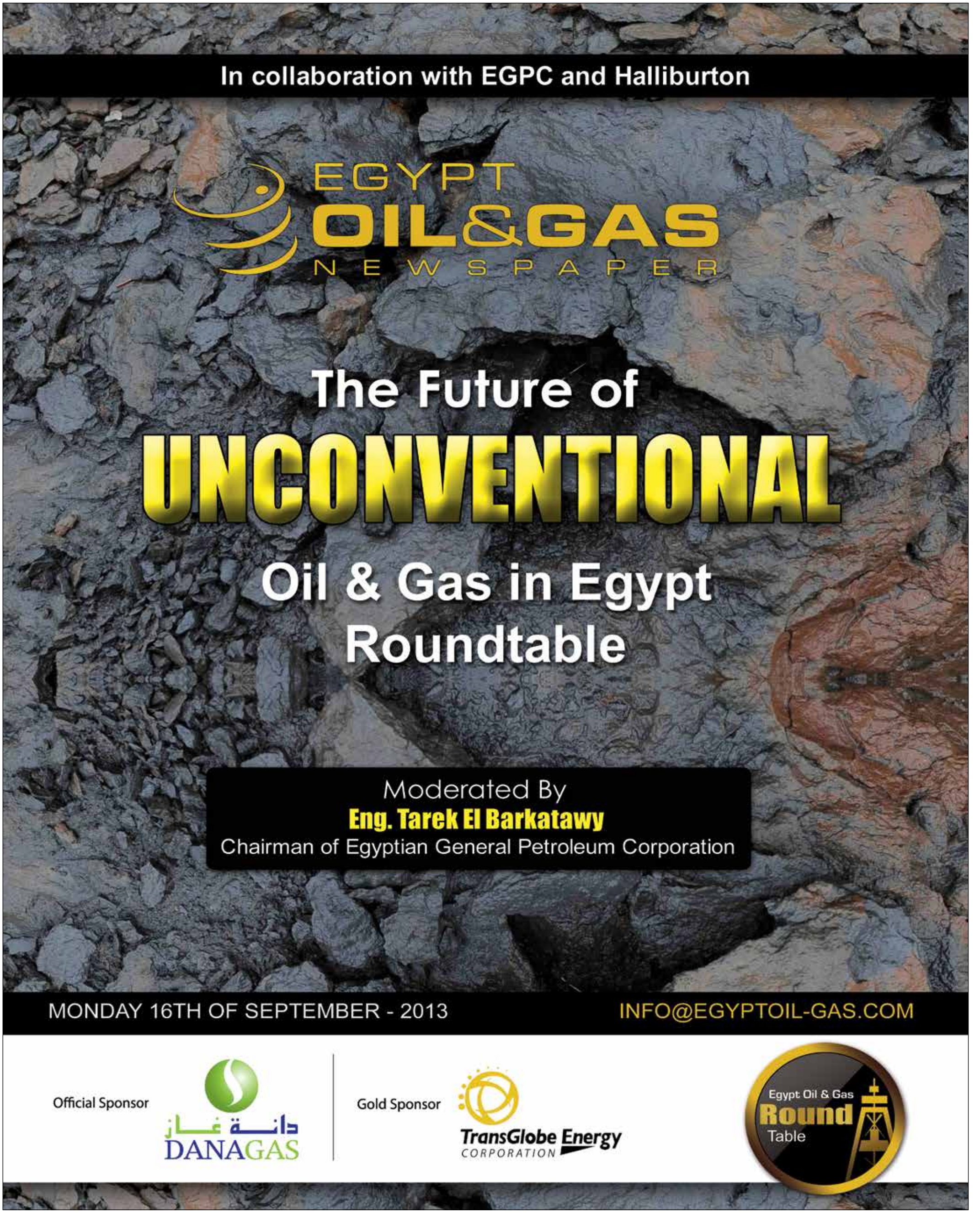
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Round
Table

## Bapetco Drills New Wells in the Western Desert

The Badr Petroleum Company (Bapetco), a joint venture between Shell and the Egyptian General Petroleum Corporation (EGPC), carried out drilling operations in the company's concession area in the Western Desert. Bapetco's production rate of crude oil and condensates reached 1, 080,428 barrels at the end of May 2013. Bapetco's new wells include:

**SITRA 8-24**

The SITRA 8-24 oil producing developmental well was drilled to a total depth of 11,451 ft utilizing the EDC-42 rig. Drilling expenditures are estimated at USD 4.024 million.

**BED 3-17**

The BED 3-17 oil producing developmental well was drilled to a depth of 10,069 ft. utilizing the EDC-52 rig. Investments on the drilling process are estimated to be USD 3.219 million.

**BED 3C-12A**

The BED 3C-12A exploratory well was drilled to a depth of 12,825 ft using the EDC-72 rig. Expenditures on the project reached an estimated USD 4.108 million.

**SITRA 8-25**

The SITRA 8-25 oil producing new developmental well was drilled to a depth of 12,195 ft. utilizing the NAFTA-1 rig. Investments surrounding the drilling process are estimated at USD 3.930 million.

## Khalda Drills Wells in the Western Desert

Khalda Petroleum Company, a joint venture between Apache Corporation and the Egyptian General Petroleum Corporation (EGPC), has carried out drilling operations in the company's concession area in the Western Desert. Khalda's production rate of crude oil and condensates reached 4,073,788 barrels at the end of May 2013, while its natural gas production reached 4,742,679 barrels equivalent. Khalda's recent drilling operations include:

**SIWA L-1X ST-1**

The SIWA L-1X ST-1 oil producing exploratory well was drilled to a depth of 15,449 ft utilizing the EDC-41 rig. The well is still under investigation. Investments on the drilling process are estimated at USD 4.068 million.

**JADE-21**

The JADE-21 developmental well was drilled to a depth of 11,000 ft utilizing the EDC-54 rig. Expenditures on the well are estimated at USD 590,000.

**KHALDA SW-4**

The KHALDA SW-4 oil producing developmental well was drilled to a depth of 12,080 ft utilizing the EDC-8 rig. Investments on the drilling process reached approximately USD 2.226 million.

**MRZK-103**

The MRZK-103 developmental well was drilled to a depth of 6,805 ft utilizing the EDC-65 rig. Expenditures on the project are estimated at USD 427,000.

**MRZK-10ST-1**

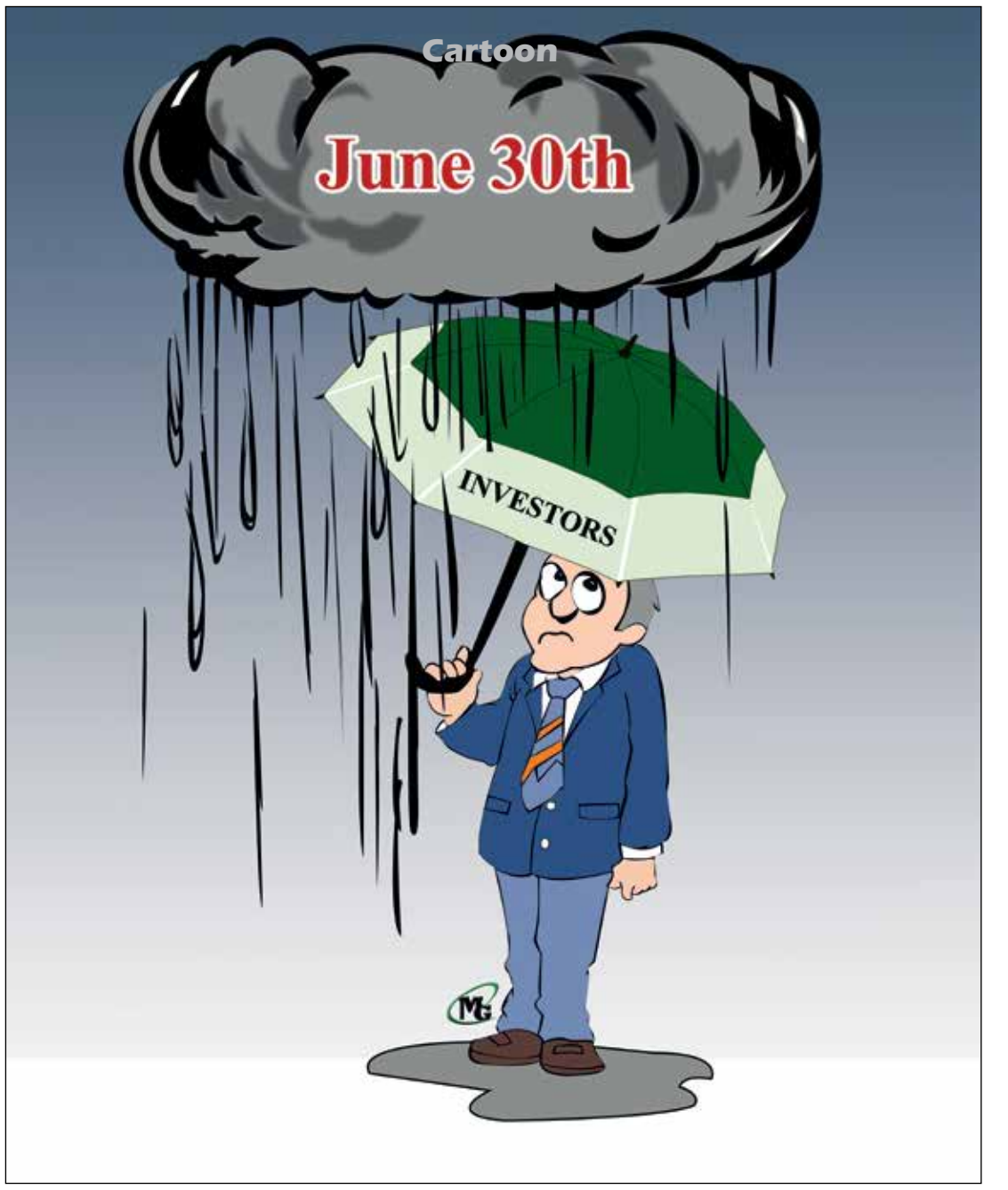
The MRZK-10ST-1 oil-producing developmental well was drilled to a depth of 6,917 ft utilizing the EDC-65 rig. Investments on the well are estimated at USD 1 million.

**UMB-206**

The UMB-206 developmental well was drilled to a depth of 11,132 ft utilizing the ST-2 rig. Investments surrounding the drilling process are estimated at USD 3.074 million.

**NRQ N55-3**

The NRQ N55-3 oil producing new developmental well was drilled to a depth of 8,703 ft. utilizing the EDC-66 rig. Investments on the drilling process are estimated at USD 826,000.




## Qarun Drills in the Western Desert

Qarun Petroleum Company, a joint venture between Apache Corporation and the Egyptian General Petroleum Corporation (EGPC), drilled two new developmental wells in the company's concession area in the Western Desert. Qarun's production rate of crude oil reached 1,457,201 barrels in May 2013. Qarun's new wells are:

**ASALA-57**

The ASALA-57 oil-producing developmental well was drilled to a depth of 5,800 ft utilizing the EDC-17 rig. Investments on the project are estimated at USD 518,000.

**RAHMA-33**

The RAHMA-33 developmental well was drilled to a depth of 6,250 ft utilizing the PD-1 rig. Expenditures on the well reached approximately USD 643,000.

## El-HAMRA Drills NEAL-7 Exploratory Well

El-HAMRA Oil Company, a joint venture between EGPC and Canada's IPR Company, recently drilled the NEAL-7 oil-producing exploratory well in the Western Desert. The well was drilled to a depth of 7,200 ft utilizing the EFD-111 rig. Expenditures on the project are estimate at USD 1.366 million. El HAMRA's production rate of crude oil reached 139,129 barrels at the end of May 2013.

Story Board

## Kuwait Energy Drills N.KAREEM-2X Well

Kuwait Energy recently drilled the N.KAREEM-2X oil producing exploratory well in the company's concession area in the Easter Desert. The well was drilled to a depth of 4,426 ft utilizing the ECDC-1 rig. Expenditures on the drilling process are estimated at USD 880,000.

Kuwait Energy recently announced it's financial and operational results for the first quarter of 2013. The company's average production increased by 24.2 percent compared to last year, reaching 21,568 barrels of oil equivalent per day. Production growth resulted in an 8.6 percent revenue increase from a year ago, reaching USD 64 million. Much of the production increase was due to the acquisition of a 15 percent interest in Block 5 in Yemen. The total production of Block 5 is an estimated 38,000 bpd, Kuwait Energy receives approximately 5,700 bpd of the product.

## Petrosannan Drills New Developmental Well.

PETROSANNAN Company recently completed the drilling of a new developmental well. The drilling operations occurred in the company's concession area in the Western Desert. PETROSANNAN is a joint venture between EGPC and NAFTOGAZ Company. The AESE 3 ¼ oil producing new developmental well was drilled to a depth of 11,378 ft. utilizing the ZJ -47L rig. Investments surrounding the drilling process are estimated at USD 2.452 million. PETROSANNAN production rates of crude oil reached 164,625 barrels in May 2013.

## GPC Drills New Developmental Well

GPC Company recently drilled a new developmental well. Drilling operations occurred in the company's concession area in the Western Desert. The HF 35/4 oil producing developmental well, was drilled to a depth of 6,201 ft. utilizing the ST-4 rig. GPC production rates of crude oil and condensates reached 1,452,375 barrels in May 2013. Natural gas production reached 51,607 barrels equivalent.

In conjunction with SCIMITAR, GPC also drilled a new developmental well. The ISS-104 oil producing developmental well was drilled to a depth of 1,488 ft. utilizing the SHAMS-1 rig. Investments surrounding the drilling process are estimated at 310,000 USD.

## Petro Amir Completes ALAMIR SE-16 Well

Petro Amir, a joint venture between EGPC and Greece's Vegas Oil & Gas Company, recently completed drilling the ALAMIR SE-16 well in the Eastern Desert. The oil producing developmental well was drilled to a depth of 11,100 ft using the ST-9 rig. Operational investments surround the well reached an estimated USD 802,000. At the end of May 2013, Petro Amir's production rate of crude oil and condensates reached 346,508 barrels.

## Sipetrol Achieves Record Production

Mr. Miguel Angel Vargas, the General Manager of the Chilean state-owned Sipetrol International S.A., Egypt Branch, announced a new achievement in East Ras Qattara Concession in the Western Desert, with a new production record exceeding 21,000 BOPD from the last drilled Development Well Shahd-SE-6 with an added production rate of 4,800 BOPD during June 2013 as per the fields development plans that were announced during Q1-2013.

Eng. Sayed Rezk, Sipetrol Operations Manager and the Managing Director of the JV Petroshahd, added that this increase is attributed to continuous updating to the fields' development plans, in addition to the continuous efforts to improve the wells production performance and increase reserves. Eng. Rezk also announced that the Company will start drilling a new exploratory well during Q3-2013 to test the Jurassic play potentiality in East Ras Qattara Concession in the Western Desert, which, in case of finding positive results, will have promising increase of the company's production of oil and gas.

## El-Mansora Completes Drilling of W.Khilala Well

The El-Mansora Petroleum Company, a joint venture between EGPC and Melrose Resources, recently completed drilling the W.KHILALA oil producing developmental well in the company's concession in the Delta. The well was drilled to a depth of 10,717 ft utilizing the TANMIA-1 rig. Investments surrounding the drilling process are estimated at USD 4.451 million. El-Mansora's production rate of crude oil and condensates reached 89,516 barrels in May 2013.

## Petrodara Drills E.ARTA-39 and ARTA-65 Wells

Dara Petroleum Company (Petrodara), a joint venture between Dublin International Petroleum Limited and EGPC, recently drilled two new developmental wells in the company's concession area in the Eastern Desert. Petrodara's production rate of crude oil reached 382,576 barrels in May 2013.

**E.ARTA-39**

The E.ARTA-39 well was drilled to a depth of 4,217 ft utilizing the ST-7 rig. Investments surrounding the drilling process are estimated at USD 780,000.

**ARTA-65**

The ARTA-65 oil producing well was drilled to a depth of 3,585 ft utilizing the ST-7 rig. Expenditures on the drilling process reached approximately USD 744,000.

## Petrobel Completes Drilling of Two Wells in the Gulf of Suez

Belayim Petroleum Company (Petrobel), a joint venture between EGPC and Eni, recently concluded the drilling of two wells in the company's concession area in the Gulf of Suez. Petrobel's production rate of crude oil and condensates reached 3,730,541 barrels in May 2013. The company's new wells are:

**BMSW-2**

The BMSW-2 well was drilled to a depth of 10,598 ft utilizing the G.SF-105 rig. The expenditure on the project is estimated at USD 14 million.

**113-M-101 REPL**

The 113-M-101 REPL oil producing developmental well was drilled to a depth of 9,462 ft utilizing the COMET rig. Investments surrounding the drilling process are estimated at USD 11.45 million.

## Dublin Completes MESEDA H-9 Developmental Well

Dublin International Petroleum Limited recently completed drilling the MEDEDA H-9 developmental well in the company's concession area in the Eastern Desert. The oil producing developmental well was drilled to a depth of 4,700 ft utilizing the ZJ-45L rig. Investments on the drilling process are estimated at USD 892,000.

## Pharaonic Drills BADR-1X Exploratory Well

The Pharaonic Petroleum Company (PhPC) is a joint venture between British Petroleum (BP) and EGPC. PhPC recently concluded drilling the BADR-1X exploratory well in the company's concession area in the Mediterranean. The well was drilled to a depth of 9,876 ft utilizing the SCARABE-4 rig. Investments on the drilling process are estimated at USD 48.891 million.

## West Bakr EPEDECO Completes Drilling of H-21 Well

West Bakr Company, a joint venture between Japan's EPEDECO and EGPC, completed the drilling of the H-21 developmental well. The well was drilled in the company's concession area in the Eastern Desert. The H-21 well was drilled to a depth of 5,508 ft utilizing the EDC-62 rig. Expenditures on the well are estimated at USD 1.271 million. West Bakr's production rate of crude oil reached 159,128 barrels in May 2013.

## Apache Drills N.TAREK G-1X Well

Apache recently drilled the N.Tarek G-1X oil producing exploratory well in the company's concession area in the Western Desert. The well was drilled to a depth of 15,460 ft via the EDC-1 rig. Operational investments surrounding the project are estimated at USD 5.082 million.

## NORPETCO Drills GANNA W-1 Developmental Well

North Bahariya Petroleum Company (NORPETCO), a joint venture between the Sahari Oil Company and EGPC, recently completed drilling the GANNA W-1 oil-producing developmental well. The well was drilled in the company's concession area in the Western Desert, to a depth of 8,371 ft utilizing the EDC-2 rig. Investments surrounding the project are estimated at USD 2.572 million. NORPETCO's production rate of crude oil reached 211,518 in May 2013.

## Choice Words

> There is a large window for dialogue and discussion between Egypt, Ethiopia and Sudan to arrive at the ideal form for the dam that ensures safeguarding Egypt's water interests, realizing the development objectives of all three nations and avoiding any negative effects that may hurt downstream nations

**Mohammed Kamel Amr,** Minister of Foreign Affairs, Arab Republic of Egypt

> Apache's discoveries, made in three separate basins, highlight the company's diverse potential or new oil and gas developments across its concessions ... We operate in the most remote areas of the country, and have for 20 years. Our exploration and production activities continue without interruption. During the first quarter we maintained a very active drilling pace, operating on average 26 rotary rigs every day during the period.

**Thomas M. Maher,** Egypt region vice president and general manager, Apache Corporation

> We will introduce the smart card soon and even apply it to the assembly points and gas stations and make sure that any diesel or gasoline unloaded from ships is accounted for when it goes onto trucks to the distributors and gas stations.

**Tarek El-Barkatawy,** Chairman, Egyptian General Petroleum Company (EGPC)

> We decided today to entirely break off relations with Syria and with the current Syrian regime… We stand against Hezbollah in its aggression against the Syrian people. Hezbollah must leave Syria - these are serious words. There is no space or place for Hezbollah in Syria … The Egyptian people supports the struggle of the Syrian people, materially and morally, and Egypt, its nation, leadership ... and army, will not abandon the Syrian people until it achieves its rights and dignity

**Mohamed Morsi,** President, Arab Republic of Egypt

## AGIBA Drills SE-33 and EMRY DEEP-12

Agiba is a joint venture between EGPC (50%) and IEOC B.V. (a subsidiary of ENI) with 40 percent and Mitsui with 10 percent. In May 2013, AGIBA's production rate of crude oil and condensates reached 1,788,986 barrels. Agiba's recent drilling activities include:

SE-33 oil producing developmental well was drilled to a depth of 6,300 ft using the PDI-147 rig. Expenditure on the well reached USD 755,000.

EMRY DEEP-12 oil producing new developmental well was drilled to a depth of 10,500 ft. utilizing the PDI-147 rig. Investments surrounding the drilling process are estimated at 3 million USD.

## Egypt's Shale Gas Opportunities Discussed

Petroleum industry experts and practitioners discussed shale gas opportunities in Egypt during a forum that took place in Cairo on 26 June. EGPC and Halliburton organized the forum "Shale Gas Plays - Discovering the Opportunities in Egypt".

The forum started with the welcoming words by the Egypt Oil and Gas Minister Sherif Haddara and the vice president of Halliburton North Africa Hesham Ismail. Thereafter, the chairman of the Egyptian General Petroleum Corporation (EGPC) Tarek Al-Barkatawy discussed the plans of EGAS for unconventional plays. Halliburton North Africa's technology manager Moustafa Oraby provided some details about the collaborative efforts of the company and EGAS in shale gas evaluation. Additionally, the techniques of shale gas identification and production were discussed alongside with the experience of the US in this field.

## Petroleum Minister Announces Administrative Reshuffling

The Minister of Petroleum and Mineral Resources, Sherif Haddara, announced a reshuffling of key administrators within government-controlled companies that oversee and participate in various aspects of the petroleum sector. The shuffle aims to improve performance and efficiency.

The new appointments include:

Dr. Sherif Soussa, formerly Chairman of EGAS, was appointed to First Undersecretary for Gas Affairs at the Ministry of Petroleum.

Taher Abdel Raheem, formerly Deputy Chairman of EGAS was promoted to Chairman of EGAS.

Abed Ezz Al Regal, formerly Deputy Chairman of EGAS was appointed as Chairman of Gulf of Suez Petroleum Company (GUPCO).

Ahmed El Hawary, formerly Chairman of El Mansoura Petroleum Company, was appointed as Chairman of Belayim Petroleum Company (Petrobel).

Emad El Din Hamdy, formerly Chairman of Esh El Mallaha Petroleum Company, was named as Chairman of Badr EL Din Petroleum Company.

Atef Mohamed Hassan, formerly Assistant to the Chairman of Operations at Petrobel, was appointed as President at Mansoura Petroleum Company.

Al Sayed Abdel Lateed Bedir, formerly Chairman of Suez Oil Company (SOCO), was appointed as the new chairman of Esh El Mallaha Petroleum Company.

Mohamed Mahoud Baydoon, formerly Assistant to the Chairman at SOCO, was promoted to Chairman of SOCO.

Ghareeb Abdel Aty, formerly Chairman of Al Fanar Petroleum Company was appointed as Chairman of PetroGulf Company

Abdel Wahab Ahmed Nour El Din, General Manager of Operations at PetroSinai Company, was appointed as Chairman of PetroShahd.

Al Sayed Abdel Hamif Al Shoura, General Manager of the Gulf of Suez region for GUPCO, was named as General Manager of Operations.

## Egypt Energy and Economy Conference Held on June 3rd

On June 3rd The Egypt Energy and Economy Conference was held at the Marriott Hotel in Zamalek. This year's conference was titled 'Balancing Egypt's Energy Needs' and hosted 50 expert speakers and over 400 delegates.

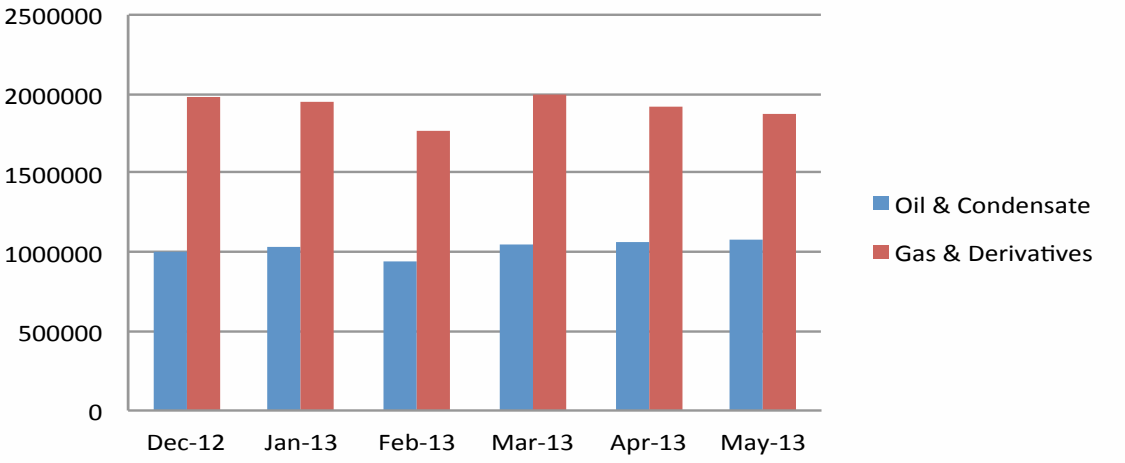
"Egypt can become a power house for both the southern and northern Mediterranean, we have known this for decades, but instead of pouncing on the opportunity, we are today struggling to keep our homes lit and our factories working." said Ashraf Mohamed Naguib, Managing Director of AL MAL GTM, the main sponsor of the event.

Renewable and alternative energy was on top of the agenda with experts in solar, wind, nuclear, and bio fuels sharing their ideas, recommendations, and projects on the topics. One of the featured presentations was by Dr. Hosam Gamil, Director of Education Programs for Renewable Energies and Environment at the German Academy for Renewable Energy. The German Academy for Renewable Energy and Environmental Technology's main mission is to train students and professionals to deepen their knowledge of renewable energies and eco-friendly technologies and to become experts in the field.

Other presentations included panels titled 'Egypt's Energy Policy and Structural Reform Requirements', 'The Future of Alternative Engery in Egypt', 'Harnessing the Power of the Sun- Egypt and Solar Energy', and 'Industry and Energy in Egypt'.

## BABETCO's Oil Production Steady, Gas Fluctuating

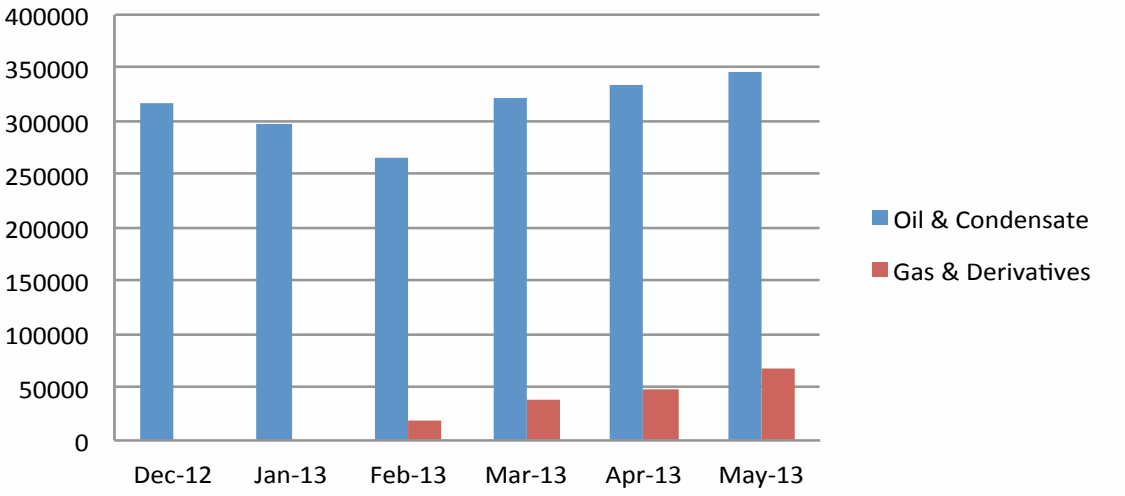
Babetco Production Indicators December 2012 - May 2013.




Badr El din Petroleum Company (BABETCO) saw relatively steady oil and condensate production from December 2012 through May 2013. The production has been slightly above one million barrels, with the exception of February 2013 when it dipped to 946,715 barrels. The company's production of gas and derivatives has been fluctuating in the same period. It decreased to 1,768,214 barrels equivalent by February 2013 from the 1,975,536 barrels of December 2012, then reached a new peak of 1,990,179 barrels in March 2013, but subsequently fell to 1,870,714 barrels by May 2013.

## Petro Amir's Oil and Gas Output on Rise

Petro Amir Production Indicators December 2012 - May 2013.



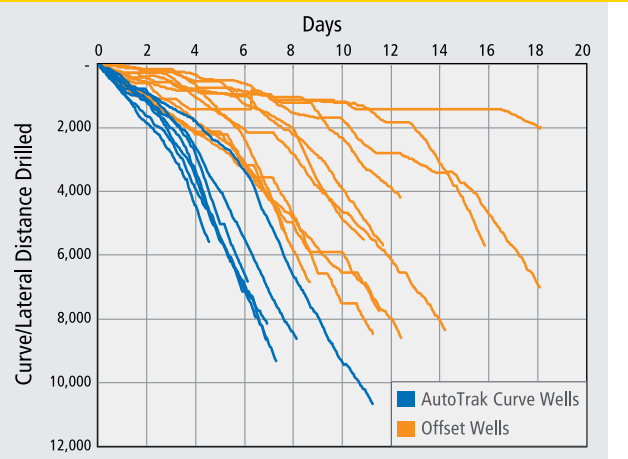

Petro Amir Petroleum Company (Petro Amir) experienced declining oil and condensate production from December 2012 to February 2013, but increased output thereafter. Whereas in February 2013, the production was just 265,224 barrels, it reached 346,508 in May 2013, up by 9.5% compared to December 2012. The company did not produce any gas and/ or derivatives in December 2012 and January 2013. Nevertheless, subsequently production grew steadily from the 18,514 barrels equivalent of February 2013 to 68,247 barrels by May 2013.


## 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*

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## Turkey Warns Against Greek Cyprus Drilling

The offshore exploration for hydrocarbons that Greek Cyprus has unilaterally mandated violates the rights of North Cypriot Turks on these resources, warned Turkey. The Turkish Foreign Ministry released a statement cautioning, "It is understood that the Greek Cypriot government has recently started second drilling activities to search for hydrocarbon reserves in its so-called exclusive economic zone known as Parcel 12. This activity is the continuation of Greek Cyprus' irresponsible, provocative and unilateral moves in the region in disregarding the rights of North Cypriot Turks on these reserves," reports the World Bulletin.

Cyprus is divided into Greek Cypriot south and a Turkish north, but only Turkey recognizes the latter. Turkish Cypriots want a committee of the representatives of the both states and the United Nations to determine how the hydrocarbon reserves of the island should be used.

## Exxon in Talks to Buy a Stake in Turkey's Black Sea Block

ExxonMobil is in talks with the Turkish state-owned TPAO to obtain a stake in a block in the Black Sea and the country is about to start looking for shale gas on its territory, reports Reuters. An Exxon's spokesman said the company does not comment on commercial discussions but TPAO's president and chief executive, Besim Sisman states that Exxon has interest in offshore exploration.

Turkey's declining oil production covered only 7 percent of the country's demand in 2012. The country has intensified exploration in the Black Sea and Mediterranean in cooperation with foreign companies, but has not yet found any oil.

It is also actively seeking exploration and production opportunities abroad. In Iraq, "we have four projects and that is enough for us," Sisman said, adding, "it is not our business to go to the north side of Iraq". In April Turkish Energy Minister Taner Yildiz said that the country hopes to work on exploration and production in northern Iraq through commercial contracts with Russian and US companies. Previously, Turkey's prime minister had disclosed that a Turkish company had a contract in place with Exxon. However, Turkey's attempts to cooperate with Kurdistan in oil and gas matters have upset the central government in Baghdad.

In Lebanon, TPAO plans to join the latest bidding round for offshore blocks with Shell. The two companies are already partnering in the Mediterranean and in shale exploration. According to Sisman, TPAO is currently drilling the first well for shale gas with Shell and is in talks with other companies for further operations in the sector.

Sisman also informed that TPAO is scouting for oil assets in Africa. Sisman insisted that TPAO would not bid for blocks in Algeria, even though Turkey's energy minister had said in January that the company would do so.

## Indonesia's Pertamina Hopes for Oil from Algeria This Year

PT Pertamina is hoping to start producing oil during the later part of this year from its Algerian oil block. Pertamina acquired the block from the American company ConocoPhillips and the handover of the block's operations will likely be completed in the next couple of months said Pertamina's upstream director, Muhammad Hussien. Pertamina bought the stakes in the block for a reported USD 1.75 billion.

Pertamina and the Algerian government are still negotiating as there has been speculation that Algeria will limit oil production within the country to safeguard local assets. Ignatiums Tenny Wibowo, president director of Pertamina's upstream subsidiary, Pertamina Hulu Energy said, "There will be a certain quote that we are allowed to produce". He added that output will increase by 23,000 barrels per day in Block 405 A. Last year this same block produced 35,000 bbd with 23,000 bbd going to former operator ConocoPhillips.

## Petrobel Drills New Developmental Well

Petrobel recently completed drilling a new developmental well. Petrobel is a joint venture between EGPC and Italian Company, ENI. Drilling operations occurred in the company's concession area in the Mediterranean Sea. The TEMSAH 4-15 ST gas producing well was drilled to a depth of 12,839 ft utilizing the ALQAHER-1 rig. Investments surrounding the drilling process are estimated at 38.732 million USD. Petrobel's production of natural gas reached 7,597,509 barrels equivalent and 3,730,541 barrels of crude oil and condensates for the month of May 2013.

## Turkey's Hopes for Black Sea Oil Revived

The hopes of the state-run Turkish Petroleum Corporation (TPAO) for Black Sea oil have been revived after years of failed attempts. The company also expects to unlock unconventional gas reserves.

In the past, TPAO has established joint venture projects with several oil majors including Chevron, ExxonMobil, Petrobas and BP, but this has not led to significant discoveries, reports Balcans.com. TPAO recently began exploring in the Black Sea with Shell, according to a deal reached in February. The drilling is jointly funded, but Shell bears the costs of deep-sea operations.

"We're currently negotiating with two companies for two different wells", said TPAO's exploration manager Erdal Co□kum about two other new partners, without giving their names. Additionally, Turkey hopes to unlock unconventional gas resources in the Back Sea. TPAO has signed a memorandum of understanding with Transatlantic TEMI that covers three offshore license fields. In 2011, TPAO and Shell signed a joint cooperation agreement to produce natural gas with unconventional techniques and drilling is underway in Saribugday-1 well, according to Journal of Turkish Weekly.

## Carin to Look for Gas Off the Coast of Malta

The Scottish based oil and gas exploration company signed an exploration study agreement with the Malta government and will be partnering with Mediterranean Oil and Gas to explore off the coast of Malta. The agreement is set for 2 years and Carin will acquire a 40 percent stake in the area. Included in the agreement is 2-D seismic data and the right for a production sharing contract negotiation. There is also an option for a contact extension if both parties want to do 3-D seismic data.

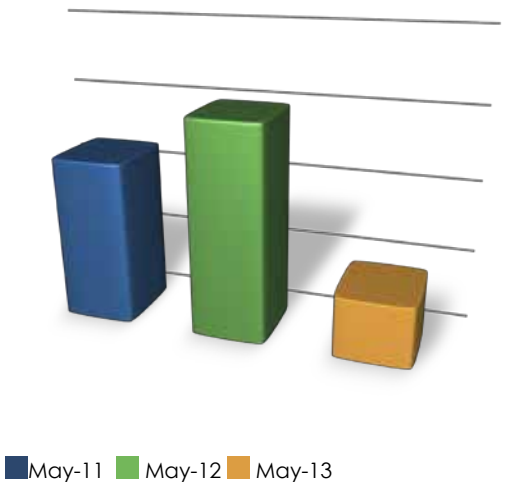
"We look forward to working with Cairn to evaluate the exploration potential of Area 3, which we believe could mirror the exploration opportunities demonstrated elsewhere in the Sicily Channel," said Mediterranean Oil and Gas geologist Bill Higgs.

## Saipem Stocks Hit Low Not Seen Since 2009

Italy's largest oil and gas engineering company Saipem hit a four-year low in mid-June, with stocks falling by 27 percent. The slump is in reaction to Saipem lowering its forecast for earnings this year by as much as 750 million euros (USD 1 billion). This is the second time this year that the company has reduced their projections after talks with client Sonatrach failed. The company is also still dealing with a corruption probe in Algeria that was opened last December.

"Since my appointment as chief executive, I have been focused on the cleanup of major legacy issues which have proved to be of greater magnitude than we envisaged," Chief Executive Officer Umberto Vergine said in a statement. "In Algeria, our business has been impacted by a dramatic escalation of the investigation in the country and the consequent commercial fallout."

The company is 43 percent owned by Eni SpA and has forecast a net loss of 350 million euros this year.


| Equivalent Gas | | | Oil | | |
|---|---|---|---|---|---|
| May-11 | May-12 | May-13 | May-11 | May-12 | May-13 |
| 22701964 | 23217679 | 21631071 | | | |

| Liquefied Gas | | | Condensate | | |
|---|---|---|---|---|---|
| May-11 | May-12 | May-13 | May-11 | May-12 | May-13 |
| 453804 | 425732 | 399685 | 1422008 | 1264720 | 1449001 |

| Mediterranean Rig Count 2013 | Total | Percentage of Total Rigs |
|---|---|---|
| | 9 | 7 % |

# Gulf News

## Iraq Aims For 29 Percent HIgher Oil Production by 2015

Iraq expects to increase oil production to 4.5 million bpd by the end of next year from around 3.5 million barrels now. Thamir Ghadhban, the chairman of the prime minister's advisory commission, also said that Iraq, which has the world's fourth largest proven reserves of conventional crude, aims to produce 9 million bpd by 2020, reports AP.

Since the improvement of security in 2008, Iraq has awarded over a dozen petroleum and gas contracts to companies including ExxonMobil, BP and Total. Revenues from oil currently account for 95 percent of the country's budget.

However, the government's plan to increase oil production may be derailed by political instability, said Baghdad-based analyst and former planning minister Mahdi al-Hafidh. An agreement between Baghdad and the semi-autonomous Kurdish region would allow for increased production and export but the two sides remain in dispute over rights to the reserves and allocation of funds.

## Abu Dhabi to Rival Qatar as Top LPG producer

Abu Dhabi's LPG production is expected to increase by about a fourth in the next four years and reach 13.761 million mt by 2017 as two new projects come on stream. According to Ahmed Al Kaabi, the general manager of Abu Dhabi National Oil Company (ADNOC) Singapore, the projects are the 3.3 million mt/year Integrated Gas Development and the 810,000 mt/year Shah Gas Development, reports Platts.

Even after taking into account the incremental one million mt of domestic demand from the petrochemical projects that are set to start after 2014, Abu Dhabi might be able to export about 11 million mt of LPG in 2015.

Qatar, the top LPG exporter, is expected to export 11 million mt this year. By 2017, the country's LPG exports are predicted to hit 12 million mt per year, according to Qatar International Petroleum Marketing Company, which overtook Saudi Aramco as the world's largest LPG exporter in 2011. However, Qatar is also investing in several petrochemical projects which are set to come on stream after 2018 and may decrease the country's LPG export capabilities.

## Excelerate to Build LNG Terminal for UAE

US-based Excelerate Energy has been awarded a contract to build an LNG import terminal in the United Arab Emirates (UAE), sources close to the deal said. Emirates LNG, a joint venture between Abu Dhabi's Mubadala Petroleum and International Petroleum Investment Company, awarded the contract in December, but it has not yet been made public, reports Reuters.

The terminal with an annual capacity of 9 million tons will be built in Fujairah next to a power and desalination plant, Emirates LNG has said. The UAE has exported LNG since the 1970s, but become a net importer over the last few years due to rapidly increasing domestic demand and slow production growth.

## Qatar Petroleum Signs Deals for Two Drilling Rigs

In June, Qatar Petroleum signed five-year contracts worth QR 1.7 billion (USD 0.5 billion) for the use of two offshore drilling rigs owned by Gulf Drilling International.

The contracts were signed by the Qatar Minister of Energy and Industry Mohamed bin Saleh al-Sada and by the Gulf Drilling executive officer Ibrahim J. al-Othman, reports Gulf Times. Gulf Drilling International, a subsidiary of the Qatar Exchange-listed Gulf International Services, possesses six offshore rigs, six onshore rigs, an offshore accommodation jack-up and a lift boat.

## Kuwait Plans to Drill for Heavy Oil

Kuwait Oil Company executive Hosnia Hashem announced that Kuwait plans to drill for heavy oil so that the country can produce 60,000 bpd by 2017, reports the Energy Tribune. According to Hashem, "nearly 1,200 wells will be drilled to produce heavy oil." Hashem predicted heavy oil production capacity could reach 270,000 bpd by 2030.

Cost for constructing each well will range between USD 525,500 and USD 1.05 million. Heavy oil is more difficult to extract and process, requiring technical experts which Kuwait lacks. Despite the challenges Hashem said that due to the global demand for heavy oil it will be worth the effort.

# International News

## US Oil Production Grew More than Ever in 2012

2012 saw the biggest annual increase in the US oil production and the country had the world's highest growth in oil as well as gas output since it is increasingly making use of unconventional hydrocarbons, reveals BP Statistical Review of World Energy. Since rising output has lowered gas prices in the US, gas has displaced coal in many power plants. Due to this, the US experienced the largest decline of coal consumption in the world, reports The Financial.

In Europe, gas was more expensive than in the US and many power plants replaced it with coal. Coal remained the fastest-growing fossil fuel in the world, with China now consuming the majority of it for the first time.

Renewables in power generation grew by 15.2 percent, accounting a record 4.7percent of global power output last year. Biofuels output on the other hand fell for the first time since 2000. In 2012 global nuclear production also declined, as Japan switched from nuclear to fossil fuels after the Fukushima accident of 2011.

For a second consecutive year, oil supply disruptions in some parts of Africa and the Middle East were offset by growth in other Middle Eastern countries. Saudi Arabia, UAE as well as Qatar had record oil output in 2012. Nevertheless, average nominal oil prices hit another record high.

Global energy consumption grew by 1.8 percent in 2012, with China and India accounting for about 90 percent of the increase. The world's CO2 emissions continued to grow, although US emissions decreased to 1994 levels and EU emissions also fell.

## Total to Start Production of Offshore Angola in 2014

Total announced that it will begin production on the deepwater oilfields of Angola in 2014. The company seeks to produce 160,000 bpd over the next 20 years from the four offshore fields it started developing in 2010, reports Oil Review Africa.

According to industry sources, Total currently produces one-third of Angola's 1.8 million bpd oil output. The project is expected to significantly increase the country's production. Angola is Africa's second largest oil producer after Nigeria.

## Outages at Norway's LNG Plant Impede Export to Asia

Unreliability of the Norway's LNG plant that has experienced several outages prevents shipments to Asia, informs Reuters. According to an executive of the plant, "We can't send any cargoes from Snoehvit LNG to Asia because of the reliability problems there."

Europe's only LNG production plant has suffered from technical problems since it began operating in 2007. The plant was assembled outside Norway and transportation considerations required a compact design, which now makes repairs lengthier.

On 28 May, the plant had to shut down for about two weeks because of a short circuit in the electrical unit of a cooling processor. Earlier this year, its operations were put on hold for two months due to a gas leak.

Statoil's partners in the plant include Norwegian state-owned Petoro, Total, GDF Suez and RWE. Statoil, which operates the Snoehvit plant, postponed a decision to invest in a second LNG processing plant following pressure from its partners to focus its attention on the existing plant.

## Kosmos to Drill Offshore Morocco Next Year

Kosmos Energy signed a long-term rig agreement to start drilling offshore Morocco in the second half of 2014. The company concluded an agreement with Atwood Oceanics for the use of a drillship over three years at a daily rate of approximately USD 595,000, with an option to extend the contract for an additional three years. Initial estimates put the total value of the contract at USD 652 million, reports Nasdaq Analyst Blog.

The Bermuda-based oil and gas exploration and production company, Kosmos Energy, focuses on under-explored areas of Africa. Last month, Kosmos received regulatory approval for its Tweneboa-Enyenra-Ntomme discoveries offshore Ghana. The company expects the field to start delivering oil in 2016, with a plateau production rate of 80,000 bpd. Kosmos also holds offshore exploration licenses in Mauritania, Suriname and Ireland as well as onshore licenses in Cameroon.

## Petromanas to Relinquish Some Blocks in Albania

Petromanas Energy decided to relinquish some of its blocks in Albania after a well indicated the presence of only negligible quantities of hydrocarbons. In its exploration activities update published in June, Petromanas announced that based on the information gathered during the logging operations at the Juban-1 well, it decided not to enter the next exploration phase outlined in the production sharing contract on Albania blocks A-B.

The company will expense its carrying value of blocks A-B, which amounts to about USD 19 million, reports Your Oil and Gas News. As for Albania blocks 2-3, the Shpirag-2 well continues to be drilled at a depth of about 5,500 meters. The target depth is approximately 5,800 meters. After the drilling of Shpirag-2, Petromanas plans to move the rig to the Molisht-1 location.

Petromanas Energy is an international oil and gas company focused on Albania. Under the terms of the two production sharing contacts it has with the Albanian government, Petromanas has a 100 percent working interest in blocks A-B and D-E and a 50 percent working interest in blocks 2-3.

## Iraqi Kurdistan to Export via Turkish Pipeline

Iraqi Kurdistan announced plans for a new oil pipeline to Turkey. The Kurdish regional government will complete the pipeline by the end of September. The pipeline, with a capacity of 300,000 bpd, is an effort to increase Kurdistan's control over oil supplies in light of recent disputes with Baghdad over oilfields and crude revenues. Kurdistan has stopped utilizing the government pipeline as a result of the conflicts. Kurdistan's oil production is estimated at 300,000 bpd and could potentially rise to 400,000 bpd. According to The Turkish Newswire, Kurdish Energy Minister Ashti Hawrami recently stated, "Nowhere in the world does 1 million barrels per day remain stranded, so I'm confident that Kurdistan's exports via pipeline will be a reality very soon." Exports via the pipeline are expected to start in 2014

## Companies Have Lost USD 1.9 Billion Offshore Indonesia

International companies have reported USD 1.9 billion in losses caused by unsuccessful exploration for deep-sea hydrocarbon reserves offshore Indonesia, according to the country's oil and gas regulator. A dozen production-sharing contractors including Exxonmwobil, Statoil, ConocoPhillips, Japan Petroleum Exploration Company and China National Offshore Oil Corporation have drilled 25 deep-sea wells in 16 blocks since 2009, but have not discovered any reserves that could be developed commercially.

According to the Indonesian oil and gas regulator, some contractors will return the blocks to the government. Indonesia's oil reserves, estimated at 3.6 million barrels, are forecasted deplete over the next decade if no new major discoveries are made.

## Phillips 66 Selling Ireland's Only Refinery

Phillips 66 is selling its Whitegate refinery, along with its other assets in Ireland, informs the Dow Jones. The company announced that it will continue operations while Deutsche Bank seeks a buyer for the assets. Lower fuel demand combined with high costs have forced some companies to close plants in Europe.

According to Morningstar analyst Allen Good, importing fuel to Ireland may be a better option than producing it there. Good suggests that a buyer could potentially turn the facility into a storage terminal as if it failed as a refinery for Phillips 66.

## Protests End at East Africa's Only Oil Refinery

Protests at East Africa's only oil refinery in Mombasa, Kenya ended after a meeting was convened of senior managers and shareholders who discussed the future of the refinery. Earlier discussions of closing the refinery due to its operational challenges and delays in releasing a report on the plant's future sparked the protest of workers and residents who oppose closing the facility, reports Reuters. According to the Star, closure of the facility would cost 12,000 jobs.

The Kenyan government co-owns the refinery with India's Essar Energy. The 50 year-old refinery serves much of East Africa. However, fuel distributors seek the closure of the facility due to the poor quality of products. The future of the refinery remains unknown as Essar pushes for a USD 1.2 billion renovation of the plant, while the Energy Regulatory Commission proposed converting the plant into a storage facility.

## Increasing Refinery Capacity Could Pressure Oil Supply, Reports IEA

Rapid growth in oil processed by refineries may result in a stain on crude oil, according to the International Energy Agency (IEA). The IEA expects the amount of oil processed by refineries to increase by 2.2 million barrels a day during the second and third quarters of 2013, averaging 77 million barrels a day. The Dow Jones reports that this would exceed projections of demand growth for oil products. The IEA said that refining demand would strain crude oil supplies until price effects balance the market.

The IEA also reported risks to its supply outlook, as Iraq's production fell by 100,00 bbd and Nigeria's output reached a six-month low. Unrest in Libya and continued disputes between Sudan and South Sudan fuel concerns over further disruptions.

## Decision on Nova Scotia Refinery Due Soon

Canada's largest oil refiner, Imperial Oil, is expected to announce its decision on the future of its Darthmouth, Nova Scotia refinery within the month. According to Rich Kruger, chief executive of the company, options for Imperial's least profitable refinery have been explored for the last year and the company is now in the final stages of reaching a decision on the refineries future. The refinery is among many across North America that have been put up for sale or shut down due to poor economics, reports Reuters.

## Mediterranean Refiners Face Oil Shortage

Mediterranean refiners are facing a shortage of their preferred oil due to sanctions on Iran, unreliable Iraqi flow, and changes in Russia's export routes. Reuters reports that the shortages may become worse as Russia increases its exports to Asia and northern Europe. Refiners in the recession-hit region have been forced to consider costly alternatives.

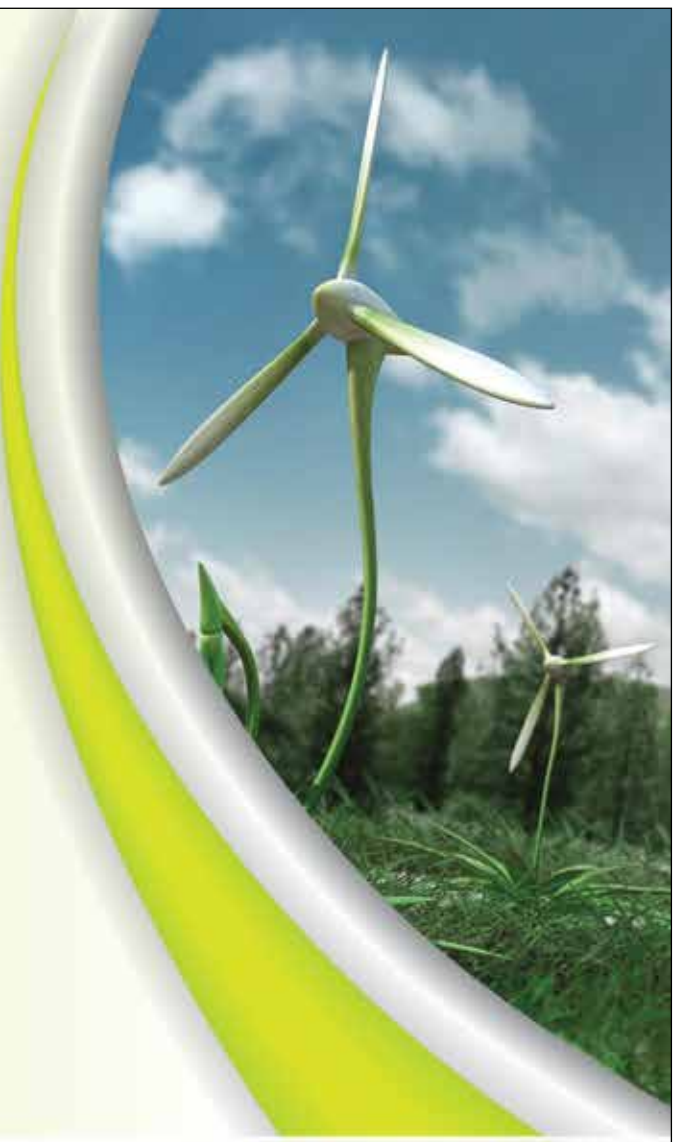
Italy's Eni signed a contract with Russia's Surgut's for 1.2 million tons of crude from the Baltic. This was the first long-term commitment Eni has made in the Baltic. A source with Eni explained, "Russia has built a surplus of pipeline exports capacity to Asia and the Baltic. Now it has to fill it to pay back the initial investments. So things look bad for the Med." It is almost inevitable that Mediterranean refiners will have to pay high prices that will reduce their margins and profits.

## Renewables to Save 15 Percent of Petrol in Kuwait's Power Plants

Kuwait plans to implement several renewable energy projects that will save about 15 percent of the oil and gas used for power generation by 2030. Kuwait uses 350,000 barrels of oil per day with a cost of USD 2 billion to produce electricity, reports KUNA.

Phase I of the country's first renewable energy project, a hybrid power plant with PV-solar, thermal solar, and small wind power, is already underway. It is expected to commence production in 2016 with 70MW that will be increased to 2000 MW by 2030, according to the Arabian Gazette.

Other OPEC nations are increasingly trying to make use of renewable energy sources, especially in power generation. High crude prices and low costs of solar and wind power have made it economical to produce renewable energy for domestic use, so that more oil would be left for export.



## Pentagon to Award USD 7 Billion Renewable Energy Contract

The US Defense Department (Pentagon) launched a renewable energy program with a contract that may reach USD 7 billion. The initial awards go to German Siemens, Italian Enel Green Power and three US companies Burlingame, ECC Renewables and LTC Federal, reports the Washington Post.

The Pentagon will conclude long-term deals to purchase renewable energy from the contractors who will then set up projects using private financing, said Larry Allen, president of the consultancy Allen Federal Business Partners. The five companies can construct geothermal projects on or near military installations. The Pentagon plans to add more companies to the deal this year and expand it to solar, wind and biomass energy production. Pentagon's purchases are permitted to reach up to USD 7 billion over 30 years.

In 2012, the US government set the goal of generating renewable energy on military installations that could power 750,000 homes by 2025. The Pentagon is the world's largest energy consumer, excluding countries. It has a separate target to achieve 25 percent of its energy from renewables by that year. In 2011, 8.5 percent of the Pentagon's energy came from renewables.

**Renewable Energy**

By EOG

## India's Vast Shale Gas Reserves Difficult to Unlock

It may take years for India's vast shale gas reserves to be unlocked due to a lack of infrastructure, uncertainty over raising gas prices and difficulties determining locations of the deposits, industry experts say. According to estimates, India has 63 trillion cubic feet of recoverable shale gas reserves, which is enough to operate the country's gas-fired power stations for at least 20 years at current consumption rates, reports the Wall Street Journal.

However, slow assessment of the size and accessibility of actual reserves, as well as disagreements on gas pricing have delayed the completion of shale gas exploration policy. The Ministry of Petroleum seeks to switch to a production-sharing mechanism from cost recovery for all gas projects, so that private companies would share a portion of their revenues with the government right from the beginning. Companies have said that they agree to this, as long as they will be free to set gas prices.

In January, a proposal by a government appointed experts panel to double gas prices from their current fixed rates received fierce opposition from gas consuming industries. Industries opposed the price hike as it would increase their production costs but they would not be able to raise prices accordingly due to government controls.

Clarity on gas pricing will be critical for private companies before they invest in shale gas projects, stressed Ajay Arora, head of oil and gas at Ernst & Young. India's federal cabinet is expected to convene next month to decide on a uniform price for gas.

## Australia Estimated to Have Vast Shale Resources

With an estimated 17.5 billion barrels of shale oil and 437 trillion cubic feet of shale gas, Australia could be the next country to achieve commercially viable shale oil and gas production. According to a report by the US Energy Information Administration (EIA), Australia ranks seventh in the world for shale gas resources, reports Nine News.

The majority of Australia's shale gas is held in four main basins. The first one to be developed could be the Cooper Basin, as it already has infrastructure in place because it has been the country's main onshore gas producing basin since the 1960's. Santos Limited and Beach Energy are the two main companies operating in the Cooper Basin.

Several companies are exploring the Canning Super Basin, including Buru Energy Limited and New Standard Energy who hold most of the leases. The Perth Basin, Maryborough Basin, the Beetaloo and Georgina Basins may also hold shale deposits.

## Russia Has the Largest Shale Oil Reserves

According to the US Energy Information Administration's (EIA) recent report, Russia has the largest shale oil reserves in the world, amounting to an estimated 75 billion barrels. As for estimated shale gas reserves, Russia ranks ninth in the world with 285 trillion cubic feet. Meanwhile, BP decreased its estimate of Russia's natural gas reserves to 32.9 trillion cubic meters from 44.6 trillion last year, reports RT.

"Traditionally countries of the former Soviet Union had different criteria than used elsewhere. So we used a conversion factor to convert that from those countries where we don't get direct data," explained BP's chief economist Christof Ruhl. "In some countries, reserves are still a state secret, so we have to rely on these data."

According to the BP's Statistical Review of World Energy, Iran now has the largest natural gas reserves of 33.6 trillion cm. However, as international sanctions prevent Iran from exporting gas, Russia remains much larger gas producer than Iran.

The BP's review states that global proven gas reserves were 187.3 cm at the end of 2012, down by about 21 trillion cm compared to a year ago.

## EIA Raises Global Shale Estimates

The US Energy Information Administration (EIA) expanded its assessment of shale gas resources and increased the world's shale gas estimates by 10.2 percent from 2011. The EIA's June report includes estimates of 95 basins in 41 countries, taking into consideration 47 basins and nine countries not analyzed during the 2011 assessment, writes Natural Gas Europe.

"As shale oil and shale gas production has grown in the United States to become 30 percent of oil and 40 percent of natural gas total production, interest in the oil and natural gas resource potential of shale formations outside the United States has grown," explained EIA's administrator Adam Sieminski, reports RT.

According to the EIA, China has the most technically recoverable shale gas resources (1,115 tcf), followed by Argentina (802 tcf), Algeria (707 tcf), US (665 tcf) and Canada (573 tcf). The top countries with shale oil resources are Russia (75 bb), US (58 bb), China (32 bb), Argentina (27 bb) and Libya (26 bb).

The EIA cautioned that the estimates are "highly uncertain and will remain so until they are extensively tested with production wells." The scope of the report is also limited as prospective shale formations in the Middle East and the Caspian region were not assessed. According to the report, 32 percent of the world's estimated natural gas reserves are in shale formations and 10 percent of estimated oil resources lie in shale or tight formations.

## Jordan Approves Enefit Oil Shale Plant

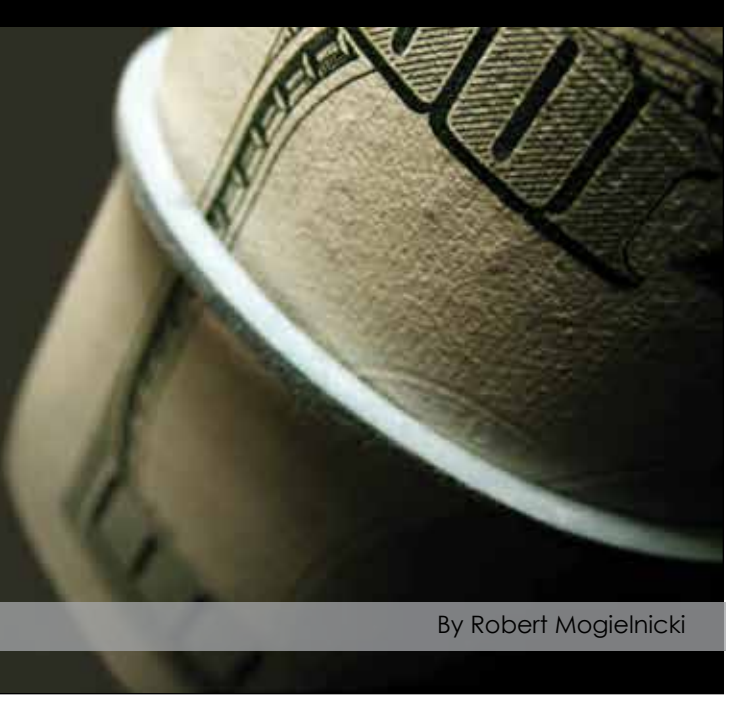
Enefit Jordan was granted a license by Jordan's environmental regulators to construct an oil shale power station. The 500-megawatt power station is projected to meet 20 percent of the country's energy needs once it begins operation in 2017, informs ERR. The station will utilize fluidized bed combustion technology, as well as air-cooling systems in order to minimize water consumption.

## Water and Environmental Management are China's Biggest Challenges in Shale Development

China is considered to have the largest shale gas resources in the world, with an estimate 4,746 trillion cubic feet, informs Bloomberg. However, water management will be the biggest challenge to developing the resource, according to Sanford C. Berstein & Co. Hydraulic fracturing, which is required for extracting shale gas, poses risks of water contamination. According to Neil Beveridge, a Hong Kong-based analyst, there is growing concern of the water contamination risk as clean water is not abundant in the Sichuan area where the largest shale is located.


PICO ENERGY
Petroleum Integrated Services

# The Elusive IMF Loan



Many investors, politicians, and Egyptian citizens are hoping for a speedy agreement concerning the proposed $4.8 billion IMF loan to Egypt. Investors and businessmen believe that the loan will provide the short term economic stability needed to shore up investment. The Egyptian government sorely needs the financing for cash-strapped sectors of the economy. Egyptian citizens, view the loan as a litmus test for the ability of the government to provide the minimum level of economic security for its citizens. Despite months of negotiations, the Egyptian government and the IMF appear no closer to reaching an agreement over the loan. Meanwhile, political turmoil threatens future progress, and the economic situation in the country continues to deteriorate. An increasingly weary IMF and constantly changing government are unlikely to arrive at an agreement over the loan anytime in the near future.

By Robert Mogielnicki

**Lending History**

Before delving too deeply into the current IMF loan negotiations, it is important to look back at Egypt's relationship with the IMF. Egypt officially became an IMF member in 1945, but the country did not begin receiving financial support from the IMF until the 1980s. Since the 80s, the IMF has supported four of Egypt's economic programs with potential funds totaling roughly $1.1558 billion. Interestingly enough, Egypt only withdrew approximately $421.3 million of the potential funds that the IMF made available to disburse. Former President Hosni Mubarak was weary of accumulating too much foreign debt and instead opted to raise a good deal of funding from investors.

The last economic program that the IMF agreed to finance was from 1996-98; however, Egypt elected not to draw any funds for this program. As a result, the last loan disbursement from the IMF was in 1993, and all consequent interaction with the IMF since 1993 has been in the forms of policy consultation and technical assistance. To put these numbers in perspective, Egypt is currently seeking to acquire their first loan in twenty years, and the loan in question is roughly eleven times the total funds Egypt has withdrawn from the IMF since the 1980s.

Negotiations for the current loan began approximately two years ago when a fact-finding team visited Egypt in April of 2011. By June, the IMF had outlined a 12-month, $3 billion financing package to Egypt that was intended to mark the beginning of financial support to the Middle East and North Africa region in the hope that economic support would facilitate democratic transition. In late July, the Egyptian government decided to refuse the proposed financial assistance, forcing the IMF to issue a formal statement saying, "[Egyptian] authorities see no immediate need for financial arrangement from the IMF."

In early 2012, Egypt's transitional government, led by the Supreme Council of Armed Forces (SCAF), requested that the IMF reconsider financing their economic program. Masood Ahmed, director of the Middle East and Central Asia department, visited Cairo shortly thereafter and jumpstarted the loan negotiations. By late November negotiations had progressed rapidly, and the IMF arrived at a staff-level agreement on a 22-month, stand-by arrangement loan for $4.8 billion. This laid the foundation for the loan, which the IMF and Egypt are still debating to this day. Commenting on the proposed loan, Andreas Bauer, Division Chief in the Middle East and Central Asia Department, explained "fiscal reforms are a key pillar under the program. The [Egyptian] authorities plan to reduce wasteful expenditures, including by reforming energy subsidies and better targeting them to vulnerable groups."

Shortly after the staff-level agreement over the loan in November of 2012, the ostensible progress of this round of loan negotiations began to disintegrate. For reasons never explicitly mentioned by the IMF nor Egyptian authorities, the loan deal did not materialize. Masood Ahmed visited Egypt twice in 2013, and the IMF dispatched a fact-finding mission to the country in April; however, the visits did not produce any tangible results. The last official IMF statement regarding the loan was on April 21 of 2013 in which they noted that "the authorities and IMF staff have made further progress in their discussions in Washington this weekend," but did not elaborate on what that progress entailed.

**Political Economy or Pure Economics**

Some analysts believed that political developments towards the end of 2012 were responsible for the failure to produce a loan agreement. Among the most significant political developments during this time period was Egyptian president Mohamed Morsi's controversial presidential decree in November of 2012. The decree granted unchecked powers to the executive branch and sparked widespread public outrage. While he did not specifically mention to what degree political events affect negotiations, IMF director Masood Ahmed acknowledged that the IMF takes political instability into consideration. In a televised interview, Ahmed said, "The big challenge for Egyptians, [and] the big challenge for the IMF in supporting them is to try to find a way of working where you can develop some type of economic strategy that covers the next couple of years and provides markers and a framework; but also an economic strategy that is likely to be implemented after a change in government, which may happen in a few weeks."

Other analysts, like Angus Blair, founder of Signet Institute in Cairo, were less convinced that political events play a major role in the IMF negotiations. Yet it is difficult to deny that the IMF's considers the fluid political situation in Egypt when determining an economic strategy for the country. Blair explained:

"Political events are a secondary issue in the negotiations over the IMF loan, but they interfere in discussions, an example being that Egypt is on its fifth finance minister since the uprising. Consequently, the IMF has to both work with a new interlocutor and have discussions continue against a weak economy and lack of sufficient economic reform."

Whether political events are a secondary issue or not, it is likely that political turmoil and a constantly changing government are factors considered by the IMF. At the very least, dealing with five different finance ministers since January of 2011 is far from the most effective means of conducting negotiations over a $4.8 billion loan.

**An Unsustainable Economy**

So if the political situation is not necessarily a primary issue for the IMF, then it is reasonable to assume that the economic situation in the country is responsible for the lack of progress in the negotiations. Eamonn Gearon, professor of North African history and politics at John Hopkins School of Advanced International Studies, was not optimistic about the state of Egypt's economy. "If Mubarak's ouster was an act of a revolution, under Morsi the Egyptian economy is undergoing an evolution. Unfortunately, it is a slow journey, full of missteps and wrong directions, and its path may not yet be heading in the right direction," explained the North Africa expert. Gearon's choice of the word "evolution" does a good job highlighting that the current economic situation in Cairo is much more the result of a process than a spontaneous creation. In the same light, Blair considers "poor sentiment built up over a few years in the management in the private sector to be a major internal problem facing Egypt's economy."

Unsustainable subsidies and debt represent two pressing economic problems impeding a deal over the IMF loan. Egypt's current subsidies are simply put too high for any healthy economy to sustain. During a lecture at the New America Foundation, Gearon noted, "in 2011, 26% of all government spending [in Egypt] was on subsidies." The most worrisome of these subsidies are those that go to fuel and bread. The big picture problem is that the demand for subsidized fuel and bread has far exceeded the governments supply of available cash. The smaller picture problem with these subsidies in particular concerns their functionality. Ever sector of the Egyptian population, whether they be the wealthy elite or the marginalized poor, has the same access to subsidized fuel and bread.

The IMF wants Egypt to drastically cut these subsidies, but the Egyptian population may not be ready for the economic shock that such austerity measures would cause. With respect to subsidies, Gearon explains, "Both sides should know that subsidies have to be reduced before they can be gotten rid of, and they can only safely be reduced gradually." He continued, "A good first step would be the introduction of means-tested assistance for bread and fuel, rather than a nationwide subsidies,

handed out regardless of needs." Such a means-tested assistance would assure that subsidized fuel and bread was available for poorer citizens while wealthier citizens would pay a higher price for less subsidized products.

The second economic predicament facing Egypt is its debt; however, it is important to distinguish between internal and external debt. As of this April, Egypt's internal debt had reached an alarming $200 billion, forcing Standard & Poor's to lower the credit ratings of many local banks. Egypt's internal debt plays a major role in the loan negotiations because foreign lenders consider this type of debt an indication of a country's ability to repay their loan. "It is important to note that foreign debt in Egypt is relatively low, with most of the country's debt being in its own currency. This debt is increasing, however, as Egypt receives more financial aid from Qatar, Libya, and Turkey," explained Blair.

In addition to the problems posed by internal debt, Egypt's external debt has swelled to approximately $43 billion as the country accepted billions of dollars in loans from Qatar, Libya and Turkey. Commenting on the Morsi administration's handling of the loan, Eamonn Gearon said, "accepting handouts from Qatar and Libya must not be mistaken for economic policy." These foreign loans may also make it more difficult for Egypt to obtain favorable terms from the IMF. Blair explains, "Qatar imposed interest on its loan to Egypt. Given that Egypt accepted conditionality from Qatar, it underpins the IMF in setting its own conditionality in discussions with Egypt."

**It's About to Get Hot**

To say that negotiations have had to contend with a great deal of political and social drama would be an understatement. Summer is in full swing in Egypt, and the summer months promise heat waves, power outages and water shortages. Egyptian authorities are worried about how the Renaissance Dam in Ethiopia will affect the flow and volume of Nile water in Egypt. On the political spectrum, the Supreme Constitutional Court ruled that the Constitutional Assembly and the Shura Council were formed by unconstitutional laws. The Tamarod (Arabic for rebellion) campaign recently announced that they surpassed their goal of 15 million signatures supporting the removal of President Mohamed Morsi from power. The campaign also planned popular protests on June 30, the date marking one year since President Morsi assumed office, to call for early presidential elections. If economic, social and political issues were not enough, holy month of Ramadan will begin in a couple of weeks—further disrupting the normal pace of life in Egypt.

Egypt faces a host of economic problems in the midst of a very unstable political situation; however, fixing Egypt's economy and acquiring the IMF loan is not completely hopeless. "The economic problems in Egypt are surmountable, but it boils down to a matter of will and competent people," explains Blair. Fixing the economic problems in Egypt will not only require a willingness on the part of competent people but also a good deal of cash. Analysts like Blair do not believe that $4.8 billion from the IMF is enough to solve Egypt's increased economic problems. The IMF has not ruled out increasing the loan, but such a scenario is difficult to predict given that the two sides have not been able to agree over the original $4.8 billion loan. Egypt and the IMF may still yet be able to arrive at agreement, but the path to the loan is likely to be longer and more difficult than Egyptians had hoped for.

# Comparative Subsidy Reform

Egypt's difficulties in implementing subsidy reforms are not uncommon. Many countries have encountered challenges while implementing energy subsidy reform. According to the International Monetary Fund (IMF), reductions in energy subsidies have often led to widespread public protests and to either a complete or partial cancellation of price increases. [1] However, some countries have managed overcome the initial difficulties and have been able to reform their subsidy systems. This article explores three cases where countries in the Middle East that have implemented energy subsidy reforms in order to gather lessons that maybe applicable to Egypt's current situation.

By Maya Moseley and Laura Raus

**Jordan**

Jordan has partially reformed its subsidy system on several occasions. In 2005, the government decided to phase out fossil fuel subsidies within three years due to the war in Iraq, which increased the country's energy subsidy costs from $60 million in 2002 to $711 million in 2005.[2] In 2008, the government began adjusting retail petroleum prices monthly based on a formula for an international benchmark netback value, reducing its subsidy costs from 5.6 percent in 2005 to 0.4 percent of GDP in 2010.

The reform went relatively smoothly due to a wide-ranging compensation package that included increasing minimum wage, cash transfers, tax exceptions for basic goods and temporary removal of sales tax for taxis and public transport. The subsidy on liquid petroleum gas (LPG) was not removed in order to protect low-income households. A large public communication campaign and consultations with community stakeholders also contributed to the successful implementation of the reforms.

As a result of the reform, fossil fuel prices reached higher than in the US. In late 2010, the government decided to freeze prices in order to protect consumers from the volatility of oil prices. [3] Over the next few years, fuel costs quintupled, reaching 18 percent of Jordan's GDP. In September 2012, Jordan attempted another fuel subsidy reform that was suspended when protests erupted.[4] The government made a second attempt to reduce subsidies in November 2012, announcing that the price of motor fuel would increase 14 percent and the price of gas used for cooking by 50 percent. Initial protests diminished, possibly due to the compensation of JOD 70 ($100) to individuals with annual incomes less than JOD 10,000.[5] Even though the liberalization of fuel prices has increased inflation, the IMF remains cautiously optimistic about the prospects of the Jordanian economy.[6]

**Iran**

Iran is the first major oil-exporting country in the region to implement comprehensive subsidy reform. The IMF estimates that between 2006-2009 oil, gas and electricity subsidies amounted to more than 20 percent of Iran's GDP.[7] By 2009, Iran's subsidies were the highest in the world, reaching $82 billion, according to International Energy Agency (IEA)[8]. The government's 2010 reform initiative sought to replace subsidies on food and energy with targeted social assistance, so that domestic prices would rise to 90 percent of international prices within five years.[9]

In the first phase of the reform, prices of the main petroleum and natural gas products, as well as electricity, water and bread were increased. Multitier tariffs on electricity, natural gas and water were utilized to minimize the impact on low-income households. An existing smart card rationing program for gasoline remained in place. However, the prices of rationed gasoline were raised but remained significantly below the full price at which consumers could purchase an unlimited quantity.

Initially, the government planned to introduce compensatory transfers only to low-income households. However, due to unreliable data and fear of triggering discontent in higher-income households, monthly compensatory transfers of $40 were made available to all households. The compensation consumed approximately 80 percent of the revenue generated from the price increases, while the remaining 20 percent was set aside for enterprise restructuring.[10]

The reform was preceded by an extensive public relations campaign. Additionally, the authorities deposited compensatory transfers into the bank accounts of households prior to the price increases, boosting public confidence of the reform[11]. These strategies helped mitigate public opposition.

The reduction of subsidies successfully decreased consumption. In the first year following the reform, consumption of fuel oil dropped 36 percent, petrol by 5.6 percent, diesel by 9.8 percent and kerosene by 2.9 percent. [12] An exception was natural gas consumption, which grew 6 percent. In addition to reducing consumption, the reform had redistributive effects, as the compensation represented a larger share of income to the lower class.

Despite success in reducing consumption, members of parliament have criticized the government's "shock therapy" approach for creating uncontrollable inflation.[13] In October 2010, two months prior to the start of the reforms, the inflation rate was around 12 percent, but in April 2012 it reached 22 percent. Fearing public unrest, authorities prohibited producers and retailers from increasing product prices. These price controls combined with rising production costs forced many small- and medium-size businesses into bankruptcy.[14]

Even though sharp subsidy reductions provided the government with funds for compensation transfers, it has been reported that the subsidy program has so far been a financial loss[15]. In order to cover the deficit from the compensation programs, the government had to take a loan from the Central Bank, fuelling inflation. In mid-2012, the government postponed the implementation of the second phase of the reform due to parliament's concerns over inflation.[16] Overall, the IMF views the reform as a partial success.[17]

**Turkey**

Turkey is one of the few countries that the IMF considers to have successfully carried out subsidy reform.[18] The country undertook a series of reforms to achieve full price liberalization, privatization of state-owned enterprises and a competitive energy market.[19] Turkey began liberalizing energy pricing in the late 1980s and sustained the reforms under the administration of various political parties. Aided by wider economic reforms to enter the EU, energy sector reforms have experienced little opposition and setback, even though just a few mitigating measures were adopted.

Petroleum sector reform started in 1989 when private companies were allowed to set prices and in 1990, privatization of public companies began[20]. In 1998, the government adopted the Automatic Pricing Mechanism, which set a ceiling on the prices of almost all oil products based on international prices and the exchange rate. Then in 2003, the regulatory authority over the petroleum product market moved to an independent agency, ensuring reform consistency. Fuel prices became fully liberalized in 2005.

In the electricity market, the government started moving to full cost recovery in 2008. In January, it raised electricity prices by 20 percent[21]. In March, a new pricing mechanism was approved which enabled the adjustment of electricity prices quarterly based on the changes in the cost of supply. As a result, electricity prices were more than 50 percent higher by the end of 2009 compared to before the reform.

Mitigating measures that were implemented during these reforms included tax exemption for public transportation and for LPG consumption, as well as a rebate for diesel used in agriculture.[22] According to the IMF the impact on household welfare was limited due to relatively high household incomes in Turkey[23]. However, research by the World Bank indicates that the removal of subsidies resulted in a larger welfare loss to lower income households.[24] For example, financial loss from the 2008 electricity price increases was 2.16 percent of disposable income for the bottom quintile of the households compared to 0.75 percent for the top.

In Turkey, the short-term negative impact of energy reforms on the population's welfare has been limited due to relatively high household income[25]. Turkey's economy has grown steadily over the past two decades, accompanied by relatively low inflation, ensuring public confidence in economic liberalization.

**Lessons From Reforms**

The IMF has identified six key elements for subsidy reform. These are: "(i) a comprehensive energy sector reform plan entailing clear long-term objectives, analysis of the impact of reforms, and consultation with stakeholders; (ii) an extensive communications strategy, supported by improvements in transparency; (iii) appropriately phased price increases; (iv) improving the efficiency of state-owned enterprises to reduce producer subsidies; (v) targeted measures to protect the poor; and (vi) institutional reforms that depoliticize energy pricing, such as the introduction of automatic pricing mechanisms."[26] As illustrated by the case studies of Iran, Jordan, and Turkey energy subsidy reform requires a well-designed plan that addresses all of the objectives highlighted by the IMF. However, there is no cookie cutter model for successful reform as each country has its own unique challenges. With Egypt's estimated 13.7 million people, or 17.2% of the population, unable to provide sufficient food for their families, a subsidy reform of both food and fuel subsidies will have to ensure that the poor do not end up worse off in the long run. Given Egypt's current financial crisis, the government will inevitably face difficult decisions in designing and implementing energy subsidy reform. The polarized political sphere will necessitate transparency and an effective communication campaign in order to mitigate public opposition. Osama Kamal, Egypt's previous Petroleum Minister, stated that fuel subsidies would be totally lifted within three to five years, but many are doubtful of that time frame. There are also plans on the table to introduce ration cards for distributing butane canisters and other subsidized fuel, but the government continues to shuffle its feet and had delayed implementing them. Sherif Haddara, Egypt's newest Petroleum Minister, said in May that these ration cards will be introduced by September, which is the second such delay since they were initially proposed last year. However, before this plan can work databases of eligible recipients will have to be updated and an effective mechanism for tracking ration cards will have to be implemented to discourage corruption. This may be hard in Egypt where the government doesn't even have an exact number count of gas stations in the country, making fuel ration card usage hard to track. Additionally, a system like this has never been seen in Egypt and many fear there will be big abuses of the system.

Subsidy reform is a daunting task, but Egypt is faced with no other option as it faces in economic crisis. Whatever the government decides to implement, their ability to use the savings on the safety nets for the poor will be a key determinant of public confidence in the reforms.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# Khalda Gas Compression Project:

By: Tatianna Duran - Wael El-Serage

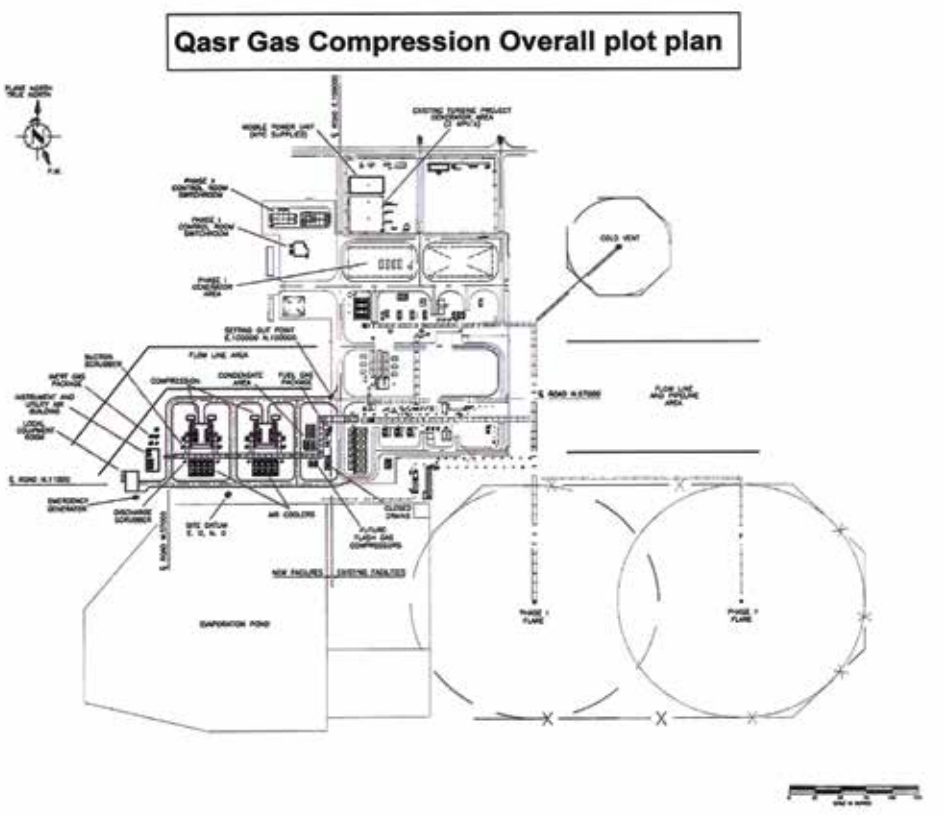
The Qasr Gas Compression Project (QGCP) is designed to improve recovery at the gas-condensate Qasr reservoir in the Western Desert. The reservoir is located approximately 525 km west of Cairo and is operated by Khalda Petroleum Company (KPC), a joint venture between Apache Corporation and Egyptian General Petroleum Company (EGPC). ENPPI is the original contractor for the project and Eng. Ayman Saleh is the KPC Project Manager.

The Qasr gas and condensate currently free flows from the wellheads through the Qasr Phase I and II facilities and export pipelines to the SHAMS manifold and Salam gas plan under reservoir pressure. However, as the reservoir pressure declines the peak gas rate of 800 mmscfd will no longer be achievable. So the QGCP is designed to improve recovery as the reservoir production rate and pressure decline.

The project started on December 2012 and is expected to be completed by March 2015. The budget for the project, including the EGPC contract price is $310,700,000. The expected arrival time of the Compressor at the site is 17 months from purchase order date, and initial operation period is three months after project completion.

The QASR Compression Project Contains:

1. Gas turbine driven single stage compressor sets.
2. Condensates export pumps.
3. Power generations.
4. Utility systems.

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# Sipetrol's East Ras Qattara Concession

By Tatianna Duran

This month Egypt Oil and Gas had the pleasure of visiting Sipetrol International's record-breaking East Ras Qattara (ERQ) concession. Egypt Oil and Gas met with Sipetrol's Eng. Sayed Rezk, General Manager of PetroShahd (Sipetrol's joint venture) to discuss the history and recent successes of the concession. Egypt Oil and Gas also met with Sipetrol's Mohamed Ismael, Senior Reservoir Engineer and Gamal Shanhory, Field Manager, in order to discuss the developmental aspects of the East Ras Qattara concession.

ENAP Sipetrol is a subsidiary of the Chilean governmental company ENAP. ENAP is a multinational entity actively engaged in a variety of upstream and downstream activities in countries such as Chile, Argentina, Ecuador and Egypt. In Egypt, Sipetrol currently operates in the Western Desert with the East Ras Qattara concession (with 50.5% participation). The ERQ block contains nine producing fields in total: the Shahd, Ghard, Rana, Shahd SE, Al Zahra, Diaa, Rana SE, Shebl and Shebl East.

The East Ras Qattara concession is 5,916 square kilometers, located in the northern part of the Western Desert. The concession encompasses three main geological provinces, including the Zebeida High in the north, the East Tiba Half Graben in the center and finally the Kattaniya Inversion in the southern part of the block. The far Northwestern corner of the block covers the eastern extension of the Alam El Bueib Basin.

The main productive zones in Sipetrol's ERQ concession oil fields are the Upper Bahariya, Lower-Bahariya, and Kharita. There are twenty producing wells in the ERQ concession area. The Shahd SE field contains eight wells; Zahra and Rana fields contain three wells each. The Shahd, Ghard, Rana SE, Diaa, Shebl, and Shebl East fields each contain one well.

In 2004 Sipetrol acquired the ERQ block. The area contained 15 dry holes previously drilled by a variety of international oil companies. It was initially thought that the ERQ area was outside the hydrocarbon fairway due to the absence of the mature source basin. However, geological studies concluded that the complexity of the existing structure was to blame for previous failures. In late 2005 Sipetrol conducted its first 1500 km2 3D seismic program. Shortly thereafter, Sipetrol commenced exploration and drilling on three successive oil fields that achieved a 100% success ratio.

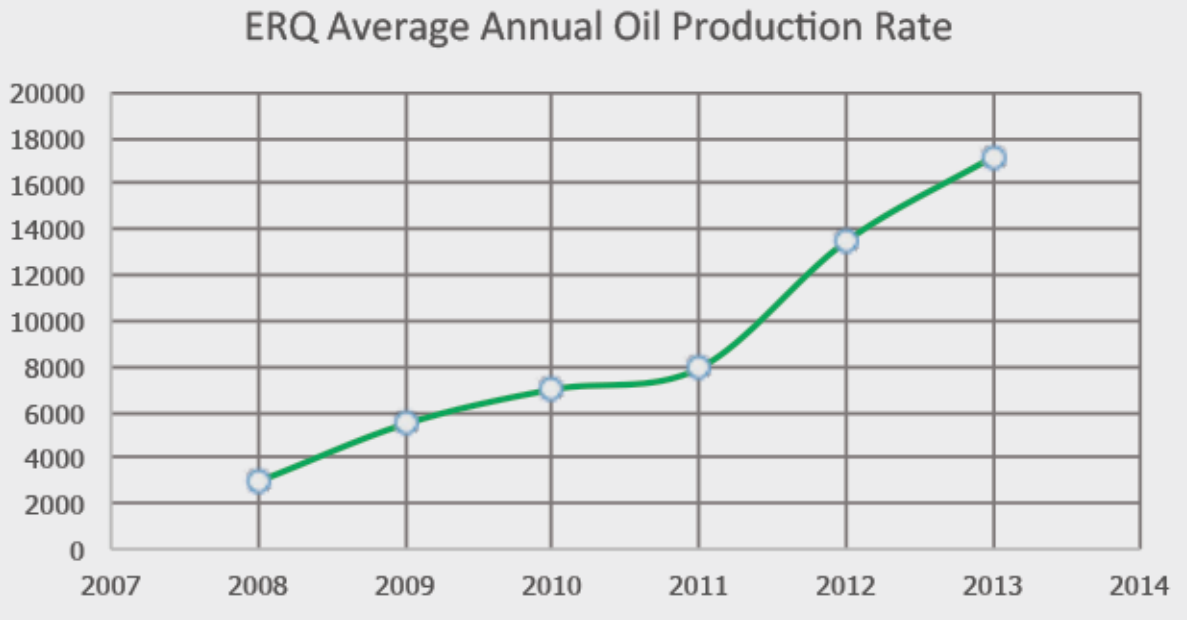
Mohamed Ismail, Senior Reservoir Engineer at Sipetrol stated that the record-breaking production in the ERQ, estimated at 21,000 bpd, was achieved by stringent execution of field development plans and reservoir management. He added that Sipetrol manages its reservoirs by adhering to optimal production schemes in all its producing wells.

In 2007, early production commenced with the Shad, Ghard and Rana wells, producing around 1,000 barrels per day. In 2008, permanent facilities were constructed in the Shahd and Garb fields and production grew to an average of 2,925 bpd and total production reached 667.7 MBBL. However, Sipetrol faced a dilemma when it came to shipping what they were producing. Western Desert concessions are not like other concessions in Egypt where pipelines and shipping lanes are readily available, instead oil must be trucked far distances or agreements have to be made between companies to share pipelines. Initially, Sipetrol had agreements with Apache and Qarun Company to ship oil through their facilities, but as production levels increased agreements had to be changed. Currently, Sipetrol transfers, treats, processes, and ships its oil to three different destinations. The first is PetroShahd (Sipetrol's joint venture partner) Receiving Station at Qarun. The second is El-Tebbein storage facilities. The third is Asyut Refining Company. In the future, Sipetrol plans to share a train with Qarun Petroleum Company by 10,000 STB.

Sipetrol has witnessed immense production growth in the last six years in an area where many tried to find oil with little success. In 2008, production was at 2,925 bpd and total production reached 667.7 MBBL. Today daily production exceeds 21,000 bpd and total production has reached 15MMBBL. The use of a comprehensive drilling and reservoir management techniques at the ERQ concession have led to a recovery factor estimated at over 60%, an achievement Sipetrol is proud of.

In April, Sipetrol's ERQ concession boasted record production exceeding 17,000 bpd from its development well Shahd-3, with an added production rate of 4,300 bpd. This concession produced another record amount in June exceeding 21,000 bpd from the development well Shahd-SE-6, with an added production rate of 4,800 bpd.

Sipetrol believes the overwhelming success of the ERQ concession is a testament to its core principles of efficiency as well as a commitment to long-term growth and development in Egypt. Sipetrol is a leader in exploration and development here in Egypt and is looking forward to what the future may bring in the unprecedented record breaking East Ras Qattara concession.



# Egypt's Impending Subsidy Crisis

By: Julie Herrick, Maya Moseley and Laura Raus

Since the revolution, Egypt's economy has been in a state of deterioration evinced by an increasing deficit, dwindling foreign reserves, and rising inflation. Economic reform, specifically the proposed removal of energy subsidies, continues to be a contentious issue particularly when juxtaposed against current energy shortages and increasing domestic consumption. Many argue that the removal of subsidies would have catastrophic consequences for the poorer strata of Egyptian society but others are demanding reform claiming that Egypt can no longer afford the luxury of subsidization. Egypt Oil and Gas examines the issue of energy subsidies in order to assess current expenditures, attempts at reform, and the potential economic, political, and social costs of inaction.

**Historical Context of Subsidies in Egypt**

Subsidies have played a significant role in the Egyptian economy since the Nasser regime in the 1950s and 1960s. At the time, and since, subsidization of vital goods served as a mechanism used by Middle Eastern autocrats to achieve appeasement and to quell internal discontent. In the 1970s, and perhaps even more significantly, government authorities increased subsidy spending in an attempt to mitigate the growing disparity in living standards caused by fundamentally western policies of economic liberalization.

Historically, attempts at subsidy reform in Egypt have been meet with hostility and violence. President Sadat's 1977 attempt to remove flour subsides resulted in widespread protests and naturally led to hasty re-implementation. In 2004, a reform program was launched in an effort to gradually phase out energy subsidies by 2014. Reforms included sharp price increases applied to gasoline and diesel, as well as a gradual increase in the price of electricity by 5% per year over a four-year period.1 The measures were designed to reduce government expenditures and decrease the deficit to 3% of GDP.2 Irrespective of the price increases, domestic consumption steadily increased as a result of GDP growth over the same period. The initiative was shelved in 2009 amidst the global economic recession.

**Cost of Subsidies**

Subsidy reform is again at the forefront of economic discourse in Egypt, particularly as it applies to energy. Historically, Egypt was able to maintain heavily subsidized energy products due to steady domestic production of oil and natural gas. However, the era of plentiful domestic supply is over. Decreasing production, industry specific issues of cost-recovery, and delayed payments are combined with political and socioeconomic instability to yield a growing energy deficit.

According to Dr. Tarek Abou Bakr, Chairman of the Energy Committee of the Federation of Egyptian Industries, Egypt's share of domestically produced oil and natural gas amounts to approximately 47 million metric tons (MMT) per year. Egypt consumes 77 MMT, which results in a deficit of 30 MMT before export obligations are considered. The average annual increase in domestic consumption when divided into specific energy products, demonstrate a 10% increase in LPG consumption, a 13% increase in gasoline consumption, and a 6% and 8% increase in gas oil and fuel oil respectively. Faced with rapidly growing consumption, Egypt is no longer in a position to fulfill its domestic needs, nor its export obligations. This leaves the country dependent on imports while simultaneously struggling with dwindling foreign currency reserves and depreciating currency.

The electrical and industrial sectors are the largest energy consumers. When examining consumption by sector, 38% of supplies go to electricity, 25% to industry, and 15% to transportation. Electricity consumes 23 MMT of natural gas and 7 MMT of fuel oil. Industry uses 40 MMT, which is largely consumed by energy intensive industries such as fertilizer, cement, petrochemical, and steel. Mustansir Barma, Senior Economic Researcher with the American Chamber of Commerce in Egypt told Egypt Oil and Gas that, "Both power plants and energy-intensive industries such as cement, glass, steel, and fertilizers use natural gas as their main fuel source. The government has already clearly prioritized fuelling power stations…(but)…the fact is that the natural gas supply is limited. Instead of looking at the supply side, more focus should be placed on the demand side."

Subsidies and domestic consumption are of course inextricably linked. Conservation or optimal usage is unlikely as there is little economic or financial incentive to conserve when prices are artificially low. Numerous experts argue that Egypt has become "addicted" to energy subsidies and the government has continually supported a "defective" system.3 The annual growth of expenditures associated with energy subsidies supports such an assertion. According to the African Development Bank in 2005/2006, Egypt's subsidization of petroleum products cost EGP 40 billion or USD 7.2 billion. In 2009/2010, that figure increased to EGP 69 billion or USD 11.9 billion. In 2011/2012 spending on energy subsidies amounted to EGP 112 or 16 USD billion, a 40% increase from the previous fiscal year. The cost of fuel subsidies is expected to increase to EGP 120 billion or USD 17.4 billion in 2012/2013. Currently energy subsidies account for 21% of the total budget, cumulatively costing the government more than health and education services combined.4 Even with these extreme costs, however, some economists argue that the subsidy addiction is presently inescapable. Dr. John W. Salevurakis is an economist at The American University in Cairo and he was noting as early as 2005 that liberalization and subsidy elimination were the real luxuries that Egypt could not afford. He told us that, "Egypt is currently quite stuck with subsidies. Just as in the years immediately before the financial crisis, the social cost of liberalization is too great. This is not a purely humanitarian issue however. The social cost incurred will manifest politically and more tangibly in the streets of Cairo. Just as the fundamentally corrupt liberalization of the late Mubarak era manifest on January 25th, further (even organized) liberalization today will likely manifest in the future."

**Subsidies for Whom?**

Energy subsidies theoretically help the disadvantaged by providing equitable access to energy resources. However, research documents that middle and upper class families also reap a disproportionate share of benefits associated with energy subsidies through higher rates of consumption. Mustansir Barma commented on the misallocation of subsidy benefits arguing that the system is, "inherently inefficient because the rich can access the same subsidized goods as the poor, who need it more. It is often said that the poor who represent 80% only get 20% of the benefit from the subsidies, because the rich may have multiple cars and demand more gasoline." As higher socioeconomic classes have greater access to consumption goods such as cars, larger living space, and multiple air-conditioning units, a situation is created in which reality contradicts the intent of the subsidy system in Egypt.

Available data and research increasingly highlights a gap between theoretical justifications for and practical applications of Egypt's generous subsidy program. Nemat Shafik, IMF Deputy Managing Director supported this point asserting that, "It's a myth that generalized energy subsidies could help the poor." A recent IMF paper noted that by "reallocating the resources freed up by subsidies to more productive public spending could help boost growth over the long run." Reform can be beneficial to vulnerable persons so long as the government implements safety nets and increases spending on services targeting the lower class.5 Through a closer examination of Egypt's energy subsidies, it becomes evident that not only are they financially unsustainable but they also fail to effectively achieve their purpose. Dr. Salevurakis notes however that, "While there are leakages in the subsidy system, it is not at all clear that governments can be relied upon to effectively create a social safety net to replace them. Indeed, subsidies are put in place precisely because other options are often too complex an inefficient to implement in the developing world." Additionally, Dr. Salevurakis argues that what developing economies often lack is a "flexible wage environment" in which people can respond to rising prices by demanding higher wages. Absent this, he notes, subsidy elimination is likely " a downward spiral of negative political and social expectations."

**Negative Impact of Subsidies**

Energy subsidies may however also spill over into other realms of the economy and negatively manifest in price distortions. Producers and manufactures are able to yield commodities while operating according to a lower cost structure as a result of the government subsidization of raw materials. Producers can pass on lower costs on to consumers or the savings may translate into higher profits. Dr. Omneia Helmy, Executive Director and Director of Research at the Egyptian Center for Economic Studies explained to Egypt Oil and Gas that distribution channels are often problematic with subsidized goods such as butane cylinders as "the government is subsidizing [these goods] with a huge amount of money but at the end of the day the ordinary citizen is paying a very high price with the difference going to the middle men who are really profiting from this [system]."

Peripheral to price distortion, the subsidization of energy products in Egypt may also discourage technological innovation and inhibit development. Individuals as well as industries have little incentive to utilize energy-efficient technology, as the government is the entity that ultimately

absorbs the loss. This occurs at the micro level with individuals and cars, as well as the macro level with manufactures and factories.

Not only are energy subsidies likely an unsustainable fiscal burden, but they also fuel black markets. Cumulatively, subsidies distort prices, profits, and competitiveness.. However, while pure economic rationality dictates reform, other constraints exist which make carrying out successful reform very difficult.

**Recent Reform**

Numerous economic institutions including the IMF, World Bank, African Development Bank have called for subsidy reform in Egypt and the government recently implemented a few reforms aimed at reducing energy subsidies. In July 2012 natural gas prices were increased for households that consume more than 30 cubic meters monthly.6 In March of 2013, the government announced a price increase of 60% for butane.7 The increase was widely criticized, as low-income households are primarily reliant on butane cylinders as natural gas lines are concentrated in middle and upper class residential areas.

In November 2012 and February 2013, the government also reduced subsidies on electricity. The increases are based on consumption; meaning households with higher consumption rates receive lower subsidies. Households that consume 50 kilowatts or less per hour continue to receive the fully subsidized rate, while households that consume 50 to 200 kilowatts per hour have experienced a 4.4% increase to EGP 0.12. This multitier pricing system aims to protect lower income households while reducing subsidies to the upper class who are responsible for the majority of consumption. In an interview with Egypt Oil and Gas, Dr. Salevurakis also noted that, "This is the only way subsidization can be reduced. It must be undertaken gradually over a period of years and not months. Simultaneously, if prices of consumption goods are allowed to move according to the market, so must wages be allowed similar flexibility."

The government also recently launched a "smart card" initiative in an effort to reduce the consumption of subsidized diesel and gasoline. Under the planned system, each cardholder will be able to purchase 5 liters of fuel per day at the subsidized rate. Any amount beyond this can be bought at the unsubsidized price. Dr. Omneia Helmy, informed Egypt Oil and Gas that vehicles with large engines (over 2,000cc) will not be eligible for any subsidized fuel. In July, the distribution of smart cards for trucks and taxis that operate on diesel is expected to begin. Privately owned vehicles that operate on gasoline will be included in the system in August and unregistered cars, tuk-tuks and motorcycles in September.8 The government expects the smart card system to save USD 30 billion from Egypt's fuel subsidy bill in the coming 2013/14 fiscal year. This bill is still expected to reach EGP 99.6 billion (USD 14.2 billion).9

The government has also introduced subsidy reforms targeting industries. In January and February 2013, the government raised the price of fuel oil, which is widely used in energy-intensive local industries, by 50%.10 The prices of natural gas and diesel for some industries were also increased by the same percentage, industry sources said at the time. According to the current timeline, subsidies to many industries will be phased out by 2016.11 Subsidy removal places a heavy financial burden on many companies. Until now, most have been able to stay afloat by transferring a portion of the price increases to consumers, but further subsidy reductions will exacerbate costs.

Key industries will continue to be subsidized by the government, according to the Trade and Industry Minister Hatem Saleh.12 He noted that, "These are labor-intensive industries and strategic industries that have an impact on poor people, such as basic food industries, basic commodities." A detailed schedule of price increases for industries is expected in the next few weeks. Soheir Abouleinein of the Institute of National Planning recommended to Egypt Oil and Gas, that the government aid struggling industries by providing them with information and access to experts who can assist industries in adopting energy-efficient technologies and strategies.

**Obstacles to Reform**

Public opposition will inevitably be one of the largest barriers to subsidy reform as Egyptians widely view subsidies as a government obligation. As Dr. Helmy explained, "to have public support for your reforms, you have to have politically credible reforms and you have to have consensus. Any economic reform will entail hardships but people will not be ready to bare these hardships unless they are convinced that your legitimacy is there and your decisions are correct." Credibility issues are further exacerbated by Egypt's current political environment.

Therefore, any reform plan must include confidence-building measures. According to Dr. Helmy, in addition to sharing the benefits of reform, the government should "be very transparent, have a good communication policy, think twice before announcing any decision, and be well studied in cost benefit analysis." Another strategy to achieve public buy-in is participatory budgeting, which "involves the public having a say in how their tax payments are spent," noted Mustansir Barma. According to Barma "this gives the population a sense of ownership."

The government's recent reforms seek to reduce subsidies reaching middle class and wealthy households through multitier pricing systems and caps on subsidized goods. However, by continuing to subsidize goods, the government is retaining an inefficient system that permits corruption and black markets. Dr. Rohac of The Cato Institute argues that the best reform strategy is "a temporary stream of conditional cash transfers to every Egyptian, eliminating the distortions of in-kind redistribution."13 According to Dr. Rohac, cash transfer systems may limit financial gains of the government initially but they pay off through building credibility.

Dr. Gerhard Glomm of Indiana University Bloomington informed Egypt Oil and Gas that dividend transfers would also be easier to implement. Dr. Glomm noted that cash transfers provide households with a choice, which is beneficial as "not all families have the same preferences" or needs. Dr. Helmy cautioned that with "cash-transfers you have to be very careful with the inflation rate." Additionally, a "graduation policy" is necessary with clear criteria on how long cash-transfers will last, explained Dr. Helmy. Mustansir Barma told Egypt Oil and Gas that under this type of strategy, "eventually wages should rise such that poor families no longer need subsidies and they can gradually be eliminated." Dr. John Salevurakis noted however that, "Wages in the developing world tend to be extremely sticky and this stickiness is often imposed and ensured over time by the very powers implementing liberalization. History shows us that this is a recipe for unrest."

Johnny West of OpenOil, asserts that a cash transfer system in Egypt would permit the gradual removal of energy subsidies within five years.14 Dr. Glomm also recommends a "slow gradual transition" in order to mitigate opposition. However gradual transitions can also be problematic. As Dr. Rohac points-out, the difficulty of gradual reform is continuation through government transitions. Mustansir Barma, similarly notes that "continued policy incoherence and inconsistency gives the government even less credibility when it comes to implementing reforms." In order to mitigate the likelihood of reform suspension, Rohac proposes binding legislation on gains sharing and restructuring energy regulation by moving it out of government departments and into an independent body to ensure continuity.

**Conclusion:**

In an attempt to address Egypt's current subsidy dilemma, Dr. Helmy notes, "economic and institutional reforms are very much needed because they should have started yesterday. Any delay is not beneficial for the Egyptian economy that is already suffering from many macro economic indicators that are at historically low levels," However, the government has yet to implement significant reform. Some speculate that the administration is delaying reforms until after parliamentary elections to avoid triggering public opposition. Implementing significant reform in such a politically polarized climate will likely prove difficult for the current administration but the country can ill afford further delays. "The consequences of inaction are a further collapse of foreign reserves," cautions Mustansir Barma, "in addition, there are risks of not being able to meet energy demands by industry and power stations, of not being able to pay energy producers and of further weakening of the Egyptian pound." Egypt Oil and Gas concurs that, given Egypt's current economic state, a comprehensive reform plan must be constructed…one addressing creditability, safety nets, wage flexibility, and a transparent distribution of gains. Further, this must be developed sooner rather than later.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14. J. West, How to End Fossil Fuel Subsidies Without Hurting the Poor. December 11, 2012.

# Interview with John Evans, General Manager of Fugro

By Julie Herrick

***What challenges has Fugro faced in Egypt? How has the country's current political and economic situations affected the company?***

While we have faced several challenges over the last two years, our business was not seriously damaged.We managed to continue to trade profitably. Fortunately, we have not had to make staff reductions or cut salaries, as some other companies have had to do.

Recently, however, we are becoming increasingly concerned about our business prospects in Egypt. Oil companies have recently slowed or stopped payments due to lack of US dollarsin the country. This currency shortage has resulted in project delays due to the lack of finance. Unless this currency issue is resolved, the industry may grind to a halt.

New tax laws have just been announced that, we believe, will damage the oil and gas industry, as they impose high withholding taxes on overseas service suppliers and do not respect taxation treaties. Also, dealing with the tax department has always been difficult. We are trying to close our financial accounts for the years 2008 onwards, but the process is very slow.

Attaining work permits for foreign staff has also become more difficult. While 95 percent of our employees are Egyptian, we also require specialists from time to time who must be brought in from abroad.

The oil industry is an international industry that relies of the movement of services and personnel from country to country and continent to continent. Egypt's tax and employment laws must recognize this if the industry is to thrive.

***How do you maintain competitive advantage in Egypt?***

In Egypt, competition has always been strong with tenders contested by many bidders. We will continue to train and develop our staff and invest in new technology in order to achieve a competitive advantage in the service market.

***What precautions does Fugro take in order to minimize its environmental impacts?***

Our services generally have a low impact on the environment, which is further mitigated by our environmental management system, which is accredited to the ISO14001 standard. We ensure that the small amount of waste that is produced during our activities is delivered to waste disposal companies who can treat or recycle it. The challenge that we face in Egypt is finding competent and accredited waste disposable companies.

In terms of supporting the environmental performance of the oil industry, we provide marine environmental baseline surveys (EBS), which our clients use to measure and minimize the impact of their activities on the environment.

***What are Fugro's plans for the future?***

We intend to recruit and train new Egyptian staff and invest in technology so that we can continue serve the Egyptian market with high quality and innovative services. We will also look to undertake some projects abroad in case the Egyptian market does not improve.

# HiWAY

## Flow-channel hydraulic fracturing technique for vertical completions

**APPLICATIONS**
- Consolidated rock fracturing treatments
- Single- and multistage, vertical and horizontal oil and gas wells
- Formation temperatures from 100 to 300 degF

**BENEFITS**
- Improved production through infinite fracture conductivity and greater effective contact area
- Lowered risk of screen-out
- Lowered artificial lift cost
- Reduced well completion time and cost

**FEATURES**
- Longer effective fracture half-length
- Lower pressure along the fracture for higher reservoir pressure to the wellbore
- Enhanced fluid and polymer recovery
- Less fracture face damage

### No conductivity losses

By changing the way hydrocarbons flow, HiWAY channel fracturing ensures that traditional proppant pack conductivity losses are eliminated, including crushing, fines, fluid damage, multiphase flow, and non-Darcy effects.

### Combination of disciplines

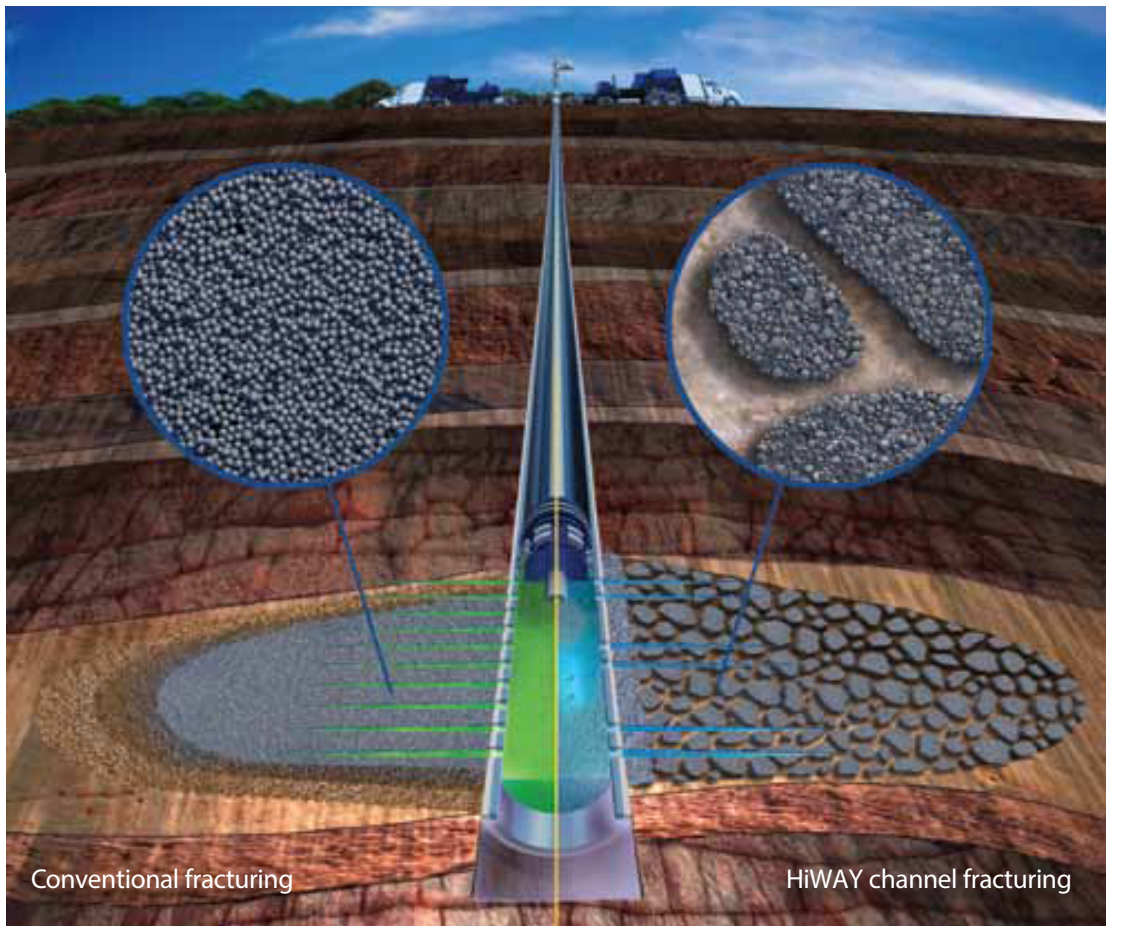
HiWAY channel fracturing is rooted in a unique integration of placement and materials engineering, surface equipment, geomechanical modeling, fiber material expertise, and decades of fracturing experience.

Specialized completions strategies and process control equipment enable the HiWAY technique to provide optimal recovery.

The stability of the flow channels is maintained by using a proprietary fiber that protects the structure from surface to reservoir until the fracture closes and the in situ stress takes over.

### Reliability

More than 1,800 HiWAY jobs have been pumped in eight countries to date.




Strategies for improving fracture production by optimizing conductivity have traditionally included

- enhancing proppant roundness and strength
- lowering proppant crush and gel loadings
- improving gel breakers.

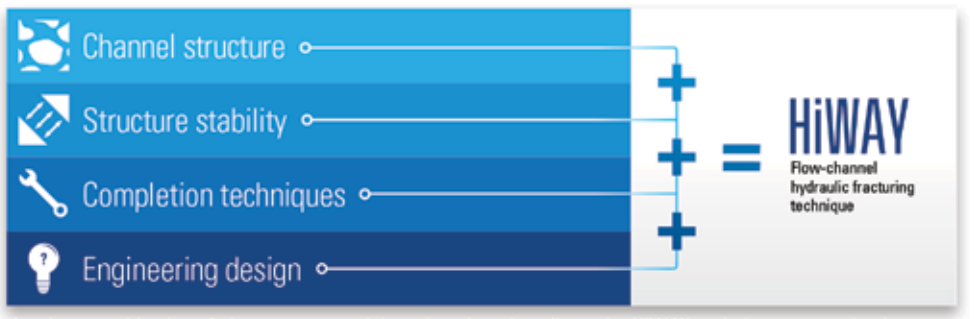
These strategies are all based on improving flow through a porous proppant or sand pack.

HiWAY* flow-channel fracturing technique, however, redefines hydraulic fracturing by removing the link between fracture flow and proppant conductivity and achieves what other fracture techniques cannot—**infinite fracture conductivity.**

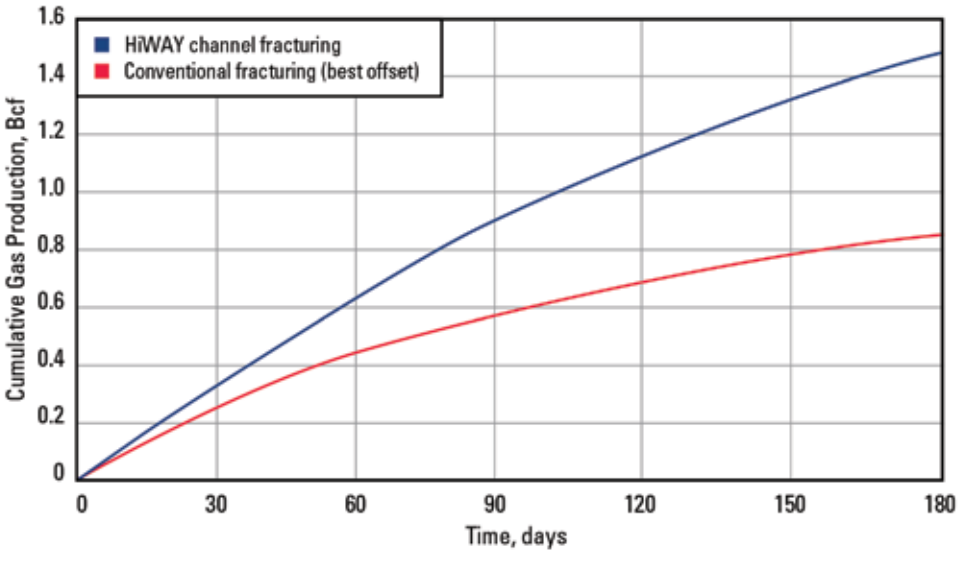
### Flow-channel creation

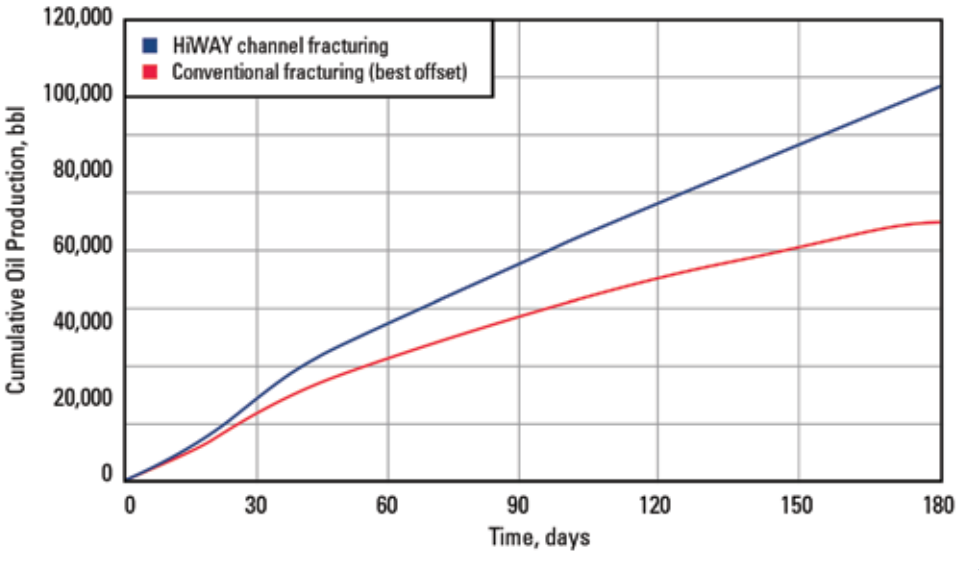
The HiWAY technique fundamentally changes the way proppant fractures generate conductivity. It decouples fracture productivity from proppant permeability and creates flow channels. So instead of flowing through the proppant in the pack, hydrocarbons flow through channels, increasing conductivity by orders of magnitude.

Conductivity extends all the way to the tip of the fracture, allowing for longer effective fracture half-length, higher effective contact area, better fluid and polymer recovery, and less fracture face damage. These effects all mean optimized production and superior hydrocarbon recovery.




*A unique combination of placement, materials and engineering allows the HiWAY technique to completely change the face of hydraulic fracturing.*




*With HiWAY channel fracturing, production increases significantly as compared with conventional techniques.*

*Mark of Schlumberger


Schlumberger

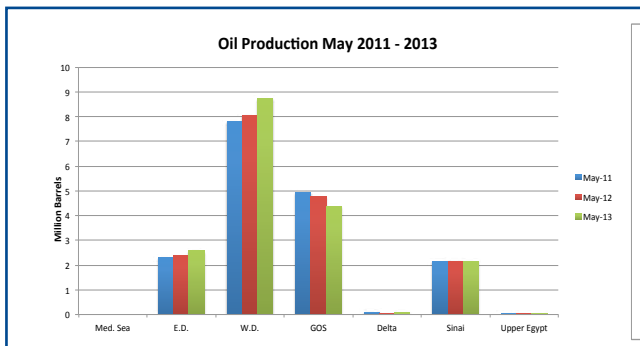
# Egypt Statistics

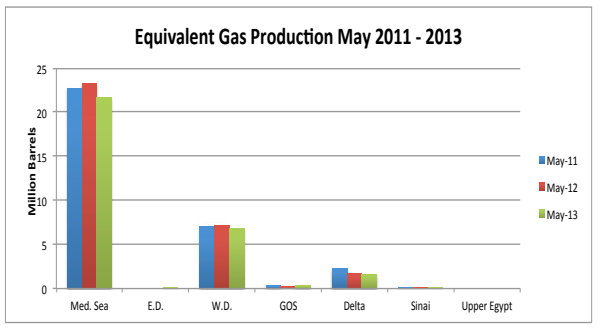
EGYPT OIL&GAS RESEARCH & ANALYSIS

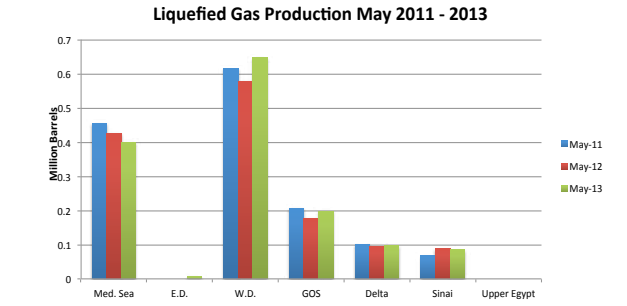
## Table 1 Egypt Rig Count per Area June 2013

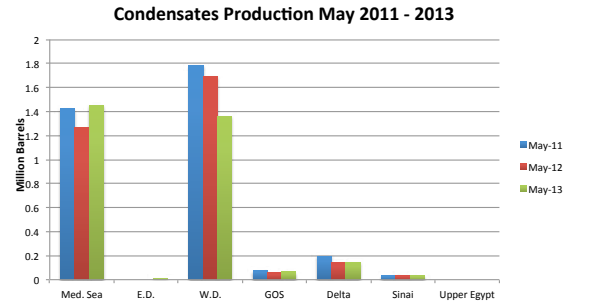
RIG COUNT

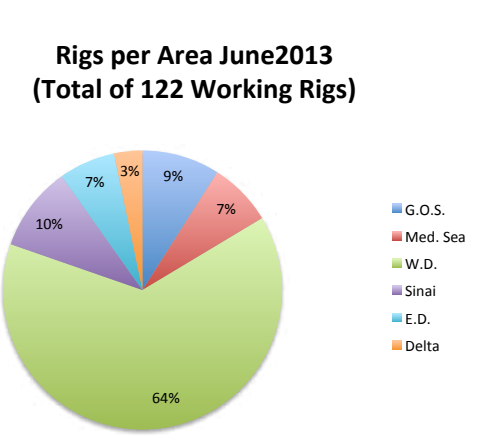
| Area | | Total | Percentage of Total Rigs |
|---|---|---|---|
| Gulf of Suez | | 11 | 9 % |
| Offshore | 11 | | |
| Land | | | |
| Mediterranean Sea | | 9 | 7 % |
| Offshore | 9 | | |
| Land | | | |
| Western Desert | | 78 | 64 % |
| Offshore | | | |
| Land | 78 | | |
| Sinai | | 12 | 10 % |
| Offshore | | | |
| Land | 12 | | |
| Eastern Desert | | 8 | 7 % |
| Offshore | | | |
| Land | 8 | | |
| Delta | | 4 | 3 % |
| Offshore | | | |
| Land | 4 | | |
| Total | | 122 | 100% |

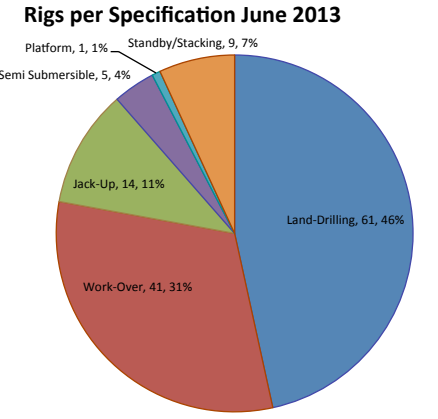


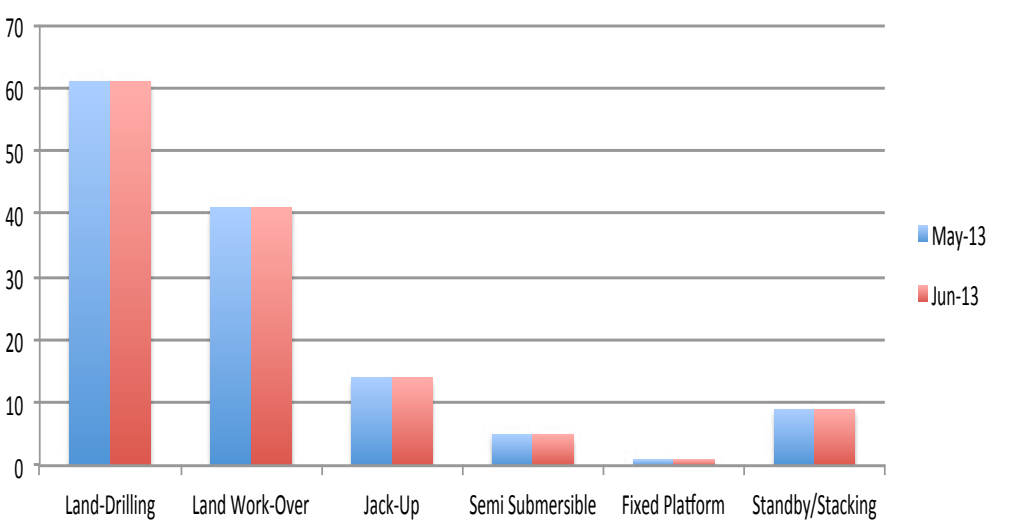



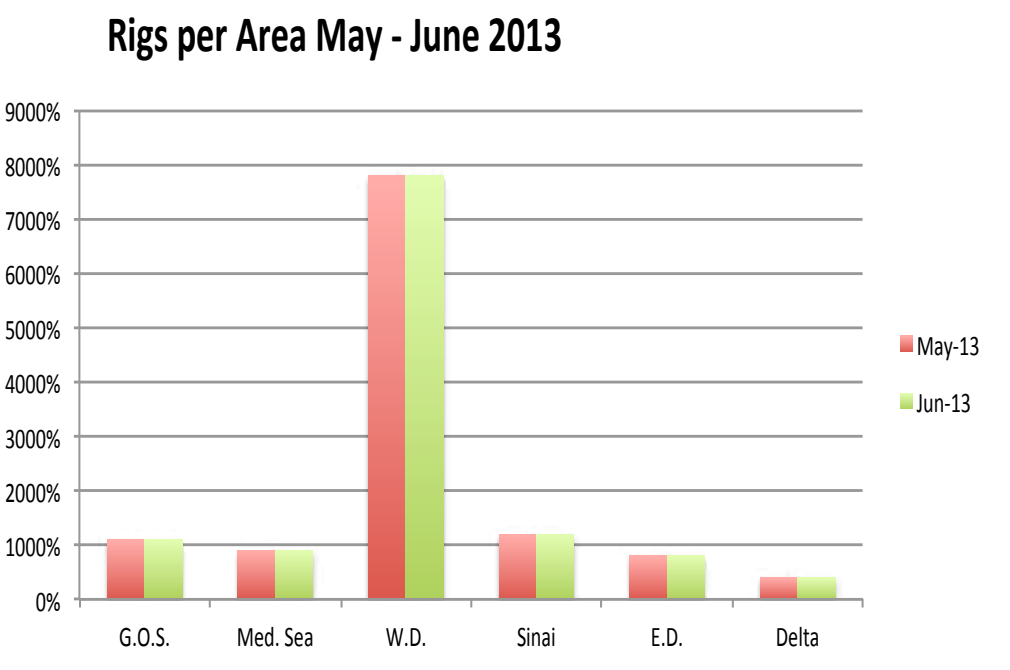







# Shell and British Council Egypt Honor Intilaaqah Graduates

By Julie Herrick

For the seventh year in a row Shell Egypt and British Council Egypt honored the graduates of the 'Shell Intilaaqah Egypt' program. The seventh annual awards ceremony was held at the Intercontinental City Stars, El Saraya Ballroom.

The Shell Intilaaqah Egypt program, initiated in 2004, is a joint initiative between Shell Egypt and the British Council Egypt, with added support from the Social Fund for Development and Egyptian Business Development Association. The Intilaaqah program is an integral part of Shell's continuing efforts in the realm of corporate social responsibility. The program targets young Egyptians between 18 and 32 years old to help them start their own businesses. The 2012 participants, coming from 14 governorates, received training throughout the year in an effort to enhance entrepreneurship skills aimed at launching innovative startup businesses.

Since its inception in Egypt in 2004, the program succeeded in establishing 550 small enterprises, and training 5000 Egyptian youths to effectively support their full engagement and participation in society. The program seeks to train these bright young individuals in order to facilitate the establishment of small enterprises based on sound administrative, financial, and scientific fundamentals to ensure the success and sustainability of these projects.

Jeroen Regtien, Shell Egypt Chairman, says "It is with great pride that we honor this group of promising Egyptian youths…[working towards}… the "development and establishment of small and medium enterprises to fulfill dreams of becoming future businessman."

Mark Stephens, Director British Council Egypt stated, "We are proud of our fruitful partnership with Shell Egypt… in helping young Egyptians to start their own businesses and become self-employed. This partnership fits perfectly within the work we are doing under our Skills for Employability program that aims at providing opportunities for youths to improve their skills and lives."

Faten Mohamed Abdel Mawla, from Alexandria, won first prize for Best Existing Enterprise for her Advertising Agency Project.



# Kuwait Energy
## Launches Partnership with Students from Suez Canal University

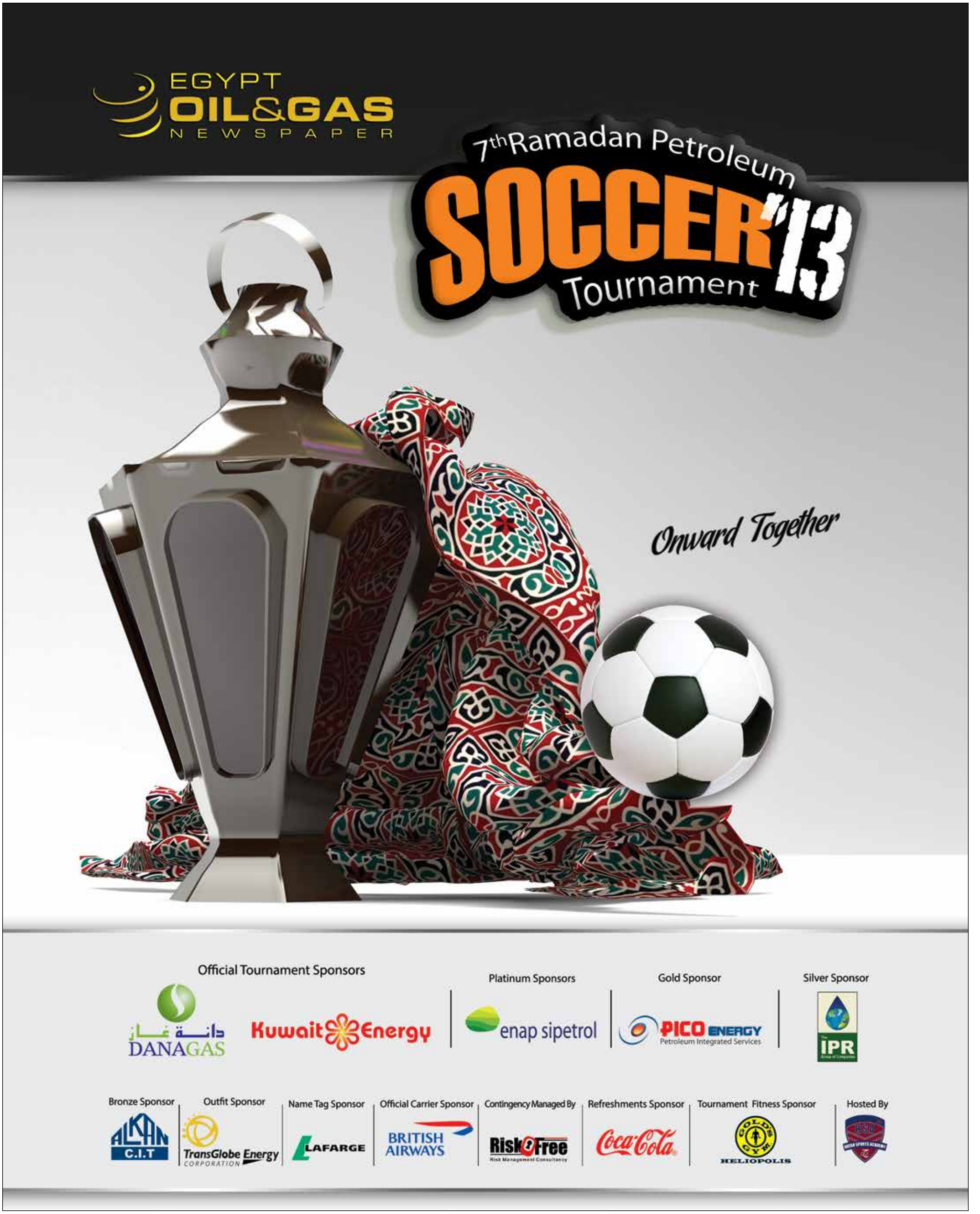
Kuwait Energy recently announced an educational partnership with the Society of Petroleum Engineers involving students from Suez Canal University. The partnership is part of Kuwait Energy's ongoing efforts to support community-based initiatives.

The partnership involves students of the Faculty of Petroleum and Mining Engineering Department at Suez Canal University. The initiative hopes to provide students with practical field experience highlighting daily operations involved in the extraction of oil and gas. Students take part in 72-hour intensive on-site development training at an oil and gas asset operated by Kuwait Energy. Supplementary to onsite experience students also attend technical seminars on hydraulic fracturing and beam pumping systems in an effort to develop detailed technical understanding of the technologies, processes and systems associated with the extraction of resources. Kuwait also supports students via summer internship programs.

"This is as big of an opportunity for us as it is for the students themselves", said Mohammad Al-Howqal, the Chief Operating Officer of Kuwait Energy. "We are always keen on taking part in educational and training activities, especially ones that enable us to engage the students on the job and in the field. Our industry has been on a growth trend for the past 150 years and we need all the talent and skills we can attract, especially in Egypt where we've been growing year on year since 2006. We were pleased to welcome the students in the field and to have a hand in preparing them for their future careers."

Kuwait Energy is an oil and gas exploration and production company that operates in eight countries. In Egypt, the company is the operator of three blocks: Area A, Burg El Arab development lease and the Abu Sennan concession. It also has interests in two other non-operated blocks: Mesaha concession and East Ras Qattara development lease.

SPE SCU SC was founded in 2004 and became active in 2009 with a mission to bridge the gap between academic theories and professional implementation of knowledge. It was awarded the World's Chapter of the Month in February 2009 and March 2013 and it was named Egypt's best Chapter in 2011 and 2012.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Name Tag Sponsor
LAFARGE
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